CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

INBANKSHARES, CORP AND SUBSIDIARY

December 31, 2019 and 2018

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
InBankshares, Corp
Aurora, 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, 2019 and 2018, and the related consolidated statements of operations, comprehensive 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, 2019 and 2018, 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 6, 2020

1580 Lincoln Street • Suite 700 • Denver, CO 80203
303/296-6033 • FAX 303/296-8553
Certified Public Accountants • A Professional Corporation

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2019	December 31, 2018
	(in thousands)	
ASSETS		
Cash and due from banks	$ 6,532	$ 7,266
Interest-bearing deposits in banks	28,709	5,704
Total cash and cash equivalents	35,241	12,970
Investment securities available for sale	101,160	124,956
Nonmarketable equity investments	3,148	3,119
Loans	232,816	191,724
Less allowance for loan losses	(971)	(414)
Net loans	231,845	191,310
Accrued interest receivable	1,319	1,390
Real estate held for sale	2,477	2,600
Premises and equipment, net	6,397	5,546
Deferred tax asset	1,794	1,732
Intangible assets	11,273	12,054
Other assets	1,481	1,103
Total assets	$ 396,135	$ 356,780
LIABILITIES		
Deposits		
Noninterest-bearing	$ 103,909	$ 82,746
Interest-bearing	189,636	153,196
Total deposits	293,545	235,942
Federal funds purchased, repurchase agreements and other short term borrowings	31,288	50,186
Subordinated debentures	4,851	4,829
Accrued interest payable	315	93
Accrued expenses and other liabilities	1,781	1,635
Total liabilities	331,780	292,685
Commitments (Notes 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, 5,075,500 and 5,047,000 shares issued and outstanding at December 31, 2019 and 2018, respectively	50	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	66,485	65,412
Accumulated deficit	(3,136)	(1,500)
Accumulated other comprehensive income	936	113
Total stockholders' equity	64,355	64,095
Total liabilities and stockholders' equity	$ 396,135	$ 356,780

The accompanying notes are an integral part of these statements.

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31, 2019	2018
	(in thousands, except per-share amounts)	
Interest and dividend income		
Interest and fees on loans	$ 12,804	$ 5,775
Interest on taxable debt securities	3,423	1,961
Interest on tax-exempt debt securities	63	81
Dividends on nonmarketable equity investments	29	5
Interest-bearing cash and cash equivalents	225	181
Total interest and dividend income	16,544	8,003
Interest expense		
Deposits	2,094	577
Federal funds purchased, repurchase agreements and short term borrowings	260	153
Subordinated debentures	303	156
Total interest expense	2,657	886
Net interest income	13,887	7,117
Provision for loan losses	550	374
Net interest income after provision for loan losses	13,337	6,743
Noninterest income		
Service charges on deposit accounts	399	246
ATM and debit card	642	316
Swap fees	39	46
Gain on sale of investment securities	43	-
Other noninterest income	522	234
Total noninterest income	1,645	842
Noninterest expense		
Salaries and employee benefits	10,130	4,608
Occupancy and equipment	1,072	537
Data processing and software	1,541	613
Professional fees	874	1,693
Office expenses and supplies	447	238
ATM and debit card	376	213
Franchise taxes	200	200
Business development	436	186
Director fees	288	181
Foreclosed real estate, net	(130)	26
Amortization of core deposit intangible	781	410
Other noninterest expense	947	470
Total noninterest expense	16,962	9,375
Loss before income taxes	(1,980)	(1,790)
Income tax benefit	(344)	(290)
Net loss	$ (1,636)	$ (1,500)
Basic loss per share	$ (0.23)	$ (0.40)

The accompanying notes are an integral part of these statements.

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Years ended December 31, 2019	Years ended December 31, 2018
	(in thousands)	
Net loss	$ (1,636)	$ (1,500)
Other comprehensive income		
Change in unrealized gains and losses on securities available for sale	1,148	143
Reclassification adjustment for net gain on sale of securities available for sale realized in net income	(43)	-
Net change in unrealized gains and losses	1,105	143
Tax effect	(282)	(30)
Total other comprehensive income	823	113
Total comprehensive loss	$ (813)	$ (1,387)

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, 2019 and 2018

	Voting common stock		Non-voting common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total
	Shares	Amount	Shares	Amount				
	(in thousands, except share amounts)							
Balance at January 1, 2018	1,000	$ -	-	$ -	$ -	$ -	$ -	$ -
Issuance of common stock at $10.00 per share	4,903,500	49	1,996,500	20	68,931	-	-	69,000
Less stock issuance costs	-	-	-	-	(4,045)	-	-	(4,045)
Restricted stock granted	150,000	1	-	-	(1)	-	-	-
Restricted stock forfeited	(7,500)	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(1,500)	-	(1,500)
Other comprehensive income	-	-	-	-	-	-	113	113
Stock-based compensation expense	-	-	-	-	527	-	-	527
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

The accompanying notes are an integral part of these statements.

InBankshares, Corp and Subsidiary

CONSOLIDATED STATEMENTS OF CASHFLOWS

	Years ended December 31, 2019	2018
	(in thousands)	
Cash flows from operating activities		
Net loss	$ (1,636)	$ (1,500)
Adjustments to reconcile net loss to net cash from operating activities		
Provision for loan losses	550	374
Depreciation and software amortization	560	284
Net amortization on investment securities	324	116
Stock-based compensation	1,073	527
Amortization of core deposit intangible	781	410
Accretion of purchase discount on loans	(166)	-
Amortization of purchase discount on subordinated debentures	22	12
Deferred income tax benefit	(344)	(290)
Net gain on sale of investment securities	(43)	-
Stock dividends on nonmarketable equity investments	(29)	(5)
Net gain on sale of real estate held for sale	(199)	(52)
Write-downs of real estate held for sale	25	-
Net loss on equipment disposals	-	10
Net change in:		
Accrued interest receivable	71	(276)
Accrued interest payable	222	(76)
Accrued expenses and other liabilities	70	1,094
Net cash provided by operating activities	1,281	628
Cash flows from investing activities		
Purchase of securities available for sale	-	(123,276)
Maturities, calls and paydowns of securities available for sale	19,386	5,046
Sale of securities available for sale	5,234	133,076
Purchase of nonmarketable equity investments	-	(2,633)
Loan originations and principal collections, net	(41,147)	(39,475)
Proceeds from sales of real estate held for sale	462	295
Capitalized improvements on real estate held for sale	(101)	-
Acquisition of premises, equipment and software	(1,549)	(783)
Net cash paid in business acquisitions	-	(21,303)
Net cash used in investing activities	(17,715)	(49,053)
Cash flows from financing activities		
Net change in deposits	57,603	(19,291)
Net change in federal funds purchased, repurchase agreements and other short term borrowings	(18,898)	15,731
Issuance of common stock, net of offering costs	-	64,955
Net cash provided by financing activities	38,705	61,395
Change in cash and cash equivalents	22,271	12,970
Cash and cash equivalents at beginning of year	12,970	-
Cash and cash equivalents at end of year	$ 35,241	$ 12,970
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 2,413	$ 950
Cash paid (received) during the year for income taxes	-	(261)
Supplemental Disclosures of Non-Cash Transactions		
Loan balances transferred to real estate held for sale	228	158

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 (see note 2), 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 Aurora, Colorado. The Bank is chartered in Raton, New Mexico, and operates eight full-service branches and one loan production office. Colorado locations include full-service branches located in Aurora, Greenwood Village and Trinidad, and a loan production office in Denver. New Mexico locations include two full-service branches in Raton, and full-service branches in Cimarron, Angel Fire and Springer. 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 for loans and deposit accounts. 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 2018 amounts have been made to conform to the current year presentation, including the reclassification of $24,542,000 in customer accounts from deposits to repurchase agreements based on the Company's reassessment of the underlying account provisions. Related interest expense of $80,000 was also reclassified.

For 2018, the consolidated financial statements include the activities of the Bank only since the June 21, 2018 date of acquisition by IBC.

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.

As described in Note 2, the application of purchase accounting in connection with the acquisition of InBank involved significant estimates.

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, 2019 and 2018, the Company is required to have cash on hand or on deposit with the Federal Reserve of $5,748,000 and $5,692,000, respectively, to meet regulatory reserve and clearing requirements.

Investment Securities

The Company's investment 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. The Company also maintains an immaterial investment in the common stock of Farmer Mac to facilitate access to certain Farmer Mac services. The Company further has an equity investment in Neat Capital, Inc., a 2015 mortgage lending start-up that leverages fintech. These investments have no active markets and no quoted market price, and/or are held for restricted purposes. For reporting purposes, such investments are carried at cost under the caption "nonmarketable equity investments" and periodically evaluated for impairment.

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.

<u>Purchased Loans</u>

Loans acquired in the acquisition of the Bank by IBC 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.

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

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.

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 is substantially comprised of service charges on deposit accounts, ATM and debit card 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. 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.

Adoption of Significant Applicable Accounting Standards

In 2019, the Company adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The Standard requires certain equity investments to be carried at fair value, with changes in fair value recognized in net income. This applies to equity investments with readily determinable fair values that are not consolidated or carried on the equity method. Debt securities classified as available for sale continue to be carried at fair value with changes in fair value recorded through other comprehensive income. Adoption of the standard did not impact the consolidated financial statements. Although the Company's Farmer Mac stock is marketable and has quoted market prices, the stock is immaterial and held for restricted purposes and the Company has determined to continue to carry it at cost unless impairment is identified.

In 2019, the Company adopted the Financial Accounting Standards Board's Accounting Standards Update 2014-09, *Revenue from Contracts With Customers (Topic 606)*. The standard prescribes a five-step model to determine the amount and timing of revenue recognition related to the related to the consideration the Company expects to receive from the transfer of goods and services. The standard does not apply to financial instruments, and accordingly does not impact the Company's recognition of interest income on its loans and investment securities, and does not impact the Company's recognition of revenue from sales or transfers of loans and investment securities. Adoption of the standard did not result in any changes in the Company's revenue recognition practices, except that recognition of gains on sales of real estate held for sale - where the sale is financed by the Bank – is subject to qualitative assessment rather than the bright-line measures regarding financing terms existing in the old standard. As a result of the change, the Company recognized into income $164,000 of deferred gain from sales of real estate held for sale in prior years.

Significant Applicable Accounting Standards 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.

The Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases (Topic 842)*: Under the new standard, the Company will be required to record a right-of-use asset for leased property and also record a corresponding lease liability. In general, rather than expense lease payments as they are made as currently done under operating lease guidance, the right-of-use asset will be amortized to expense over the lease term, and lease payments will 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 will result in straight-line lease expense over the lease term. The standard is effective for the Company beginning January 1, 2020. The Company is in the process of implementing the standard, and based on operating lease obligations as of December 31, 2019 does not expect the right-of-use asset and corresponding lease liability to be significant to the consolidated balance sheet. The income statement effect of the new standard is not significantly different from that under existing operating lease guidance.

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, 2019 financial statements, Management has considered subsequent events through March 6, 2020.

NOTE 2 – ACQUISITION OF INTERNATIONAL BANK

On June 21, 2018, IBC acquired Raton Capital Corporation and its wholly owned subsidiary, International Bank, in a $46,293,000 cash purchase of Raton Capital Corporation's common stock. Raton Capital Corporation was merged with and into IBC, resulting in International Bank becoming a wholly owned subsidiary of IBC. International Bank was formally renamed "InBank" in 2019.

The assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair value as follows:

		Fair Value Adjustments				
	Seller Carrying Amount	Level 1	Level 2	Level 3	Tax adjustments and goodwill	Purchase Cost
	(in thousands)					
ASSETS						
Cash and cash equivalents	$ 24,990	$ -	$ -	$ -	$ -	$ 24,990
Debt securities	142,670	(2,773)	(122)	-	-	139,775
Nonmarketable equity investments	481	-	-	-	-	481
Loans, net	153,860	-	-	(1,493)	-	152,367
Accrued interest receivable	1,114	-	-	-	-	1,114
Real estate held for sale	3,585	-	-	(900)	-	2,685
Premises and equipment, net	6,233	-	-	(1,000)	-	5,233
Deferred tax asset	1,112	-	-	-	360	1,472
Core deposit intangible	-	-	-	4,520	-	4,520
Goodwill	935	-	-	-	7,009	7,944
Other assets	647	-	-	-	69	716
Total assets	$ 335,627	$ (2,773)	$ (122)	$ 1,127	$ 7,438	$ 341,297
LIABILITIES						
Deposits	$ 279,775	$ -	$ -	$ -	$ -	$ 279,775
Federal funds purchased, securities sold under agreements to repurchase and other short term borrowings	9,913	-	-	-	-	9,913
Subordinated debentures	5,160	-	(343)	-	-	4,817
Accrued interest payable	169	-	-	-	-	169
Accrued expenses and other liabilities	330	-	-	-	-	330
Total liabilities	$ 295,347	$ -	$ (343)	$ -	$ -	$ 295,004

Immediately following the acquisition, the Company sold a substantial portion of the investment portfolio that had been classified as held-to-maturity by the seller. The sale price was treated as the acquisition date fair value for these securities, with securities not immediately liquidated valued based on information provided from the Company's third-party bond accounting provider.

Valuation adjustments to loans were based on internal assessments of credit quality and the amount of loans estimated to be collectible based on historical loan performance, loan grades, collateral levels and management's expectation of future cash flows. The valuation adjustments were substantially determined on a loan-by-loan basis. No fair value adjustments were made with respect to interest rate measures as most loans mature or reprice within one to three years and current rates within the portfolio were deemed consistent with market conditions. The total loan purchase discount was $4,543,000, which includes the $3,050,000 allowance for loan loss of the seller (reclassified to purchase discount as a result of the acquisition), and the $1,493,000 additional fair value adjustment.

Valuation adjustments to real estate held for sale and premises were based on internal analyses and broker pricing opinions.

The core deposit intangible was valued by an independent third-party specialist using an income approach.

The valuation adjustment to the subordinated debentures was based on an analysis provided by the Company's third-party bond accounting provider using metrics for similar instruments with the same remaining maturity.

Adjustments to the deferred tax asset and income taxes receivable were based on the final income tax return of Raton Capital Corporation and the tax attributes carrying over to IBC and the Bank, along with the tax effect of the fair value adjustments.

Goodwill was adjusted such that it is carried at the amount by which the purchase price exceeded the acquired tangible assets and liabilities and the core deposit intangible.

Legal, investment banking and personnel costs related to the acquisition total approximately $1,008,000 for 2018 and are included as a component of Professional Fee expense.

NOTE 3 – LOSS PER SHARE

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. Basic loss per share of ($0.40) for 2018 is based on the net loss of $1,500,000 and 3,760,253 weighted average shares outstanding during the year. Diluted per-share amounts are not presented as the net losses result in anti-dilutive amounts.

The Company had only 151,000 shares outstanding as of June 21, 2018, at which time the first close of the 2018 capital raise occurred in connection with the acquisition of International Bank and 6,765,400 shares were issued. On a pro-forma basis, the basic loss per share would have been ($0.21) if the weighted average is calculated based on share activity only from June 21, 2018 through December 31, 2018.

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, 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

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities				
Residential mortgage-backed: U.S. Agency	$ 94,338	$ 266	$ (87)	$ 94,517
Commercial mortgage-backed: U.S. Agency	7,722	7	(14)	7,715
Student loan pools: U.S. Agency	9,695	1	-	9,696
Student loan pools: other issuers	6,657	-	(58)	6,599
State and municipal	6,401	28	-	6,429
	$ 124,813	$ 302	$ (159)	$ 124,956

The Company purchases only high-grade investment securities. U.S. agency mortgage-backed securities are comprised entirely of mortgage-backed bonds and collateralized mortgage obligations issued by Freddie Mac and Fannie 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 both December 31, 2019 and 2018 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 “Baa2” or better as of both December 31, 2019 and 2018 by a nationally recognized statistical rating organization, except for one $250,000 unrated bond.

The amortized cost and fair value of debt securities available for sale at December 31, 2019, 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	$ 4,894	$ 4,916	$ 7,228	$ 7,238
Due after one through five years	1,558	1,580	68,956	69,967
Due after five years through ten years	13,349	13,928	23,728	23,955
Due after ten years	80,111	80,736	-	-
	$ 99,912	$ 101,160	$ 99,912	$ 101,160

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, 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

	December 31, 2018					
	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	7	$ (87)	$ 38,465	-	$ -	$ -
Commercial mortgage-backed: U.S. Agency	1	(14)	4,300	-	-	-
Student loan pools: other issuers	2	(58)	6,599	-	-	-
	10	$ (159)	$ 49,364	-	$ -	$ -

At December 31, 2019, the unrealized loss on the mortgage-backed security is 0.65% of the security’s amortized cost basis, and on student loan pools the unrealized losses range from 0.61% to 4.03% of the securities’ 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, 2019, management believes the unrealized losses detailed in the table above are temporary.

The Company realized $43,000 in gains and no losses on sales and early redemptions of investment securities available for sale in 2019. The Company realized no gains or losses on sales and early redemptions of investment securities available for sale in 2018.

Investment securities with a fair value of $75,373,000 and $69,680,000 at December 31, 2019 and 2018, 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,	
	2019	2018
	(in thousands)	
Federal Home Loan Bank of Dallas - common stock	$ 1,141	$ 1,112
Farmer Mac - common stock	7	7
Investment in Neat Capital	2,000	2,000
	$ 3,148	$ 3,119

The investment in Neat Capital, Inc. ("Neat"), a 2015 mortgage lending start-up headquartered in Boulder, Colorado, was a Simple Agreement for Future Equity at December 31, 2018. In 2019, the investment was converted into approximately 9.658 million shares of preferred stock upon Neat's closing of a capital raise, representing approximately 21% of Neat's preferred shares outstanding and 11.5% of Neat's total outstanding capitalization after the capital raise. The preferred shares are convertible to common stock at any time at the Company's option. The Company has licensed Neat's mortgage lending platform and intends to utilize Neat for mortgage underwriting and other mortgage loan fulfillment services, but such activity had not commenced at December 31, 2019.

NOTE 6 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans are as follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
Real Estate		
Commercial	$ 92,516	$ 83,354
Construction and land	52,949	42,558
Residential 1-4 family	29,724	25,480
Multifamily	1,335	1,751
Farmland	11,466	10,524
	187,990	163,667
Commercial - non real estate	34,575	19,144
Agricultural production	3,821	6,840
Consumer and other	6,908	2,313
	233,294	191,964
Less net unearned loan fees	(478)	(240)
	$ 232,816	$ 191,724

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, 2019 and 2018						
	Real Estate						
	Commercial	Construction and land	Residential 1-4 family	All other real estate	Commercial - non real estate	All other non real estate	Total
	(in thousands)						
Balance at January 1, 2018	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Original purchase accounting discount	336	146	621	-	2,973	467	4,543
Balance at December 31, 2018	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

As of December 31, 2019, the Company estimates that $607,000 of the discount will be accreted to interest income over the next four 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"). However, at both December 31, 2019 and 2018, the Company has no loan commitments or outstanding loans to related parties.

At December 31, 2019 and 2018, loans of $210,472,000 and $165,475,000, respectively, are pledged to secure borrowing facilities at the Federal Home Loan Bank of Dallas under a blanket lien agreement.

Transactions in the allowance for loan losses are as follows:

	Years Ended December 31, 2019 and 2018						
		Real Estate					
	Commercial	Construction and land	Residential 1-4 family	All other real estate	Commercial - non real estate	All other non real estate	Total
	(in thousands)						
Balance at January 1, 2018	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision (credit) for loan losses	249	31	88	1	(6)	11	374
(Charge-offs)	(10)	-	(5)	-	-	(3)	(18)
Recoveries	-	-	10	26	19	3	58
Net (charge-offs) recoveries	(10)	-	5	26	19	-	40
Balance at December 31, 2018	239	31	93	27	13	11	414
Provision (credit) 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

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, 2019						
	Real Estate						
	Commercial	Construction and land	Residential 1-4 family	All other real estate	Commercial - non real estate	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

	December 31, 2018						
	Real Estate						
	Commercial	Construction and land	Residential 1-4 family	All other real estate	Commercial - non real estate	All other non real estate	Total
	(in thousands)						
Allocation of Allowance to:							
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	-	-	-	-	-	-
Total impaired loans	-	-	-	-	-	-	-
Unimpaired loans - evaluated collectively	239	31	93	27	13	11	414
	$ 239	$ 31	$ 93	$ 27	$ 13	$ 11	$ 414
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	$ 1,090	$ 291	$ 1,906	$ -	$ 1,273	$ 303	$ 4,863
Impaired loans - evaluated collectively	-	-	-	-	-	-	-
Total impaired loans	1,090	291	1,906	-	1,273	303	4,863
Unimpaired loans - evaluated collectively	82,264	42,267	23,574	12,275	17,871	8,850	187,101
	$ 83,354	$ 42,558	$ 25,480	$ 12,275	$ 19,144	$ 9,153	$ 191,964
Loans acquired with deteriorated credit quality included in impaired loans	$ 442	$ 291	$ 1,906	$ -	$ 1,273	$ 303	$ 4,215

Information relative to impaired loans is as follows:

	December 31, 2019					Year Ended 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
	(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
Agricultural production	281	-	281	-	281	289
Consumer and other	8	-	8	-	8	7
	$ 6,578	$ 107	$ 6,685	$ 21	$ 6,664	$ 5,775

	December 31, 2018					Year Ended December 31, 2018
	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
	(in thousands)					
Real Estate						
Commercial	$ 1,090	$ -	$ 1,090	$ -	$ 1,090	$ 1,178
Construction and land	291	-	291	-	291	296
Residential 1-4 family	1,906	-	1,906	-	1,906	1,880
Multifamily	-	-	-	-	-	-
Farmland	-	-	-	-	-	-
Commercial - non real estate	1,273	-	1,273	-	1,273	1,377
Agricultural production	297	-	297	-	297	319
Consumer and other	6	-	6	-	6	7
	$ 4,863	$ -	$ 4,863	$ -	$ 4,863	$ 5,057

Interest income recognized on impaired loans in 2019 and 2018 is approximately $760,000 and $235,000, respectively, excluding accretion of purchase discounts. Commitments to extend credit on impaired loans total $-0- and $39,000 at December 31, 2019 and 2018, respectively. At December 31, 2019, there are $171,000 in loans in the process of foreclosure.

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

	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
Agricultural production	-	-	-	-	-
Consumer and other	-	-	-	-	-
	$ 396	$ 3,993	$ 4,389	$ -	$ 4,389

	December 31, 2018				
	Nonaccrual TDRs	Accruing TDRs	Total TDRs	Valuation allowance on TDRs	Net carrying amount of TDRs
			(in thousands)		
Real Estate					
Commercial	$ 202	$ 648	$ 850	$ -	$ 850
Construction and land	-	-	-	-	-
Residential 1-4 family	-	518	518	-	518
Multifamily	-	-	-	-	-
Farmland	-	-	-	-	-
Commercial - non real estate	1,250	-	1,250	-	1,250
Agricultural production	-	-	-	-	-
Consumer and other	-	-	-	-	-
	$ 1,452	$ 1,166	$ 2,618	$ -	$ 2,618

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

	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
Agricultural production	3,821	-	-	-	3,821
Consumer and other	6,882	23	-	3	6,908
	$ 230,946	$ 1,587	$ -	$ 761	$ 233,294

	December 31, 2018				
	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	$ 82,854	$ 298	$ -	$ 202	$ 83,354
Construction and land	42,427	-	-	131	42,558
Residential 1-4 family	25,056	292	26	106	25,480
Multifamily	1,751	-	-	-	1,751
Farmland	10,524	-	-	-	10,524
Commercial - non real estate	17,602	292	-	1,250	19,144
Agricultural production	6,787	53	-	-	6,840
Consumer and other	2,313	-	-	-	2,313
	$ 189,314	$ 935	$ 26	$ 1,689	$ 191,964

	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
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

	December 31, 2018				
	Credit Rating				
	Pass	Special Mention	Substandard	Doubtful	Total loans
	(in thousands)				
Real Estate					
Commercial	$ 80,890	$ 595	$ 1,869	$ -	$ 83,354
Construction and land	42,267	-	291	-	42,558
Residential 1-4 family	22,757	974	1,749	-	25,480
Multifamily	1,751	-	-	-	1,751
Farmland	8,943	1,581	-	-	10,524
Commercial - non real estate	17,540	346	1,258	-	19,144
Agricultural production	5,977	195	668	-	6,840
Consumer and other	2,212	40	61	-	2,313
	$ 182,337	$ 3,731	$ 5,896	$ -	$ 191,964

NOTE 7 - PREMISES AND EQUIPMENT

Premises and equipment are as follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
Land	$ 1,955	$ 1,955
Buildings and improvements	3,722	2,943
Furniture and equipment	1,260	805
Construction in process	90	66
	7,027	5,769
Less accumulated depreciation and amortization	(630)	(223)
	$ 6,397	$ 5,546

At December 31, 2018, all the Company's facilities are owned. 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 2019 was $39,000, 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, 2019:

Year ending December 31,	(in thousands)
2020	$ 147
2021	148
2022	149
2023	147
2024	152
Thereafter	784
	$ 1,527

NOTE 8 – REAL ESTATE HELD FOR SALE

Activity in real estate held for sale is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
	(in thousands)	
Balance, beginning of year	$ 2,600	$ -
Acquisition of InBank		2,685
Transfers from loans	228	158
Capitalized improvements	101	-
Write-downs	(25)	-
Dispositions during the year	(427)	(243)
Balance, end of year	$ 2,477	$ 2,600

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

	December 31, 2019	December 31, 2018
	(in thousands)	
Farmland	$ 1,401	$ 1,530
Commercial real estate	650	817
Other	426	253
	$ 2,477	$ 2,600

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

	Year ended December 31, 2019	Year ended December 31, 2018
	(in thousands)	
Gain on current year sales	$ 35	$ 52
Recognition of deferred gain	164	-
Write-downs	(25)	-
Operating income	42	6
Operating expense	(86)	(84)
Net income (expense)	$ 130	$ (26)

NOTE 9 – INTANGIBLE ASSETS

Intangible assets are as follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
Goodwill	$ 7,944	$ 7,944
Core deposit intangible	4,520	4,520
Less accumulated amortization	(1,191)	(410)
Core deposit intangible, net	3,329	4,110
	$ 11,273	$ 12,054

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

	2019
	(in thousands)
2020	$ 699
2021	616
2022	534
2023	452
2024	370
Thereafter	658
	$ 3,329

NOTE 10 - DEPOSITS

Deposits are comprised of the following:

	December 31, 2019	December 31, 2018
	(in thousands)	
Noninterest-bearing	$ 103,909	$ 82,746
Interest-bearing checking and NOW accounts	37,064	35,786
Money market accounts	42,214	37,298
Savings accounts	24,448	25,120
Time certificates of deposit	85,910	54,992
	$ 293,545	$ 235,942

	2019	2018
Time deposits more than $250,000	$ 46,150	$ 13,227
Non-maturity deposits more than $250,000	126,067	109,546
Total deposits more than $250,000	$ 172,217	$ 122,773
Brokered time certificates of deposit	$ 29,173	$ -

Annual maturities of time deposits at December 31, 2019 are as follows:

Year Ending December 31,	(in thousands)
2020	$ 69,586
2021	10,055
2022	3,793
2023	866
2024	1,610
	$ 85,910

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, 2019 and 2018, the Company has approximately $5,748,000 and $652,000, 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,	
	2019	2018
	(in thousands)	
Repurchase agreements	$ 23,288	$ 26,061
Federal funds purchased	-	125
Federal Home Loan Bank short-term borrowings	8,000	24,000
	$ 31,288	$ 50,186

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, 2019 repurchase agreements of $67,000 mature in 2021 and $2,097,000 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 Funds Purchased

The Company has unsecured federal funds lines at correspondent banks with a maximum credit limit of $19,550,000 at December 31, 2019. 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.

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 $88,726,000 at December 31, 2019. Federal Home Loan Bank borrowings are secured by a blanket pledge of certain loans. At December 31, 2019, there is one outstanding borrowing with a fixed rate of 1.65% that matures within 120 days. At December 31, 2018, outstanding borrowings have fixed rates ranging from 2.40% to 2.60%, and a weighted average rate of 2.54%. The borrowings outstanding at December 31, 2018 matured in 2019.

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,	
	2019	2018
	(in thousands)	
Contractual balance of subordinated debentures	$ 5,160	$ 5,160
Less unamortized acquisition discount	(309)	(331)
Total subordinated debentrues	$ 4,851	$ 4,829
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 2019 and 2018 was $22,000 and $12,000, respectively.

NOTE 13 – INCOME TAXES

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

	Years Ended December 31,	
	2019	2018
	(in thousands)	
Current federal benefit	$ -	$ -
Current state benefit	-	-
Total current benefit	-	-
Deferred federal benefit	(306)	(270)
Deferred state benefit	(38)	(20)
Total deferred benefit	(344)	(290)
Total tax benefit	$ (344)	$ (290)

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

	Years Ended December 31, 2019	Years Ended December 31, 2018
	(in thousands)	
Taxes at statutory 21% federal rate	$ (415)	$ (376)
Increase (decrease) in tax resulting from:		
Nontaxable municipal interest income	(17)	(20)
Nondeductible acquisition expenses	-	89
Nondeductible stock-based compensation	94	31
Other nondeductible expenses	32	6
State income taxes, net of federal effect	(38)	(20)
Income tax benefit	$ (344)	$ (290)

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

	December 31, 2019	December 31, 2018
	(in thousands)	
Deferred tax assets		
Loan purchase discount	$ 1,083	$ 1,133
Allowance for loan losses	246	107
Real estate held for sale	351	357
Charitable contribution carryforwards	127	124
Federal net operating loss carryforwards	894	764
State net operating loss carryforwards	129	124
Premises and equipment	-	72
Stock-based compensation	169	76
Other	48	116
Total deferred tax assets	3,047	2,873
Deferred tax liabilities		
Core deposit intangible	(830)	(1,025)
Purchase discount on subordinated debentures	(77)	(83)
Premises and equipment	(31)	-
Federal Home Loan Bank stock	(3)	(3)
Net unrealized gain on securities available for sale	(312)	(30)
Total deferred tax liabilities	(1,253)	(1,141)
Net deferred tax asset	$ 1,794	$ 1,732

At December 31, 2019, the Company has $4,202,000 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. The Company also has $2,089,000 of Colorado net operating loss carryforwards, and $4,157,000 of New Mexico net operating loss carryforwards, available to offset future Colorado and New Mexico taxable income. The state net operating loss carryforwards do not currently have any annual usage limitations, but expire in years 2033-2039 if they are not utilized. Additionally, the future benefit of New Mexico net operating loss carryforwards will be limited to the New Mexico apportionment percentage in the year of use as New Mexico applies apportionment after factoring use of net operating carryforwards, whereas Colorado applies apportionment before factoring use of net operating loss carryforwards. For 2019, the percentage of state taxable income apportioned to New Mexico was 26%, which effectively results in a $1,081,000 reduction in New Mexico taxable income if the same percentage applies at the time the net operating loss carryforwards are utilized.

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 2019 and 2018.

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 2019 and 2018, 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 vest in one-third annual installments on the first through third anniversary following the date of grant, and 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, 2019, there are 142,500 Founder Shares outstanding of which 47,500 are vested and 135,833 have voting and dividend rights. At December 31, 2018, there are 142,500 Founder Shares outstanding of which none are vested and 132,500 have voting and dividend rights. Compensation cost attributable to Founder Shares for the years ended December 31, 2019 and 2018 was $474,000 and $238,000, 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 $713,000 presuming no shares are forfeited, and is recognizable in years 2020 through 2021.

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 2019 and 2018, the Company accrued $203,000 and $146,000, 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 2019, the Company issued 28,500 shares for director compensation. No shares were issued for director compensation in 2018 as the first annual cycle did not commence until the Company started operations in 2018.

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 2019 and 2018.

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 2019 and 2018, expense attributable to the plan totaled $254,000 and $110,000, respectively, and no shares of Company stock were issued to or purchased by the Plan.

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, 2019, 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 2019 and 2018 was $396,000 and $143,000, 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, 2018	-	
Issued	84,500	$ 10.00
Forfeited	-	
Outstanding, December 31, 2018	84,500	
Issued	99,500	$ 8.11
Forfeited	(4,000)	
Outstanding, December 31, 2019	180,000	
Vested, December 31, 2019	-	
Shares available for issuance at December 31, 2019	510,000	

At December 31, 2019 future compensation expense attributable to the Plan is $1,072,000 presuming no shares are forfeited, and is recognizable in years 2020 through 2022.

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, 2019	December 31, 2018
	(in thousands)	
Commitments to extend credit	$ 71,494	$ 51,761
Standby letters of credit	3,421	898
	$ 74,915	$ 52,659

At both December 31, 2019 and 2018, 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 2019 or 2018.

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 and related 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, 2019 and 2018 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, 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%
As of December 31, 2018						
Total capital (to risk weighted assets)	$ 45,255	16.20%	$29,328	10.50%	$27,932	10.00%
Tier 1 capital (to risk weighted assets)	44,827	16.05%	23,742	8.50%	22,345	8.00%
Common equity tier 1 capital (to risk weighted assets)	44,827	16.05%	19,552	7.00%	18,156	6.50%
Tier 1 capital (to average assets)	44,827	13.78%	13,010	4.00%	16,262	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, 2019, 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:

Debt Securities Available for Sale – Debt securities are reported at fair value based upon measurements obtained from an independent pricing service. The fair value measurements for debt 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 bonds' terms and conditions, among other things (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, 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
December 31, 2018				
Debt Securities Available for Sale				
Residential mortgage-backed: U.S. Agency	$ -	$ 94,517	$ -	$ 94,517
Commercial mortgage-backed: U.S. Agency	-	7,715	-	7,715
Student loan pools: U.S. Agency	-	9,696	-	9,696
Student loan pools: other issuers	-	6,599	-	6,599
State and municipal	-	6,429	-	6,429
	$ -	$ 124,956	$ -	$ 124,956

During 2019 and 2018, 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, 2019				
Impaired loans with valuation allowances	$ -	$ -	$ 86	$ 86
Real estate held for sale	-	-	2,477	2,477
December 31, 2018				
Impaired loans with valuation allowances	$ -	$ -	$ -	$ -
Real estate held for sale	-	-	2,600	2,600

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, 2018, there are $4,863,000 of impaired loans, none of which have a valuation allowance.

At December 31, 2019 and 2018, 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.

Initial fair value adjustments recorded as part of the initial purchase accounting for the acquisition of the Bank by IBC are discussed in Note 2.

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

	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

	December 31, 2018				
	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	$ 12,970	$ -	$ -	$ 12,970	$ 12,970
Investment securities available for sale	-	124,956	-	124,956	124,956
Nonmarketable equity investments	1,112	-	2,007	3,119	3,119
Loans, net of allowance for loan losses	-	-	191,206	191,206	191,310
Accrued interest receivable	-	1,390	-	1,390	1,390
Financial Liabilities					
Noninterest-bearing deposits	-	-	82,746	82,746	82,746
Interest-bearing deposits (non-maturity)	-	-	98,204	98,204	98,204
Interest-bearing deposits (time deposits)	-	-	53,944	53,944	54,992
Federal funds purchased, repurchase agreements and other short term borrowings	125	50,061	-	50,186	50,186
Subordinated debentures	-	4,829	-	4,829	4,829
Accrued interest payable	-	93	-	93	93

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, 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 Available for Sale

Fair value is provided by a third-party investment accounting provider and considers 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 bonds' 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.

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 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, 2019	December 31, 2018
	(in thousands)	
Assets		
Cash at InBank	$ 9,536	$ 12,299
Investment in wholly owned subsidiary - InBank		
Equity in net assets of subsidiary	57,187	56,540
Investment in Neat Capital	2,000	-
Deferred tax asset	357	235
Common securities of capital trust	160	160
Total assets	$ 69,240	$ 69,234
Liabilities		
Income tax refund due to InBank	$ -	$ 110
Accrued expenses payable	34	200
Subordinated debentures	4,851	4,829
Total liabilites	4,885	5,139
Stockholders' equity		
Preferred stock	-	-
Voting common stock	50	50
Non-voting common stock	20	20
Additional paid-in capital	66,485	65,412
Accumulated deficit	(3,136)	(1,500)
Accumulated other comprehensive income	936	113
Total stockholders' equity	64,355	64,095
Total liabilities and stockholders equity	$ 69,240	$ 69,234

InBankshares Corp
Statement of Operations - Parent Company Only Basis

	Years ended December 31, 2019	2018
	(in thousands)	
Revenues		
Distributions from capital trust	$ 10	$ 4
Other	29	19
Total revenues	39	23
Expenses		
Interest on subordinated debentures	303	156
Occupancy and equipment	-	11
Professional fees	41	1,322
Office expenses and supplies	-	19
Franchise taxes	200	200
Other	4	101
Total expenses	548	1,809
Loss before income taxes and equity in earnings of InBank	(509)	(1,786)
Income tax benefit	(122)	(322)
Equity in undistributed earnings of InBank	(1,249)	(36)
Net loss	$ (1,636)	$ (1,500)

InBankshares Corp
Statement of Cash Flows - Parent Company Only Basis

	Years Ended December 31, 2019	Years Ended December 31, 2018
Cash flows from operating activities		
Net loss	$ (1,636)	$ (1,500)
Adjustments to reconcile net loss to net cash from operating activities:		
Deferred tax benefit	(122)	(321)
Amortization of purchase discount on subordinated debentures	22	12
Undistributed earnings of InBank	1,249	36
Change in accrued interest payable	-	(62)
Change in other assets and liabilities	(276)	459
Net cash used by operating activities	(763)	(1,376)
Cash flows from investing activities		
Net cash paid in business acquisitions	-	(46,280)
Capital contributions to InBank	-	(5,000)
Purchase of investment in Neat Capital from InBank	(2,000)	-
Net cash used in investing activities	(2,000)	(51,280)
Cash flows from financing activities		
Issuance of common stock, net of offering costs	-	64,955
Net cash provided by financing activities	-	64,955
Net change in cash	(2,763)	12,299
Cash at beginning of year	12,299	-
Cash at end of year	$ 9,536	$ 12,299
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 281	$ 206
Cash paid (received) during the year for income taxes	110	(261)