INBANKSHARES, CORP

2020 Annual Report

INBANKSHARES, CORP

To our Shareholders and Friends,

On behalf of Management and the Board of Directors of InBankshares, Corp we are pleased to present the 2020 Annual Report. We are appreciative of your ongoing support and hope that you will join us for our Annual Meeting of Shareholders on May 21, 2021.

The 2020 InBankshares, Corp results reflect the talent and dedication of our team and our continued growth. We remain committed to the opportunity to positively impact the lives of our customers, communities and associates and to serve our clients at the highest level. In the past 12 months, we have welcomed a significant number of new customers to InBank and celebrated success in what proved to be a very challenging year for many businesses. Our new-to-bank relationships added needed scale to our balance sheet with assets growing 54% year-over-year. In addition to our record asset growth, our funding mix changed favorably from the growth of core non-interest-bearing deposits helping to reduce our cost of funding to 30 basis points at the end of the fourth quarter. The SBA's Paycheck Protection Program (PPP) was a significant contributor to our success. During the pandemic and economic downturn, business owners sought a banking relationship more than ever before. Many found out that they didn't have a banker, or a bank, that could help them in their time of need. Our ability to adapt quickly and provide expertise, certainty and a direct banker relationship early in the process differentiated InBank from other competitors in the market. However, it has been our team's focus on onboarding the entire relationship that accelerated the results of these efforts and contributed to our new business growth in 2020.

Our prior investments in technology and talent allowed us to take advantage of significantly disrupted markets. Instead of pausing, our team collaborated and prepared for the opportunity to serve. The slogan became "deliver certainty in a time of uncertainty". This was evident from our clients' positive testimonials and referrals.

Asset quality improved greatly in 2020. Non-performing assets significantly improved year-over-year ending at 0.41% of gross loans. Reductions in OREO and other non-accrual loans were the main drivers of the improvement. Thirty day past due loans ended the year at 0.19% of total gross loans. In March 2020, InBank rolled out InNeed, two programs for loan deferrals for companies that were adversely affected by the COVID-19 pandemic. The programs allowed an interest-only option for 90 days or a 90-day total payment deferral. 15 borrowers participated in the interest-only program and as of year-end, 14 of the 15 had returned to normal payments without incident. The final loan returned to normal payments in January of 2021. In the total payment deferral program, deferrals were granted on 42 loans representing $55.9 million in outstanding balances. Hotels represented the greatest concentration of these deferrals. As of December 31, 2020, most loans had returned to full payment, with eight loans representing $4.2 million in outstanding balances on payment deferral. Currently there are just two loans for $57,000 in outstanding balances that remain on deferral status, which we expect to return to full payment by May. Based on the current conditions, it is not expected that there will be any issue with the final loans returning to full payment status.

The Company's top line revenue growth was $7.0 million for the 12 months ended December 31, 2020 driven by interest income growth of $5.2 million and non-interest income growth of $1.7 million. Non-interest income growth was primarily driven by gain on sale of investment securities. On a pre-provision pre-tax basis the Company made $2.8 million for the 12 months ended December 31, 2020, an increase of $4.2 million from the same period a year ago. Non-interest expense totaled $20.2 million or an increase of $3.3 million from the same period a year ago primarily due to growth in staffing levels and occupancy costs.

Management and the Board continue to focus on the growth of the Company by taking advantage of the significant disruption that is occurring in the Denver and other Colorado Front Range banking markets. We continue to invest in highly skilled banking teams with focused execution of our business plan. In less than three years, we have doubled the size of our balance sheet and improved the core funding mix and the earning asset mix of the company.

The recent hiring of Dan Patten as our new Executive Vice President and Chief Financial Officer (CFO) has added an extremely talented and experienced financial executive to our executive leadership team. Dan's past experience in corporate finance and as a CFO within the commercial banking space combined with his last six years of expertise leading M&A and Corporate Development for an $18 billion financial services company will significantly enhance our ability to grow the Company.

The past two and a half years have allowed us to lay the foundation to successfully scale our business in a sound and efficient manner. Our focus on culture and our core values are paying dividends in our associate net promoter score and in our continued ability to attract top talent, which included a new Boulder team that onboarded in late March. We remain optimistic that InBank is well positioned to continue taking advantage of these opportunities and to experience continued growth in the marketplace.

Thank you for your continued support of InBankshares, Corp and InBank.

Respectfully,

Edward G. Francis, Sr.

Chairman and CEO

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

INBANKSHARES, CORP AND SUBSIDIARY

December 31, 2020 and 2019

FORTNER, BAYENS, LEVKULICH
&
GARRISON, P.C.

INDEPENDENT AUDITORS' REPORT

Board of Directors
InBankshares, Corp
Greenwood Village, Colorado

We have audited the accompanying consolidated financial statements of InBankshares, Corp and Subsidiary, which are comprised of the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), 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 financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 InBankshares, Corp and Subsidiary at December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Fortner, Bayens, Levkulich & Garrison, P.C.

Denver, Colorado
March 12, 2021

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Certified Public Accountants • A Professional Corporation

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2020	December 31, 2019
	(in thousands)	
ASSETS		
Cash and due from banks	$ 6,688	$ 6,532
Interest-bearing deposits in banks	32,704	28,709
Total cash and cash equivalents	39,392	35,241
Investment securities at fair value	31	-
Investment securities available for sale	128,098	101,160
Nonmarketable equity investments	2,301	3,148
Loans held for sale	7,497	-
Loans	410,866	232,816
Less allowance for loan losses	(2,151)	(971)
Net loans	408,715	231,845
Accrued interest receivable	2,431	1,319
Real estate held for sale	778	2,477
Premises and equipment, net	7,435	6,397
Deferred tax asset	333	1,794
Intangible assets	10,574	11,273
Other assets	1,150	1,481
Total assets	$ 608,735	$ 396,135
LIABILITIES		
Deposits		
Noninterest-bearing	$ 171,191	$ 103,909
Interest-bearing	310,380	189,636
Total deposits	481,571	293,545
Federal funds purchased, repurchase agreements and other short term borrowings	46,241	31,288
Subordinated debentures	4,874	4,851
Accrued interest payable	186	315
Accrued expenses and other liabilities	3,956	1,781
Total liabilities	536,828	331,780
Commitments (Notes 5, 6, 7, 14, 17)		
STOCKHOLDERS' EQUITY		
Preferred stock: 1,000,000 shares authorized, par $0.01/share, none issued or outstanding	-	-
Voting common stock: 50,000,000 shares authorized, par $0.01/share, 5,328,616 and 5,075,500 shares issued and outstanding at December 31, 2020 and 2019, respectively	53	50
Non-voting common stock: 20,000,000 shares authorized, par $0.01/share, 1,996,500 shares issued and outstanding	20	20
Additional paid-in capital	69,450	66,485
Accumulated deficit	(1,831)	(3,136)
Accumulated other comprehensive income	4,215	936
Total stockholders' equity	71,907	64,355
Total liabilities and stockholders' equity	$ 608,735	$ 396,135

The accompanying notes are an integral part of these statements.

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31, 2020	2019
	(in thousands, except per-share amounts)	
Interest and dividend income		
Interest and fees on loans	$ 18,651	$ 12,804
Interest on taxable debt securities	1,856	3,423
Interest on tax-exempt debt securities	995	63
Dividends on equity securities	20	29
Interest-bearing cash and cash equivalents	252	225
Total interest and dividend income	21,774	16,544
Interest expense		
Deposits	1,596	2,094
Federal funds purchased, repurchase agreements and short term borrowings	296	260
Subordinated debentures	225	303
Total interest expense	2,117	2,657
Net interest income	19,657	13,887
Provision for loan losses	1,142	550
Net interest income after provision for loan losses	18,515	13,337
Noninterest income		
Service charges on deposit accounts	385	399
ATM and debit card	608	642
Swap fees	115	39
Mortgage banking	262	78
Gain on sale of investment securities	1,630	43
Other noninterest income	371	444
Total noninterest income	3,371	1,645
Noninterest expense		
Salaries and employee benefits	12,351	10,130
Occupancy and equipment	1,447	1,072
Data processing and software	1,953	1,917
Professional fees	961	874
Office expenses and supplies	539	447
Franchise taxes	200	200
Business development	394	436
Director fees	221	288
Foreclosed real estate, net	(1)	(130)
Amortization of core deposit intangible	699	781
Other noninterest expense	1,479	947
Total noninterest expense	20,243	16,962
Income (loss) before income taxes	1,643	(1,980)
Income tax expense (benefit)	366	(344)
Net income (loss)	$ 1,277	$ (1,636)
Basic income (loss) per share	$ 0.18	$ (0.23)
Diluted income per share	$ 0.18	

The accompanying notes are an integral part of these statements.

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years ended December 31,	
	2020	2019
	(in thousands)	
Net income (loss)	$ 1,277	$ (1,636)
Other comprehensive income		
Change in unrealized gains and losses on securities available for sale	6,041	1,148
Reclassification adjustment for net gain on sale of securities available for sale realized in net income	(1,630)	(43)
Net change in unrealized gains and losses	4,411	1,105
Tax effect	(1,132)	(282)
Total other comprehensive income	3,279	823
Total comprehensive income (loss)	$ 4,556	$ (813)

The accompanying notes are an integral part of these statements.

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2020 and 2019

	Voting common stock		Non-voting common stock		Additional	Accumulated	Accumulated other comprehensive	
	Shares	Amount	Shares	Amount	paid-in capital	deficit	income	Total
	(in thousands, except share amounts)							
Balance at December 31, 2018	5,047,000	$ 50	1,996,500	$ 20	$ 65,412	$ (1,500)	$ 113	$ 64,095
Stock issued for Directors' compensation	28,500	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(1,636)	-	(1,636)
Other comprehensive income	-	-	-	-	-	-	823	823
Stock-based compensation expense	-	-	-	-	1,073	-	-	1,073
Balance at December 31, 2019	5,075,500	50	1,996,500	20	66,485	(3,136)	936	64,355
Effect of application of Accounting Standards Update 2016-01	-	-	-	-	-	28	-	28
Stock issued for Directors' compensation	16,250	-	-	-	-	-	-	-
Stock sold to the Company's Employee Stock Ownership Plan	18,946	-	-	-	151	-	-	151
Stock sold in private placement	220,000	3	-	-	1,802	-	-	1,805
Private placement stock issuance costs	-	-	-	-	(50)	-	-	(50)
Stock repurchased from the Company's Employee Stock Ownership Plan	(2,080)	-	-	-	(17)	-	-	(17)
Net income	-	-	-	-	-	1,277	-	1,277
Other comprehensive income	-	-	-	-	-	-	3,279	3,279
Stock-based compensation expense	-	-	-	-	1,079	-	-	1,079
Balance at December 31, 2020	5,328,616	$ 53	1,996,500	$ 20	$ 69,450	$ (1,831)	$ 4,215	$ 71,907

The accompanying notes are an integral part of these statements.

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF CASHFLOWS

	Years ended December 31, 2020	Years ended December 31, 2019
	(in thousands)	
Cash flows from operating activities		
Net income (loss)	$ 1,277	$ (1,636)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Provision for loan losses	1,142	550
Depreciation and software amortization	873	560
Net amortization on investment securities	474	324
Stock-based compensation	1,079	1,073
Amortization of core deposit intangible	699	781
Accretion of purchase discount on loans	(683)	(166)
Amortization of purchase discount on subordinated debentures	23	22
Deferred income tax expense (benefit)	329	(344)
Decrease in fair value of investment securities at fair value	4	-
Net gain on sale of investment securities available for sale	(1,630)	(43)
Stock dividends on nonmarketable equity investments	(17)	(29)
Net gain on sale of real estate held for sale	(11)	(199)
Write-downs of real estate held for sale	-	25
Net change in:		
Loans held for sale	(7,497)	-
Accrued interest receivable	(1,112)	71
Accrued interest payable	(129)	222
Accrued expenses and other liabilities	1,031	70
Net cash provided by (used by) operating activities	(4,148)	1,281
Cash flows from investing activities		
Purchase of securities available for sale	(93,666)	-
Maturities, calls and paydowns of securities available for sale	46,113	19,386
Sale of securities available for sale	26,182	5,234
Purchase of nonmarketable equity investments	(1,363)	-
Redemption of nonmarketable equity investments	2,220	-
Loan originations and principal collections, net	(177,498)	(41,147)
Proceeds from sales of real estate held for sale	1,879	462
Capitalized improvements on real estate held for sale	-	(101)
Acquisition of premises, equipment and software	(436)	(1,549)
Net cash used in investing activities	(196,569)	(17,715)
Cash flows from financing activities		
Net change in deposits	188,026	57,603
Net change in federal funds purchased, repurchase agreements and other short term borrowings	14,953	(18,898)
Issuance of common stock, net of offering costs	1,906	-
Redemption of common stock, net of offering costs	(17)	-
Net cash provided by financing activities	204,868	38,705
Change in cash and cash equivalents	4,151	22,271
Cash and cash equivalents at beginning of year	35,241	12,970
Cash and cash equivalents at end of year	$ 39,392	$ 35,241
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 2,223	$ 2,413
Supplemental Disclosures of Non-Cash Transactions		
Loan balances transferred to real estate held for sale	169	228

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The accounting and reporting policies of InBankshares Corp and Subsidiary conform to U.S. generally accepted principles and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Nature of Operations

InBankshares Corp is a bank holding company that was formed in 2017 as a Delaware corporation, under the name FFP Group, Inc., for the purpose of pursuing business opportunities in financial services. In 2018, FFP Group, Inc. formally commenced operations, completed a capital raise, acquired InBank, and changed its name to InBankshares Corp ("IBC"). IBC owns 100% of the stock of InBank ("the Bank"), whose official name was International Bank until a formal name change in 2019. IBC and the Bank are collectively referred to as "the Company."

The Company provides a full range of banking and mortgage services to individual and business customers. IBC is headquartered in Greenwood Village, Colorado. The Bank is chartered in Raton, New Mexico, and operates eight branches and one loan production office. Colorado locations include branches located in Aurora, Greenwood Village and Trinidad, and a loan production office in Denver. New Mexico locations include branches in Raton, Cimarron, Angel Fire and Springer, and a drive-up facility in Raton. The Greenwood Village and Denver locations were opened in 2019.

The Company is not a filer with the Securities and Exchange Commission; however, in January 2020 the Company listed its voting common stock on OTC Markets' OTCQX exchange, which trades under the symbol "INBC."

The Company is subject to competition from other financial institutions and other financial services providers for loans, deposit accounts and other banking services. The Company is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies. IBC's primary regulator is the Federal Reserve, and the Bank's primary regulators are the Federal Deposit Insurance Corporation and the State of New Mexico's Financial Institution Division.

Basis of Consolidation and Reclassifications

The accompanying consolidated financial statements include the consolidated totals of the accounts of IBC and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications to 2019 amounts have been made to conform to the current year presentation.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and revenues and expenses for the period. Actual results could differ significantly 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, the amount of loan purchase discounts subject to accretion to interest income, the fair value of real estate held for sale, and the fair value of investment securities available for sale. In connection with the determination of the allowance for loan losses and the amount of purchase discounts subject to accretion to interest income, management assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral based on loan performance, internal evaluations of borrower credit quality using financial information provided by borrowers, and internal valuations or independent appraisals of the real estate and other loan collateral depending on the significance of the collateral. In connection with the determination of the fair value of real estate held for sale, management performs internal valuations or obtains independent appraisals depending on the significance of the properties. In connection with the determination of the fair value of investment securities available for sale, management obtains valuations from a third-party pricing and interest rate risk modeling provider.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within the Company's areas of operations. A majority of the Company's loans are related to real estate, and borrowers' abilities to honor their loans are dependent upon the continued economic viability of the areas in which the Company lends. Note 6 discusses the types of lending in which the Company engages. Note 4 discusses the securities in which the Company invests.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, transaction accounts at other financial institutions, interest-bearing balances at the Federal Reserve Bank and other correspondent banks, and federal funds sold. For the Consolidated Statement of Cash Flows, net cash flows are reported for customer loan and deposit transactions.

Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance, and federal funds sold are unsecured. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

At December 31, 2020 and 2019, the Company is required to have cash on hand or on deposit with the Federal Reserve of $-0- and $5,748,000, respectively, to meet regulatory reserve and clearing requirements. Reserve requirements were reduced to $-0- by the Federal Reserve in March, 2020.

Investment Securities at Fair Value

Investment securities at fair value are readily marketable equity securities carried at fair value based on the quoted market price. Unrealized changes in fair value are recorded through earnings in the period of change.

Investment Securities Available for Sale

The Company's debt securities are classified as "available for sale" and accordingly carried at estimated fair value, with changes in the unrealized gains and losses excluded from earnings and reported in other comprehensive income.

The amortized cost of debt securities available for sale is adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. For mortgage-backed and other asset-backed securities, the term of the security is the expected life of the security given estimated paydowns. For other securities, the term of the security is the final maturity or the earliest call date, if applicable, except in the case of purchase discounts which are accreted to final maturity.

Gains and losses on the sale of securities are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment charge to earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized as an impairment charge to earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Nonmarketable Equity Investments

The Company, as a member of the Federal Home Loan Bank system, is required to maintain an investment in the capital stock of the Federal Home Loan Bank of Dallas. This stock is not tradeable and may only be redeemed by the Federal Home Loan Bank at the par carrying amount. The Company also has other equity investments that have no active markets and no quoted market prices. For reporting purposes, such investments are carried at cost under the caption "nonmarketable equity investments" and periodically evaluated for impairment.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to earnings. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the loans sold. The Company does not retain any servicing rights on loans sold.

Loans

The Company grants real estate, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by various types of real estate secured loans in the Company's market areas. The ability of the Company's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, deferred fees or costs on originated loans, and purchase discounts. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on any loan is discontinued at the time the loan is 90 days past due unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due, and collectability is no longer doubtful.

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 no later than 120 days after they become past due unless the loan is in the process of restructuring or collection and those efforts are deemed likely to be successful. 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.

Purchased Loans

Loans acquired in the acquisition of the Bank by IBC in 2018 were recorded at the amount paid, such that there was no carryover of the seller's allowance for loan losses existing at the time of acquisition. Losses on purchased loans that are incurred subsequent to acquisition are recognized by a charge to the provision for loan losses.

Purchased loans are accounted for individually or aggregated into pools of loans based on common risk characteristics (e.g., loan type). The Company estimates the amount and timing of expected cash flows for each purchased loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (non-accretable discount).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, including those for loans charged-off by the Bank prior to the acquisition by IBC, are credited to the allowance.

The allowance consists of specific and general components as follows:

The specific component relates to loans that are considered impaired and is comprised of valuation allowances calculated on a loan-by-loan basis. Impaired loans are all specifically identified loans for which it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system. Included in impaired loans are all nonaccrual loans, all accruing troubled debt restructurings, and all loans purchased at a discount as a result of deteriorated credit quality. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

The general component relates to non-impaired loans and is based on historical loss experience adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. Qualitative factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies and impaired loans; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; portfolio concentrations.

Although the allowance contains a specific component, the entire allowance is available for any loan that, in management's judgment, should be charged off.

On a quarterly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company's major loan segments. Significant overall risk factors for both the Company's commercial and consumer portfolios include the strength of the real estate market and general economic activity in the Company's market areas. Although the economy in the Aurora, Denver and Greenwood Village area is currently strong and diversified, the Company's other market areas are smaller with less robust economic activity. Additionally, starting in 2020, the effect of the COVID-19 pandemic on borrower credit quality is a risk.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Company's internal credit scale are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan losses, and are grouped as follows:

Pass - Loans with minimal to average identified credit risk. These loans have borrowers considered creditworthy who can repay the debt in the normal course of business. Borrowers have a sound primary and secondary repayment source, with sufficient cash generation to meet ongoing debt service requirements. Loans are typically fully secured with marketable, margined collateral.

Special mention - Loans with potential credit weaknesses which deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects or the Company's credit position at some future date. These loans exhibit characteristics such as declining or stressed financial condition of the borrower and declining or narrow collateral coverage.

Substandard - Loans inadequately protected by the current financial condition and paying capacity of the borrower or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. In some instances, though not all, the weakness or weaknesses in these loans will necessitate nonaccrual treatment.

Doubtful - Loans in this category have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the loans, classification as a loss is deferred until more exact status may be determined. Loans classified as doubtful necessitate nonaccrual treatment.

Loss - Loans considered loss are considered uncollectable and of such little value that their continuance as a bankable asset, even with a valuation allowance, is not warranted. This does not mean the loans have no recovery or salvage value, but rather it is not practical or desirable to defer a charge-off even though a partial recovery may be affected in the future. Loans classified as a loss are charged-off in the period they are deemed uncollectible.

Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management uses available information to recognize losses on loans, changes in economic conditions or borrower circumstances may necessitate revisions in future years. In addition, the Company's banking regulators, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Premises and Equipment / Lease Liability

Land is carried at cost. Buildings, improvements, furniture and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets – generally 15 to 40 years for buildings and improvements, and 3 to 7 years for furniture and equipment. Maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

In 2020, the Company adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-02, *Leases (Topic 842*) and related guidance. As a result of adoption, the Company recorded a right-of-use asset for its leased premises and also recorded a corresponding lease liability. Rather than expense lease payments as they are made as previously done under operating lease guidance, the right-of-use asset is amortized to expense over the lease term, and lease payments reduce the lease obligation and also contain an interest component. The combination of amortization on the right-of-use-asset and interest on the lease obligation results in straight-line lease expense over the lease term. Adoption of the standard did not have a significant effect on the Company's financial condition or results of operations.

The Company carries the right-of-use asset related to its leases as a component of Premises and Equipment, and the lease obligation is carried as a component of Accrued Expenses and Other Liabilities.

Real Estate Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value when acquired (less an estimate of cost to sell), establishing a new cost basis. If fair value declines subsequent to acquisition, a valuation allowance or write-down is recorded through earnings. Operating expenses relative to foreclosed real estate are expensed as incurred, while certain improvements may be capitalized if the expenditures are likely to be recaptured upon disposition of the real estate. Gain or loss on sale, if any, is recognized at the time of sale.

Intangible Assets

Core Deposit Intangible

The core deposit intangible resulted from IBC's acquisition of the Bank in 2018, and represents the excess of the fair value of deposits acquired over their book value at the time of acquisition. The core deposit intangible is amortized to expense over a ten year period using an accelerated method. In addition, the core deposit intangible is assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified.

Goodwill

Goodwill resulted from IBC's acquisition of the Bank in 2018, and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Management periodically assesses the deferred tax asset, and a valuation allowance is recorded if the full amount is not expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. Tax benefits recognized are the amount of the benefit that is greater than 50% likely of being realized upon examination. No tax benefits are recognized if they do not meet the "more likely than not" test.

The Company files a consolidated income tax return inclusive of IBC and the Bank; however, income tax expense is allocated to the entities on a separate return basis.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. The only component of other comprehensive income consists of net unrealized holding gains and losses on available for sale securities, net of related tax effects.

Noninterest Income

Noninterest income, other than gains on sales of investment securities, is substantially comprised of service charges on deposit accounts, ATM and debit card income, and mortgage banking income. Service charges on deposit accounts consist of monthly account fees, stop payment charges, and charges for deposit items returned for non-sufficient funds or paid as an overdraft (net of fees waived or refunded). ATM and debit card income is comprised of ATM charges for non-customer use of Company ATMs and debit card interchange income. Mortgage banking income is comprised of loan origination fees on loans sold, gain on sale of loans, and servicing fees on a legacy portfolio of sold loans. In all instances, noninterest income is recognized concurrent with the Company's satisfaction of the underlying performance obligation, which typically occurs at a single point in time as a transaction or statement cycle is completed. Charges for deposit accounts continuously overdrawn are equivalent to interest and included as a component of interest and fees on loans.

Earnings Per Share

Basic earnings per share is computed by dividing net income or loss by the weighted average number of shares outstanding. Diluted earnings per share is calculated using the weighted average number of shares determined for basic earnings per share, plus the effect of dilutive instruments using the treasury stock method.

Stock-Based Compensation

The cost of stock-based compensation is the grant-date fair value of the instruments issued, and is recorded as expense over the vesting period of the award. Forfeitures are accounted at the time they occur.

Off- Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed loans in process. These financial instruments are recorded in the financial statements when they are funded.

The Company is exposed to credit risk on its off-balance sheet financial instruments. In conjunction with the determination of the allowance for loan losses, and using the same criteria, the Company estimates an allowance for probable incurred credit losses on off- balance sheet credit exposures. Provisions for the allowance are recorded as a component of other noninterest expense, and the allowance is carried as a component of other liabilities.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished and, for loan participations sold, incoming cash flows on the base loan are allocated to all participants on a pro-rata basis. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not believe there are currently any such matters that will have a material effect on the financial statements.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs* - 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 Inputs* - Unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Significant Applicable Accounting Standard Updates Not Yet Effective

The Financial Accounting Standards Board issued Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Under the new standard, the Company will be required to convert from the existing incurred-loss model for determining the allowance for loan losses to an expected-loss model. An expected-loss model will determine the allowance for loan losses balance based upon credit losses expected to be incurred over the life of the loan portfolio, and will consider not only current credit conditions but also reasonable supportable expectations of future credit conditions. The standard will also require any securities held to maturity to be evaluated for impairment under an expected-loss model. In 2019, the Financial Accounting Standards Board delayed the required implementation date although early adoption is permitted, and the standard is effective for the Company beginning January 1, 2023. The Company has not yet completed an evaluation of the impact of the new standard on its consolidated financial statements and accounting practices.

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 are material and require recognition or disclosure in the financial statements. With respect to the December 31, 2020 financial statements, Management has considered subsequent events through March 12, 2021.

NOTE 2 – EARNINGS PER SHARE

Basic income per share of $0.18 for 2020 is based on net income of $1,277,000 and 7,114,301 weighted average shares outstanding during the year. Diluted income per share of $0.18 for 2020 is based on net income of $1,277,000 and 7,291,801 weighted average shares outstanding during the year.

Basic loss per share of ($0.23) for 2019 is based on the net loss of $1,636,000 and 7,050,137 weighted average shares outstanding during the year. Diluted per-share amounts are not presented for 2019 as the net losses result in anti-dilutive amounts.

NOTE 3 – INVESTMENT SECURITIES AT FAIR VALUE

At December 31, 2020, the $31,000 in investment securities at fair value is comprised entirely of common stock in Farmer Mac. At December 31, 2019, this stock was carried at its $7,000 cost basis as a component of nonmarketable equity securities. In 2020, management determined that this stock was not restricted, and accordingly reclassified it on the balance sheet pursuant to Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The application of Accounting Standards Update 2016-01 also resulted in a $28,000 increase to retained earnings, which is the amount by which the fair value of the stock exceeded its cost basis as of the January 1, 2020 effective date of the application of Accounting Standards Update 2016-01. During 2020, the fair value of the stock declined $4,000 and the decrease was recorded through other noninterest expense.

NOTE 4 - INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of investment securities available for sale, with gross unrealized gains and losses, follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities				
Residential mortgage-backed: U.S. Agency	$ 25,803	$ 288	$ (26)	$ 26,065
Commercial mortgage-backed: U.S. Agency	16,559	1,338	(39)	17,858
Student loan pools: U.S. Agency	9,604	-	(99)	9,505
Student loan pools: other issuers	5,016	3	-	5,019
Corporate	10,261	46	(2)	10,305
State and municipal	55,196	4,237	(87)	59,346
	$ 122,439	$ 5,912	$ (253)	$ 128,098

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities				
Residential mortgage-backed: U.S. Agency	$ 61,841	$ 1,040	$ (13)	$ 62,868
Commercial mortgage-backed: U.S. Agency	21,073	724	-	21,797
Student loan pools: U.S. Agency	9,737	-	(390)	9,347
Student loan pools: other issuers	6,637	-	(115)	6,522
State and municipal	624	2	-	626
	$ 99,912	$ 1,766	$ (518)	$ 101,160

U.S. agency mortgage-backed securities are comprised entirely of mortgage-backed bonds and collateralized mortgage obligations issued by Freddie Mac, Fannie Mae and Ginnie Mae, and U.S. agency student loan pools are issued by Sallie Mae. Other student loan pools are issued by various organizations, and are all rated “AAA” as of December 31, 2020 by a by a nationally recognized statistical rating organization. State and municipal securities are comprised of bonds issued by various states and municipalities, and are all rated “Aa2” or better as of December 31, 2020 by a nationally recognized statistical rating organization, except for one $250,000 unrated bond. Corporate securities are comprised entirely of subordinated debentures and other bonds issued by bank and financial holding companies, and are generally unrated.

The amortized cost and fair value of debt securities available for sale at December 31, 2020, by contractual maturity and by average life, are shown below. Expected maturities may differ from contractual maturities because obligors may have the right to call or prepay obligations, and for mortgage-backed and asset-backed securities the repayment of the securities occurs on a monthly basis based on the repayment of the loans underlying the securities:

	Contractual Maturity		Average Life	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ -	$ -	$ 3,885	$ 3,947
Due after one through five years	10,282	11,252	33,937	35,354
Due after five years through ten years	13,199	13,439	70,124	74,296
Due after ten years	98,958	103,407	14,493	14,501
	$ 122,439	$ 128,098	$ 122,439	$ 128,098

Information pertaining to securities available for sale, with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2020					
	Less than 12 months			Over 12 months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
	(dollars in thousands)					
Residential mortgage-backed: U.S. Agency	5	$ (26)	$ 14,253	-	$ -	$ -
Commercial mortgage-backed: U.S. Agency	1	(39)	2,070	-	-	-
Student loan pools: U.S. Agency	-	-	-	2	(99)	9,505
Corporate	2	(2)	3,498	-	-	-
State and municipal	3	(87)	11,891	-	-	-
	11	$ (154)	$ 31,712	2	$ (99)	$ 9,505

	December 31, 2019					
	Less than 12 months			Over 12 months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
	(dollars in thousands)					
Residential mortgage-backed: U.S. Agency	1	$ (13)	$ 1,972	-	$ -	$ -
Student loan pools: U.S. Agency	1	(196)	4,659	1	(194)	4,688
Student loan pools: other issuers	1	(10)	1,593	1	(105)	4,929
	3	$ (219)	$ 8,224	2	$ (299)	$ 9,617

At December 31, 2020, no individual security has an unrealized loss of more than 1.86% of the amortized cost basis. Unrealized losses are due to differences in market yields as compared to yields available at the time securities were purchased. Management has performed analyses of investment credit quality and cash flows on securities with unrealized losses and does not believe that any securities are impaired due to reasons of credit quality. The Company has the ability and intent to hold investment securities for a period sufficient for recovery of cost, and fair value is expected to recover as bonds approach maturity. Accordingly, as of December 31, 2020, management believes the unrealized losses detailed in the table above are temporary.

The Company realized $1,630,000 in gains and no losses on sales and early redemptions of investment securities available for sale in 2020. The Company realized $43,000 in gains and no losses on sales and early redemptions of investment securities available for sale in 2019.

Investment securities with a fair value of $91,192,000 and $75,373,000 at December 31, 2020 and 2019, respectively, were pledged as collateral on public deposits, to secure borrowing facilities or for other purposes.

NOTE 5 – NONMARKETABLE EQUITY INVESTMENTS

Nonmarketable equity investments are comprised of the following:

	December 31,	
	2020	2019
	(in thousands)	
Federal Home Loan Bank of Dallas - common stock	$ 201	$ 1,141
Neat Capital - preferred stock	2,000	2,000
Farmer Mac - common stock	-	7
Investment in Lightspring Capital	100	-
	$ 2,301	$ 3,148

Neat Capital, Inc. ("Neat") is mortgage fintech headquartered in Boulder, Colorado. The Company has licensed Neat's mortgage lending platform and in 2020 began utilizing Neat for mortgage underwriting and other mortgage loan fulfillment services.

The investment in Lightspring Capital ("Lightspring") is a limited partnership investment in Lightspring Capital I, a partnership operating as a small business investment company under the SBIC Act. The Company has committed to invest $1,000,000 in Lightspring, with $900,000 of that commitment unfunded at December 31, 2020.

NOTE 6 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans are as follows:

	December 31, 2020	December 31, 2019
	(in thousands)	
Real Estate		
Commercial	$ 182,188	$ 92,516
Construction and land	35,878	52,949
Residential 1-4 family	39,013	29,724
Multifamily	12,919	1,335
Farmland	8,698	11,466
	278,696	187,990
Commercial - non real estate	45,636	34,575
Paycheck Protection Program	82,888	-
Agricultural production	2,624	3,821
Consumer and other	2,565	6,908
	412,409	233,294
Less net unearned loan fees	(1,543)	(478)
	$ 410,866	$ 232,816

Loans in the preceding table are net of purchase discounts. The following table presents the allocation of the purchase discounts to the Company's major loan segments, as well as activity in the discounts:

	Years Ended December 31, 2020 and 2019							
	Real Estate							
	Commercial	Construction and land	Residential 1-4 family	All other real estate	Commercial - non real estate	Paycheck Protection Program	All other non real estate	Total
	(in thousands)							
Balance at January 1, 2019	$ 336	$ 146	$ 621	$ -	$ 2,973	$ -	$ 467	$ 4,543
Reallocations	3,184	(116)	(7)	-	(2,811)	-	(250)	-
Purchase discount on reacquisition of a sold participation	515	-	-	-	-	-	-	515
Foreclosure transfers to real state held for sale	-	-	(36)	-	-	-	-	(36)
Accreted to interest income	(18)	(15)	(89)	-	(44)	-	-	(166)
Balance at December 31, 2019	4,017	15	489	-	118	-	217	4,856
Reallocations	(250)	-	415	-	(115)	-	(50)	-
Accreted to interest income	(631)	(11)	(41)	-	-	-	-	(683)
Balance at December 31, 2020	$ 3,136	$ 4	$ 863	$ -	$ 3	$ -	$ 167	$ 4,173

As of December 31, 2020, the Company estimates that $1,249,000 of the discount will be accreted to interest income over the next three years. Estimates of discount accretion can change significantly in the near term based on changes in borrower circumstances and credit conditions.

In the ordinary course of business, the Company may grant loans to its executive officers, significant shareholders, directors, and parties affiliated with those persons (collectively, "related parties"). At December 31, 2020, the Company has $10,000 in loan commitments and $1,000 in outstanding loans to related parties. At December 31, 2019, the Company has no loan commitments or outstanding loans to related parties.

At December 31, 2020 and 2019, various real estate, commercial non real estate and agricultural production loans totaling $284,225,000 and $210,472,000, respectively, are pledged to secure borrowing facilities at the Federal Home Loan Bank of Dallas under a blanket lien agreement. At December 31, 2020, Paycheck Protection Program Loans of $39,534,000 are pledged to secure borrowings from the Federal Reserve.

Transactions in the allowance for loan losses are as follows:

	Years Ended December 31, 2020 and 2019							
	Real Estate							
	Commercial	Construction and land	Residential 1-4 family	All other real estate	Commercial - non real estate	Paycheck Protection Program	All other non real estate	Total
	(in thousands)							
Balance at January 1, 2019	$ 239	$ 31	$ 93	$ 27	$ 13	$ -	$ 11	$ 414
Provision for loan losses	55	14	209	139	99	-	34	550
(Charge-offs)	-	-	(32)	-	-	-	-	(32)
Recoveries	-	-	-	-	39	-	-	39
Net (charge-offs) recoveries	-	-	(32)	-	39	-	-	7
Balance at December 31, 2019	294	45	270	166	151	-	45	971
Provision (credit) for loan losses	676	81	308	(26)	98	-	5	1,142
(Charge-offs)	-	-	(24)	-	-	-	-	(24)
Recoveries	-	-	-	-	62	-	-	62
Net (charge-offs) recoveries	-	-	(24)	-	62	-	-	38
Balance at December 31, 2020	$ 970	$ 126	$ 554	$ 140	$ 311	$ -	$ 50	$ 2,151

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

	December 31, 2020							
	Real Estate							
	Commercial	Construction and land	Residential 1-4 family	All other real estate	Commercial - non real estate	Paycheck Protection Program	All other non real estate	Total
	(in thousands)							
Allocation of Allowance to:								
Impaired loans - evaluated individually	$ 25	$ -	$ 176	$ -	$ 4	$ -	$ -	$ 205
Impaired loans - evaluated collectively	-	-	-	-	-	-	-	-
Total impaired loans	25	-	176	-	4	-	-	205
Unimpaired loans - evaluated collectively	945	126	378	140	307	-	50	1,946
	$ 970	$ 126	$ 554	$ 140	$ 311	$ -	$ 50	$ 2,151
Portion of allowance on impaired loans allocated to loans acquired with deteriorated credit quality included in impaired loans	$ 5	$ -	$ 75	$ -	$ 4	$ -	$ -	$ 84
Recorded Investment In:								
Impaired loans - evaluated individually	$ 2,401	$ -	$ 2,256	$ 911	$ 727	$ -	$ 688	$ 6,983
Impaired loans - evaluated collectively	-	-	-	-	-	-	-	-
Total impaired loans	2,401	-	2,256	911	727	-	688	6,983
Unimpaired loans - evaluated collectively	179,787	35,878	36,757	20,706	44,909	82,888	4,501	405,426
	$ 182,188	$ 35,878	$ 39,013	$ 21,617	$ 45,636	$ 82,888	$ 5,189	$ 412,409
Loans acquired with deteriorated credit quality included in impaired loans	$ 1,632	$ -	$ 1,520	$ -	$ 9	$ -	$ 340	$ 3,501

	December 31, 2019							
	Real Estate							
	Commercial	Construction and land	Residential 1-4 family	All other real estate	Commercial - non real estate	Paycheck Protection Program	All other non real estate	Total
	(in thousands)							
Allocation of Allowance to:								
Impaired loans - evaluated individually	$ -	$ -	$ 21	$ -	$ -	$ -	$ -	$ 21
Impaired loans - evaluated collectively	-	-	-	-	-	-	-	-
Total impaired loans	-	-	21	-	-	-	-	21
Unimpaired loans - evaluated collectively	294	45	249	166	151	-	45	950
	$ 294	$ 45	$ 270	$ 166	$ 151	$ -	$ 45	$ 971
Portion of allowance on impaired loans allocated to loans acquired with deteriorated credit quality included in impaired loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Recorded Investment In:								
Impaired loans - evaluated individually	$ 1,514	$ 406	$ 1,652	$ 1,784	$ 1,040	$ -	$ 289	$ 6,685
Impaired loans - evaluated collectively	-	-	-	-	-	-	-	-
Total impaired loans	1,514	406	1,652	1,784	1,040	-	289	6,685
Unimpaired loans - evaluated collectively	91,002	52,543	28,072	11,017	33,535	-	10,440	226,609
	$ 92,516	$ 52,949	$ 29,724	$ 12,801	$ 34,575	$ -	$ 10,729	$ 233,294
Loans acquired with deteriorated credit quality included in impaired loans	$ 717	$ 383	$ 1,545	$ -	$ 234	$ -	$ 286	$ 3,165

Information relative to impaired loans is as follows:

	December 31, 2020					
	Recorded investment in impaired loans with no valuation allowance	Recorded investment in impaired loans with a valuation allowance	Total recorded investment in impaired loans	Valuation allowance on impaired loans	Net carrying amount of impaired loans	Average total recorded investment in impaired loans during the year
	(in thousands)					
Real Estate						
Commercial	$ 2,343	$ 58	$ 2,401	$ 25	$ 2,376	$ 1,958
Construction and land	-	-	-	-	-	203
Residential 1-4 family	1,643	613	2,256	176	2,080	1,954
Multifamily	-	-	-	-	-	-
Farmland	911	-	911	-	911	1,348
Commercial - non real estate	723	4	727	4	723	884
Paycheck Protection Program	-	-	-	-	-	-
Agricultural production	336	-	336	-	336	309
Consumer and other	352	-	352	-	352	180
	$ 6,308	$ 675	$ 6,983	$ 205	$ 6,778	$ 6,836

	December 31, 2019					
	Recorded investment in impaired loans with no valuation allowance	Recorded investment in impaired loans with a valuation allowance	Total recorded investment in impaired loans	Valuation allowance on impaired loans	Net carrying amount of impaired loans	Average total recorded investment in impaired loans during the year
	(in thousands)					
Real Estate						
Commercial	$ 1,514	$ -	$ 1,514	$ -	$ 1,514	$ 1,302
Construction and land	406	-	406	-	406	349
Residential 1-4 family	1,545	107	1,652	21	1,631	1,779
Multifamily	-	-	-	-	-	-
Farmland	1,784	-	1,784	-	1,784	892
Commercial - non real estate	1,040	-	1,040	-	1,040	1,157
Paycheck Protection Program	-	-	-	-	-	-
Agricultural production	281	-	281	-	281	289
Consumer and other	8	-	8	-	8	7
	$ 6,578	$ 107	$ 6,685	$ 21	$ 6,664	$ 5,775

Interest income recognized on impaired loans in 2020 and 2019 is approximately $598,000 and $760,000, respectively, excluding accretion of purchase discounts. Commitments to extend credit on impaired loans total $-0- and $-0- at December 31, 2020 and 2019, respectively. At December 31, 2020, there are $239,000 in loans in the process of foreclosure.

Information related to troubled debt restructurings (TDRs) included in impaired loans are as follows:

	December 31, 2020				
	Nonaccrual TDRs	Accruing TDRs	Total TDRs	Valuation allowance on TDRs	Net carrying amount of TDRs
			(in thousands)		
Real Estate					
Commercial	$ -	$ 1,758	$ 1,758	$ 20	$ 1,738
Construction and land	-	-	-	-	-
Residential 1-4 family	102	1,046	1,148	88	1,060
Multifamily	-	-	-	-	-
Farmland	-	862	862	-	862
Commercial - non real estate	-	718	718	-	718
Paycheck Protection Program	-	-	-	-	-
Agricultural production	-	336	336	-	336
Consumer and other	-	348	348	-	348
	$ 102	$ 5,068	$ 5,170	$ 108	$ 5,062

	December 31, 2019				
	Nonaccrual TDRs	Accruing TDRs	Total TDRs	Valuation allowance on TDRs	Net carrying amount of TDRs
			(in thousands)		
Real Estate					
Commercial	$ 396	$ 1,344	$ 1,740	$ -	$ 1,740
Construction and land	-	-	-	-	-
Residential 1-4 family	-	59	59	-	59
Multifamily	-	-	-	-	-
Farmland	-	1,784	1,784	-	1,784
Commercial - non real estate	-	806	806	-	806
Paycheck Protection Program	-	-	-	-	-
Agricultural production	-	-	-	-	-
Consumer and other	-	-	-	-	-
	$ 396	$ 3,993	$ 4,389	$ -	$ 4,389

The carrying amounts of loans by performance status and credit quality indicator are as follows:

	December 31, 2020				
	Loans By Past Due and Performance Status				
	Accruing Loans				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans
	(in thousands)				
Real Estate					
Commercial	$ 181,813	$ -	$ -	$ 375	$ 182,188
Construction and land	35,878	-	-	-	35,878
Residential 1-4 family	38,082	422	-	509	39,013
Multifamily	12,919	-	-	-	12,919
Farmland	8,649	-	-	49	8,698
Commercial - non real estate	45,632	-	-	4	45,636
Paycheck Protection Program	82,888	-	-	-	82,888
Agricultural production	2,624	-	-	-	2,624
Consumer and other	2,538	2	25	-	2,565
	$ 411,023	$ 424	$ 25	$ 937	$ 412,409

	December 31, 2019				
	Loans By Past Due and Performance Status				
	Accruing Loans				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans
	(in thousands)				
Real Estate					
Commercial	$ 92,120	$ -	$ -	$ 396	$ 92,516
Construction and land	52,926	-	-	23	52,949
Residential 1-4 family	29,067	322	-	335	29,724
Multifamily	1,335	-	-	-	1,335
Farmland	10,731	735	-	-	11,466
Commercial - non real estate	34,064	507	-	4	34,575
Paycheck Protection Program	-	-	-	-	-
Agricultural production	3,821	-	-	-	3,821
Consumer and other	6,882	23	-	3	6,908
	$ 230,946	$ 1,587	$ -	$ 761	$ 233,294

	December 31, 2020				
	Credit Rating				
	Pass	Special Mention	Substandard	Doubtful	Total loans
	(in thousands)				
Real Estate					
Commercial	$ 176,533	$ 924	$ 4,731	$ -	$ 182,188
Construction and land	35,878	-	-	-	35,878
Residential 1-4 family	35,764	1,200	2,049	-	39,013
Multifamily	12,919	-	-	-	12,919
Farmland	7,741	49	908	-	8,698
Commercial - non real estate	44,619	889	128	-	45,636
Paycheck Protection Program	82,888	-	-	-	82,888
Agricultural production	2,288	-	336	-	2,624
Consumer and other	2,471	3	91	-	2,565
	$ 401,101	$ 3,065	$ 8,243	$ -	$ 412,409

	December 31, 2019				
	Credit Rating				
	Pass	Special Mention	Substandard	Doubtful	Total loans
	(in thousands)				
Real Estate					
Commercial	$ 87,237	$ 3,010	$ 2,269	$ -	$ 92,516
Construction and land	52,926	-	23	-	52,949
Residential 1-4 family	26,835	1,733	1,156	-	29,724
Multifamily	1,335	-	-	-	1,335
Farmland	7,986	1,577	1,903	-	11,466
Commercial - non real estate	32,637	1,498	440	-	34,575
Paycheck Protection Program	-	-	-	-	-
Agricultural production	3,508	25	288	-	3,821
Consumer and other	6,855	38	15	-	6,908
	$ 219,319	$ 7,881	$ 6,094	$ -	$ 233,294

NOTE 7 - PREMISES AND EQUIPMENT / LEASE LIABILITY

Premises and equipment are as follows:

	December 31, 2020	December 31, 2019
	(in thousands)	
Land	$ 1,955	$ 1,955
Buildings and improvements	3,732	3,722
Furniture and equipment	1,572	1,260
Leased premises - right of use asset	1,460	-
Construction in process	41	90
	8,760	7,027
Less accumulated depreciation and amortization	(1,325)	(630)
	$ 7,435	$ 6,397

In 2019, the Company entered into a ten-year lease agreement for its Greenwood Village branch and a three-year lease agreement for its Denver loan production office. Total rent expense under these leases in 2020 and 2019 was $ 266,000 and $39,000, respectively, which includes base rent and the Company's share of the lessors' variable operating costs. Future annual base rent commitments under these leases, excluding costs for optional renewal periods available at expiration, are as follows as of December 31, 2020:

Year ending December 31,	(in thousands)
2021	$ 172
2022	171
2023	147
2024	150
2025	165
Thereafter	632
	$ 1,437

The Company's lease liability related to the right of use asset at December 31, 2020 is $1,317,000 and is included as a component of Accrued Expenses and Other Liabilities.

NOTE 8 – REAL ESTATE HELD FOR SALE

Activity in real estate held for sale is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
	(in thousands)	
Balance, beginning of year	$ 2,477	$ 2,600
Transfers from loans	169	228
Capitalized improvements	-	101
Write-downs	-	(25)
Dispositions during the year	(1,868)	(427)
Balance, end of year	$ 778	$ 2,477

Real estate held for sale by property type is as follows:

	December 31, 2020	December 31, 2019
	(in thousands)	
Farmland	$ -	$ 1,401
Commercial real estate	520	650
Other	258	426
	$ 778	$ 2,477

Net expense from real estate held for sale is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
	(in thousands)	
Gain on current year sales	$ 11	$ 35
Recognition of deferred gain	-	164
Write-downs	-	(25)
Operating income	27	42
Operating expense	(37)	(86)
Net income (expense)	$ 1	$ 130

NOTE 9 – INTANGIBLE ASSETS

Intangible assets are as follows:

	December 31, 2020	December 31, 2019
	(in thousands)	
Goodwill	$ 7,944	$ 7,944
Core deposit intangible	4,520	4,520
Less accumulated amortization	(1,890)	(1,191)
Core deposit intangible, net	2,630	3,329
	$ 10,574	$ 11,273

Future annual amortization of the core deposit intangible asset is as follows at December 31, 2019:

	2020
	(in thousands)
2021	$ 616
2022	534
2023	452
2024	370
2025	288
Thereafter	370
	$ 2,630

NOTE 10 - DEPOSITS

Deposits are comprised of the following:

	December 31, 2020	December 31, 2019
	(in thousands)	
Noninterest-bearing	$ 171,191	$ 103,909
Interest-bearing checking and NOW accounts	49,912	37,064
Money market accounts	129,354	42,214
Savings accounts	34,648	24,448
Time certificates of deposit	96,466	85,910
	$ 481,571	$ 293,545
Time deposits more than $250,000	$ 10,753	$ 46,150
Non-maturity deposits more than $250,000	253,226	126,067
Total deposits more than $250,000	$ 263,979	$ 172,217
Brokered time certificates of deposit	$ -	$ 29,173

Annual maturities of time deposits at December 31, 2020 are as follows:

Year Ending December 31,	(in thousands)
2021	$ 74,228
2022	17,903
2023	1,354
2024	1,870
2025	1,111
	$ 96,466

In the ordinary course of business, the Company may accept deposits from its executive officers, significant shareholders, directors, and parties affiliated with those persons (collectively, “related parties”). At December 31, 2020 and 2019, the Company has approximately $35,357,000 and $6,256,000, respectively, in deposits from related parties.

NOTE 11 –FEDERAL FUNDS PURCHASED, REPURCHASE AGREEMENTS AND OTHER SHORT-TERM BORROWINGS

Federal funds purchased, repurchase agreements and other short-term borrowings are as follows:

	December 31, 2020	December 31, 2019
	(in thousands)	
Repurchase agreements	$ 6,707	$ 23,288
Federal Reserve short-term borrowings	39,534	-
Federal Home Loan Bank short-term borrowings	-	8,000
	$ 46,241	$ 31,288

Repurchase Agreements

The Company sells certain investment securities under agreements to repurchase. The agreements are treated as collateralized financing transactions and the obligations to repurchase securities sold are recorded as a liability at the amount of cash received in connection with the transaction, and the dollar amount of the securities underlying the agreements remains in the asset accounts. Repurchase agreements typically mature on an overnight basis through one year; however, at December 31, 2020 repurchase agreements of $2,123,000 mature in 2022. The Company may be required to provide additional collateral based on the fair value of the underlying securities. Repurchase agreements may bear interest at fixed or variable rates depending on the particular agreements established.

Federal Reserve Short-Term Borrowings

At December 31, 2020, the Company has $39,534,000 in outstanding borrowings from the Federal Reserve under the Paycheck Protection Program Liquidity Facility. The borrowings consist of series of advances that are secured by Paycheck Protection Program loans made by the Company. Interest on the advances accrues at a fixed rate 0.35% and is due monthly. All of the borrowings mature in 2022; however, the borrowings must be repaid at an earlier date to the extent that the Paycheck Protection Program loans collateralizing the borrowings are paid (whether paid by the borrower or paid by the Small Business Administration through debt forgiveness or guaranty payments).

Federal Home Loan Bank Short-Term Borrowings

The Company is eligible to borrow from the Federal Home Loan Bank of Dallas on both a short-term and long-term basis, with a maximum credit limit of $125,992,000 at December 31, 2020. Federal Home Loan Bank borrowings are secured by a blanket pledge of certain loans. At December 31, 2020, there are no outstanding Federal Home Loan Bank borrowings. At December 31, 2019, there is one outstanding borrowing with a fixed rate of 1.65% that matured in 2020.

Federal Funds Purchased

The Company has unsecured federal funds lines at correspondent banks with a maximum credit limit of $19,550,000 at December 31, 2020. The federal funds lines are uncommitted, and funding requests made by the Company are subject to the lending institutions' approval and funding availability at the time of request. Federal funds bear interest at variable daily rates established by the correspondents.

NOTE 12 –SUBORDINATED DEBENTURES

The Company has a statutory business trust (the Trust) created for the purpose of providing trust preferred financing. In trust preferred financing, the Trust issues preferred securities to investors and common securities to the Company, and the Trust invests the proceeds in junior subordinated debentures issued by the Company. The Trust is considered a variable interest entity for which the Company is not the primary beneficiary, and the accounts of the Trust are not included in the Company's consolidated financial statements. Accordingly, the Company does not report preferred securities issued by the Trust on its consolidated balance sheets, nor does it report the interest expense on the preferred securities on its consolidated statements of operations. Rather, the Company reports the debentures payable to the Trust as a liability and the common securities as an asset. Interest expense from the debentures and interest income from the common securities is recorded in the consolidated statements of operations.

The interest rate on the debentures, common securities and preferred securities is 2.90% over three-month LIBOR and adjusts quarterly. Interest payments on the debentures by the Company, and distributions on the common securities and the preferred securities by the Trust, are coterminous and payable quarterly in arrears. However, the Company has a continual right, subject to events of default, to defer payment of interest on the debentures. The deferral period may not exceed twenty consecutive quarters or extend beyond the maturity date of the debentures. As a consequence of deferral of interest on the debentures, distributions on the common securities and preferred securities will also be deferred. In the event of deferral, interest payments on the debentures and distributions on the common securities and preferred securities are cumulative.

The debentures mature in 2033; however, the Company may redeem the debentures at any time. The common securities and preferred securities are subject to mandatory redemption upon repayment of the debentures. The Company also has the right to terminate the Trust and cause the debentures to be distributed to the holders of the common securities and preferred securities in liquidation of the Trust. Regulatory approval may be required for early redemption or liquidation.

The Company guarantees payments on the preferred securities, but only to the extent the Trust has sufficient funds on hand to make such payments. The Trust's sole source of income is interest from the debentures. In accordance with current tax law and banking regulations, interest expense on the debentures is tax deductible and the debentures are included as a component of regulatory capital.

The following summarizes the Company's trust preferred financing:

	December 31,	
	2020	2019
	(in thousands)	
Contractual balance of subordinated debentures	$ 5,160	$ 5,160
Less unamortized acquisition discount	(286)	(309)
Total subordinated debentures	$ 4,874	$ 4,851
Common securites, included in other assets	$ 160	$ 160

An acquisition discount of $343,000 is amortized to interest expense using the straight-line method over the remaining term of the debentures. Amortization in 2020 and 2019 was $23,000 and $22,000, respectively.

NOTE 13 – INCOME TAXES

The Company's income tax expense/benefit is comprised of the following:

	Years Ended December 31, 2020	2019
	(in thousands)	
Current federal expense (benefit)	$ -	$ -
Current state expense (benefit)	37	-
Total current expense (benefit)	37	-
Deferred federal expense (benefit)	259	(306)
Deferred state expense (benefit)	70	(38)
Total deferred expense (benefit)	329	(344)
Total tax expense (benefit)	$ 366	$ (344)

The following table reconciles the Company's income tax expense/benefit at the statutory federal rate to the expense/benefit amount recorded in the consolidated financial statements:

	Years Ended December 31, 2020	2019
	(in thousands)	
Taxes at statutory 21% federal rate	$ 345	$ (415)
Increase (decrease) in tax resulting from:		
Nontaxable municipal interest income	(184)	(17)
Nondeductible stock-based compensation	82	94
Other nondeductible expenses	24	32
State income taxes, net of federal effect	99	(38)
Income tax expense (benefit)	$ 366	$ (344)

The Company's net deferred tax asset is comprised of the following:

	December 31, 2020	December 31, 2019
	(in thousands)	
Deferred tax assets		
Loan purchase discount	$ 1,041	$ 1,083
Allowance for loan losses	540	246
Real estate held for sale	227	351
Charitable contribution carryforwards	128	127
Federal net operating loss carryforwards	349	894
State net operating loss carryforwards	6	129
Stock-based compensation	302	169
Other	94	48
Total deferred tax assets	2,687	3,047
Deferred tax liabilities		
Core deposit intangible	(656)	(830)
Purchase discount on subordinated debentures	(71)	(77)
Premises and equipment	(174)	(31)
Federal Home Loan Bank stock	(3)	(3)
Net unrealized gain on investment securities at fair value	(6)	-
Net unrealized gain on securities available for sale	(1,444)	(312)
Total deferred tax liabilities	(2,354)	(1,253)
Net deferred tax asset	$ 333	$ 1,794

At December 31, 2020, the Company has approximately $1,659,000 of federal net operating loss carryforwards available to offset future federal taxable income. These carryforwards do not expire, but annual usage is limited to 80% of taxable income. Approximately $2,542,000 of federal net operating loss carryforwards were utilized in 2020.

At December 31, 2020, the Company has approximately $626,000 of New Mexico net operating loss carryforwards available to offset future New Mexico taxable income. The New Mexico net operating loss carryforwards expire in years 2033-2039 if they are not utilized. Approximately $3,531,000 of New Mexico net operating loss carryforwards were utilized in 2020.

At December 31, 2020 the Company has no Colorado net operating loss carryforwards. All $2,089,000 of Colorado net operating loss carryforwards available were utilized in 2020.

NOTE 14 – STOCKHOLDERS' EQUITY

Preferred Stock

The Company's Board of Directors has the continual authority to create one or more series of preferred stock from the 1,000,000 authorized shares, including designations, powers, preferences, rights, qualifications, limitations and restrictions. This includes voting rights, dividend and conversion rates, redemption prices and liquidation preferences. No preferred stock was issued or outstanding in 2020 and 2019.

Non-Voting Common Stock

The Company's Board of Directors has the continual authority to create one or more series of non-voting common stock from the 20,000,000 authorized shares, including designations, powers, preferences, rights, qualifications, limitations and restrictions. This includes voting rights, dividend and conversion rates, redemption prices and liquidation preferences.

In 2018, the Company designated 3,000,000 shares of non-voting common stock as Series A Non-Voting Common Stock, ranking *pari-passu* with voting common stock with respect to dividends and liquidation. The Series A Non-Voting Common Stock is convertible into voting common stock at any time or from time to time, at the direction of either the holder or the Company, provided that the holder will not own or control in the aggregate more than 9.9% of the voting common stock or of any class of voting securities issued by the Company. In the event of a voting common stock split or reverse-split, or similar reclassification or substitution of share class, the Series A Non-Voting Common Stock and/or conversion terms will be adjusted proportionately. During 2020 and 2019, only Series A Non-Voting Common Stock was issued and outstanding.

The Company is required to maintain at all times a sufficient number of authorized but unissued shares of voting common stock to affect the conversion of all outstanding Series A Non-Voting Common Stock.

Restricted Stock

In 2018, the Company issued 150,000 shares of restricted voting common stock to certain executives and directors of the Company ("Founder Shares"), of which 7,500 were later forfeited in 2018. The shares originally vested in one-third annual installments on the first through third anniversary following the date of grant; however, in 2020 the awards were modified to vest the last one-third of shares over a two-year period ending in 2022. Unvested shares are forfeited in the event a grantee ceases to be an employee or director of the Company, subject to certain exceptions for termination by the Company without cause (as defined in the award agreements) or for death of the executive or director. For vested shares, the Company has the right but not the obligation to repurchase the shares at fair value if the executive or director ceases to be an employee or director of the Company for any reason. Unvested shares may not be transferred, pledged or assigned by the holder, and the Company has the right of first refusal on transfers of vested shares. Holders of restricted stock are entitled to all rights of voting common stock, including rights to dividends and voting rights, only to the extent the shares are vested or the executive or director have made certain tax elections with respect to the shares.

At December 31, 2020, there are 142,500 Founder Shares outstanding of which 95,500 are vested and 139,166 have voting and dividend rights. At December 31, 2019, there are 142,500 Founder Shares outstanding of which 47,500 are vested and 135,833 have voting and dividend rights. Compensation cost attributable to Founder Shares for the years ended December 31, 2020 and 2019 was $416,000 and $474,000, respectively, with the grant-date fair value of the awards determined using the $10.00 per share price of stock from the 2018 stock offering. Future compensation expense attributable to Founder Shares is $297,000 presuming no shares are forfeited, and is recognizable in years 2021 through 2022.

Director Stock Compensation

Directors may elect to receive certain of their director fees in voting common stock, with the value of shares issued equal to the fee amount. Additionally, all directors receive an annual award payable in voting common stock, with the value of shares issued equal to the award amount. In 2020 and 2019, the Company accrued $143,000 and $203,000, respectively, in stock-based compensation expense attributable to director compensation. Currently, the Company's practice is to issue shares for director compensation based on a twelve-month cycle ending in March, with the underlying expense recorded monthly as services are performed. In 2020, the Company issued 16,250 shares for director compensation. In 2019, the Company issued 28,500 shares for director compensation.

Restrictions on Dividends

Various restrictions limit the extent to which dividends may be paid by the Bank to IBC. Generally, regulatory approval is required for the Bank to pay dividends in any calendar year that exceed the Bank's net profit for that year combined with its retained profits for the preceding two years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. No dividends were paid by the Bank to IBC in 2020 and 2019.

NOTE 15 – 401(k) and EMPLOYEE STOCK OWNERSHIP PLAN

The Company provides the InBank 401(k) and ESOP Retirement Plan ("Plan") which is intended to be a 401(k) and profit sharing, stock bonus and employee stock ownership plan. Employees may participate in the Plan after meeting certain minimum service requirements. The Plan allows employees to make salary deferrals subject to certain limitations based on federal tax law, and requires the Company to make safe-harbor matching contributions equal to 100% of the first 3% of salary deferrals, and 50% of the next 3% of salary deferrals.

The Plan also allows the Company to make discretionary profit-sharing and ESOP contributions. Employees are immediately 100% vested in the Company's safe harbor matching contributions, while other Company contributions vest to participants pro-rata over a four-year period. Safe harbor matching contributions are made in cash, while other Company contributions may be in cash or Company stock. For 2020 and 2019, expense attributable to the plan totaled $336,000 and $254,000, respectively. In 2020, the Company sold 18,946 shares to the Plan and repurchased 2,080 shares from the Plan. There were no shares sold to the Plan or repurchased from the Plan in 2019.

NOTE 16 – EQUITY INCENTIVE PLAN

The Company's 2018 Equity Incentive Plan ("Plan") allows for the Board of Directors or a designated committee of the Board to grant stock option, restricted stock, restricted stock unit and other equity awards to selected individuals. The nature of awards - including Plan participants, terms, conditions and timing - are at the discretion of the Board or its designated committee, subject to certain limitations specified in the Plan. The maximum number of shares that may be awarded under the Plan is 690,000, subject to proportional adjustments for stock splits, reverse-splits and similar substitutions or reclassifications in capitalization. Additionally, subject to certain limitations in the Plan, awards previously granted that expire unexercised or are forfeited are again available for issuance under the Plan. All equity awards issued pursuant to the Plan are subject to certain restrictions on transferability set forth in Plan, and are also subject to certain claw-back provisions for detrimental activity as set forth and defined in the Plan. The Plan automatically terminates in August, 2028, unless sooner terminated by the Board.

As of December 31, 2020, the Company has only issued restricted stock units under the Plan. The restricted stock units cliff vest three years from the date of grant, at which time the shares will be issued. Expense attributable to the Plan for 2020 and 2019 was $520,000 and $396,000, respectively, with the grant-date fair value of the awards determined from stock offering or appraised prices, as applicable to the times at which awards were granted. The following presents information related to activity in the Plan:

	Number of Shares	Weighted average grant date fair value per share
Outstanding, January 1, 2019	84,500	
Issued	99,500	$ 8.11
Forfeited	(4,000)	
Outstanding, December 31, 2019	180,000	
Issued	6,000	$ 8.00
Forfeited	(8,500)	
Outstanding, December 31, 2020	177,500	
Vested, December 31, 2020	-	
Shares available for issuance at December 31, 2020	512,500	

At December 31, 2020 future compensation expense attributable to the Plan is $520,000 presuming no shares are forfeited, and is recognizable in years 2021 through 2023.

NOTE 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no breach 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 many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The following financial instruments were outstanding whose contract amounts represent risk:

	December 31, 2020	December 31, 2019
	(in thousands)	
Commitments to extend credit	$ 106,916	$ 71,494
Standby letters of credit	1,655	3,421
	$ 108,571	$ 74,915

At both December 31, 2020 and 2019, the Company has a $14,000 allowance for credit losses on unfunded loan commitments included as a component of other liabilities. There was no provision for credit losses on unfunded loan commitments in 2020 or 2019.

NOTE 18 - 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 Bank to maintain minimum amounts and ratios 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). The Basel III capital rules require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% common equity tier 1 capital ratio, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7.0%). The Bank is also required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock, paid-in-capital and retained earnings, less certain disallowed intangible assets and deferred tax assets; 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.

The following table presents the Bank's actual and required capital ratios as of December 31, 2020 and 2019 under the Basel III Capital Rules. Capital levels required to be considered well capitalized under prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules, are also presented:

	Actual		Minimum required for capital adequacy purposes - Basel III		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2020						
Total capital (to risk weighted assets)	$ 53,951	12.03%	$47,078	10.50%	$44,836	10.00%
Tier 1 capital (to risk weighted assets)	51,786	11.55%	38,111	8.50%	35,869	8.00%
Common equity tier 1 capital (to risk weighted assets)	51,786	11.55%	31,385	7.00%	29,144	6.50%
Tier 1 capital (to average assets)	51,786	9.30%	22,284	4.00%	27,854	5.00%
As of December 31, 2019						
Total capital (to risk weighted assets)	$ 46,226	13.02%	$37,271	10.50%	$35,497	10.00%
Tier 1 capital (to risk weighted assets)	45,241	12.75%	30,172	8.50%	28,397	8.00%
Common equity tier 1 capital (to risk weighted assets)	45,241	12.75%	24,848	7.00%	23,073	6.50%
Tier 1 capital (to average assets)	45,241	12.52%	14,457	4.00%	18,072	5.00%

Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct and material effect on the consolidated financial statements. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject and that the Bank exceeds the minimum levels necessary to be considered "well capitalized."

NOTE 19 – FAIR VALUE MEASUREMENTS

The following is a description of the Company's valuation methodologies for assets and liabilities recorded at fair value:

Investment Securities – Securities are reported at fair value based upon measurements obtained from an independent pricing service. The fair value measurements for securities are determined by quoted market prices, if available (Level 1), or consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things (Level 2).

Loans Held for Sale – The Company does not record loans held for sale at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect declines in value based on commitments in hand from investors or prevailing investor yield requirements (Level 2).

Impaired Loans - The Company does not record loans at fair value on a recurring basis. However, from time to time, valuation allowances are recorded on these loans to reflect (1) the current appraised or market-quoted value of the underlying collateral, or (2) the discounted value of expected cash flows. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for impaired loans measured for impairment based upon the value of the collateral are obtained from independent appraisers or other third-party consultants, and for other impaired loans are based on discounted cash flow analyses (Level 3).

Real Estate Held for Sale - The Company does not record properties at fair value on a recurring basis. However, from time to time, valuation allowances are recorded on these properties to reflect the current appraised value of the properties. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for properties are obtained from independent appraisers or other third-party consultants (Level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a recurring basis:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
		(in thousands)		
December 31, 2020				
Investment Securities at Fair Value				
Farmer Mac common stock	$ 31	$ -	$ -	$ 31
Debt Securities Available for Sale				
Residential mortgage-backed: U.S. Agency	$ -	$ 26,065	$ -	$ 26,065
Commercial mortgage-backed: U.S. Agency	-	17,858	-	17,858
Student loan pools: U.S. Agency	-	9,505	-	9,505
Student loan pools: other issuers	-	5,019	-	5,019
Corporate	-	10,305	-	10,305
State and municipal	-	59,346	-	59,346
	$ -	$ 128,098	$ -	$ 128,098
December 31, 2019				
Debt Securities Available for Sale				
Residential mortgage-backed: U.S. Agency	$ -	$ 62,868	$ -	$ 62,868
Commercial mortgage-backed: U.S. Agency	-	21,797	-	21,797
Student loan pools: U.S. Agency	-	9,347	-	9,347
Student loan pools: other issuers	-	6,522	-	6,522
State and municipal	-	626	-	626
	$ -	$ 101,160	$ -	$ 101,160

During 2020 and 2019, there were no changes or amounts in Level 3 assets or liabilities recorded at fair value on a recurring basis.

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a non-recurring basis:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
December 31, 2020				
Loans held for sale	$ -	$ 7,497	$ -	$ 7,497
Impaired loans with valuation allowances	-	-	470	470
Real estate held for sale	-	-	778	778
December 31, 2019				
Impaired loans with valuation allowances	$ -	$ -	$ 86	$ 86
Real estate held for sale	-	-	2,477	2,477

At December 31, 2020, there are $7,497,000 in loans held for sale, none of which have valuation allowances and fair value is estimated to be the carrying amount. At December 31, 2019, there are no loans held for sale.

At December 31, 2020, there are $6,983,000 of impaired loans, $675,000 of which have a $205,000 valuation allowance for a net carrying amount $470,000. At December 31, 2019, there are $6,685,000 of impaired loans, $107,000 of which have a $21,000 valuation allowance for a net carrying amount $86,000.

At December 31, 2020 and 2019, there are no valuation allowances on real estate held for sale, and the assets are carried at the fair value amount established at acquisition net of direct write-offs and capitalized improvements.

The following presents the estimated fair value and carrying amount of the Company's financial instruments:

	December 31, 2020				
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value	Carrying amount
			(in thousands)		
Financial Assets					
Cash and cash equivalents	$ 39,392	$ -	$ -	$ 39,392	$ 39,392
Investment securities at fair value	31	-	-	31	31
Investment securities available for sale	-	128,098	-	128,098	128,098
Nonmarketable equity investments	201	-	2,100	2,301	2,301
Loans held for sale	-	7,497	-	7,497	7,497
Loans, net of allowance for loan losses	-	-	410,343	410,343	408,715
Accrued interest receivable	-	2,431	-	2,431	2,431
Financial Liabilities					
Noninterest-bearing deposits	-	-	171,191	171,191	171,191
Interest-bearing deposits (non-maturity)	-	-	213,914	213,914	213,914
Interest-bearing deposits (time deposits)	-	-	96,550	96,550	96,466
Federal funds purchased, repurchase agreements and other short term borrowings	-	46,241	-	46,241	46,241
Subordinated debentures	-	4,874	-	4,874	4,874
Accrued interest payable	-	186	-	186	186

	December 31, 2019				
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value	Carrying amount
			(in thousands)		
Financial Assets					
Cash and cash equivalents	$ 35,241	$ -	$ -	$ 35,241	$ 35,241
Investment securities available for sale	-	101,160	-	101,160	101,160
Nonmarketable equity investments	1,141	-	2,007	3,148	3,148
Loans, net of allowance for loan losses	-	-	230,586	230,586	231,845
Accrued interest receivable	-	1,319	-	1,319	1,319
Financial Liabilities					
Noninterest-bearing deposits	-	-	103,909	103,909	103,909
Interest-bearing deposits (non-maturity)	-	-	103,726	103,726	103,726
Interest-bearing deposits (time deposits)	-	-	85,656	85,656	85,910
Federal funds purchased, repurchase agreements and other short term borrowings	-	31,288	-	31,288	31,288
Subordinated debentures	-	4,851	-	4,851	4,851
Accrued interest payable	-	315	-	315	315

The following summary presents the methodologies and assumptions used to estimate the fair value of the Company's financial instruments. The Company operates as a going concern and, except for investment securities and loans held for sale, no active market exists for its financial instruments. Much of the information used to determine the fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. The subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of the balance sheet date, the amounts that will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

Cash and Cash Equivalents, Accrued Interest Receivable, Accrued Interest Payable, Federal Funds Purchased, Repurchase Agreements and Other Short-Term Borrowings.

Fair value approximates carrying amount as these are assets held for the short term, or liabilities payable in the short term, likely to be realized or paid at their carrying amount.

Investment Securities

Fair value is provided by a third-party investment accounting provider and considers observable data that may include market quotes, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the instruments' terms and conditions, among other things.

Nonmarketable Equity Investments

Fair value approximates carrying amount based on the securities' redemption or conversion provisions.

Loans, Net

For fixed rate loans, fair value is estimated by discounting contractual future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For variable rate loans, fair value is estimated to be carrying amount due to the re-pricing provisions. Loans are presented net of the allowance for loan losses, purchase premiums and discounts, and deferred fees.

Deposits

Fair value for noninterest-bearing accounts and interest-bearing accounts with no stated maturity approximates carrying amount as these deposits are payable on demand and which can be re-priced at any time. Fair value of interest-bearing time deposits is estimated by discounting future contractual cash flows using interest rates currently offered for time deposits of similar remaining maturities. Fair value does not contemplate the value of any core deposit intangible that might be recognized by an acquirer if the deposits were to be transferred in a business combination, nor the value of the core deposit intangible recognized as a result of the acquisition of the Bank by IBC.

Subordinated Debentures

Fair value is estimated to be carrying amount given the instrument's variable rate provisions and recent repricing in connection with the 2018 acquisition.

Off-Balance-Sheet Instruments

Fair value for off-balance-sheet instruments such as unfunded loan commitments and letters of credit is not estimated because of the difficulty in assessing the likelihood and timing of advances, and management believes that it is not feasible or practical to fairly and accurately disclose a fair value for these instruments.

NOTE 20– PARENT COMPANY FINANCIAL INFORMATION

Following is financial information on IBC, presented on a parent company only basis:

InBankshares Corp
Balance Sheet - Parent Company Only Basis

	December 31, 2020	December 31, 2019
	(in thousands)	
Assets		
Cash at InBank	$ 7,874	$ 9,536
Investment in wholly owned subsidiary - InBank		
Equity in net assets of subsidiary	66,222	57,187
Investment in Neat Capital	2,000	2,000
Deferred tax asset	296	357
Common securities of capital trust	160	160
Other assets	265	-
Total assets	$ 76,817	$ 69,240
Liabilities		
Accrued expenses payable	$ 36	$ 34
Subordinated debentures	4,874	4,851
Total liabilites	4,910	4,885
Stockholders' equity		
Preferred stock	-	-
Voting common stock	53	50
Non-voting common stock	20	20
Additional paid-in capital	69,450	66,485
Accumulated deficit	(1,831)	(3,136)
Accumulated other comprehensive income	4,215	936
Total stockholders' equity	71,907	64,355
Total liabilities and stockholders equity	$ 76,817	$ 69,240

InBankshares Corp
Statement of Operations - Parent Company Only Basis

	Years ended December 31, 2020	Years ended December 31, 2019
	(in thousands)	
Revenues		
Distributions from capital trust	$ 6	$ 10
Other	16	29
Total revenues	22	39
Expenses		
Interest on subordinated debentures	225	303
Professional fees	62	41
Franchise taxes	200	200
Other	29	4
Total expenses	516	548
Loss before income taxes and equity in earnings of InBank	(494)	(509)
Income tax benefit	(122)	(122)
Equity in undistributed earnings of InBank	1,649	(1,249)
Net income (loss)	$ 1,277	$ (1,636)

InBankshares Corp
Statement of Cash Flows - Parent Company Only Basis

	Years Ended December 31, 2020	Years Ended December 31, 2019
Cash flows from operating activities		
Net income (loss)	$ 1,277	$ (1,636)
Adjustments to reconcile net loss to net cash from operating activities:		
Deferred tax expense (benefit)	61	(122)
Amortization of purchase discount on subordinated debentures	23	22
Undistributed earnings of InBank	(1,649)	1,249
Change in accrued interest payable	-	-
Change in other assets and liabilities	(263)	(276)
Net cash used by operating activities	(551)	(763)
Cash flows from investing activities		
Capital contributions to InBank	(3,000)	-
Purchase of investment in Neat Capital from InBank	-	(2,000)
Net cash used in investing activities	(3,000)	(2,000)
Cash flows from financing activities		
Issuance of common stock, net of offering costs	1,906	-
Redemption of common stock	(17)	-
Net cash provided by financing activities	1,889	-
Net change in cash	(1,662)	(2,763)
Cash at beginning of year	9,536	12,299
Cash at end of year	$ 7,874	$ 9,536
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 202	$ 281
Cash paid to InBank during the year for income taxes	-	110

NOTE 21 – COVID-19

In March 2020, COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the President of the United States. Efforts to limit the spread of COVID-19 have included shelter-in-place orders, the closure or reduction in operating capacity of non-essential businesses, travel restrictions, supply chain disruptions and prohibitions on public gatherings, among other things, throughout many parts of the United States including the markets in which the Company operates. As the current pandemic is ongoing and dynamic in nature, there are many uncertainties related to COVID-19 including the ultimate impact to the economy and to the Bank's customers, employees and vendors of governmental authorities' actions taken or that may yet be taken, or inaction, to contain the outbreak or to mitigate both the economic and health-related impact. In light of the uncertainties and continuing developments surrounding COVID-19, the ultimate impact to the Company cannot be reliably estimated at this time.