Bank of Bird-in-Hand

Bird-in-Hand, Pennsylvania

Financial Statements

December 31, 2019

SNODGRASS

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Contents

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bank of Bird-in-Hand
Bird-in-Hand, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Bird-in-Hand, which comprise the balance sheets as of December 31, 2019 and 2018; the related statements of operations, shareholders' equity, and cash flows for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial statements referred to above present fairly, in all material respects, the financial position of Bank of Bird-in-Hand as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 30, 2020

S.R. Snodgrass, P.C. • 2009 Mackenzie Way, Suite 340 • Cranberry Township, Pennsylvania 16066 • Phone: 724-934-0344 • Fax: 724-934-0345

BANK OF BIRD-IN-HAND
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(in thousands, except share and per-share data)

	2019	2018
ASSETS		
Cash and due from banks	$ 6,948	$ 8,702
Interest-bearing deposits with other banks	56,787	24,529
Federal funds sold	5,200	5,200
Total cash and cash equivalents	68,935	38,431
Loans receivable, net of allowance for loan losses of $3,414 at December 31, 2019, and $2,665 at December 31, 2018	388,364	311,097
Bank premises and equipment, net	1,921	1,378
Accrued interest receivable	1,167	975
Restricted investment in bank stock	236	991
Bank owned life insurance	5,243	5,073
Other assets	446	285
TOTAL ASSETS	$ 466,312	$ 358,230
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 41,516	$ 33,137
Interest-bearing demand	238,146	155,567
Time deposits	130,422	96,674
Total deposits	410,084	285,378
FHLB advances	-	20,000
Accrued interest payable	151	91
Other liabilities	738	627
TOTAL LIABILITIES	410,973	306,096
SHAREHOLDERS' EQUITY		
Common stock, $1.00 par value, 20,000,000 shares authorized; 4,985,535 and 4,909,285 shares issued and outstanding at December 31, 2019 and 2018, respectively	4,986	4,909
Additional paid-in capital	44,808	44,275
Accumulated earnings	5,545	2,950
TOTAL SHAREHOLDERS' EQUITY	55,339	52,134
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 466,312	$ 358,230

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF OPERATIONS
DECEMBER 31, 2019 AND 2018
(in thousands, except share data)

	2019	2018
INTEREST INCOME		
Loans, including fees	$ 17,132	$ 12,023
Federal funds sold and other	1,050	514
Total interest income	18,182	12,537
INTEREST EXPENSE		
Deposits	6,526	2,923
Borrowings	113	382
Total interest expense	6,639	3,305
NET INTEREST INCOME	11,543	9,232
Provision for loan losses	746	667
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,797	8,565
OTHER INCOME		
Service fees	623	573
ATM and debit card fees	223	190
Earnings on bank-owned life insurance	170	73
Other	28	23
Total other income	1,044	859
NONINTEREST EXPENSES		
Salaries and employee benefits	4,294	3,066
Occupancy	646	539
Data processing	509	371
Professional services	532	548
Advertising	123	112
Other operating expenses	1,094	844
Total noninterest expenses	7,198	5,480
INCOME BEFORE INCOME TAXES	4,643	3,944
Income taxes	1,051	1,072
NET INCOME	$ 3,592	$ 2,872
EARNINGS PER SHARE, BASIC	$ 0.73	$ 0.76
EARNINGS PER SHARE, DILUTED	$ 0.72	$ 0.74

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF SHAREHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2019 AND 2018
(in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Total
Balance, December 31, 2017	$ 2,774	$ 26,392	$ 78	$ 29,244
Issuance of 5-for-4 stock split effected as a stock dividend	694	(694)	-	-
Issuance of 12,500 shares of common stock for exercise of organizer stock warrant	12	88	-	100
Net proceeds from the issuance of common stock, net of offering costs of $82	1,429	18,489	-	19,918
Net income	-	-	2,872	2,872
Balance, December 31, 2018	4,909	44,275	2,950	52,134
Issuance of 76,250 shares of common stock for exercise of organizer stock warrant	77	533	-	610
Common stock dividend ($0.20 per share)	-	-	(997)	(997)
Net income	-	-	3,592	3,592
Balance, December 31, 2019	$ 4,986	$ 44,808	$ 5,545	$ 55,339

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,592	$ 2,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	746	667
Deferred income tax	(3)	47
Amortization of net loan fees	774	783
Depreciation of premises and equipment	247	169
Loss on disposal of premises and equipment	1	-
Earnings on bank-owned life insurance	(170)	(73)
Increase in accrued interest receivable and other assets	(354)	(339)
Increase in accrued interest payable and other liabilities	175	157
Net cash provided by operating activities	5,008	4,283
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(78,787)	(90,289)
Purchases of bank-owned life insurance	-	(5,000)
Purchases of restricted investment in bank stock	(400)	(1,940)
Redemption of restricted investment in bank stock	1,155	1,903
Purchases of premises and equipment	(791)	(549)
Net cash used in investing activities	(78,823)	(95,875)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	124,706	79,076
Repayment of short-term FHLB advances	(20,000)	-
Issuance of common stock, net of offering costs	-	19,918
Issuance of common stock from the exercise of stock warrants	610	100
Payment of cash dividend	(997)	-
Net cash provided by financing activities	104,319	99,094
Increase in cash and cash equivalents	30,504	7,502
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	38,431	30,929
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 68,935	$ 38,431
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 6,579	$ 3,247
Income taxes	$ 1,185	$ 1,067

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Bank of Bird-in-Hand (the "Bank") was incorporated on May 31, 2013 (date of inception), under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state-chartered bank. The Bank obtained its certificate of authorization to do business on November 29, 2013, commenced operations on December 2, 2013, and is a full-service bank providing personal and business lending and deposit services.

On December 1, 2015, the Bank, in accordance with Section 1609 of the Pennsylvania Banking Code of 1965, effected a conversion from a Pennsylvania state-chartered bank into a Pennsylvania state-chartered stock savings bank. The Plan of Conversion was approved and adopted by a unanimous vote of the directors and by at least a two-thirds vote of shareholders at a special meeting on October 27, 2015. As a state-chartered stock savings bank, the Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (FDIC). The Bank maintains its principal office in Bird-in-Hand, Pennsylvania, and provides financial services primarily to Lancaster County and the surrounding Pennsylvania counties.

Basis of Presentation

The accounting and financial reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of financial position, results of operations, and cash flow are summarized below.

Change in Accounting Principle

Effective January 1, 2019, the Bank adopted ASU 2014-09, *Revenue from Contracts with Customers – Topic 606,* and all subsequent ASC's that modified ASC 606. Under Topic 606, the Bank must identify contracts with customers, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when the Bank satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Bank's primary sources of revenue are derived from interest and dividends earned on loans and other financial instruments that are not within the scope of Topic 606. The Bank has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Statements of Operations was not necessary. The Bank generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

1. Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

In accordance with ASC Topic 825, *Financial Instruments*, entities other than public business entities are not required to disclose the fair values of financial assets and financial liabilities measured in the financial statements at amortized costs.

Concentrations of Credit Risk

The Bank grants commercial loans, commercial mortgages, residential mortgages, home equity, and consumer loans to businesses and individuals located in Lancaster County and the surrounding Pennsylvania counties. The concentration of credit by type of loan is set forth in Note 2. Its debtors' ability to honor their contracts is influenced by the region's economy.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, cash in banks, and overnight deposits with original maturities of three months or less.

The Bank maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

The Bank is required to maintain average reserve balances in vault cash or with the Federal Reserve Bank based upon outstanding balances of deposit transaction accounts. The total of this reserve balance was $1,997,000 and $1,406,000 at December 31, 2019 and 2018, respectively.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with banks, and federal funds sold. Generally, federal funds are purchased or sold for one-day periods. As of December 31, 2019 and 2018, the Bank had federal funds sold in the amount of $5,200,000.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Other than net income, the Bank has no components of comprehensive income at December 31, 2019 and 2018.

1. Summary of Significant Accounting Policies (Continued)

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is segmented into commercial and consumer loans.

Commercial loans consist of the following classes: commercial and industrial and commercial real estate. Consumer loans consist of the following classes: residential mortgages, home equity loans, and other consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past-due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable is charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on utilization of peer group statistics, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class, including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral-dependent loans.
3. Nature and volume of the portfolio and terms of loans, existence and effect of any concentrations of credit, and changes in the level of such concentrations.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified, and nonaccrual loans and other loan modifications.
6. Quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors.
7. Changes in underlying value of collateral.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable, or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

A majority of the Bank's loan assets are loans to business owners of many types, such as entrepreneurs, proprietors, professionals, partnerships, LLPs, LLCs, and corporations. The Bank makes commercial loans for purchases and refinances, equipment financing, accounts receivable and inventory financing, and other purposes, as required by the customer base. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable, and finished inventory or raw material. Individual loan advance rates may be higher or lower, depending upon the financial strength of the borrower and/or the term of the loan.

Non-real estate secured commercial-term loans may have maturities up to ten years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans includes the borrower's accounts receivable, inventory, and machinery and equipment. Included in commercial loans are agricultural loans. Agricultural loans are secured by properties such as farmland, agricultural-related properties, or equipment. These loans are highly dependent on the business operations for repayment.

Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale or lease of the subject property. Commercial real estate loans require a loan-to-value ratio of not greater than 80 percent. The maximum loan amortization is 25 years. Interest rates can be either floating or adjustable periods of up to five years with a rate reset provision.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Commercial construction loans include loans to finance the construction or rehabilitation of commercial properties, multi-family properties, or one-to-four family residential structures.

Consumer home equity lines of credit, residential mortgages, and residential construction loans are secured by the borrower's residential real estate in either a first or second lien position. Consumer home equity lines require a loan-to-value ratio of not greater than 80 percent, with limited exceptions. Consumer home equity lines of credit have variable rates and a ten-year draw period followed by a ten-year repayment period. Residential mortgages have adjustable rates and terms up to ten years, with amortizations varying from 20 to 30 years. The Bank also offers a 3/1 adjustable rate mortgage (ARM), with up to a 30-year amortization.

Other consumer loans include overdraft lines of credit. The majority of these loans are unsecured.

All commercial and consumer loans are located in the Lancaster County and surrounding areas.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and industrial loans, and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral-dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The Bank has only one impaired loan and the impairment was measured by the present value of expected future cash flows discounted at the loan's effective interest rate. For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real-estate-secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal, and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real-estate collateral, such as accounts receivable, inventory, and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals, or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, will be evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful, and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in loans classified as substandard, with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. All loans were rated pass at December 31, 2019 and 2018.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance

The Bank invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of officers. The Bank is the owner and beneficiary of the policies. The life insurance investment is carried at the cash surrender value of the underlying policies. Increases in cash surrender value are recorded in other income.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2019 and 2018, is comprised of stock in the Federal Home Loan Bank of Pittsburgh (FHLB) in the amount of $166,100 and $920,600, respectively, and Atlantic Community Bankers Bank (ACBB) in the amount of $70,000 for December 31, 2019 and 2018. All restricted stock is carried at cost. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value.

Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2019 and 2018.

1. Summary of Significant Accounting Policies (Continued)

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the current period taxable income. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, net operating loss carryforwards, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank accounts for uncertain tax positions if it is “more likely than not” based on the technical merits, that the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50 percent; the terms “examined” and “upon examination” also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. The Bank had no uncertain tax positions at December 31, 2019 and 2018.

The Bank recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There was no interest or penalties recognized during 2019 and 2018.

Federal and state tax returns from 2016 through 2018 are open for examination as of December 31, 2019.

1. Summary of Significant Accounting Policies (Continued)

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate to outstanding stock warrants.

(In thousands, except share and per-share data)		2019		2018
Net income	$	3,592	$	2,872
Weighted-average number of shares outstanding (basic)		4,939,599		3,766,606
Effect of dilutive securities		77,812		99,375
Weighted-average number of shares outstanding (diluted)	$	5,017,411	$	3,865,981
Per share information:				
Basic earnings per share	$	0.73	$	0.76
Diluted earnings per share	$	0.72	$	0.74

Options to purchase 155,625 and 231,875 shares of common stock, at a weighted-average price of $8, outstanding at December 31, 2019 and 2018, respectively, were included in dilutive earnings. At December 31, 2019 and 2018, there were no awards excluded from the computation of diluted earnings per share, as there were no awards outstanding with an anti-dilutive impact.

Revenue Recognition

Under ASC Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments, along with noninterest revenue resulting from loans servicing and earnings on bank-owned life insurance, are not within scope of this Topic. The main sources of noninterest income within the scope of the standard are as follows:

• Insufficient fund fees and other service charges– Revenue from service charges on deposit accounts is earned through cash management, wire transfer, and other deposit-related services; as well as overdraft, non-sufficient funds, account management, and other deposit-related fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transactional related services and fees.

1. Summary of Significant Accounting Policies (Continued)

• ATM interchange and fee income – ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder used a Bank's ATM. The Bank's performance obligation for ATM fee income is largely satisfied, and related revenue recognized, when the services are rendered or upon completion.

The Bank determined that the level of disaggregation of revenue, as reported on the Statements of Operations, provided a sufficient level of detail in order to properly analyze the significant revenue streams of the Bank and, therefore, no further disaggregation of any revenue streams within the scope of ASC 606 was considered to be necessary.

2. Loans Receivable

The composition of loans receivable at December 31, 2019 and 2018, is as follows (in thousands):

	2019	2018
Commercial and industrial	$ 337,473	$ 267,137
Commercial real estate	7,974	4,213
Residential mortgage	33,739	29,319
Home equity	10,577	11,425
Consumer, other	359	222
Total	$ 390,122	$ 312,316
Unearned net loan origination fees and costs	1,656	1,446
Allowance for loan losses	(3,414)	(2,665)
Net loans	$ 388,364	$ 311,097

3. Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2019 and 2018, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2019 and 2018 (in thousands):

December 31, 2019	Beginning Balance	Charge-offs	Recoveries	Provisions (Credit)	Ending Balance
Commercial and industrial	$ 2,244	$ -	$ -	$ 658	$ 2,902
Commercial real estate	35	-	-	34	69
Residential mortgage	276	-	-	58	334
Home equity	107	-	-	(2)	105
Consumer, other	3	-	3	(2)	4
Total	$ 2,665	$ -	$ 3	$ 746	$ 3,414

December 31, 2018	Beginning Balance	Charge-offs	Recoveries	Provisions (Credit)	Ending Balance
Commercial and industrial	$ 1,630	$ -	$ -	$ 614	$ 2,244
Commercial real estate	39	-	-	(4)	35
Residential mortgage	231	-	-	45	276
Home equity	101	-	-	6	107
Consumer, other	2	(5)	-	6	3
Total	$ 2,003	$ (5)	$ -	$ 667	$ 2,665

3. Allowance for Loan Losses (Continued)

December 31, 2019	Allowance for Loan Losses: Ending Balance	Allowance for Loan Losses: Ending Balance: Individually Evaluated for Impairment	Allowance for Loan Losses: Ending Balance: Collectively Evaluated for Impairment	Loans: Ending Balance	Loans: Ending Balance: Individually Evaluated for Impairment	Loans: Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 2,902	$ -	$ 2,902	$ 337,473	$ 147	$ 337,326
Commercial real estate	69	-	69	7,974	-	7,974
Residential mortgage	334	-	334	33,739	-	33,739
Home equity	105	-	105	10,577	-	10,577
Consumer, other	4	-	4	359	-	359
Total	$ 3,414	$ -	$ 3,414	$ 390,122	$ 147	$ 389,975

December 31, 2018	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 2,244	$ -	$ 2,244	$ 267,137	$ -	$ 267,137
Commercial real estate	35	-	35	4,213	-	4,213
Residential mortgage	276	-	276	29,319	-	29,319
Home equity	107	-	107	11,425	-	11,425
Consumer, other	3	-	3	222	-	222
Total	$ 2,665	$ -	$ 2,665	$ 312,316	$ -	$ 312,316

3. Allowance for Loan Losses (Continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Bank's internal risk rating system as of December 31, 2019 and 2018 (in thousands):

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 337,473	$ -	$ -	$ -	$ 337,473
Commercial real estate	7,974	-	-	-	7,974
Residential mortgage	33,739	-	-	-	33,739
Home equity	10,577	-	-	-	10,577
Consumer, other	359	-	-	-	359
Total	$ 390,122	$ -	$ -	$ -	$ 390,122

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 267,137	$ -	$ -	$ -	$ 267,137
Commercial real estate	4,213	-	-	-	4,213
Residential mortgage	29,319	-	-	-	29,319
Home equity	11,425	-	-	-	11,425
Consumer, other	222	-	-	-	222
Total	$ 312,316	$ -	$ -	$ -	$ 312,316

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2019 and 2018 (in thousands):

	2019							
	Current	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Greater than 90 Days Past Due	Total Past Due	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Commercial and industrial	$ 336,757	$ 716	$ -	$ -	$ -	$ 716	$ 337,473	$ -
Commercial real estate	7,974	-	-	-	-	-	7,974	-
Residential mortgage	33,739	-	-	-	-	-	33,739	-
Home equity	10,577	-	-	-	-	-	10,577	-
Consumer, other	359	-	-	-	-	-	359	-
Total	$ 389,406	$ 716	$ -	$ -	$ -	$ 716	$ 390,122	$ -

3. Allowance for Loan Losses (Continued)

	2018							
	Current	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Greater than 90 Days Past Due	Total Past Due	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Commercial and industrial	$ 265,863	$ 1,274	$ -	$ -	$ -	$ 1,274	$ 267,137	$ -
Commercial real estate	4,213	-	-	-	-	-	4,213	-
Residential mortgage	29,319	-	-	-	-	-	29,319	-
Home equity	11,425	-	-	-	-	-	11,425	-
Consumer, other	222	-	-	-	-	-	222	-
Total	$ 311,042	$ 1,274	$ -	$ -	$ -	$ 1,274	$ 312,316	$ -

The Bank may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan that is then identified as a troubled debt restructuring (TDR). The Bank may modify loans through rate reductions, extensions of maturity, interest-only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Bank's allowance for loan losses.

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

During the year ended December 31, 2019, the terms of one commercial and industrial loan with an outstanding balance of $147,000 was modified as trouble debt restructuring. The concession granted was a reduction in interest rate and extension in loan amortization. There were no loans modified as trouble debt restructurings that occurred during the year ended December 31, 2018. As of December 31, 2019, there were no troubled debt restructurings that defaulted within the past 12 months. As of December 31, 2019, the recorded investment and unpaid principal balances for the one impaired loan was $147,000, with a related allowance of $0, since the present value of future cash flows exceeded the loans recorded investment. The average recorded investment and the interest income recognized for 2019 was $37,000 and $3,000, respectively.

4. Bank Premises and Equipment

The components of premises and equipment at December 31, 2019 and 2018, are as follows (in thousands):

	Estimated Useful Lives	2019	2018
Leasehold improvements	15	$ 789	$ 564
Furniture, fixtures, and equipment	3-10	1,594	1,259
Fixed asset suspense		266	37
		2,649	1,860
Less accumulated depreciation and amortization		(728)	(482)
Total		$ 1,921	$ 1,378

Depreciation expense charged to operations amounted to $247,000 and $169,000 for the years ended December 31, 2019 and 2018, respectively.

5. Deposits

The components of deposits at December 31, 2019 and 2018, are as follows (in thousands):

	2019	2018
Demand, noninterest-bearing	$ 41,516	$ 33,137
Demand, interest-bearing	68,476	63,460
Savings deposits	103,977	9,351
Money market accounts	65,693	82,756
Time deposits over $250,000 or more	20,537	17,279
Other time deposits	109,885	79,395
	$ 410,084	$ 285,378

At December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31:	
2020	$ 106,338
2021	8,707
2022	14,943
2023	428
2024	6
Total	$ 130,422

6. Borrowings

Short-Term Debt

Short-term debt was as follows (in thousands):

	2019		2018	
Description	Amount	Rate	Amount	Rate
FHLB advances	$ -	- %	$ 20,000	2.73 %

The Bank utilizes overnight borrowings from the FHLB for cash flow needs. The Bank did not have any short-term borrowings at December 31, 2019. Short-term borrowings at December 31, 2018, consisted of an advance from the FHLB of $20,000,000, due January 7, 2019, with interest at 2.73 percent.

The Bank has borrowing capacity with the FHLB of approximately $216,897,600, of which no borrowings were outstanding as of December 31, 2019. Advances from the FHLB are secured by a blanket lien on qualified collateral, defined principally as mortgage loans, which are owned by the Bank free and clear of any liens or encumbrances.

The Bank has a $7,500,000 federal funds overnight line of credit with Atlantic Community Bankers Bank ($3,500,000 on an unsecured basis and $4,000,000 secured by investments). The Bank also has a $6,500,000 unsecured federal funds line of credit with Zions Bank and a $1,500,000 unsecured federal funds line of credit with Pacific Coast Bankers' Bank. Borrowings on each line of credit at December 31, 2019 and 2018, were $0.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window of $2,390,046 as of December 31, 2019. All borrowings through this facility are secured by a specific pledge of loans. There were no borrowings outstanding under this facility at December 31, 2019 and 2018.

7. Income Taxes

The provision for income taxes consists of (in thousands):

	2019	2018
Current	$ 1,054	$ 1,025
Deferred	(3)	47
Income taxes	$ 1,051	$ 1,072

7. Income Taxes (Continued)

The components of the net deferred liability as of December 31, 2019 and 2018, are as follows (in thousands):

	2019	2018
Deferred tax assets:		
Organizational costs	$ 89	$ 98
Deferred Comp	63	15
Allowance for loan losses	611	454
Other	23	26
Total deferred tax assets	786	593
Deferred tax liabilities:		
Depreciation	220	144
Loan origination costs	375	321
Prepaid expenses	33	35
Accrual to cash	183	121
Total deferred tax liabilities	811	621
Net deferred tax liabilities	$ (25)	$ (28)

In assessing the realizability of deferred tax assets (liabilities) at December 31, 2019, management considers whether it is more likely than not that some portion or all of the deferred tax assets (liabilities) will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and prudent, feasible, and permissible, as well as available, tax planning strategies in making this assessment.

Income tax as reported differs from the amount computed by applying the statutory federal income tax rate to income before taxes. A reconciliation of the differences by amount and percentage is as follows (in thousands):

	For the Years Ended December 31,			
	2019		2018	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 975	21.0 %	$ 828	21.0 %
Effect of permanent items	(36)	(0.8)	(14)	(0.4)
Current state tax	112	2.4	261	6.6
Other	-	-	(3)	-
Actual tax expense and effective rate	$ 1,051	22.6 %	$ 1,072	27.2 %

8. Employee Benefit Plans

401(k) Retirement Plan

The Bank established a 401(k) Plan (the Plan) that covers employees who meet the eligibility requirements of having worked 1,000 hours in a plan year and have attained the age of 21. Participants are permitted to contribute up to the maximum percentage allowable by law of their compensation to the Plan. The Bank elected to make a 4 percent matching contribution for all employees' contributions up to 5 percent as part of its Safe Harbor Plan. This contribution is vested immediately. The Bank's contribution to the Plan for the years ended December 31, 2019 and 2018, was $142,000 and $114,000, respectively.

Supplemental Executive Retirement Plan

During the year ended December 31, 2018, the Bank entered into deferred compensation agreements with certain members of executive management, which provide benefits payable beginning at age 65, or upon subsequent retirement from the Bank, or if the executive(s) becomes totally disabled. Under certain circumstances, benefits are payable to designated beneficiaries. The present value of the estimated liability under the agreement is being accrued using a discount rate of 4.0 percent ratably over the remaining years to the date when the executives are first eligible for benefits. The deferred compensation charged to expense totaled $228,000 and $73,000 for the years ended December 31, 2019 and 2018, respectively. The benefit obligation associated with the Supplemental Plan was $301,000 and $73,000 at December 31, 2019 and 2018, respectively.

9. Lease Commitments

In 2013, the Bank entered into an operating lease agreement for its main banking office. This lease commenced November 2013 and has a ten-year term with an additional five-year option period.

In 2016, the Bank entered into an operating lease agreement for its branch in Intercourse. This lease commenced August 2016 and has a ten-year term with two additional five-year option periods. In 2017, the Bank entered into an operating lease agreement for its limited purpose office in Paradise. This lease commenced June 2017 and has a five-year term with two additional five-year option periods. In 2019, the Bank entered into an operating lease agreement for a drive thru and parking lot for its branch in Paradise. This lease commenced June 2019 and has a ten-year term with an additional five-year option period. Rent expense for the years ended December 31, 2019 and 2018, was $263,000 and $238,000, respectively.

Future minimum lease payments by year and in the aggregate under this lease agreement are as follows (in thousands):

Years ending December 31:		
2020	$	252
2021		253
2022		209
2023		170
2024		93
Thereafter		257
Total	$	1,234

10. Employment Agreements

The Bank has employment agreements with its chief executive officer, chief lending officer, and chief financial officer. The agreements include minimum annual salary commitments and change of control provisions. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Bank, as defined in the agreement, the individuals will receive monetary compensation in the amount set forth in the agreement.

11. Transactions with Executive Officers, Directors, and Principal Shareholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families, and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. During 2019 and 2018, a member of the Board provided business development services to the Bank that totaled approximately $1,400 and $1,700, respectively. Loans receivable from related parties totaled $7,127,000 and $3,877,000 at December 31, 2019 and 2018, respectively. During 2019 and 2018, new loans and advances to such related parties totaled $4,767,000 and $6,178,000 and repayments aggregated $1,517,000 and $6,299,000, respectively. Deposits of related parties totaled $9,243,000 and $5,418,000 at December 31, 2019 and 2018, respectively.

The Bank leased two branches and its limited purpose office from two separate related parties, as described in Note 9. Rent expense for those properties during the years ended December 31, 2019 and 2018, was $167,000 and $156,000, respectively.

12. Financial Instruments with Off-Balance-Sheet Risk

The Bank 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the Bank's financial instrument commitments at December 31, 2019 and 2018, is as follows (in thousands):

	Contract Amount December 31, 2019	Contract Amount December 31, 2018
Commitments to extend credit	$ 95,777	$ 91,791
Letters of credit	4,822	4,421

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

12. Financial Instruments with Off-Balance-Sheet Risk (Continued)

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. As of December 31, 2019 and 2018, performance standby, financial, and commercial letters of credit with customers were $4,822,000 and $4,421,000, respectively. The current amount of the liability as of December 31, 2019 and 2018, for guarantees under standby and commercial letters of credit issued is not material.

13. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Information presented for December 31, 2019 and 2018, reflects the Basel III capital requirements that became effective January 1, 2015, for the Bank. Prior to January 1, 2015, the Bank was subject to capital requirements under Basel I. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total, Tier 1, and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets.

The Bank is under additional regulatory requirements in order to maintain federal deposit insurance. Management believes, as of December 31, 2019 and 2018, that the Bank meets all capital adequacy requirements to which it is subject.

13. Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31, 2019 and 2018, are presented in the following tables (in thousands):

	Actual		For Capital Adequacy Purposes with Capital Conservative Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Total capital (to risk-weighted assets)	$ 58,761	14.65 %	$ 42,120	10.50 %	$ 40,114	10.00 %
Tier 1 capital (to risk-weighted assets)	$ 55,339	13.80 %	$ 34,097	8.50 %	$ 32,091	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	$ 55,339	13.80 %	$ 28,080	7.00 %	$ 26,074	6.50 %
Tier 1 capital (to average assets)	$ 55,339	12.02 %	$ 18,419	4.00 %	$ 23,024	5.00 %

	Actual		For Capital Adequacy Purposes with Capital Conservative Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Total capital (to risk-weighted assets)	$ 54,805	17.07 %	$ 31,710	9.88 %	$ 32,112	10.00 %
Tier 1 capital (to risk-weighted assets)	$ 52,134	16.24 %	$ 25,288	7.88 %	$ 25,689	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	$ 52,134	16.24 %	$ 20,471	6.38 %	$ 20,873	6.50 %
Tier 1 capital (to average assets)	$ 52,134	15.33 %	$ 13,603	4.00 %	$ 17,003	5.00 %

The new risk-based capital rules adopted effective January 1, 2015, require that banks maintain a capital conservation buffer of 250 basis points in excess of the minimum capital ratio. The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer will be phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625 percent of risk-weighted assets for 2016, 1.25 percent for 2017, 1.875 percent for 2018, and 2.5 percent for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

14. Shareholders' Equity

The Pennsylvania Department of Banking, in issuing its charter to the Bank, required an allocation of its initial capital to an expense fund in the amount of $840,000 to defray anticipated initial losses. Accordingly, $840,000 of the Bank's surplus is reserved for future dividend payments until the Bank reaches certain levels of accumulated net retained earnings, which would also require regulatory approval, as stated in Note 13.

14. Shareholders' Equity (Continued)

Stock Offering

The Bank did not have a stock offering in 2019. In 2018, the Bank sold 1,428,571 shares of common stock at $14 per share, which resulted in net proceeds of $19,918,000, after offering costs of $82,000.

Common Stock Cash Dividend

On September 25, 2019, the Bank declared a cash dividend of $.20 per share to shareholders of record as of October 15, 2019, and payable on December 1, 2019.

Stock Dividend

On May 25, 2018, the Bank declared a five-for-four stock split effected in the form of a 25 percent stock dividend, which equated to one additional share of common stock for every four (4) shares of common stock outstanding to shareholders of record as of June 4, 2018, and payable on July 31, 2018. All stock warrant information below has been adjusted to reflect the split.

Stock Warrants

The Bank issued stock purchase warrants in connection with its initial public offering, giving certain organizers and directors the right to purchase shares of common stock at the initial offering price of $10 per share. The offering price was adjusted to $8 per share for a five-for-four stock split, effected in the form of a 25 percent stock dividend paid July 31, 2018. For organizers, the warrants serve as a reward and compensation for bearing the financial risk of the Bank's organization by advancing "seed money" for its organizational and pre-opening expenses. For the initial directors, the warrants serve as an incentive for them to build the Bank's business.

The organizers' warrants are exercisable for a period of ten years from the date of grant of November 29, 2013, and are transferable in accordance with the warrant agreement. The initial directors' warrants are exercisable for a period of ten years from the date of grant of November 29, 2013, are nontransferable, except upon the holder's death, and are subject to a three-year vesting schedule. Under a three-year vesting schedule, the holder of an initial director warrant may exercise his warrant for one-third of the shares under the warrant after the first anniversary of the grant date, two-thirds of the shares after the second anniversary, and, finally, all of the shares after the third anniversary. The initial directors' warrants will terminate within 30 days of the termination of the warrant holder's service as a director of the Bank.

Both the organizers' warrants and the initial directors' warrants are subject to a forfeiture clause, which the FDIC or the Pennsylvania Department of Banking and Securities may invoke if the Bank's capital falls below minimum requirements and would require the warrant holders to exercise the warrants immediately or forfeit all rights under the warrants. These shares may be issued from previously authorized but unissued shares of stock.

During 2019, organizers and directors exercised 76,250 warrants at the price of $8 per share, and during 2018, an organizer exercised 12,500 warrants at the price of $8 per share.

The fair value of these shares using the Black-Scholes model was zero, based on the fair value for the stock on the date of grant. Accordingly, no compensation expense will be recognized on these warrants.

14. Shareholders' Equity (Continued)

	Number of Stock Options	Average Exercise Price
Outstanding, December 31, 2018	231,875	$ 8.00
Granted	-	-
Expired/terminated	-	-
Exercised	76,250	8.00
Outstanding, December 31, 2019	155,625	8.00
Exercisable at year-end	155,625	8.00

The warrants have a weighted-average remaining contractual life of 3.92 years, and there are 155,625 warrants exercisable as of December 31, 2019. The intrinsic value of the stock warrants outstanding and exercisable at December 31, 2019, was $1,245,000.

15. Subsequent Events

The 2019 novel coronavirus (or COVID-19) has adversely affected, and may continue to adversely, affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates have declined significantly, with the 10-year Treasury bond falling below 1.00% on March 3, 2020 for the first time. Such events also may adversely affect business and consumer confidence, generally, and the Bank and its customers, and their respective suppliers, vendors and processors may be adversely affected. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 50 basis points to 1.00% to 1.25%. This rate was further reduced to 0% to 0.25% on March 16, 2020. These reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations.

The Bank has evaluated events and transactions occurring subsequent to the balance sheet as of December 31, 2019, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 30, 2020, the date these financial statements were available to be issued.