Third Century Bancorp

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2019 and 2018

Third Century Bancorp
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors and Audit Committee
Third Century Bancorp
Franklin, Indiana

We have audited the accompanying consolidated financial statements of Third Century Bancorp and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Third Century Bancorp and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
March 4, 2020

Third Century Bancorp

Consolidated Balance Sheets
December 31, 2019 and 2018

Assets

	2019	2018
Cash and due from banks	$ 1,154,329	$ 2,522,094
Interest-bearing demand deposits	2,684,675	265,695
Federal funds sold	-	267,000
Cash and cash equivalents	3,839,004	3,054,789
Interest-earning time deposits	-	496,000
Available-for-sale securities	36,723,537	18,084,355
Loans held for sale	713,000	838,300
Loans, net of allowance for loan losses of $1,474,798 and $1,337,902 at December 31, 2019 and 2018	126,544,430	128,311,127
Premises and equipment	1,772,727	1,780,635
Cash surrender value of life insurance	3,994,453	3,899,686
Federal Home Loan Bank stock	1,012,500	1,012,500
Interest receivable	571,057	466,176
Assets held for sale	-	297,500
Other assets	897,246	835,455
Total assets	$ 176,067,954	$ 159,076,523

Liabilities and Stockholders' Equity

	2019	2018
Liabilities		
Deposits		
Demand	$ 23,501,742	$ 29,378,763
Savings, NOW and money market	85,377,507	64,141,548
Time	36,926,355	31,219,687
Total deposits	145,805,604	124,739,998
Federal Home Loan Bank advances	12,250,000	17,500,000
Interest payable and other liabilities	440,730	356,138
Total liabilities	158,496,334	142,596,136
Stockholders' Equity		
Common stock, no par, authorized - 20,000,000 shares, outstanding - 1,180,321 shares at December 31, 2019 and 2018	11,353,839	11,353,839
Retained earnings	5,918,197	5,255,681
Accumulated other comprehensive income (loss)	299,584	(129,133)
Total stockholders' equity	17,571,620	16,480,387
Total liabilities and stockholders' equity	$ 176,067,954	$ 159,076,523

Third Century Bancorp

Consolidated Statements of Income
Years Ended December 31, 2019 and 2018

	2019	2018
Interest Income		
Loans	$ 6,536,122	$ 6,077,798
Securities	667,167	361,126
Dividends on Federal Home Loan Bank stock	54,411	51,330
Deposits with financial institutions	101,547	76,335
Total interest and dividend income	7,359,247	6,566,589
Interest Expense		
Deposits	1,060,460	617,872
Federal Home Loan Bank advances	230,372	292,414
Total interest expense	1,290,832	910,286
Net Interest Income	6,068,415	5,656,303
Provision for Loan Losses	120,601	243,445
Net Interest Income After Provision for Loan Losses	5,947,814	5,412,858
Noninterest Income		
Fiduciary activities	120,994	48,785
Service charges on deposit accounts	142,514	143,050
Other service charges and fees	229,089	202,011
Net gains on loan sales	324,309	329,850
Merchant processing	21,730	20,274
Loss on sale of other real estate	-	(5,943)
Loss on assets held for sale	(1,394)	(21,250)
Other	180,782	141,795
Total noninterest income	1,018,024	858,572
Noninterest Expense		
Salaries and employee benefits	3,289,465	2,775,560
Net occupancy expense	377,034	303,635
Equipment expense	204,440	152,877
Data processing fees	496,588	461,044
Professional fees	174,960	140,836
Directors' fees	194,280	188,100
Bank charges	32,601	39,228
Merchant processing	39,837	43,669
ATM expense	109,492	150,000
FDIC insurance premiums	5,640	63,400
Other	785,957	641,271
Total noninterest expense	5,710,294	4,959,620
Income Before Income Taxes	1,255,544	1,311,810
Provision for Income Taxes	262,537	292,712
Net Income	$ 993,007	$ 1,019,098
Earning Per Share - basic and diluted	$ 0.84	$ 0.86

Third Century Bancorp

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	$ 993,007	$ 1,019,098
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on available-for-sale securities, net of tax expense (benefit) of $113,962 and $(34,326) for 2019 and 2018	428,717	(129,133)
Comprehensive Income	$ 1,421,724	$ 889,965

Third Century Bancorp

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2019 and 2018

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2018	$ 11,353,801	$ 4,531,662	$ -	$ 15,885,463
Net income		1,019,098		1,019,098
Other comprehensive loss			(129,133)	(129,133)
RRP shares earned	38			38
Cash dividends, $.25 per share		(295,079)		(295,079)
Balance, December 31, 2018	11,353,839	5,255,681	(129,133)	16,480,387
Net income		993,007		993,007
Other comprehensive income			428,717	428,717
Cash dividends, $.28 per share		(330,491)		(330,491)
Balance, December 31, 2019	$ 11,353,839	$ 5,918,197	$ 299,584	$ 17,571,620

Third Century Bancorp

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Net income	$ 993,007	$ 1,019,098
Items not requiring (providing) cash		
Depreciation and amortization	210,911	173,633
Loss on assets held for sale	1,394	21,250
Loss on sales of other real estate owned	-	5,943
Net gains on loan sales	(324,309)	(329,850)
Amortization of premiums and discounts on securities	90,230	62,045
Amortization of mortgage-servicing rights	78,979	54,180
Provision for loan losses	120,601	243,445
RRP shares earned	-	38
Deferred income taxes	205,666	14,497
Increase in cash surrender value of bank-owned life insurance	(94,767)	(85,893)
Net changes in		
Interest receivable	(104,881)	(40,433)
Other assets	(460,398)	(84,663)
Loans held for sale	125,300	(762,800)
Interest payable and other liabilities	1,969	53,251
Net cash provided by operating activities	843,702	343,741
Investing Activities		
Net change in interest-earning time deposits	496,000	1,488,000
Purchases of available-for-sale securities	(23,445,983)	(7,301,132)
Proceeds from maturities and calls of available-for-sale securities	5,259,250	2,535,017
Net change in loans	1,970,405	(8,913,298)
Proceeds from the sale of other real estate owned	-	104,543
Purchase of bank-owned life insurance	-	(600,000)
Proceeds from the sale of assets held for sale	296,106	105,350
Purchase of premises and equipment	(440,746)	(172,072)
Proceeds from disposal of premises and equipment	237,743	-
Net cash used in investing activities	(15,627,225)	(12,753,592)
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	15,358,938	9,245,944
Net change in certificates of deposit	5,706,668	2,194,315
Proceeds from Federal Home Loan Bank advances	44,750,000	23,250,000
Repayment of Federal Home Loan Bank advances	(50,000,000)	(27,250,000)
Dividends paid	(247,868)	(295,079)
Net cash provided by financing activities	15,567,738	7,145,180
Increase (Decrease) in Cash and Cash Equivalents	784,215	(5,264,671)
Cash and Cash Equivalents, Beginning of Year	3,054,789	8,319,460
Cash and Cash Equivalents, End of Year	$ 3,839,004	$ 3,054,789
Supplemental Cash Flows Information		
Interest paid	$ 1,273,077	$ 904,101
Income taxes paid	170,000	342,000
Dividend payable	82,623	-
Transfer of securities held to maturity to available for sale	-	13,543,744

Third Century Bancorp

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Third Century Bancorp (Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Mutual Savings Bank.

Mutual Savings Bank (Bank) is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Johnson County and surrounding counties. The Bank is subject to competition from other financial institutions. The Bank is also subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted of interest-earning demand deposits and federal funds sold.

At December 31, 2019, the Company’s cash accounts did not exceed federally insured limits excluding approximately $3,119,000 of cash with the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis, which are not federally insured.

Securities

Prior to 2018, the Company had certain debt securities classified as “held to maturity” that were recorded at historical cost. At that time, management had the positive intent and ability to hold these securities until their maturity date. During the year ended December 31, 2018, the Company transferred these securities classified as held to maturity to “available for sale” for liquidity purposes. The securities had a historical cost of approximately $13,544,000, a fair value of $13,433,000, and an unrealized loss of $111,000. According to the accounting guidance in ASC 320, *Investments – Debt and Equity Securities*, liquidity is not one of the allowable circumstances for transferring held to maturity securities to available for sale. Consequently, the Company’s held-to-maturity portfolio is now tainted and as a result, the Company will not be able to classify any securities as held to maturity for two years.

As was previously mentioned, all of the Company’s securities are now classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss). For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income (loss) for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Commitments to originate loans held for sale, if any, are recorded at fair value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except residential and consumer loans, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges off residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance, which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value, less costs to sell when the loan is 120 days past due, charge-off of unsecured open-end loans when the loan is 120 days past due, and charge-down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

For all loan classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with the renegotiated terms for a period of at least six months.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge-off experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the prior two years. Management believes the two year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for nonhomogenous type loans such as commercial, nonowner residential and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For impaired loans where the Company utilizes the discounted cash flows to determine the level of impairment, the Company includes the entire change in the present value of cash flows as bad debt expense.

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. If the most recent appraisal is over a year old, and a new appraisal is not performed, due to lack of comparable values or other reasons, the existing appraisal is utilized and discounted based on the age of the appraisal, condition of the subject property, and overall economic conditions. After determining the collateral value as described, the fair value is calculated based on the determined collateral value, less selling expenses. The potential for outdated appraisal values is considered in our determination of the allowance for loan losses through our analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Company.

Segments of loans with similar risk characteristics are collectively evaluated for impairment based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring ("TDR") has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Company's policy to have any restructured loans which are on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Company reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

With regard to determination of the amount of the allowance for credit losses, troubled debt restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously.

Premises and Equipment

Depreciable assets are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line and accelerated methods over the estimated useful lives of the assets.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula.

Mortgage-Servicing Rights

Mortgage-servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage-servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage-servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with other income on the consolidated income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage-servicing rights is netted against loan servicing fee income.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period.

Revenue Recognition

Topic 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revised when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Company's revenues come from interest income and other sources, including loans and securities, that are outside the scope of Topic 606. The Company's services that fall within the scope of Topic 606, primarily service charges and fiduciary activities, are presented within noninterest income in the accompanying consolidated statements of income and are recognized as revenue as the Company satisfies its obligation to the customer.

Note 2: Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2019 was $848,000.

Note 3: Securities

The amortized cost and approximate fair values of available for sale securities are as follows:

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available for sale				
Mortgage-backed securities - Government-sponsored enterprises (GSE)	$ 24,820,521	$ 227,856	$ (59,407)	$ 24,988,970
Securities issued by state or political divisions	11,523,796	222,522	(11,751)	11,734,567
Total investment securities	$ 36,344,317	$ 450,378	$ (71,158)	$ 36,723,537

The amortized cost and approximate fair values of held to maturity securities are as follows:

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available for sale				
Mortgage-backed securities - Government-sponsored enterprises (GSE)	$ 12,691,518	$ 24,182	$ (134,901)	$ 12,580,799
Securities issued by state or political divisions	5,556,296	2,941	(55,681)	5,503,556
Total investment securities	$ 18,247,814	$ 27,123	$ (190,582)	$ 18,084,355

The amortized cost and fair value of securities available for sale at December 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Amortized Cost	Fair Value
Within one year	$ 1,189,186	$ 1,193,368
One to five years	1,730,647	1,765,768
Five to ten years	1,109,475	1,136,967
After ten years	7,494,488	7,638,464
Mortgage-backed securities - GSE	24,820,521	24,988,970
Totals	$ 36,344,317	$ 36,723,537

The fair value of certain investments are below their historical cost. Total fair value of these investments at December 31, 2019 and 2018 was approximately $12,550,000 and $13,405,000, which is approximately 34% and 74% of the Company's investment portfolio for each reporting period. These declines primarily resulted from increases in market interest rates and failure of certain investments to maintain consistent credit quality ratings.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018:

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities - GSE	$ 10,684,973	$ (56,632)	$ 606,331	$ (2,775)	$ 11,291,304	$ (59,407)
Securities issued by state or political divisions	1,258,226	(11,751)	-	-	1,258,226	(11,751)
Total temporarily impaired securities	$ 11,943,199	$ (68,383)	$ 606,331	$ (2,775)	$ 12,549,530	$ (71,158)

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities - GSE	$ 3,593,349	$ (14,138)	$ 5,230,161	$ (120,763)	$ 8,823,510	$ (134,901)
Securities issued by state or political divisions	940,695	(6,003)	3,640,415	(49,678)	4,581,110	(55,681)
Total temporarily impaired securities	$ 4,534,044	$ (20,141)	$ 8,870,576	$ (170,441)	$ 13,404,620	$ (190,582)

Mortgage-Backed Securities - GSE

The unrealized losses on the Company's investment in mortgage-backed securities - GSE were caused by changes in interest rates and illiquidity. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2019	2018
Mortgage loans on real estate		
Residential 1-4 family	$ 38,374,177	$ 37,475,141
Commercial	56,432,268	56,090,173
Construction and land development	6,899,326	5,907,884
Multi-family	2,968,217	3,597,197
Equity lines of credit	14,035,410	14,031,144
Total mortgage loans on real estate	118,709,398	117,101,539
Commercial loans	6,113,531	7,641,745
Consumer installment loans		
Personal	2,867,431	4,588,106
Credit cards	500,341	478,688
Total consumer installment loans	3,367,772	5,066,794
	128,190,701	129,810,078
Less		
Net deferred loan fess, premiums and discounts	171,473	161,049
Allowance for loan losses	1,474,798	1,337,902
Loans, net	$ 126,544,430	$ 128,311,127

The risk characteristics of each loan portfolio segment are as follows:

Commercial Real Estate: These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria. As a general rule, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus nonowner occupied loans.

Commercial: Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Residential and Consumer: With respect to residential loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

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December 31, 2019 and 2018

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2019 and 2018:

	2019				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for loan losses:					
Balance, beginning of year	$ 65,421	$ 480,188	$ 81,852	$ 710,441	$ 1,337,902
Provision (credit) for loan losses	(2,161)	103,745	(35,644)	54,661	120,601
Losses charged off	-	-	(16,425)	-	(16,425)
Recoveries	-	-	32,720	-	32,720
Balance, end of year	$ 63,260	$ 583,933	$ 62,503	$ 765,102	$ 1,474,798
Ending balance: individually evaluated for impairment	$ -	$ -	$ 17,966	$ 37,698	$ 55,664
Ending balance: collectively evaluated for impairment	$ 63,260	$ 583,933	$ 44,537	$ 727,404	$ 1,419,134
Loans:					
Ending balance	$ 6,113,531	$ 66,299,811	$ 3,367,772	$ 52,409,587	$ 128,190,701
Ending balance: individually evaluated for impairment	$ -	$ -	$ 19,346	$ 2,027,918	$ 2,047,264
Ending balance: collectively evaluated for impairment	$ 6,113,531	$ 66,299,811	$ 3,348,426	$ 50,381,669	$ 126,143,437

	2018				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for loan losses:					
Balance, beginning of year	$ 29,391	$ 442,342	$ 94,032	$ 536,377	$ 1,102,142
Provision (credit) for loan losses	36,030	37,846	(2,292)	171,861	243,445
Losses charged off	-	-	(22,574)	-	(22,574)
Recoveries	-	-	12,686	2,203	14,889
Balance, end of year	$ 65,421	$ 480,188	$ 81,852	$ 710,441	$ 1,337,902
Ending balance: individually evaluated for impairment	$ -	$ -	$ 17,594	$ 65,186	$ 82,780
Ending balance: collectively evaluated for impairment	$ 65,421	$ 480,188	$ 64,258	$ 645,255	$ 1,255,122
Loans:					
Ending balance	$ 7,641,745	$ 65,595,254	$ 5,066,794	$ 51,506,285	$ 129,810,078
Ending balance: individually evaluated for impairment	$ -	$ 51,032	$ 17,594	$ 1,973,522	$ 2,042,148
Ending balance: collectively evaluated for impairment	$ 7,641,745	$ 65,544,222	$ 5,049,200	$ 49,532,763	$ 127,767,930

The Company utilizes a risk grading matrix to assign a risk grade to each of its loan portfolio. Loans are graded on a scale of 1 to 9. A description of the general characteristics of the 9 risk grades is as follows:

Grade 1 - Loans are considered EXCELLENT, with little or no perceived risk of loss, including loans fully secured by liquid collateral. These loans are supported by current financial statements with excellent liquidity, net worth, credit history and confirmed repayment ability.

Grade 2 - Loans are considered VERY GOOD, with nominal risk of loss. These loans are supported by current financial statements with good liquidity, net worth and credit history. The probability of serious financial deterioration is low. Collateral coverage for secured loans will be good.

Grade 3 - Loans are considered to be NORMAL, with no apparent undue risk of loss. These loans will conform to Company policy and be supported by current financial statements with satisfactory liquidity, net worth and credit history. Collateral coverage will be satisfactory. The borrowers will have average performance records with few, if any, credit problems.

Grade 4 - Loans are considered to be ACCEPTABLE, with a greater than normal risk, but still considered bankable. These loans will generally agree to the Company's policy, with few, if any exceptions. These loans will be supported by financial statements with acceptable liquidity, net worth and credit history. Collateral coverage will be acceptable. Although these loans may require closer monitoring, they do not demonstrate any serious weakness.

Grade 5 - These loans are considered WATCH credits, with some signs of weakness and require close monitoring. These loans appear to be collectable at present; however, if the weaknesses are not corrected, increased risk is possible. These loans would not be considered acceptable as new business. These credits are actively monitored by designated staff or department head performing collection activity.

Grade 6 - These loans would be considered SPECIAL MENTION credits. These loans do not currently expose the Company to a significant degree of risk to warrant further classification, but do possess credit deficiencies or potential weaknesses deserving of management's close attention. Special Mention assets have a potential weakness or pose an unwarranted financial risk that, if not corrected, could weaken the asset and increase risk in the future.

Grade 7 - These loans would be classified SUBSTANDARD. These loans may appear collectable, but the potential for loss in the future may exist due to a collateral shortfall, a lack of liquidity, poor earnings or excessive debt. These loans are characterized by a distinct possibility that some loss will be sustained if the deficiencies are not corrected. If only a partial recovery of the loan is reasonably certain, a reserve equal to the amount whose collectability is uncertain should be established.

Grade 8 - These loans would be classified DOUBTFUL because full repayment is questionable. Because of certain important pending factors or events that may strengthen the loan, a loss classification is deferred until additional information is available.

Grade 9 - These loans would be classified LOSS. These loans are considered uncollectible within a reasonable time frame. Loans will be classified LOSS when it is not practical or desirable to defer writing off or reserving for the loan, even though full or partial recovery may be possible at some future time.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2019 and 2018:

2019	Commercial	Commercial Real Estate Construction	Commercial Real Estate - Other	Residential	Consumer - Credit Cards	Consumer - Personal	Total
Grade:							
1- 4 Pass	$ 5,958,203	$ 6,899,326	$ 56,896,875	$ 50,286,590	$ 478,964	$ 2,661,964	$ 123,181,922
5 Watch	155,328	-	152,430	733,454	-	113,975	1,155,187
6 Special Mention	-	-	2,351,180	-	10,031	-	2,361,211
7 Substandard	-	-	-	1,389,543	6,162	91,492	1,487,197
8-9 Doubtful/Loss	-	-	-	-	5,184	-	5,184
Total	$ 6,113,531	$ 6,899,326	$ 59,400,485	$ 52,409,587	$ 500,341	$ 2,867,431	$ 128,190,701

2018	Commercial	Commercial Real Estate Construction	Commercial Real Estate - Other	Residential	Consumer - Credit Cards	Consumer - Personal	Total
Grade:							
1- 4 Pass	$ 7,641,745	$ 5,907,884	$ 57,165,825	$ 48,417,089	$ 458,493	$ 4,529,780	$ 124,120,816
5 Watch	-	-	69,262	1,165,869	-	46,685	1,281,816
6 Special Mention	-	-	2,401,251	77,525	14,242	-	2,493,018
7 Substandard	-	-	51,032	1,845,802	5,953	11,641	1,914,428
8-9 Doubtful/Loss	-	-	-	-	-	-	-
Total	$ 7,641,745	$ 5,907,884	$ 59,687,370	$ 51,506,285	$ 478,688	$ 4,588,106	$ 129,810,078

The following tables present the Company's loan portfolio aging analysis as of December 31, 2019 and 2018:

2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	> 90 Days and Accruing
Commercial	$ 22,976	$ -	$ -	$ 22,976	$ 6,090,555	$ 6,113,531	$ -
Commercial real estate:							
Construction	-	-	-	-	6,899,326	6,899,326	-
Other	-	-	-	-	59,400,485	59,400,485	-
Consumer:							
Credit card	3,407	-	6,468	9,875	490,466	500,341	6,468
Personal	424,267	-	-	424,267	2,443,164	2,867,431	-
Residential	466,441	103,647	4,073	574,161	51,835,426	52,409,587	-
Total loans	$ 917,091	$ 103,647	$ 10,541	$ 1,031,279	$ 127,159,422	$ 128,190,701	$ 6,468

2018	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	> 90 Days and Accruing
Commercial	$ 95,924	$ 51,032	$ -	$ 146,956	$ 7,494,789	$ 7,641,745	$ -
Commercial real estate:							
Construction	-	-	-	-	5,907,884	5,907,884	-
Other	-	-	-	-	59,687,370	59,687,370	-
Consumer:							
Credit card	2,053	-	-	2,053	476,635	478,688	-
Personal	14,630	-	-	14,630	4,573,476	4,588,106	-
Residential	109,418	31,376	-	140,794	51,365,491	51,506,285	-
Total loans	$ 222,025	$ 82,408	$ -	$ 304,433	$ 129,505,645	$ 129,810,078	$ -

The following tables present impaired loans for the years ended December 31, 2019 and 2018:

2019	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer	-	-	-	-	-
Commercial real estate construction	-	-	-	10,206	184
Commercial real estate - other	-	-	-	-	-
Residential	1,915,119	1,915,119	-	1,908,025	107,501
Loans with a specific valuation allowance:					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer	19,346	19,346	17,966	14,932	1,172
Commercial real estate construction	-	-	-	-	-
Commercial real estate - other	-	-	-	-	-
Residential	112,799	112,799	37,698	90,668	6,074
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer	19,346	19,346	17,966	14,932	1,172
Commercial real estate construction	-	-	-	10,206	184
Commercial real estate - other	-	-	-	-	-
Residential	2,027,918	2,027,918	37,698	1,998,693	113,575

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	2018				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer	-	-	-	4,066	-
Commercial real estate construction	51,032	51,032	-	53,872	3,299
Commercial real estate - other	-	-	-	-	-
Residential	1,593,835	1,593,835	-	1,644,469	74,680
Loans with a specific valuation allowance:					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer	17,594	17,594	17,594	18,713	1,298
Commercial real estate construction	-	-	-	-	-
Commercial real estate - other	-	-	-	-	-
Residential	379,687	379,687	65,186	383,716	16,670
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer	17,594	17,594	17,594	22,779	1,298
Commercial real estate construction	51,032	51,032	-	53,872	3,299
Commercial real estate - other	-	-	-	-	-
Residential	1,973,522	1,973,522	65,186	2,028,185	91,350

Loans accounted for on a nonaccrual basis:

	2019	2018
Commercial	$ -	$ -
Commercial real estate:		
Construction	-	-
Other	-	-
Consumer:	-	-
Credit card	-	-
Personal	-	-
Residential	4,073	-
Total	$ 4,073	$ -

The Company did not have any troubled debt restructurings during the years ended December 31, 2019 and 2018.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2019	2018
Land	$ 310,507	$ 310,507
Buildings and improvements	2,803,546	3,161,105
Equipment	2,238,906	1,829,438
	5,352,959	5,301,050
Less accumulated depreciation	(3,580,232)	(3,520,415)
Net premises and equipment	$ 1,772,727	$ 1,780,635

Note 6: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was approximately $49,511,000 and $41,128,000 at December 31, 2019 and 2018, respectively.

	2019	2018
Mortgage-servicing rights		
Balances, January 1	$ 211,836	$ 237,881
Servicing rights capitalized	95,788	28,135
Amortization of servicing rights	(78,979)	(54,180)
Balances, December 31	228,645	211,836
Valuation allowances		
Balance at beginning of year	-	11,884
Reductions	-	(11,884)
Balances at end of year	-	-
Mortgage-servicing rights, net	$ 228,645	$ 211,836
Fair value disclosures		
Fair value as of the beginning of the period	$ 358,566	$ 225,997
Fair value as of the end of the period	340,221	358,566

Note 7: Interest-Bearing Deposits

Interest-bearing deposits in denominations of $250,000 or more were approximately $14,715,000 and $9,893,000 on December 31, 2019 and 2018, respectively.

At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	$ 19,328,406
2021	14,555,684
2022	1,453,627
2023	1,266,385
2024	322,253
Thereafter	-
	$ 36,926,355

Note 8: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances are secured by mortgage loans totaling approximately $39,043,000 and $37,484,000 and commercial loans totaling approximately $6,615,000 and $9,885,000 at December 31, 2019 and 2018, respectively. Advances at December 31, 2019, at interest rates ranging from 1.47 to 1.91 percent are subject to restrictions or penalties in the event of prepayment.

As of December 31, 2019, the Company has $3,000,000 of putable advances that are subject to a one-time call option five years after the issuance date. If the FHLB exercises their call option, the advances would be pre-payable at the Company's option at par and without penalty. If not prepaid, the advances would convert to a LIBOR adjustable advance repricing quarterly.

Aggregate annual maturities of the advances at December 31, 2019, are:

2020	$ 9,250,000
2021	-
2022	-
2023	-
2024	-
Thereafter	3,000,000
	$ 12,250,000

The Company has available a $3,000,000 line of credit from Zions Bank with no maturity date. The Company is required to maintain a minimum cash balance of $200,000 at Zions Bank to serve as collateral. There were no borrowings on this line of credit at December 31, 2019 and 2018.

The Company has available a $2,000,000 line of credit from FHLB with a maturity date of October 2019. There were no borrowings on this line of credit at December 31, 2019 and 2018.

Note 9: Income Taxes

The provision for income taxes includes these components:

	2019	2018
Currently payable		
Federal	$ 23,144	$ 203,254
State	33,727	74,961
Deferred		
Federal	165,907	8,714
State	39,759	5,783
Total income tax expense	$ 262,537	$ 292,712

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2019	2018
Computed at the statutory rate 21%	$ 263,664	$ 275,480
Increase resulting from		
State income taxes	58,054	63,788
Tax-exempt interest	(39,836)	(29,564)
Tax-exempt BOLI income	(19,894)	(18,037)
Other	549	1,045
Actual tax expense	$ 262,537	$ 292,712

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	2019	2018
Deferred tax assets		
Allowance for loan losses	$ 390,956	$ 363,850
Goodwill	18,448	24,617
Other real estate owned	-	96,910
Unrealized loss on available-for-sale securities	-	34,326
Other	3,725	11,814
	413,129	531,517
Deferred tax liabilities		
Depreciation	76,567	816
Unrealized gain on available-for-sale securities	79,636	-
FHLB stock dividend	15,538	15,758
Prepaid expenses	12,252	9,786
Cash basis deferrals	74,786	26,533
Mortgage-servicing rights	61,314	57,610
State tax	11,658	20,008
	331,751	130,511
Net deferred tax asset	$ 81,378	$ 401,006

Retained earnings at December 31, 2019 and 2018, includes approximately $1,038,000 for which no deferred federal income tax liability has been recognized. These amounts represent an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate. The deferred income tax liabilities on the preceding amounts that would have been recorded if they were expected to reverse into taxable income in the foreseeable future were approximately $218,000 at December 31, 2019 and 2018, respectively.

ASC Topic 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company did not identify any uncertain tax positions that it believes should be recognized in the consolidated financial statements. The open tax years subject to examination by taxing authorities are the years subsequent to 2016.

Note 10: Stockholders' Equity and Regulatory Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate actions by the regulatory agencies that, if undertaken, could have a material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018 that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent notification from the regulatory agency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total risk-based capital (to risk-weighted assets)	$ 18,589,000	13.3%	$ 11,196,000	8.0%	$ 13,995,000	10.0%
Tier I capital (to risk-weighted assets)	17,114,000	12.2	8,397,000	6.0	11,196,000	8.0
Common Equity Tier 1 (to risk-weighted assets)	17,114,000	12.2	6,298,000	4.5	9,097,000	6.5
Tier I capital (to average assets)	17,114,000	9.8	7,015,000	4.0	8,769,000	5.0
As of December 31, 2018						
Total risk-based capital (to risk-weighted assets)	$ 17,713,000	12.5%	$ 11,302,000	8.0%	$ 14,128,000	10.0%
Tier I capital (to risk-weighted assets)	16,375,000	11.6	8,477,000	6.0	11,302,000	8.0
Common Equity Tier 1 (to risk-weighted assets)	16,375,000	11.6	6,357,000	4.5	9,183,000	6.5
Tier I capital (to average assets)	16,375,000	10.3	6,362,000	4.0	7,952,000	5.0

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer was 2.50% at December 31, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Note 11: Dividend and Capital Restrictions

Without prior approval, current regulations allow the Bank to pay dividends to the Company not exceeding net profits (as defined) for the current year plus those for the previous two years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

Note 12: Related Party Transactions

The Company has entered into transactions with certain executive officers, directors and their affiliates (related parties). In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

The aggregate amount of loans, as defined, to such related parties at December 31, 2019 and 2018 totaled approximately $1,908,000 and $1,875,000, respectively. Deposits from related parties held by the Company at December 31, 2019 and 2018 totaled approximately $1,358,000 and $1,717,000, respectively.

Note 13: Employee Benefits

The Company has a retirement savings plan covering substantially all employees. Employer contributions of approximately $43,000 and $41,000 were charged to expense for 2019 and 2018, respectively.

The Company's 2019 Equity Incentive Plan (the Plan), permits the grant of equity to its employees for up to 120,000 shares of common stock. There was no activity under the Plan during 2019.

Note 14: Disclosures About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions. Level 2 securities include state or political divisions and mortgage-backed securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company obtains all fair value measurements from an independent pricing service.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Available-for-sale securities				
Mortgage-backed securities - Government-sponsored enterprises (GSE)	$ 24,988,970	$ -	$ 24,988,970	$ -
Securities issued by state or political divisions	11,734,567	-	11,734,567	-
	$ 36,723,537	$ -	$ 36,723,537	$ -
December 31, 2018				
Available-for-sale securities				
Mortgage-backed securities - Government-sponsored enterprises (GSE)	$ 12,580,799	$ -	$ 12,580,799	$ -
Securities issued by state or political divisions	5,503,556	-	5,503,556	-
	$ 18,084,355	$ -	$ 18,084,355	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-Dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Management's office. Appraisals are reviewed for accuracy and consistency by the Management's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Management's office by comparison to historical results.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018.

		2019 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans - collateral dependent	$ 76,481	$ -	$ -	$ 76,481

		2018 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans - collateral dependent	$ 314,501	$ -	$ -	$ 314,501

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2019 and 2018.

	Fair Value at December 31, 2019	Valuation Technique	Unobservable Inputs	Range
Impaired loans - collateral-dependent	$ 76,481	Market comparable properties	Marketability discount	15%

	Fair Value at December 31, 2018	Valuation Technique	Unobservable Inputs	Range
Impaired loans - collateral-dependent	$ 314,501	Market comparable properties	Marketability discount	15%

The following tables present estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

			2019 Fair Value Measurements Using		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 3,839,004	$ 3,839,004	$ 3,839,004	$ -	$ -
Loans, net of allowance for loan losses	126,544,430	125,909,000	-	-	125,909,000
Loans held for sale	713,000	713,000	713,000	-	-
Federal Home Loan Bank Stock	1,012,500	1,012,500	-	1,012,500	-
Interest receivable	571,057	571,057	-	571,057	-
Financial liabilities					
Deposits	145,805,604	146,208,000	108,879,000	37,329,000	-
Federal Home Loan Bank advances	12,250,000	12,246,000	-	12,246,000	146,011
Interest payable	102,760	102,760	-	102,760	-

			2018 Fair Value Measurements Using		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 3,054,789	$ 3,054,789	$ 3,054,789	$ -	$ -
Interest-earning time deposits	496,000	496,000	496,000	-	-
Loans, net of allowance for loan losses	128,311,127	126,550,000	-	-	126,550,000
Loans held for sale	838,300	838,300	838,300	-	-
Federal Home Loan Bank Stock	1,012,500	1,012,500	-	1,012,500	-
Interest receivable	466,176	466,176	-	466,176	-
Financial liabilities					
Deposits	124,739,998	124,883,000	103,554,000	21,329,000	-
Federal Home Loan Bank advances	17,500,000	16,845,000	-	16,845,000	-
Interest payable	85,005	85,005	-	85,005	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents, Interest-Earning Time Deposits, Federal Home Loan Bank Stock, Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Loans

The fair value of loans are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors.

Loans Held For Sale

The carrying amount approximates fair value due to the insignificant time between origination and date of sale. The carrying amount is the amount funded and accrued interest.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank Advances

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The carrying values of these instruments are immaterial at the respective balance sheet dates and are reasonable estimates of fair value.

Note 15: Commitments

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; commercial real estate and residential real estate.

At December 31, 2019 and 2018, the Company had outstanding commitments to originate loans aggregating approximately $713,000 and $838,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period and were at fixed rates of interest.

Letters of Credit

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Company had total outstanding performance letters of credit amounting to $1,570,000 and $1,656,000 at December 31, 2019 and 2018, respectively, with terms of one year. In addition, the Company had total outstanding financial letters of credit amounting to $481,000 and $985,000 at December 31, 2019 and 2018, respectively, with terms ranging from two to three years.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2019 and 2018, the Company had granted unused lines of credit to borrowers aggregating approximately $32,664,000 and $32,682,000, respectively, for commercial lines and open-end consumer lines.

Note 16: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	December 31, 2019	December 31, 2018
	(In Thousands)	
Assets		
Cash	$ 26	$ 51
Investment in common stock of subsidiary	17,414	16,245
Other assets	215	184
Total assets	$ 17,655	$ 16,480
Liabilities - dividends payable	$ 83	$ -
Stockholders' Equity	17,572	16,480
Total liabilities and stockholders' equity	$ 17,655	$ 16,480

Condensed Statement of Income

	Years Ended December 31, 2019	Years Ended December 31, 2018
	(In Thousands)	
Income		
Dividends from subsidiary	$ 338	$ 82
Expenses		
Director fees	37	34
Other expenses	78	67
Total expenses	115	101
Income (Loss) Before Income Tax and Equity in Undistributed Income of Subsidiary	223	(19)
Income Tax Benefit	31	28
Income Before Equity in Undistributed Income of Subsidiary	254	9
Undistributed Income of Subsidiary	739	1,010
Net Income	993	1,019
Other Comprehensive Income (Loss)	429	(129)
Comprehensive Income	$ 1,422	$ 890

Condensed Statements of Cash Flows

	Years Ended December 31, 2019	2018
	(In Thousands)	
Operating Activities		
Net income	$ 993	$ 1,019
Undistributed income of subsidiary	(739)	(1,010)
Items not requiring (providing) cash	(31)	79
Net cash provided by operating activities	223	88
Financing Activity - dividends paid	(248)	(295)
Net Change in Cash and Cash Equivalents	(25)	(207)
Cash and Cash Equivalents at Beginning of Year	51	258
Cash and Cash Equivalents at End of Year	$ 26	$ 51

Note 17: Subsequent Events

Subsequent events have been evaluated through March 4, 2020, which is the date the consolidated financial statements were available to be issued.