CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

SOLERA NATIONAL BANCORP, INC. AND SUBSIDIARY

December 31, 2019 and 2018

Independent Auditor's Report

To the Audit Committee and Board of Directors
Solera National Bancorp, Inc. and Subsidiary
Lakewood, Colorado

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Solera National Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits 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 Solera National Bancorp, Inc. and 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 54 through 58 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Eide Bailly LLP

Denver, Colorado
March 19, 2020

Solera National Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

December 31,

	2019	2018
ASSETS	(in thousands, except for shares outstanding)	
Cash and cash equivalents	$ 1,703	$ 5,829
Interest-bearing deposits with banks	16,033	559
Investment securities, available-for-sale	29,094	31,005
Investment securities, held-to-maturity	6,411	4,908
Loans, net	212,024	167,660
Nonmarketable equity securities	1,247	1,202
Bank-owned life insurance	4,830	4,721
Premises and equipment, net	8,316	1,646
Accrued interest receivable	1,076	1,095
Deferred tax asset, net	797	888
Other assets	582	1,170
Total Assets	$ 282,113	$ 220,683
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	$ 154,105	$ 84,287
Interest-bearing demand	7,955	10,561
Savings and money market	39,624	41,565
Time deposits	35,285	44,269
Total deposits	236,969	180,682
Accrued interest payable	120	132
Accounts payable and other liabilities	494	386
FHLB advances	4,000	4,000
Total liabilities	241,583	185,200
Commitments and contingencies (see Notes G, O, P)		
Stockholders' equity		
Common stock [1]	41	41
Additional paid-in capital	37,587	36,953
Accumulated surplus (deficit)	2,784	(778)
Accumulated other comprehensive income (loss)	118	(577)
Treasury stock, at cost; 0 and 25,776 shares	-	(156)
Total stockholders' equity	40,530	35,483
Total Liabilities and Stockholders' Equity	$ 282,113	$ 220,683

[1] 10,000,000 shares of $0.01 par value authorized; 4,143,620 and 4,089,396 shares outstanding as of December 31, 2019 and 2018, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

Years ended December 31,

	2019	2018
Interest income	(in thousands)	
Interest and fees on loans	$ 9,342	$ 7,617
Interest on investment securities	1,031	1,037
Dividends on nonmarketable equity securities	67	74
Other interest income	357	62
Total interest income	10,797	8,790
Interest expense		
Deposits	1,444	1,605
FHLB advances	71	159
Total interest expense	1,515	1,764
Net interest income	9,282	7,026
Provision for loan losses	540	580
Net interest income after provision for loan losses	8,742	6,446
Noninterest income		
Service charges and fees	261	133
Other income	155	123
Gain on sale of available-for-sale securities, net	278	-
Total noninterest income	694	256
Noninterest expense		
Employee compensation and benefits	3,103	2,264
Occupancy and equipment	223	227
Professional fees	179	132
Other general and administrative	1,342	1,156
Total noninterest expense	4,847	3,779
Income before income taxes	4,589	2,923
Income tax expense	1,027	690
Net income	$ 3,562	$ 2,233
Comprehensive income		
Net change in unrealized gains (losses) on securities	923	(384)
Income tax effect	(228)	95
Total other comprehensive income (loss)	695	(289)
Total comprehensive income	$ 4,257	$ 1,944

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2019 and 2018

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Surplus (Deficit)	Treasury Stock	Accumulated Other Comprehensive Gain (Loss)	Total
			(in thousands, except for shares outstanding)				
Balances at January 1, 2018	2,757,089	$ 27	$ 27,253	$ (3,052)	$ (156)	$ (243)	$ 23,829
Rights offering	1,332,307	14	9,645	-	-	-	9,659
Stock-based compensation	-	-	51	-	-	-	51
Cumulative-effect adjustment to accumulated deficit	-	-	4	41	-	(45)	-
Net income	-	-	-	2,233	-	-	2,233
Other comprehensive loss	-	-	-	-	-	(289)	(289)
Balances at December 31, 2018	4,089,396	$ 41	$ 36,953	$ (778)	$ (156)	$ (577)	$ 35,483
Stock-based compensation	-	-	240	-	-	-	240
Options exercised	80,000	-	550	-	-	-	550
Reissuance of common stock held in treasury	(25,776)	-	(156)	-	156	-	-
Net income	-	-	-	3,562	-	-	3,562
Other comprehensive gain	-	-	-	-	-	695	695
Balances at December 31, 2019	4,143,620	$ 41	$ 37,587	$ 2,784	$ -	$ 118	$ 40,530

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years ended December 31,

	2019	2018
Cash flows from operating activities	(in thousands)	
Net income	$ 3,562	$ 2,233
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	198	267
Provision for loan losses	540	580
Net amortization of premiums on investment securities	250	314
Stock-based compensation	240	51
Gain on sale of available-for-sale securities, net	(278)	-
Loss on disposal of premises and equipment	-	24
Deferred income tax expense	(135)	438
Federal Home Loan Bank stock dividends	(9)	(24)
Increase in bank-owned life insurance cash surrender value	(109)	(109)
Net change in:		
Accrued interest receivable	19	(258)
Other assets	462	(685)
Accrued interest payable	(12)	3
Accounts payable and other liabilities	107	82
Net cash provided by operating activities	$ 4,835	$ 2,916
Cash flows from investing activities		
Purchases of investment securities held to maturity	$ (1,497)	$ -
Activity in securities available for sale:		
Purchases	(11,526)	(4,276)
Maturities, prepayments, and calls	3,651	2,758
Sales	10,731	1,764
Redemption (purchase) of nonmarketable equity securities, net	(37)	66
Loan originations, net	(44,903)	(43,104)
Purchases of premises and equipment	(6,743)	(10)
Proceeds from sale of premises and equipment	-	15
Increase in interest bearing deposits in banks, net	(15,474)	(66)
Net cash (used by) investing activities	$ (65,798)	$ (42,853)

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years ended December 31,

	2019	2018
	(in thousands)	
Cash flows from financing activities		
Net change in deposits	$ 56,287	$ 43,171
Net change in short-term FHLB advances	-	(7,121)
Repayment of long-term FHLB borrowings	-	(1,000)
Proceeds from issuance of common stock	-	9,659
Proceeds from stock options exercised	550	-
Net cash provided by financing activities	$ 56,837	$ 44,709
Net change in cash and cash equivalents	$ (4,126)	$ 4,772
Cash and cash equivalents at beginning of year	5,829	1,057
Cash and cash equivalents at end of year	$ 1,703	$ 5,829
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 1,526	$ 1,762
Cash paid during the year for income taxes	$ 1,265	$ 111

The accompanying notes are an integral part of these consolidated financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Solera National Bancorp, Inc. (the "Holding Company") is a Delaware corporation that was incorporated to organize and serve as the holding company for Solera National Bank (the "Bank"), which opened for business in 2007. Solera National Bank is a full-service commercial bank headquartered in Lakewood, Colorado. The entities collectively are referred to as the "Company".

The Company offers a broad range of commercial and consumer banking services to small and medium-sized businesses, licensed professionals and individuals who are particularly responsive to the personalized service that Solera National Bank provides to its customers. The Company believes that local ownership and control allows the Bank to serve customers efficiently and effectively. Solera National Bank competes on the basis of providing a personalized banking experience combined with a broad range of services, customized and tailored to fit the individual needs of its clients. The Company remains focused on executing its strategy of delivering prudent and controlled growth to efficiently leverage the Company's capital while controlling its expense base to achieve sustained profitability.

The Company's ultimate objective is to create shareholder value through its recognition as the premier community bank in Colorado. We are committed to running a lean and efficient organization that can execute on business decisions quickly. Additionally, the Company believes in providing transparent financial reporting to our stakeholders through publication of quarterly earnings releases and annual audited financial statements. The Company's common stock is traded over-the-counter under the ticker symbol SLRK.

Since the Company operates in Colorado, the operating results are significantly influenced by economic conditions in Colorado, particularly the health of the real estate market. Additionally, the Company is subject to competition from other financial institutions and is impacted by fiscal and regulatory policies of the federal government as well as regulatory oversight by the Office of the Comptroller of the Currency, (the "OCC") and the Federal Reserve Bank of Kansas City (the "FRB").

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of Solera National Bancorp, Inc. and its wholly-owned subsidiary, Solera National Bank. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and prevailing practices within the banking industry.

<u>Use of Estimates</u>

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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 in the near-term relate to the determination of the allowance for loan losses and the fair value of financial instruments.

In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral. Management believes that the allowance for loan losses and the valuation of other real estate owned, if any, are adequate. While management uses available information to recognize losses on loans and other real estate owned, changes in economic conditions may necessitate revisions in future years.

<u>Business Segments</u>

The Company uses the "management approach" for reporting information about segments and has determined that during 2019 and 2018, its business was comprised of one operating segment: community banking.

<u>Presentation of Cash Flows</u>

For the purposes of reporting cash flows, cash and cash equivalents includes cash, balances due from banks and federal funds sold. Generally, federal funds are sold for one-day periods. Cash flows from loans, deposits, and securities sold under agreements to repurchase and federal funds purchased are reported net. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold.

The Company may maintain amounts due from banks, which exceed federally insured limits. The Company has not experienced nor does it anticipate any losses in such accounts.

Investment Securities

Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investments to be held for an indefinite amount of time, but not necessarily to maturity, are classified as available-for-sale and reported at fair value using Level 2 inputs. For these securities, the Company obtains fair value measurements from independent pricing services. 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 bonds' terms and conditions, among other things. Unrealized gains and losses are reported as a separate component of accumulated other comprehensive income. Premiums or discounts are amortized or accreted into income using the interest method. Realized gains or losses are recorded using the specific identification method.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than temporary. Securities are evaluated for impairment utilizing criteria such as the magnitude and duration of the decline, current market conditions, payment history, the credit worthiness of the obligor, the intent of the Company to retain the security or whether it is more likely than not that the Company will be required to sell the security before recovery of the value, as well as other qualitative factors. If a decline in value below amortized cost is determined to be other-than-temporary, which does not necessarily indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not favorable, the security is reviewed in more detail in order to determine the portion of the impairment that relates to credit (resulting in a charge to earnings) versus the portion of the impairment that is noncredit related (resulting in a charge to accumulated other comprehensive income, net of taxes). If it is more likely than not that sale of the security will be required prior to recovery of its amortized cost, the entire impairment is recognized in earnings equal to the difference between the amortized cost basis and the fair value. A credit loss is determined by comparing the amortized cost basis to the present value of cash flows expected to be collected, computed using the original yield as the discount rate.

Loan Commitments and Related Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note O. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Loans

Loans receivable that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances net of any deferred fees or costs, and reduced by any charge-offs and the allowance for loan losses.

Credit and loan decisions are made by management and the Board of Directors' Credit Committee in conformity with established loan policies. The Company's practice is to charge-off any loan or portion of a loan when the loan is determined to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss, or for other reasons.

The Company considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans (see Interest and Fees on Loans, below).

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria.

Generally, loans are charged off in whole or in part on a loan-by-loan basis after they become significantly past due and based upon management's review of the collectability of all or a portion of the loan unless the loan is in the process of restructuring. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Interest and Fees on Loans

Interest income is recognized daily in accordance with the terms of each note based on the outstanding principal balance. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Generally, the accrual of interest on loans is discontinued when principal or interest is 90 days past due based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the Company's recorded investment in the loan (the customer's balance less any partial charge-offs) is deemed collectible. Interest accruals are resumed on such loans only when they are brought current and when, in the judgment of management, the loans are estimated to be fully collectible as to all interest and the Company's recorded investment. Past due government-guaranteed student loans are not placed on nonaccrual status, even when over 90 days past due, as both the principal and accrued unpaid interest are covered by the government guarantee.

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent by 30 days or more. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan using the effective interest method and without anticipating prepayments.

Provision and Allowance for Loan Losses

Implicit in the Company's lending activities is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loans being made and the creditworthiness of the borrowers over the terms of the loans. The allowance for loan losses represents the Company's recognition of the risks of extending credit and its evaluation of the loan portfolio. The evaluation of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses based on management's assessment of various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged-off, net of recoveries. Loan losses are charged against the allowance for loan losses when management believes the balance is uncollectible.

The Company has established a formal process for determining an adequate allowance for loan losses. The allowance for loan losses calculation has two components. The first component represents the allowance for loan losses for impaired loans; that is, loans where the Company believes collection of the contractual principal and interest payments is not probable. To determine this component of the calculation, impaired loans and leases are individually evaluated by either discounting the expected future cash flows or determining the fair value of the collateral, if repayment is expected solely from collateral. The fair value of the collateral is determined using internal analyses as well as third-party information, such as appraisals. That value, less estimated costs to sell, is compared to the recorded investment in the loan and any shortfall is charged-off. Unsecured loans and loans that are not collateral-dependent are evaluated by calculating the discounted cash flow of the payments expected over the life of the loan using the loan's effective interest rate and giving consideration to currently existing factors that would impact the amount or timing of the cash flows. The shortfall between the recorded investment in the loan and the discounted cash flows, or the fair value of the collateral less estimated costs to sell, represents the first component of the allowance for loan losses.

The second component of the allowance for loan losses represents contingent losses – the estimated probable losses inherent within the portfolio due to uncertainties. To determine this component, management calculates an historical loss rate based on the Bank's actual loss rate over its history. Management then adjusts the loss rate for environmental factors which include, but are not limited to: 1) historical and current trends in downgraded loans; 2) the level of the allowance in relation to total loans; 3) the levels and trends in non-performing and past due loans; and 4) management's assessment of economic conditions and certain qualitative factors as defined by bank regulatory guidance, including but not limited to, changes in the size, composition and concentrations of the loan portfolio, changes in the legal and regulatory environment, and changes in lending management. The qualitative factors also consider the risk elements within each segment of the loan portfolio.

The risk of loss on any particular loan is primarily influenced by the difference between the expected and actual cash flows of the borrower and the type of collateral securing the loan. For real estate secured loans, conditions in the real estate markets as well as the general economy influence real estate values and may impact the Company's ability to recover its investment due to declines in the fair value of the underlying collateral. The risks in non-real estate secured loans include general economic conditions as well as interest rate changes.

Additionally, classified and criticized loans, which are closely monitored by management, are taken out of their original category for calculating their contingent loss rate and are assigned an appropriate loss rate. The aggregate of the above described segments represents the contingent losses in the loan portfolio.

The recorded allowance for loan losses is the aggregate of the impaired loan component and the contingent loss component. The Company aggregates loans into five portfolio segments: Commercial Real Estate; Residential Real Estate; Commercial and Industrial; Construction and Land Development; and Consumer. These segments are based upon the loan's categorization in the Consolidated Report of Condition and Income, as set forth by banking regulators, (the "Call Report"). The methodology for estimating the allowance has not changed materially during the current or prior reporting period and is consistent across all portfolio segments and classes of loans.

At December 31, 2019, the Company had an allowance for loan losses of approximately $2.8 million. The Company believes that this is adequate to cover probable losses based on currently available information. Future additions to the allowance for loan losses may be required based on management's continuing evaluation of the inherent risks in the portfolio. Additional provisions for loan losses may be needed if the economy declines, asset quality deteriorates, or the loss experience changes. Additionally, the measure of the allowance for loan losses is dependent on the accounting standards in effect. The adoption of a new accounting standard could have a material impact on the measure of the allowance for loan losses. In June 2016, the Financial Accounting Standards Board, ("FASB"), issued the Current Expected Credit Loss, ("CECL"), standard which will require financial institutions to estimate a provision for credit losses for the lifetime of the loan, as opposed to reserving for incurred or probable losses up to the balance sheet date. Accordingly, CECL could require the Bank to increase its allowance for loan losses and may also cause more volatility in the Bank's level of allowance for loan losses. In October 2019, the FASB voted to delay CECL implementation for certain companies, therefore ASU 2016-13 is effective for the Company beginning January 1, 2023. See Applicable Accounting Standards Update for further information regarding CECL.

Leases

A lease is defined as a contract that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. The Company evaluates whether an arrangement contains a lease at contract inception and recognizes a right-of-use ("ROU") asset and operating lease liability based on the present value of lease payments over the lease term. Options to extend operating lease terms are included in the calculation of an ROU asset and lease liability when it is reasonably certain the option will be exercised. Most of the Company's leases do not provide an implicit rate and, therefore, we determine the present value of lease payments using the Company's incremental borrowing rate. Leases with an initial term of 12 months or less are not recorded in the consolidated balance sheets. Lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components for which we have elected to account for as a single lease component. The Company's ROU asset is subject to an annual impairment analysis, and no impairment is noted as of December 31, 2019. See Note G - Leases for further discussion of our leasing arrangements and related accounting.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Nonmarketable Equity Securities

The Bank is a member of the Federal Home Loan Bank of Topeka ("FHLB") and the Federal Reserve Bank of Kansas City ("FRB"). In both banks, members are required to own a certain amount of stock. As such, the Bank owns stock in both the FHLB and FRB. Bank stocks are carried at cost, classified as restricted securities and periodically reviewed for impairment. Both cash and stock dividends are reported as income in the period declared.

Other Real Estate Owned

Other real estate owned represents real estate acquired through foreclosure or deed in lieu of foreclosure and is carried at its fair value less estimated costs to sell. Prior to foreclosure, the value of the underlying loan is written down to the fair market value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are taken as a valuation allowance and charged to earnings as an operating expense. Operating income of such properties, net of related expenses, are included in other noninterest income. There was no other real estate owned as of December 31, 2019 or 2018.

Premises and Equipment

Land is carried at cost. Buildings, equipment and software are carried at cost less accumulated depreciation and amortization computed on the straight-line method over the estimated useful life of the asset. Building and improvements carry an estimated useful life of 39 years and equipment and software carry estimated useful lives ranging from one to seven years. Expenditures for improvements or major repairs are capitalized and those for ordinary repairs and maintenance are charged to noninterest expense when incurred.

Core Deposit Intangible

The Company's core deposit intangible includes the deposit premium paid and other transaction costs incurred in conjunction with the acquisition of customer deposits. Intangible assets are amortized over their estimated useful lives, using the straight-line method. Intangible assets are assessed for impairment at least quarterly, or when events or circumstances indicate a possible inability to realize the carrying amount. The core deposit intangible is included in Other Assets on the Company's Consolidated Balance Sheets and the amortization of the core deposit intangible is included in Other General and Administrative expenses on the Company's Consolidated Statements of Comprehensive Income.

Share-Based Compensation

The Company can grant stock options as incentive compensation to employees and directors. The cost of employee/director services received in exchange for an award of equity instruments is based on the grant-date fair value of the award, which is determined using a Black-Scholes-Merton model. This cost is expensed to employee compensation and benefits over the period in which the recipient is required to provide services in exchange for the award, generally the vesting period.

Additionally, the Company can grant restricted stock awards. These stock awards may vest based on a performance or service condition. For awards that vest based on a service condition, the compensation expense is recognized over the service period based on the grant-date fair value of the award (as determined by the quoted market price on the date of grant). For awards that vest based on a performance condition, the expense is recognized based on the number of awards that are expected to vest based on then-current projections. Should these expectations change in future periods, additional expense could be recorded or expense previously recorded could be reversed. Prior to the vesting of stock awards, each restricted stock grantee shall have the rights of a stockholder with respect to voting and dividend rights of the granted stock.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other 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.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Applicable Accounting Standards Updates

Adoption of New Accounting Standards:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The standard established a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statements. ASU 2016-02 became effective for the Company on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the Financial Accounting Standards Board issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements,* which, among other things, provided an additional transition method that allows entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We also did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by the related accounting guidance). The updates did not significantly change lease accounting requirements applicable to lessors and therefore did not significantly impact our financial statements in relation to contracts where we act as a lessor. We applied the modified-retrospective transition approach prescribed by ASU 2018-11. Upon adoption of ASU 2016-02 and ASU 2018-11 on January 1, 2019, we recognized a right-of-use asset and related lease liability of $46,000; no cumulative-effect adjustment to beginning retained earnings was recorded due to insignificance. Refer to Note G – Leases for further detail.

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). Under the new standard, certain equity investments are required to be carried at fair value, with changes in fair value recognized in net income. Debt securities classified as available-for-sale will continue to be carried at fair value with changes in fair value recorded through other comprehensive income. The standard also reduces or eliminates several financial reporting disclosure requirements and also requires the disclosure of the fair value of the loan portfolio be calculated using an exit price. The standard was effective for the Company beginning January 1, 2018. ASU 2016-01 only impacted the Company's disclosures and therefore did not result in retrospective adjustments. Note R – Fair Value Measurements reflects the provisions of this pronouncement.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The amendment allows a reclassification from accumulated other comprehensive income to retained earnings for strandard tax effects resulting from the newly enacted federal corporate income tax rate. The change in tax rate associated with securities available-for-sale increased the tax provision $45,000 for the year ended December 31, 2017, creating a stranded tax effect. As of January 1, 2018, the Company early adopted the provisions of this update because it believes the standard improves the usefulness and understandability of the Company's financial statements. Accordingly, the accompanying financial statements and related notes follow the presentation and disclosure requirements prescribed by the update.

In May 2014, the FASB issued ASU 2014-09. *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"), which supersedes or replaces nearly all GAAP revenue recognition guidance. This update establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point-in-time, and expands disclosures about revenue. The main provisions of the update require the identification of performance obligations within a contract and require the recognition of revenue based on a stand-alone allocation of contract revenue to each performance obligation. Interest income earned on financial instruments is outside of the scope of the update, and as a result the impact of the update is limited to certain components of noninterest income. The Company adopted ASC 606 on January 1, 2018. Because the Company's noninterest income is primarily generated by customer transactions or attributable to the passage of time, ASC 606 has not had a material impact on the timing of revenue recognition. The Company had no uncompleted customer contract liabilities as of December 31, 2018; therefore, there was no cumulative transition adjustment recorded in the Company's accumulated deficit upon adoption in the first quarter 2018. Our revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASC 606, and noninterest income. The largest percentage of noninterest income is derived from service charges and other related commercial and consumer banking charges. The recognition of revenue on services charges and other related fees occurs at the time the customer engages in the transaction and therefore does not require a change in the Company's legacy revenue recognition practices. We evaluated the impact of this standard on all revenue streams and determined it did not have a significant impact to our consolidated financial statements or require additional disclosure except as noted above.

<u>Recently Issued, but Not-Yet-Effective, Accounting Standards:</u>

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The objective of ASU 2016-13 is to provide financial statement users with decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 includes provisions that require financial assets measured at amortized cost (such as loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected. This will be accomplished through recognition of an estimate of all expected credit losses over the contractual term of the financial asset. The estimate will include forecasted information for the timeframe that an entity is able to develop reasonable and supportable forecasts. This is a change from the current practice of recognizing incurred losses based on the probable initial recognition threshold under current GAAP. In addition, credit losses on available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a write-down. Under ASU 2016-13, an entity will be able to record reversals of credit losses in current period income when the estimate of credit losses declines, whereas current GAAP prohibits reflecting those improvements in current period earnings.

In October 2019, the FASB voted to delay CECL implementation for certain companies. ASU 2016-13 is effective for the Company beginning January 1, 2023, and early adoption is permitted. ASU 2016-13 will be applied through a cumulative effect adjustment to retained earnings (modified-retrospective approach), except for debt securities for which an other-than-temporary impairment had been recognized before the effective date. A prospective transition approach is required for these debt securities. We are currently developing an implementation plan, including assessment of processes, segmentation of the loan portfolio and identifying and adding data fields necessary for the analysis. The adoption of this standard is likely to result in an increase in the allowance for loan and lease losses as a result of changing from an incurred loss model to an expected loss model. While we currently cannot reasonably estimate the impact of adopting this standard, we expect the impact will be influenced by the composition, characteristics and quality of our loan and securities portfolios, as well as the general economic conditions and forecasts as of the adoption date. ASU 2016-13 adds complexity and costs to our current credit loss evaluation process. The Company will continue to evaluate the effects on its financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The amendments in the update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, for entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. ASU 2018-13 is effective for the Company beginning January 1, 2020, with early adoption permitted. The provisions of ASU 2018-03 are not expected to have a significant impact on the Company's consolidated financial statements as the Company does not have any recurring Level 3 assets or liabilities.

During 2019, and thus far in 2020, the FASB issued other ASU's which may impact banks or other entities but do not, or are not expected to, have a material impact on our financial position, results of operations or cash flows.

Income per Common Share

Basic earnings per common share ("EPS") is based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share is similar to basic EPS except that the weighted-average number of common shares outstanding is increased by the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued at the beginning of the period. See Note M – Earnings Per Share for further information.

Income Taxes

Income tax expense (benefit) is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred taxes relate primarily to differences between the timing of recognizing tax expense for items such as start-up costs, the allowance for loan losses, unrealized gains or losses on securities available for sale and accumulated depreciation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company recognizes interest and penalties, if any, in Other General and Administrative expense. There were no interest or penalties recorded or accrued at December 31, 2019 or 2018. Similarly, as of December 31, 2019 and 2018, the Company has no uncertain income tax positions as defined in Accounting Standards Codification ("ASC") 740, *Income Taxes*.

Comprehensive Income

For the years ended December 31, 2019 and 2018, the Company's comprehensive income included net income from operations and unrealized gains and losses on investment securities, net of applicable taxes.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Holding Company or by the Holding Company to stockholders. With certain exceptions, the Company may not pay a dividend to its stockholders unless its retained earnings equal at least the amount of the proposed dividend.

NOTE B - SECURITIES

The Company owns bonds in corporations, state and local municipalities, residential agency mortgage-backed securities ("MBS"), residential agency collateralized mortgage obligations ("CMOs") and bonds issued directly by the United States Government ("U.S. Agency"). The amortized cost and fair values of securities, with gross unrealized gains and losses, follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available-for-Sale:				
Corporate	$ 9,891	$ 39	$ (36)	$ 9,894
State and municipal	6,130	70	(7)	6,193
Residential agency MBS and CMOs	12,080	167	(68)	12,179
U.S. agency	836	-	(8)	828
Total securities available-for-sale	$ 28,937	$ 276	$ (119)	$ 29,094
Securities Held-to-Maturity:				
Corporate	$ 6,411	$ 5	$ (310)	$ 6,106
Total securities held-to-maturity	$ 6,411	$ 5	$ (310)	$ 6,106

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available-for-Sale:				
Corporate	$ 9,337	$ 7	$ (332)	$ 9,012
State and municipal	9,086	22	(132)	8,976
Residential Agency MBS and CMOs	12,452	26	(327)	12,151
U.S. agency	896	-	(30)	866
Total securities available-for-sale	$ 31,771	$ 55	$ (821)	$ 31,005
Securities Held-to-Maturity:				
Corporate	$ 4,908	$ -	$ (389)	$ 4,519
Total securities held-to-maturity	$ 4,908	$ -	$ (389)	$ 4,519

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2019 are shown below. Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in one year or less	$ 2,218	$ 2,226	$ -	$ -
Due after one year through five years	6,655	6,636	497	498
Due after five years through ten years	3,003	3,035	5,500	5,203
Due after ten years	4,981	5,018	414	405
	16,857	16,915	6,411	6,106
Residential agency MBS and CMOs	12,080	12,179	-	-
	$ 28,937	$ 29,094	$ 6,411	$ 6,106

The following tables show the estimated fair value and gross unrealized losses, aggregated by investment category and length of time the individual securities have been in a continuous loss position as of December 31, 2019 and 2018.

	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
Securities Available-for-Sale:						
Corporate	$ 1,583	$ (13)	$ 1,977	$ (23)	$ 3,560	$ (36)
State and municipal	1,222	(1)	542	(6)	1,764	(7)
Residential agency MBS and CMOs	832	(1)	4,232	(67)	5,064	(68)
U.S. Agency	828	(8)	-	-	828	(8)
Total temporarily-impaired, securities available-for-sale	$ 4,465	$ (23)	$ 6,751	$ (96)	$ 11,216	$ (119)
Securities Held-to-Maturity:						
Corporate	$ -	$ -	$ 4,603	$ (310)	$ 4,603	$ (310)
Total temporarily-impaired, securities held-to-maturity	$ -	$ -	$ 4,603	$ (310)	$ 4,603	$ (310)

	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
Securities Available-for-Sale:						
Corporate	$ 3,465	$ (52)	$ 4,667	$ (280)	$ 8,132	$ (332)
State and municipal	517	(1)	6,731	(131)	7,248	(132)
Residential agency MBS and CMOs	197	-	9,700	(327)	9,897	(327)
U.S. Agency	-	-	867	(30)	867	(30)
Total temporarily-impaired, securities available-for-sale	$ 4,179	$ (53)	$ 21,965	$ (768)	$ 26,144	$ (821)
Securities Held-to-Maturity:						
Corporate	$ -	$ -	$ 4,519	$ (389)	$ 4,519	$ (389)
Total temporarily-impaired, securities held-to-maturity	$ -	$ -	$ 4,519	$ (389)	$ 4,519	$ (389)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. At December 31, 2019 and 2018, no declines were deemed to be other than temporary.

For the years ended December 31, 2019 and 2018, the Company received $10.7 million and $1.8 million in proceeds from the sale of investment securities with gross realized gains of $283,000 and $1,000, respectively. The Company had gross realized losses of $5,000 during 2019 and no gross realized losses for 2018.

Securities with carrying values of $10.4 million and $13.3 million at December 31, 2019 and 2018, respectively, were pledged as collateral to secure public deposits, borrowings from the FHLB or for other purposes as required or permitted by law.

NOTE C – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table sets forth the composition of the loan portfolio:

	December 31, 2019	December 31, 2018
	(in thousands)	
Commercial real estate ("CRE")	$ 129,789	$ 92,419
Residential real estate	29,045	34,027
Commercial and industrial	22,311	22,401
Construction and land development	17,890	2,713
Consumer	16,424	18,839
Subtotal	215,459	170,399
Less: Allowance for loan losses	(2,770)	(2,274)
Net deferred loan fees and discount on student loans	(665)	(465)
Loans, net	$ 212,024	$ 167,660

The Company's loan portfolio generally consists of loans to borrowers within Colorado. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, the Company's loan portfolio consists primarily of loans secured by real estate located in Colorado, making the value of the portfolio more susceptible to declines in real estate values and other changes in economic conditions in Colorado. No single borrower can be approved for a loan over the Company's current legal lending limit of approximately $6.0 million. This regulatory requirement helps to ensure the Company's exposure to one individual customer is limited.

Activity in the allowance for loan and lease losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	Rollforward of Allowance for Loan and Lease Losses by Portfolio Segment					
	Twelve Months Ended December 31, 2019					
(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Balance at December 31, 2018	$ 1,481	$ 264	$ 307	$ 75	$ 147	$ 2,274
Provision for loan losses	264	(86)	147	229	(14)	540
Charge-offs	-	-	-	-	(45)	(45)
Recoveries	-	-	-	-	1	1
Net (charge-offs) recoveries	-	-	-	-	(44)	(44)
Balance at December 31, 2019	$ 1,745	$ 178	$ 454	$ 304	$ 89	$ 2,770

	Rollforward of Allowance for Loan and Lease Losses by Portfolio Segment					
	Twelve Months Ended December 31, 2018					
(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Balance at December 31, 2017	$ 1,178	$ 239	$ 166	$ 71	$ 92	$ 1,746
Provision for loan losses	299	25	141	4	111	580
Charge-offs	-	-	-	-	(62)	(62)
Recoveries	4	-	-	-	6	10
Net (charge-offs) recoveries	4	-	-	-	(56)	(52)
Balance at December 31, 2018	$ 1,481	$ 264	$ 307	$ 75	$ 147	$ 2,274

Components of the allowance for loan and lease losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

Loan and Allowance for Loan and Lease Losses by Portfolio Segment						
	December 31, 2019					
(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Loan Balance (based on evaluation of impairment method):						
Individually	$ -	$ -		$ -	$ 11	$ 11
Collectively	129,789	29,045	22,311	17,890	16,413	215,448
Total	$ 129,789	$ 29,045	$ 22,311	$ 17,890	$ 16,424	$ 215,459
Allowance for Loan Losses (based on evaluation of impairment method):						
Individually	$ -	$ -	$ -	$ -	$ 5	$ 5
Collectively	1,745	178	454	304	84	2,765
Total	$ 1,745	$ 178	$ 454	$ 304	$ 89	$ 2,770

Loan and Allowance for Loan and Lease Losses by Portfolio Segment						
	December 31, 2018					
(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Loan Balance (based on evaluation of impairment method):						
Individually	$ -	$ -	$ 34	$ -	$ -	$ 34
Collectively	92,419	34,027	22,367	2,713	18,839	170,365
Total	$ 92,419	$ 34,027	$ 22,401	$ 2,713	$ 18,839	$ 170,399
Allowance for Loan Losses (based on evaluation of impairment method):						
Individually	$ -	$ -	$ -	$ -	$ -	$ -
Collectively	1,481	264	307	75	147	2,274
Total	$ 1,481	$ 264	$ 307	$ 75	$ 147	$ 2,274

Impaired Loans and Troubled Debt Restructurings

There was one impaired, nonaccrual consumer loan with a recorded investment[1] and unpaid principal balance totaling $11,000 as of December 31, 2019. This impaired loan had a valuation allowance of $5,000 and no interest income was recognized during 2019 on this impaired loan.

There was one impaired, troubled debt restructuring ("TDR") loan totaling $34,000 as of December 31, 2018. The impaired loan was a commercial and industrial loan with a recorded investment of $34,000, and an unpaid principal balance of $35,000 as of December 31, 2018. The impaired loan had no valuation allowance at December 31, 2018, as the loan was well secured. Less than $2,000 of interest income was recognized during 2018 on this impaired loan. This impaired TDR loan was repaid in full during 2019.

No previously restructured loans subsequently defaulted and were charged-off during 2019 or 2018.

Past Due and Nonaccrual Loans

The following tables show past due loans, by class, as of December 31, 2019 and 2018:

	Age Analysis of Loans by Class				
	Year Ended December 31, 2019				
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual
CRE - owner occupied	$ -	$ -	$ -	$ -	$ -
CRE - non-owner occupied	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Government guaranteed	635	788	1,032	-	2,455
Consumer	-	-	-	11	11
Total	$ 635	$ 788	$ 1,032	$ 11	$ 2,466

[1] The recorded investment represents the customer balance less partial charge-offs, if any, and excluding any accrued interest receivable since most impaired loans are on nonaccrual status.

The government guaranteed past due loans relate to a pool of rehabilitated student loans. Student loans are managed on a pool basis due to their homogeneous nature. Student loans have been acquired at 98.5% of par value. Approximately 97.5% of this principal and interest is guaranteed by the full faith and credit of the United States Treasury under the Higher Education Act of 1965.

	Age Analysis of Loans by Class				
	Year Ended December 31, 2018				
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual
CRE - owner occupied	$ -	$ -	$ -	$ -	$ -
CRE - non-owner occupied	-	-	-	-	-
Commercial and industrial	-	-	-	34	34
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Government guaranteed	642	281	2,928	-	3,851
Consumer	-	-	-	-	-
Total	$ 642	$ 281	$ 2,928	$ 34	$ 3,885

The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance and are the same for all classes of loans:

Special Mention: Loans in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment at some future date.

Substandard: Loans in this category are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. These loans have well-defined weaknesses that jeopardize the liquidation of the debt and have the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans in this category have all the weaknesses inherent in those classified as substandard, above, with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss: Loans in this category are deemed not collectible and are charged-off.

Loans not meeting any of the definitions above are considered to be pass and pass-watch rated loans.

As of December 31, 2019, and based on the most recent analysis performed during the month of December 2019, the recorded investment in each risk category of loans by class of loan is as follows:

	Credit Quality of Loans by Class				
	Year Ended December 31, 2019				
(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
CRE - owner occupied	$ 17,800	$ 1,706	$ 2,695	$ -	$ 22,201
CRE - non-owner occupied	104,206	2,907	475	-	107,588
Commercial and industrial	19,311	3,000	-	-	22,311
Residential real estate	29,045	-	-	-	29,045
Construction and land development	17,890	-	-	-	17,890
Government guaranteed	16,330	-	-	-	16,330
Consumer	83	-	-	11	94
Total	$ 204,665	$ 7,613	$ 3,170	$ 11	$ 215,459

As of December 31, 2018, and based on the analysis performed during the month of December 2018, the recorded investment in each risk category of loans by class of loan is as follows:

	Credit Quality of Loans by Class				
	Year Ended December 31, 2018				
(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
CRE - owner occupied	$ 17,327	$ 1,478	$ 3,766	$ -	$ 22,571
CRE - non-owner occupied	68,711	-	1,137	-	69,848
Commercial and industrial	22,193	-	34	-	22,227
Residential real estate	33,895	-	132	-	34,027
Construction and land development	2,588	125	-	-	2,713
Government guaranteed	18,927	-	-	-	18,927
Consumer	86	-	-	-	86
Total	$ 163,727	$ 1,603	$ 5,069	$ -	$ 170,399

NOTE D – NONMARKETABLE EQUITY SECURITIES

The Company, through its subsidiary bank, is a member of both the Federal Reserve Bank of Kansas City and the Federal Home Loan Bank of Topeka. Membership in these banks requires the Company to maintain an investment in the capital stock of each. These investments are restricted in that they can only be redeemed by the issuer at par value. The Company's investments at December 31, were as follows:

(in thousands)	**2019**	**2018**
Federal Reserve Bank of Kansas City	$ 973	$ 966
Federal Home Loan Bank of Topeka	274	236
	$ 1,247	$ 1,202

NOTE E – BANK-OWNED LIFE INSURANCE

Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value. Increases in the cash surrender value are recognized as other noninterest income.

NOTE F – PREMISES AND EQUIPMENT

At December 31, premises and equipment, less accumulated depreciation consisted of the following:

(in thousands)	2019	2018
Land	$ 4,878	$ 269
Building and improvements	3,574	1,482
Furniture, fixtures and equipment	753	741
	9,205	2,492
Accumulated depreciation	(889)	(846)
Total premises and equipment	$ 8,316	$ 1,646

During 2019, the Company purchased a building in Cherry Creek, Colorado, which accounts for the increase in land, building and improvements, year-over-year. Depreciation expense on premises and equipment was $73,000 and $90,000 for the years ended December 31, 2019 and 2018, respectively, and is included in occupancy expense in the accompanying consolidated statements of comprehensive income.

NOTE G – LEASES

The Company adopted ASC 842 on January 1, 2019 and recorded an initial right-of-use asset and related lease liability of $46,000 related to the lease of administrative office space. There was no cumulative-effect adjustment to retained earnings as the amount was insignificant. The administrative office lease does not meet the criteria for a finance lease and is, therefore, classified as an operating lease; the Company does not have any lease agreements that meet the definition of a finance lease as of December 31, 2019.

In September 2019, the Company entered into another lease agreement for expanded administrative office space that will replace the original lease agreement at the commencement date of the new lease. As of December 31, 2019, the new lease agreement has not yet commenced. Both the original lease and the new lease are operating lease agreements in which the Company has an option to renew at the Company's discretion. The Company re-measured its original lease liability upon execution of the new lease as the renewal option for the original lease agreement was no longer reasonably certain to be exercised. As of December 31, 2019, the Company has an operating lease right-of-use asset and operating lease liability of $2,000 reported in other assets and other liabilities, respectively, within the consolidated balance sheet. The Company's new administrative office lease agreement is for an original term of five years, with five renewal options, each for three years at a base rent of $2,800 per month. The Company reasonably expects to exercise the first renewal option of the new lease agreement. Each renewal is at a ten percent increase in the monthly base rent. This new lease will result in a significant right-of-use asset and a lease obligation on the Company's balance sheet upon lease commencement, which is expected to be in the first quarter of 2020.

The Company elected not to include short-term leases with initial terms of twelve months or less on the consolidated balance sheet.

ASC 842 requires the use of the rate implicit in the lease when it is readily determinable. As this rate is typically not readily determinable, at the inception of the lease, the Company uses its collateralized incremental borrowing rate over a similar term. The amount of the right-of-use asset and lease liability are impacted by the discount rate used to calculate the present value of the minimum lease payments over the term of the lease.

	2019
Weighted-Average Remaining Lease Term	
Operating Leases	0.17 years
Weighted-Average Discount Rate	
Operating Leases	2.1%

The Company's operating leases contain fixed and variable lease components and it has elected to account for all classes of underlying assets as a single lease component. Variable lease costs primarily represent common area maintenance. The Company recognized lease costs of $15,000 and $3,000 for the years ended December 31, 2019 and 2018, respectively.

The following table presents a maturity analysis of the Company's operating lease liabilities on an annual basis for each of the five years and total amounts thereafter as of December 31, 2019.

Year ending December 31,	(in thousands)
2020	2
2021	-
2022	-
2023	-
2024	-
Thereafter	-
Total future minimum lease payments	$ 2
Less: Imputed interest	-
Present value of net future minimum lease payments	$ 2

As of December 31, 2019, the Company had an insignificant noncancelable operating lease for one copier/printer/scanner that expires in 2020. The amount of future minimum noncancelable operating lease payments as of December 31, 2019 was $2,000 due in 2020 and no amounts due subsequent to year-end 2020.

During 2019, the Company acquired an office building and simultaneously entered into a lessor arrangement with the existing tenants of the building. The lease agreements are for initial terms of one year, with two one-year renewal options available, and do not contain variable lease payments. The tenant lease agreements do not meet the criteria for a sales-type lease or direct financing lease, and, therefore, are classified as operating leases. The Company recognized rental income of $46,000 for the year ended December 31, 2019. As of December 31, 2019, no impairment of the office building subject to operating leases has been noted.

The following table presents a maturity analysis of the Company's operating lease income on an annual basis for each of the five years and total amounts thereafter as of December 31, 2019.

Year ending December 31,	(in thousands)
2020	306
2021	-
2022	-
2023	-
2024	-
Thereafter	-
Total future minimum lease payments	$ 306

NOTE H – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2019 and 2018 was $10.2 million and $12.0 million, respectively.

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

For the Years Ending December 31,	(in thousands)
2020	19,530
2021	7,449
2022	2,076
2023	3,798
2024	763
Thereafter	1,669
Total	$ 35,285

Time deposits at December 31, 2019 included approximately $396,000 in brokered deposits none of which were reciprocal time deposits. Time deposits at December 31, 2018 included approximately $1.4 million in brokered deposits of which $975,000 were reciprocal time deposits.

In 2019 and 2018, the Company recorded $67,000 in amortization expense related to the core deposit intangible from the acquisition of customer deposits in 2013. As of December 31, 2019 and 2018, the core deposit intangible balance was $28,000 and $95,000, respectively, and is included in Other Assets on the Company's Consolidated Balance

Sheets. Quarterly, the Company evaluates the core deposit intangible for impairment. As of December 31, 2019, no impairment has been noted.

NOTE I – FHLB ADVANCES

The Company is a member of the FHLB and, as a regular part of its business, obtains advances from this FHLB. Overnight advances bear interest at a variable rate while other advances typically bear interest at a fixed rate. All advances are collateralized by certain securities pledged by the Company and some of the Company's qualifying loans. The Company's authorized borrowing line with the FHLB is capped at 40% of total assets, subject to the availability of sufficient collateral to pledge against such borrowings.

As of both December 31, 2019 and 2018, the Company had no fixed-rate borrowings and a $4.0 million European style 10-year advance at a 1.70% fixed rate that was purchased in August 2017 and matures in August 2027. The $4.0 million advance has a convertible call option at the end of the third year, which allows the FHLB to convert the advance to a variable rate, tied to the one-month FHLB advance rate. If the advance is converted to the one-month variable rate, the Bank can repay the borrowing with no penalty on the reset date or on any monthly-reset date thereafter. If the advance is not converted, it will remain at the 1.70% fixed rate for the remaining 7 years and would be subject to the FHLB's standard fixed-rate advance prepayment penalty.

Additionally, the Company had no variable-rate, overnight borrowings as of both December 31, 2019 and 2018. The Bank's weighted-average effective interest rate on all FHLB borrowings was 1.70% as of December 31, 2019 and 2018.

In addition to FHLB borrowings, the Company may borrow overnight funds on an unsecured basis from its correspondent banks. The Company had approved borrowing lines from correspondent banks up to $18.3 million as of December 31, 2019 and 2018. As of both December 31, 2019 and 2018, there were no outstanding borrowings under these arrangements. The Company also has the ability to borrow at the Federal Reserve Bank Discount Window on a secured basis.

At December 31, 2019, the scheduled maturities and weighted-average effective interest rate of FHLB borrowings are as follows:

(in thousands)	Amount Maturing	Weighted-Average Interest Rate
Overnight	$ -	0.00%
2027	4,000	1.70%
Total	$ 4,000	1.70%

NOTE J – INCOME TAXES

A deferred tax asset or liability is recognized for the tax consequences of temporary differences in the recognition of revenue and expense for financial reporting and tax purposes. Listed below are the components of the net deferred tax asset at December 31:

	2019	2018
	(in thousands)	
Deferred tax assets:		
Start-up and organizational expenses	$ 162	$ 219
Net unrealized loss on available-for-sale securities	-	189
Allowance for loan losses	545	409
Non-qualified stock options	81	34
Other	52	40
Total deferred tax assets	840	891
Deferred tax liabilities:		
Federal Home Loan Bank dividends	(4)	(3)
Net unrealized gain on available-for-sale securities	(39)	-
Total deferred tax liabilities	(43)	(3)
Net deferred tax asset	$ 797	$ 888

Management believes, based upon the Bank's historical performance and future projections, it is more likely than not that the Bank's deferred tax asset will be realized in the normal course of operations, and has determined that no valuation allowance is necessary at December 31, 2019 and 2018. The Bank had no federal net operating loss carryforwards as of both December 31, 2019 and 2018.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from continuing operations for the years ended December 31, 2019 and 2018, due to the following:

	2019		2018	
Federal tax, at statutory rates	$ 964	21.0%	$ 614	21.0%
State income taxes, net of federal effect	157	3.4%	100	3.4%
Other	(94)	-2.0%	(24)	-0.8%
Federal tax, at effective rate	$ 1,027	22.4%	$ 690	23.6%

NOTE K - EMPLOYEE BENEFIT PLANS

The Company sponsors a Qualified Automatic Contribution Arrangement ("QACA") 401(k) Plan whereby the Company contributes three percent of an employee's compensation to the Plan. Employer contributions cliff-vest after two years of service. Employees may also make volunteer contributions to the Plan, subject to certain limits based on federal tax laws. The employee's contributions vest immediately. For the years ended December 31, 2019 and 2018, expense attributable to the Plan amounted to $69,000 and $49,000, respectively.

NOTE L – STOCK-BASED COMPENSATION

In 2012, the Board of Directors adopted the Company's 2012 Long-Term Incentive Plan, (the "2012 Plan"). Under the terms of the 2012 Plan, the Company may grant incentive stock options, nonqualified stock options, restricted stock awards, and/or stock appreciation rights to eligible persons, including officers and directors of the Company. The 2012 Plan does not terminate or amend the Company's 2007 Stock Incentive Plan (the "2007 Plan"). The 2012 Plan reserves 250,000 shares of common stock of the Company for issuance. At December 31, 2019 and 2018, approximately 242,000 shares were available for future grant. Stock options expire no later than 10 years from the date of the grant and generally vest over 4 years. The 2012 Plan provides for accelerated vesting if there is a change of control, as defined in the 2012 Plan. The 2012 Plan is expected to terminate in September 2022.

The Company's 2007 Plan terminated on April 17, 2018. As such, no additional shares can be granted out of the 2007 Plan. As of December 31, 2019 and 2018, the 2007 Plan had

1,000 and 4,000 shares issued and outstanding, respectively, that were unaffected by the Plan's expiration.

The Company recognized stock-based compensation costs of approximately $240,000 during 2019, compared to $51,000 during 2018. 2019 expense included accelerated vesting charges for all outstanding stock options due to a change of control clause that was tripped during second quarter 2019. As of December 31, 2019, the Company has no unrecognized compensation costs as all stock options have vested.

There were no shares granted in 2019 and 425,000 shares granted during 2018. The fair value of the 2018 stock option grants was estimated on the date of the grant using the Black-Scholes-Merton option pricing model with the assumptions presented in the following table:

	2018 Nonqualified Grants
Number of Options Granted	425,000
Expected Volatility	7.0%
Expected Term	4.2 - 6 years
Expected Dividend	0%
Risk-Free Rate	2.7% - 3.0%
Grant-Date Fair Value	$0.31 - $0.77

As of December 31, 2019 and 2018, the aggregate intrinsic value of in-the-money outstanding stock options was approximately $945,000 and $530,000, respectively. As of December 31, 2019, there were approximately 601,000 fully-vested and exercisable stock options outstanding with a weighted-average exercise price of $9.70 per share and a weighted-average remaining contractual term of 3.0 years.

The following is a summary of the Company's outstanding stock options and related activity for the year ended December 31, 2019:

	Options	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Outstanding at January 1, 2019	681,000	$ 0.57	$ 9.37
Granted	-	-	-
Exercised	(80,000)	0.74	6.88
Expired	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2019	601,000	$ 0.54	$ 9.70

The following is a summary of the Company's outstanding stock options and related activity for the year ended December 31, 2018:

	Options	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Outstanding at January 1, 2018	256,000	$ 0.77	$ 6.95
Granted	425,000	0.45	10.82
Exercised	-	-	-
Expired	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2018	681,000	$ 0.57	$ 9.37

NOTE M – EARNINGS PER SHARE

The following table presents the net earnings and weighted average common shares outstanding used to calculate earnings per share for the years ended December 31, 2019 and 2018:

	2019	2018
Basic earnings per share computation		
Net earnings to common stockholders	$ 3,561,819	$ 2,232,950
Weighted average shares outstanding - basic	4,078,743	3,570,427
Basic earnings per share	$ 0.87	$ 0.63
Diluted earnings share computation		
Net earnings to common stockholders	$ 3,561,819	$ 2,232,950
Weighted average shares outstanding - basic	4,078,743	3,570,427
Shares assumed issued:		
Stock options	86,120	58,783
Weighted average shares outstanding - diluted	4,164,863	3,629,210
Diluted earnings per share	$ 0.86	$ 0.62

For the year ended December 31, 2019, there were 16,430 anti-dilutive options and no unvested restricted stock excluded from the computation of weighted average shares outstanding. For the year ended December 31, 2018, there were 84,977 anti-dilutive options and no unvested restricted stock excluded from the computation of weighted average shares outstanding.

NOTE N – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company may grant loans to or hold deposits of principal officers, directors and/or their affiliates. The following details the related party note receivable and deposit balances as of December 31:

	2019	2018
	(in thousands)	
Note receivable from principal officers, directors and/or their affiliates	$ -	$ 355
Deposits from related parties	631	648

NOTE O – COMMITMENTS AND CONTINGENCIES

The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2019 and 2018, the Company had $35.6 million and $34.0 million, respectively, in unfunded commitments outstanding whose contract amounts represent credit risk.

Commitments to extend credit 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 some of the commitments are expected to expire without being drawn upon, the commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income producing commercial properties.

NOTE P – LEGAL CONTINGENCIES

In the ordinary course of the business, the Company may be party to various legal actions, which it believes are incidental to the operation of the business and will not have a material impact on the financial condition, cash flow, or results of operations of the Company.

NOTE Q – NONINTEREST EXPENSE

The following table details the items comprising other general and administrative expenses:

(in thousands)	Year Ended December 31, 2019	2018	Increase/ (Decrease)
Other general and administrative expenses:			
Data processing	$ 774	$ 595	$ 179
Regulatory and reporting fees	109	107	2
Core deposit intangible amortization	67	67	-
Insurance	56	54	2
Telephone/communication	54	23	31
Training, education and conferences	47	40	7
Other loan expenses	42	35	7
Marketing and promotions	37	22	15
Franchise taxes	34	35	(1)
Travel and entertainment	25	16	9
Directors' fees	23	22	1
Printing, stationery and supplies	21	18	3
Other	19	17	2
Dues and memberships	14	25	(11)
ATM and debit card fees	14	18	(4)
FDIC assessment	6	56	(50)
Miscellaneous losses	-	6	(6)
Total	$ 1,342	$ 1,156	$ 186

The increases in data processing fees and telephone/communication expense are primarily due to the growth in the Bank's customer base, which led to an increase in core processing costs and the need for additional space to accommodate more employees. The increases in marketing and promotions and travel and entertainment costs are due to business development costs to support franchise growth. The decrease in FDIC assessment fees is due to the utilization of small bank assessment credits made available to the Company in 2019.

NOTE R – FAIR VALUE MEASUREMENTS

The Company carries its available-for-sale securities at fair value measured on a recurring basis. Fair value measurements are determined based on the assumptions the market participants would use in pricing the asset. See additional discussion regarding fair value measurement in Note A under the discussion of significant accounting policies.

For available-for-sale securities, fair value measurement is obtained from independent pricing services that utilize observable data which 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 bonds' terms and conditions, among other things. As of December 31, 2019 and 2018, all of the Company's available-for-sale securities were valued using Level 2 inputs.

Impaired loans, if any, are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans or the present value of expected cash flows and is classified as Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals performed by qualified licensed appraisers hired by the Company. Appraised and reported values may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Impaired loans, if any, are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

There were no changes to management's valuation methodology during 2019 or 2018.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets at December 31, 2019				
Securities available for sale				
Corporate	$ -	$ 9,894	$ -	$ 9,894
State and municipal	-	6,193	-	6,193
Residential agency MBS/CMOs	-	12,179	-	12,179
U.S. Agency	-	828	-	828
Assets at December 31, 2018				
Securities available for sale				
Corporate	$ -	$ 9,012	$ -	$ 9,012
State and municipal	-	8,976	-	8,976
Residential agency MBS/CMOs	-	12,151	-	12,151
U.S. Agency	-	866	-	866

Assets and Liabilities Measured on a Nonrecurring Basis

At December 31, 2019, the Company had one impaired, loan with a recorded investment of $11,000 that is measured at fair value on a nonrecurring basis and is classified as Level 3 in the fair value hierarchy. The impaired loan had a valuation allowance of $5,000 based on the discounted cash-flow method. The loan is unsecured.

At December 31, 2018, the Company had one impaired, TDR loan with a recorded investment of $34,000 that is measured at fair value on a nonrecurring basis and is classified as Level 3 in the fair value hierarchy. The impaired loan had no valuation allowance at December 31, 2018, as the loan was well secured.

The Company had no other assets and no liabilities that were measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018.

Fair Value of Financial Instruments

Disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate such value is required by U.S. GAAP. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value information is not required to be disclosed for certain financial instruments and all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the financial instruments held by the Company. Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Cash and cash equivalents: The carrying amounts of cash, due from banks and federal funds sold approximate their fair values.

Interest-bearing deposits with banks: The carrying amount of interest-bearing deposits with banks is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities.

Investment securities: Fair value measurement is obtained from independent pricing services which utilize 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 bonds' terms and conditions, among other things.

Loans, net: The fair value of loans was determined using an exit price methodology as prescribed by ASU 2016-01. The exit price estimation of fair value is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital (Level 3).

Nonmarketable equity securities: It is not practical to determine the fair value of bank stocks due to the restrictions placed on the transferability of FHLB stock and Federal Reserve Bank stock.

Bank-owned life insurance: The carrying amount of bank-owned life insurance is based on the cash surrender value of the policies which is a reasonable estimate of fair value.

Accrued interest receivable: The carrying value of interest receivable approximates fair value due to the short period of time between accrual and receipt of payment.

Deposits: The fair value of noninterest-bearing demand deposits, interest-bearing demand deposits and savings and money market accounts is determined to be the amount payable on demand at the reporting date. The fair value of fixed rate time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities. Carrying value is assumed to approximate fair value for all variable rate time deposits.

Federal Home Loan Bank advances: Fair value of fixed rate FHLB advances are estimated using a discounted cash flow model based on current market rates for similar types of borrowing arrangements including similar remaining maturities. The fair value of variable rate FHLB advances is assumed to approximate the carrying value.

Accrued interest payable: The carrying value of interest payable approximates fair value due to the short period of time between accrual and payment.

Loan commitments and letters of credit: The fair values of commitments are 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. The difference between the carrying value of commitments to fund loans or standby letters of credit and their fair values are not significant and, therefore, are not included in the following table.

The carrying amounts and estimated fair values of financial instruments are summarized as follows:

(in thousands)	2019 Carrying Value	2019 Fair Value	2018 Carrying Value	2018 Fair Value
Financial Assets:				
Cash and cash equivalents	$ 1,703	$ 1,703	$ 5,829	$ 5,829
Interest-bearing deposits with banks	16,033	16,033	559	559
Investment securities, available for sale	29,094	29,094	31,005	31,005
Investment securities, held to maturity	6,411	6,106	4,908	4,519
Loans, net	212,024	210,986	167,660	167,248
Nonmarketable equity securities	1,247	1,247	1,202	1,202
Bank-owned life insurance	4,830	4,830	4,721	4,721
Accrued interest receivable	1,076	1,076	1,095	1,095
Financial Liabilities:				
Deposits - demand, savings, and money market	$ 201,684	$ 201,684	$ 136,413	$ 136,413
Time deposits	35,285	35,504	44,269	43,745
FHLB advances	4,000	3,996	4,000	3,923
Accrued interest payable	120	120	132	132

NOTE S – REGULATORY MATTERS

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined).

At December 31, 2019, the Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock and related paid-in-capital, and retained earnings; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital – consisting of a permissible portion of the allowance for loan losses; and 4) total capital – the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in common equity tier 1 capital. At December 31, 2019, the Bank's regulatory capital is comprised of the same components as at December 31, 2018.

The following tables present actual and required capital ratios as of December 31, 2019 and 2018 for the Bank under the Basel III Capital Rules. As of December 31, 2019 and 2018, the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

	December 31, 2019			
	Risk-based			Leverage
	Tier 1	Common Equity Tier 1	Total capital	Tier 1
	(in thousands)			
Actual regulatory capital	$ 38,824	$ 38,824	$ 41,594	$ 38,824
Well-capitalized requirement	18,395	14,946	22,994	13,665
Excess regulatory capital	$ 20,429	$ 23,878	$ 18,600	$ 25,159
Solera National Bank's Capital ratios	16.9%	16.9%	18.1%	14.2%
Well-capitalized requirement	8.0%	6.5%	10.0%	5.0%

	December 31, 2018			
	Risk-based			Leverage
	Tier 1	Common Equity Tier 1	Total capital	Tier 1
	(in thousands)			
Actual regulatory capital	$ 34,885	$ 34,885	$ 37,023	$ 34,885
Well-capitalized requirement	13,671	11,107	17,088	11,009
Excess regulatory capital	$ 21,214	$ 23,778	$ 19,935	$ 23,876
Solera National Bank's Capital ratios	20.4%	20.4%	21.7%	15.8%
Well-capitalized requirement (fully phased-in)	8.0%	6.5%	10.0%	5.0%

Capital adequacy ratios are not presented on a consolidated basis, as they are only applicable for bank holding companies with consolidated assets of $1 billion or more, or for those bank holding companies that are engaged in significant nonbanking activities.

The Bank is restricted as to the amount of dividends that can be paid. Dividends declared by national banks that exceed net income (as defined by OCC regulations) for the current year plus retained net income for the preceding two years must be approved by the OCC. With certain exceptions, the Company may not pay a dividend to its stockholders unless its retained earnings equal at least the amount of the proposed dividend.

NOTE T – SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. If a subsequent event evidences conditions existing at the balance sheet date, the effects are recognized in the financial statements (recognized subsequent event). If a subsequent event evidences conditions arising after the balance sheet date, the effects are not recognized in the financial statements but rather disclosed in the notes to the financial statements (non-recognized subsequent events). The effects of subsequent events are only recognized if material, or disclosed if the financial statements would otherwise be misleading.

With respect to the December 31, 2019 financial statements, management has considered subsequent events through March 19, 2020 and determined there are no recognized subsequent events.

Supplemental Consolidating Schedules
December 31, 2019 and 2018

**SOLERA NATIONAL BANCORP, INC.
AND SUBSIDIARY**

Solera National Bancorp, Inc. and Subsidiary

Consolidating Balance Sheet

December 31, 2019

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
ASSETS	(in thousands, except for shares outstanding)			
Cash and cash equivalents	$ 1,703	$ 1,561	$ (1,561)	$ 1,703
Interest-bearing deposits with banks	16,033	-	-	16,033
Investment securities, available-for-sale	29,094	-	-	29,094
Investment securities, held-to-maturity	6,411	-	-	6,411
Loans, net	212,024	-	-	212,024
Nonmarketable equity securities	1,247	-	-	1,247
Investment in subsidiary	-	38,970	(38,970)	-
Bank-owned life insurance	4,830	-	-	4,830
Premises and equipment, net	8,316	-	-	8,316
Accrued interest receivable	1,076	-	-	1,076
Deferred tax asset, net	797	-	-	797
Other assets	560	22	-	582
Total Assets	$ 282,091	$ 40,553	$ (40,531)	$ 282,113
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest-bearing demand	$ 154,105	$ -	$ -	$ 154,105
Interest-bearing demand	7,955	-	-	7,955
Savings and money market	41,185	-	(1,561)	39,624
Time deposits	35,285	-	-	35,285
Total deposits	238,530	-	(1,561)	236,969
Accrued interest payable	120	-	-	120
Accrued payable and other liabilities	471	23	-	494
FHLB advances	4,000	-	-	4,000
Total liabilities	243,121	23	(1,561)	241,583
Stockholders' equity				
Common stock	15,500	41	(15,500)	41
Additional paid-in capital	16,938	37,587	(16,938)	37,587
Accumulated surplus	6,414	2,784	(6,414)	2,784
Accumulated other comprehensive loss	118	118	(118)	118
Total stockholders' equity	38,970	40,530	(38,970)	40,530
Total Liabilities & Stockholders' Equity	$ 282,091	$ 40,553	$ (40,531)	$ 282,113

Solera National Bancorp, Inc. and Subsidiary

Consolidating Statement of Income

Year Ended December 31, 2019

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
		(in thousands)		
Interest income				
Interest and fees on loans	$ 9,342	$ -	$ -	$ 9,342
Interest on investment securities	1,031	-	-	1,031
Dividends on nonmarketable equity securities	67	-	-	67
Other interest income	357	2	(2)	357
Total interest income	10,797	2	(2)	10,797
Interest expense				
Deposits	1,446	-	(2)	1,444
FHLB advances	71	-	-	71
Total interest expense	1,517	-	(2)	1,515
Net interest income	9,280	2	-	9,282
Provision for loan losses	540	-	-	540
Net interest income after provision for loan losses	8,740	2	-	8,742
Noninterest income				
Service charges and fees	261	-	-	261
Other income	155	-	-	155
Equity in undistributed earnings of subsidiary	-	3,631	(3,631)	-
Gain on sale of available-for-sale securities, net	278	-	-	278
Total noninterest income	694	3,631	(3,631)	694
Noninterest expense				
Employee compensation and benefits	3,103	-	-	3,103
Occupancy and equipment	223	-	-	223
Professional fees	126	53	-	179
Other general and administrative	1,301	41	-	1,342
Total noninterest expense	4,753	94	-	4,847
Income before income taxes	4,681	3,539	(3,631)	4,589
Income tax expense (benefit)	1,050	(23)	-	1,027
Net income	$ 3,631	$ 3,562	$ (3,631)	$ 3,562

Solera National Bancorp, Inc. and Subsidiary

Consolidating Balance Sheet

December 31, 2018

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
ASSETS	(in thousands, except for shares outstanding)			
Cash and cash equivalents	$ 5,829	$ 635	$ (635)	$ 5,829
Interest-bearing deposits with banks	559	-	-	559
Investment securities, available-for-sale	31,005	-	-	31,005
Investment securities, held-to-maturity	4,908	-	-	4,908
Loans, net	167,660	-	-	167,660
Nonmarketable equity securities	1,202	-	-	1,202
Investment in subsidiary	-	34,403	(34,403)	-
Bank-owned life insurance	4,721	-	-	4,721
Premises and equipment, net	1,646	-	-	1,646
Accrued interest receivable	1,095	-	-	1,095
Deferred tax asset, net	888	-	-	888
Other assets	705	465	-	1,170
Total Assets	$ 220,218	$ 35,503	$ (35,038)	$ 220,683
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest-bearing demand	$ 84,287	$ -	$ -	$ 84,287
Interest-bearing demand	10,561	-	-	10,561
Savings and money market	42,200	-	(635)	41,565
Time deposits	44,269	-	-	44,269
Total deposits	181,317	-	(635)	180,682
Accrued interest payable	132	-	-	132
Accrued payable and other liabilities	366	20	-	386
FHLB advances	4,000	-	-	4,000
Total liabilities	185,815	20	(635)	185,200
Stockholders' equity				
Common stock	15,500	41	(15,500)	41
Additional paid-in capital	16,698	36,953	(16,698)	36,953
Accumulated surplus (deficit)	2,782	(778)	(2,782)	(778)
Accumulated other comprehensive loss	(577)	(577)	577	(577)
Treasury stock, at cost; 25,776 shares	-	(156)	-	(156)
Total stockholders' equity	34,403	35,483	(34,403)	35,483
Total Liabilities & Stockholders' Equity	$ 220,218	$ 35,503	$ (35,038)	$ 220,683

Solera National Bancorp, Inc. and Subsidiary

Consolidating Statement of Income

Year Ended December 31, 2018

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
		(in thousands)		
Interest income				
Interest and fees on loans	$ 7,617	$ -	$ -	$ 7,617
Interest on investment securities	1,037	-	-	1,037
Dividends on nonmarketable equity securities	74	-	-	74
Other interest income	57	6	(1)	62
Total interest income	8,785	6	(1)	8,790
Interest expense				
Deposits	1,606	-	(1)	1,605
FHLB advances	159	-	-	159
Total interest expense	1,765	-	(1)	1,764
Net interest income	7,020	6	-	7,026
Provision for loan losses	580	-	-	580
Net interest income after provision for loan losses	6,440	6	-	6,446
Noninterest income				
Service charges and fees	133	-	-	133
Other income	123	-	-	123
Equity in undistributed earnings of subsidiary	-	2,327	(2,327)	-
Gain on sale of available-for-sale securities, net	-	-	-	-
Total noninterest income	256	2,327	(2,327)	256
Noninterest expense				
Employee compensation and benefits	2,264	-	-	2,264
Occupancy and equipment	227	-	-	227
Professional fees	54	78	-	132
Other general and administrative	1,104	52	-	1,156
Total noninterest expense	3,649	130	-	3,779
Income before income taxes	3,047	2,203	(2,327)	2,923
Income tax expense (benefit)	720	(30)	-	690
Net income	$ 2,327	$ 2,233	$ (2,327)	$ 2,233