2019

ANNUAL REPORT

THE QUEENSBOROUGH COMPANY

GEORGIA'S COMMUNITY BANK *since* 1902

March 20, 2020
Wash your hands. Stay home if you are sick.

Stockholders,

2019's operating results are reflected in this report. Your company had a very good year which allowed your board of directors to approve an increase in the dividend which you received this past January.

As I pen this report to you, we are facing the Corona virus pandemic. Our portfolio of loans is well diversified with little or no exposure to the businesses that you read about in the news. We have no exposure to the airlines or airports, nothing to the cruise/resort industry and little to the hotels in our footprint. However, we do think that every industry sector and most of our customers will be negatively affected by the disruptive forces of this pandemic. We are at the early stages of the pandemic and it remains very difficult for us to predict where and how much our customers, many of whom are stockholders, will suffer. As a community we expect to work with our customers and find ways for their families and their businesses to come through the crisis. However, we do expect the results for 2020 to be lower, perhaps substantially lower, than 2019. I wish I could be more optimistic.

I do want to assure you that we applied lessons learned from the last recession. Your bank's balance sheet is much stronger and more liquid than in 2008-10. These capital and liquidity resources should keep us in good stead in the coming weeks and months as we deal with the financial fallout of this virus.

Currently, we are taking the normal precautions to protect our employees and customers. Because we are in several locations we are practiced at working remotely; therefore, working from home is not difficult for us. Our specialty teams who normally work together are in separate locations and able to back each other up remotely. We restrict access to the operations buildings to necessary personnel only; we are directing our customers to use the drive-thru lanes for normal banking. We are preaching washed hands and practicing social distancing. I hope you are as well.

In the meantime, if you have any questions or concerns, feel free to call me or email me.

Sincerely,

William F. Easterlin, III

President

bill@qnbtrust.bank

478-494-0614

BOARD OF DIRECTORS

QUEENSBOROUGH NATIONAL BANK & TRUST COMPANY

J. Thomas Battle

L. J. Bowles, III

Gretchen B. Caughman, PhD

W. Abbot Easterlin

William F. Easterlin, III

Thomas W. Jones, CPA

Charles Troy Jordan

Sam S. Pennington

D. Phil Polhill, CPA

R. Joseph Pollock

Charles E. Smith, Jr.

Paul G. Trotter, DDS

W. Jeffrey Weichsel

THE QUEENSBOROUGH COMPANY

Louisa Abbot

J. Thomas Battle

L. J. Bowles, III

Gretchen B. Caughman, PhD

W. Abbot Easterlin

William F. Easterlin, III

Thomas W. Jones, CPA

Charles Troy Jordan

Sam S. Pennington

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THE QUEENSBOROUGH COMPANY

THE QUEENSBOROUGH COMPANY AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(WITH INDEPENDENT AUDITOR'S REPORT THERON)

elliott davis

Independent Auditor's Report

The Board of Directors and Shareholders
The Queensborough Company
Louisville, Georgia

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of The Queensborough Company and its Subsidiary (the "Company") which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of earnings, comprehensive income, changes in 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Queensborough Company and its Subsidiary 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.

Elliott Davis, LLC

Columbia, South Carolina
March 19, 2020

THE QUEENSBOROUGH COMPANY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS	2019	2018
Cash and due from banks, including reserve requirements of $1,613,000 and $989,000, respectively	$ 21,155,064	18,639,510
Interest-bearing deposits with banks	72,922,088	48,976,961
Federal funds sold	10,000,000	10,000,000
Cash and cash equivalents	104,077,152	77,616,471
Certificates of deposit with other banks	1,960,000	10,045,000
Investment securities available for sale	157,937,874	160,945,526
Investments securities held to maturity (fair value of $78,075,926 and $98,754,243, respectively)	77,832,047	101,307,407
Other investments	2,794,390	2,306,990
Loans held for sale	13,254,727	5,122,470
Loans, less allowance for loan losses of $11,070,125 and $12,337,483,	796,690,702	748,570,309
respectively Premises and equipment, net	29,776,866	29,144,867
Goodwill and core deposit intangible	3,643,546	3,730,498
Other real estate	3,885,496	3,638,791
Cash surrender value of life insurance	19,204,185	18,752,190
Accrued interest receivable and other assets	13,842,537	12,839,198
Total assets	$ 1,224,899,522	1,174,019,717

LIABILITIES AND SHAREHOLDERS' EQUITY	2019	2018
Deposits:		
Noninterest-bearing	$ 353,556,720	320,521,792
NOW and money market accounts	436,015,661	431,615,196
Savings	59,475,044	56,088,876
Time deposits, $250,000 or more	60,149,170	69,016,986
Other time deposits	172,174,784	179,451,976
Total deposits	1,081,371,379	1,056,694,826
Federal Home Loan Bank advances	10,000,000	500,000
Junior subordinated debentures	12,372,000	12,372,000
Accrued interest payable and other liabilities	9,135,257	6,656,429
Total liabilities	1,112,878,636	1,076,223,255
Commitments and Contingencies (See Notes 11 and 17)		
Shareholders' equity:		
Preferred stock, no par value, $12,350,000 liquidation value; 10,000,000 shares authorized;		
Series A; 11,750 shares issued and outstanding	11,750,000	11,750,000
Series B; 600 shares issued and outstanding	600,000	600,000
Common stock, $1 par value; 10,000,000 shares authorized; 1,319,587 and 1,320,488 shares issued and outstanding at December 31, 2019 and 2018 respectively	1,319,587	1,320,488
Additional paid-in capital	9,404,049	9,836,015
Retained earnings	88,400,375	77,459,901
Accumulated other comprehensive income (loss)	546,875	(3,169,942)
Total shareholders' equity	112,020,886	97,796,462
Total liabilities and shareholders' equity	$ 1,224,899,522	1,174,019,717

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

		2019	2018
Interest income:			
Interest and fees on loans	$	43,973,757	38,305,902
Interest on investment securities:			
Taxable		5,996,003	6,443,894
Tax exempt		177,818	246,057
Other investments		148,296	130,826
Interest on federal funds sold and interest-bearing deposits with banks		1,175,184	1,020,805
Total interest income		51,471,058	46,147,484
Interest expense:			
Deposits:			
NOW and money market accounts		2,983,615	1,721,774
Savings		31,477	29,307
Time		3,460,588	2,641,286
Borrowed funds		107,099	107,770
Junior subordinated debentures		575,785	532,464
Total interest expense		7,158,564	5,032,601
Net interest income		44,312,494	41,114,883
Recovery of loan losses		(250,000)	-
Net interest income after recovery of loan losses		44,562,494	41,114,883
Other income:			
Service charges on deposit accounts		8,000,967	7,615,553
Mortgage origination fees		5,932,618	4,613,817
Net gains on sale of other real estate		13,974	112,057
Investment management fees		889,206	552,942
Other		1,683,306	1,555,073
Total other income		16,520,071	14,449,442
Other expenses:			
Salaries and employee benefits		26,476,340	23,488,836
Occupancy and equipment		3,052,662	2,898,080
Federal deposit insurance assessment		299,092	599,956
Loan expense		690,444	783,264
Data processing		2,069,289	2,278,894
Other		10,282,502	9,976,159
Total other expenses		42,870,329	40,025,189
Earnings before income taxes		18,212,236	15,539,136
Income tax expense		4,180,530	3,584,741
Net earnings		14,031,706	11,954,395
Preferred stock dividends		1,111,500	1,111,500
Net earnings available to common shareholders	$	12,920,206	10,842,895
Net earnings per share:			
Basic	$	9.82	8.20
Diluted	$	9.79	8.14

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net earnings	$ 14,031,706	11,954,395
Other comprehensive income (loss), net of income taxes:		
Unrealized gains (losses) on investment securities available for sale:		
Holding gains (losses) arising during period, net of tax expense (benefit) of $(1,288,324) and $705,266 in 2019 and 2018, respectively	3,716,817	(2,018,491)
Total other comprehensive income (loss)	3,716,817	(2,018,491)
Comprehensive income	$ 17,748,523	9,935,904

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

THE QUEENSBOROUGH COMPANY

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2017	$ 11,750,000	600,000	1,327,972	10,427,668	68,267,616	(1,151,451)	91,221,805
Preferred dividends	-	-	-	-	(1,111,500)	-	(1,111,500)
Common dividends	-	-	-	-	(1,650,610)	-	(1,650,610)
Exercise of warrants for 6,521 shares	-	-	6,521	234,642		-	241,163
Common stock redeemed, 14,005 shares	-	-	(14,005)	(826,295)	-	-	(840,300)
Other comprehensive loss, net	-	-	-	-	-	(2,018,491)	(2,018,491)
Net earnings	-	-	-	-	11,954,395	-	11,954,395
Balance, December 31, 2018	$ 11,750,000	600,000	1,320,488	9,836,015	77,459,901	(3,169,942)	97,796,462
Preferred dividends	-	-	-	-	(1,111,500)	-	(1,111,500)
Common dividends	-	-	-	-	(1,979,732)	-	(1,979,732)
Exercise of warrants for 13,986 shares	-	-	13,986	580,350		-	594,336
Common stock redeemed, 14,887 shares	-	-	(14,887)	(1,012,316)	-	-	(1,027,203)
Other comprehensive income, net	-	-	-	-	-	3,716,817	3,716,817
Net earnings	-	-	-	-	14,031,706	-	14,031,706
Balance, December 31, 2019	$ 11,750,000	600,000	1,319,587	9,404,049	88,400,375	546,875	112,020,886

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Net earnings	$ 14,031,706	11,954,395
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,657,405	2,462,390
Amortization of intangible assets	86,952	86,952
Provision for deferred income tax expense	492,201	123,272
Recovery of loan losses	(250,000)	-
Loss (gain) on sale of fixed assets	11,157	(25,197)
Net (gain) on sales of other real estate	(13,974)	(112,057)
Change in:		
Loans held for sale	(8,132,257)	2,125,804
Accrued interest receivable and other assets	(2,783,865)	(964,384)
Accrued interest payable and other liabilities	2,478,828	296,011
Net cash provided by operating activities	8,578,153	15,947,186
Cash flows from investing activities:		
Maturities of certificates of deposit with other banks	8,085,000	7,734,000
Proceeds from pay downs, calls and maturities of securities available for sale	35,880,618	24,199,485
Proceeds from pay downs, calls and maturities of securities held to maturity	22,955,454	12,479,023
Purchases of securities available for sale	(28,758,321)	(45,494,117)
Purchases of securities held to maturity	-	(35,580,563)
Purchase of bank owned life insurance	(451,995)	(1,723,913)
Purchases of other investments	(487,400)	(129,800)
Net increase in loans	(48,730,396)	(93,752,353)
Purchases of premises and equipment	(1,890,158)	(3,551,545)
Disposals of premises and equipment	-	71,093
Proceeds from sale of other real estate	627,272	2,882,716
Net cash used in investing activities	(12,769,926)	(132,865,974)
Cash flows from financing activities:		
Net increase in deposits	24,676,553	84,295,275
Redeem and retire common stock	(1,027,203)	(840,300)
Proceeds from borrowings	9,500,000	500,000
Exercise of warrants	594,336	241,163
Cash dividends paid	(3,091,232)	(2,762,110)
Net cash provided by financing activities	30,652,454	81,434,028
Net change in cash and cash equivalents	26,460,681	(35,484,760)
Cash and cash equivalents at beginning of year	77,616,471	113,101,231
Cash and cash equivalents at end of year	$ 104,077,152	77,616,471
Supplemental schedule of non-cash financing and investing activities:		
Change in unrealized gain (loss) on securities available for sale, net of tax	$ 3,716,817	(2,018,491)
Loans transferred to other real estate	875,778	1,751,763
Financed sales of other real estate	-	322,638
Supplemental disclosure of cash flow information:		
Cash paid for interest	6,850,145	4,961,089
Cash paid for income taxes	3,926,287	3,385,000

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of The Queensborough Company ("Queensborough") and its wholly owned subsidiary, Queensborough National Bank and Trust Company (the "Bank") (collectively the "Company"). The accounts of Queensborough National Bank and Trust Company include the accounts of the Bank and its wholly owned subsidiary, Queensborough Insurance Agency, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company's primary market is comprised of Jefferson, Bulloch, Burke, Candler, Chatham, Columbia, Effingham, Emanuel, Jenkins, McDuffie, Richmond, Screven, Washington and contiguous counties of east central and southeast Georgia. Queensborough National Bank and Trust has its home office in Louisville, Georgia with branch banks in Augusta, Evans, Garden City, Grovetown, Hephzibah, Martinez, Metter, Midville, Millen, Rincon, Sandersville, Savannah, Statesboro, Swainsboro, Sylvania, Thomson, Wadley, Waynesboro and Wrens, Georgia.

The Bank commenced business in 1902 upon receipt of its banking charter from the Office of the Comptroller of the Currency (the "OCC"). The Bank is primarily regulated by the OCC and undergoes periodic examinations by this regulatory agency. The Company is regulated by the Federal Reserve Bank and is also subject to periodic examinations. The Bank provides a full range of commercial and consumer banking services throughout its Georgia trade area.

The accounting principles followed by the Company, and the methods of applying these principles, conform with accounting principles generally accepted in the United States of America ("GAAP") and with general practices in the banking industry. In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of collateral dependent impaired loans, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans and valuation allowances associated with the realization of deferred tax assets which are based on future taxable income.

Cash and Cash Equivalents

Cash equivalents include due from banks, interest-bearing deposits with banks, time deposits with banks and federal funds sold. Generally, federal funds are sold for one to three day periods and interest-bearing deposits have maturities less than 90 days.

Certificates of Deposit with Other Banks

Certificates of deposit with other banks are certificates of deposits obtained from other financial institutions with maturities greater than 90 days.

Investment Securities

The Company may classify its securities in one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold the securities until maturity. All other securities not included in trading or held to maturity are classified as available for sale. At December 31, 2019 and 2018, there were no trading securities.

(1) Summary of Significant Accounting Policies, continued

Investment Securities, continued

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available for sale are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer.

Management evaluates investment securities for other-than-temporary impairment on an annual basis. A decline in the market value of any investment below cost that is deemed other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income.

Premiums and discounts are amortized or accreted over the life of the related securities as adjustments to the yield. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Other Investments

Other investments include equity investments in the Federal Home Loan Bank ("FHLB"), the Federal Reserve Bank and other equity securities with no readily determinable market value. These investments are carried at cost, which approximates market value.

Loans, Interest Income and Allowance for Loan Losses

Loans are stated at principal amount outstanding, net of unearned interest and charge offs. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Payments on nonaccrual loans are generally recorded as reductions against the principal balance outstanding. When a borrower has demonstrated the capacity to service the debt for a reasonable period of time, management may elect to resume the accrual of interest on the loan.

A loan is considered impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price, or at the fair value of the collateral of the loan if the loan is collateral dependent. Impaired loans below the threshold for individual evaluation for impairment are reserved for using a general allocation. Interest income on accruing impaired loans is accrued according to the contractual terms of the loan agreement, while interest payments on nonaccrual impaired loans are applied to principal.

The allowance for loan losses is established through a provision for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectable.

(1) Summary of Significant Accounting Policies, continued

Loans and Interest Income, continued

Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality and review of specific problem loans. In determining the adequacy of the allowance for loan losses, management estimates the probable losses in the existing portfolio through consideration of factors including, but not limited to, past loan loss experience, estimated losses in significant credits, current national and local economic conditions, including unemployment rates, and the ability and experience of lending management and collections personnel. The allowance is composed of general and specific allocations of the allowance for loan losses. General allocations are determined by applying loss percentages to segments of the portfolio. The loss percentages are based on each segment's most recent eight quarter historical loss experience and adjustment factors for conditions in the Company's internal and external environment. All loans considered to be impaired are evaluated on an individual basis. The combination of these results are compared quarterly to the recorded allowance for loan losses and material differences are adjusted by increasing or decreasing the provision for loan losses. Management uses an external loan reviewer to challenge and corroborate the loan grading system and provide additional analysis in determining the adequacy of the allowance for loan losses and the future provisions for estimated loan losses.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different than those of management.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting.

Loans Held for Sale and Mortgage Origination Fees

The Company originates mortgage loans on behalf of third parties. Such loans are originated pursuant to commitments from third parties to acquire the loans that are in place prior to extension of a commitment to make the loan. These loans are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes, if any, in the valuation allowance are included in the determination of net earnings in the period in which the change occurs. As of December 31, 2019 and 2018, the Company has recorded no valuation allowance related to its mortgage loans held for sale as their cost approximates market value. The Company receives revenue from the charges and fees generated in making these loans to borrowers. Gains and losses from the sale of loans are determined using the specific identification method.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Significant additions and improvements are capitalized. Maintenance and repairs are charged to expense. The range of estimated useful lives for premises and equipment are:

Buildings and improvement	10-40 years
Furniture and fixtures	5-30 years

Goodwill and Core Deposit Intangible

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be an impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value, which is determined through initially a qualitative assessment, and following that a quantitative assessment if required.

(1) Summary of Significant Accounting Policies, continued

Goodwill and Core Deposit Intangible, continued

If the fair value of the reporting unit exceeds its carrying value, no further testing is required. If the carrying value exceeds the fair value, further analysis is required to determine whether an impairment charge must be recorded based upon the implied fair value of goodwill and, if so, the amount of such charge. The Company performs its Goodwill testing at least on an annual basis unless it's determined that conditions exists to indicate impairment.

For the Company's annual goodwill impairment evaluation, management bypassed the qualitative assessment for each respective reporting unit and performed Step 1 of the goodwill impairment test. Step 1 of the goodwill impairment test requires a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. Accordingly, management determined the fair value of the reporting unit and compared the fair value to the reporting unit's carrying amount. Management determined that the reporting unit's fair value exceeded its carrying amount and therefore goodwill was not impaired. No events occurred since the last annual goodwill impairment assessment that would necessitate an interim goodwill impairment assessment.

The core deposit intangible represents the value of the acquired core deposit base related to branch acquisitions. Core deposit intangibles are amortized over the estimated useful life of the deposit base, generally on a straight-line basis.
The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization. Core deposit intangible amortization expense is included in other noninterest expense.

Other Real Estate

Other real estate represents properties acquired through or in lieu of loan foreclosure and is initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate is charged to the allowance for loan losses. Write-downs for a decline in fair value less estimated costs to sell subsequent to acquisition are charged to earnings. Costs of improvements are capitalized, whereas costs relating to holding other real estate are expensed.

Cash Surrender Value of Life Insurance

Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the beneficiary of these policies. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in other noninterest income.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss and tax credit carryforwards, is required to the extent that the realization of such benefits is more likely than not to occur. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the assets and liabilities result in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies.

The Company currently evaluates income tax positions judged to be uncertain. GAAP requires that a loss contingency reserve be accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred, and the amount of such loss can be reasonably estimated.

(1) Summary of Significant Accounting Policies, continued

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805, Business Combinations. The Company recognizes the full fair value of the assets acquired and liabilities assumed and immediately expenses transaction costs. There is no separate recognition of the acquired allowance for loan losses on the acquirer's balance sheet, as credit-related factors are incorporated directly into the fair value of the net tangible and intangible assets acquired. If the amount of consideration exceeds the fair value of assets purchased less the fair value of liabilities assumed, goodwill is recorded. Alternatively, if the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid, a gain is recorded. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Results of operations of the acquired business are included in the statement of earnings from the effective date of the acquisition.

Purchased Loans

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. When the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. The Company must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows result in a reversal of the provision for loan losses to the extent of prior provisions and an adjustment to accretable discount if no prior provisions have been made. This increase in accretable discount will have a positive impact on interest income. In addition, purchased loans without evidence of credit deterioration are also handled under this method.

Accumulated Other Comprehensive Income (Loss)

At December 31, 2019 and 2018, accumulated other comprehensive gain (loss) consisted of net unrealized gain (losses) on investment securities available for sale.

Net Earnings per Share

Net earnings per share is based on the weighted average number of common shares outstanding during the period, while the effects of potential common shares outstanding during the period are included in diluted earnings per share. The average market price during the year is used to compute equivalent shares.

(1) Summary of Significant Accounting Policies, continued

Net Earnings per Share, continued

The reconciliations of the amounts used in the computation of both "basic earnings per common share" and "diluted earnings per common share" for the years ended December 31, 2019 and 2018 are as follows

For the year ended December 31, 2019	Net Earnings	Weighted Average Common Shares	Weighted Average Per Share Amount
Net earnings	$ 14,031,706		
Preferred stock dividends	(1,111,500)		
Net earnings available to common shareholders for basic earnings per common share	12,920,206	1,315,225	$9.82
Effect of dilutive securities – warrants	-	4,331	
Diluted earnings per common share	$ 12,920,206	1,319,556	$9.79
For the year ended December 31, 2018			
Net earnings	$ 11,954,395		
Preferred stock dividends	(1,111,500)		
Net earnings available to common shareholders for basic earnings per common share	10,842,895	1,322,535	$8.20
Effect of dilutive securities – warrants	-	9,223	
Diluted earnings per common share	$ 10,842,895	1,331,758	$8.14

Advertising Expenses

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $1,236,662 and $1,031,513, were included in the Company's results of operations for 2019 and 2018, respectively.

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 and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Revenue Recognition

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, 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 (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

(1) Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company 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 Consolidated Statements of Earnings was not necessary. The Company 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. The Company's accounting policies did not change materially since the principles of revenue recognition from the Accounting Standards Update are largely consistent with existing guidance and current practices applied by our business.

Recently issued accounting pronouncements

The following is a summary of recent authoritative pronouncements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments became effective for 2019. The Company applied the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning in 2019. The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that exist as of the beginning of 2019. These amendments did not have a material effect on the Company's financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company expects to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. The Company has started an initial evaluation of our leasing contracts and activities. The Company has also started developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments. The Company does not expect a material change to the timing of expense recognition, but is early in the implementation process and will continue to evaluate the impact. The Company is evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the impact of the ASU on our consolidated financial statements.

In August 2018, the FASB amended the Fair Value Measurement Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its financial statements.

(1) Summary of Significant Accounting Policies, continued

Recently issued accounting pronouncements, continued

In November 2018, the FASB issued guidance to amend the Financial Instruments - Credit Losses topic of the Accounting Standards Codification. The guidance aligns the implementation date of the topic for annual financial statements of nonpublic companies with the implementation date for their interim financial statements. The guidance also clarifies that receivables arising from operating leases are not within the scope of the topic, but rather, should be accounted for in accordance with the leases topic. The amendments will be effective for the Company for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2021. Early adoption is permitted. These amendments does not have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Reclassifications

Certain captions and amounts in the 2018 consolidated financial statements were reclassified to conform with the 2019 presentation. These reclassifications had no effect on the results of operations or shareholders' equity.

(2) Investment Securities

Investment securities at December 31, 2019 and 2018 are as follows:

Securities Available for Sale		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019					
State, county and municipals	$	2,984,940	142,789	-	3,127,729
Mortgage-backed securities		153,916,501	1,246,483	652,839	154,510,145
Trust preferred securities		300,000	-	-	300,000
Total	$	157,201,441	1,389,272	652,839	157,937,874
December 31, 2018					
State, county and municipals	$	5,518,299	62,930	26,506	5,554,723
Mortgage-backed securities		159,395,935	80,740	4,385,872	155,090,803
Trust preferred securities		300,000	-	-	300,000
Total	$	165,214,234	143,670	4,412,378	160,945,526

Securities Held to Maturity		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019					
Mortgage-backed securities	$	74,416,164	469,916	270,362	74,615,718
State, county and municipals		3,415,883	44,325	-	3,460,208
Total	$	77,832,047	514,241	270,362	78,075,926
December 31, 2018					
Mortgage-backed securities	$	92,839,065	14,788	2,507,031	90,346,822
State, county and municipals		3,468,342	-	41,966	3,426,376
U.S. Government sponsored		5,000,000	-	18,955	4,981,045
Total	$	101,307,407	14,788	2,567,952	98,754,243

(2) Investment Securities, continued

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Details concerning investment securities with unrealized losses as of December 31, 2019 and 2018 are as follows:

		Less than 12 Months		12 Months or More		Total	
December 31, 2019		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$	18,196,936	157,742	63,767,816	765,460	81,964,752	923,201
	$	18,196,936	157,742	63,767,816	765,460	81,964,752	923,201

		Less than 12 Months		12 Months or More		Total	
December 31, 2018		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government sponsored	$	4,981,045	18,955	-	-	4,981,045	18,955
State, county and municipals		1,849,756	28,911	2,984,980	39,561	4,834,736	68,472
Mortgage-backed securities		51,345,907	340,569	179,248,506	6,552,334	230,594,413	6,892,903
	$	58,176,708	388,435	182,233,486	6,591,895	240,410,194	6,980,330

The market value of investment securities is based on quoted market values and is significantly affected by the interest rate environment. At December 31, 2019, 64 of 160 securities issued as mortgage-backed securities contained unrealized losses. These unrealized losses are considered temporary because of acceptable investment grades on each security and the repayment sources of principal and interest are government backed. The Company has the intent and ability to hold all securities at an unrealized loss position for the foreseeable future and no declines are deemed to be other-than-temporary.

The amortized cost and estimated fair value of investment securities at December 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories in the following summary:

		Investment Securities Held to Maturity		Investment Securities Available for Sale	
Investment Securities with Maturities:		Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$	239,403	240,104	-	-
1 to 5 years		3,176,480	3,220,104	-	-
5 to 10 years		-	-	1,002,491	1,019,750
Over 10 years		-	-	2,282,449	2,407,978
Mortgage-backed securities		74,416,164	74,615,718	153,916,501	154,510,146
	$	77,832,047	78,075,926	157,201,441	157,937,874

No available for sale securities were sold in 2019 or 2018.

Securities with market values of approximately $196,813,000 and $193,693,000 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits as required by law and for other purposes.

(3) Loans and Allowance for Loan Losses

Major classifications of loans at December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Commercial, financial and agricultural	$ 107,100,122	100,057,909
Real estate – construction	68,539,870	80,922,893
Real estate – commercial	455,393,046	406,942,021
Real estate – residential	155,063,036	151,409,392
Installment loans to individuals and others	21,664,753	21,575,577
Total loans	807,760,827	760,907,792
Less allowance for loan losses	11,070,125	12,337,483
	$ 796,690,702	748,570,309

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade area of Jefferson, Bulloch, Burke, Candler, Chatham, Columbia, Effingham, Emanuel, Jenkins, McDuffie, Richmond, Screven and Washington County, Georgia and contiguous counties of east central and southeast Georgia. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Portfolio segments utilized by the Bank are identified above. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

(3) Loans and Allowance for Loan Losses, continued

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

December 31, 2019		Commercial, financial and agricultural	Real estate-construction	Real estate-commercial	Real estate-residential	Installment loans to individuals and others	Total
Balance, beginning of year	$	2,264,099	479,084	7,577,093	1,554,132	463,075	12,337,483
Recovery to operating expense		76,366	(226,683)	(327,429)	(637,245)	864,991	(250,000)
Loans charged off		(162,284)	(47,048)	(345,000)	(246,490)	(815,190)	(1,616,012)
Recoveries		166,256	14,001	16,267	360,312	41,818	598,654
Balance, end of year	$	2,344,437	219,354	6,920,931	1,030,709	554,694	11,070,125
Ending balance, individually evaluated for impairment	$	45,000	-	400,000	-	-	445,000
Ending balance, collectively evaluated for impairment	$	2,299,437	219,354	6,520,931	1,030,709	554,694	10,625,125
Loans:							
Individually evaluated for impairment	$	2,426,896	-	34,473,817	1,844,672	-	38,745,385
Collectively evaluated for impairment	$	104,673,226	68,539,870	420,919,229	153,218,364	21,664,753	769,015,442
December 31, 2018							
Balance, beginning of year	$	1,835,625	346,660	6,833,792	1,403,038	410,608	10,829,723
Provisions charged to operating expense		(19,966)	168,069	(1,193,668)	420,382	625,183	-
Loans charged off		(111,733)	(49,765)	-	(441,506)	(590,554)	(1,193,558)
Recoveries		560,173	14,120	1,936,969	172,218	17,838	2,701,318
Balance, end of year	$	2,264,099	479,084	7,577,093	1,554,132	463,075	12,337,483
Ending balance, individually evaluated for impairment	$	45,000	-	-	-	-	45,000
Ending balance, collectively evaluated for impairment	$	2,219,099	479,084	7,577,093	1,554,132	463,075	12,292,483
Loans:							
Individually evaluated for impairment	$	1,972,152	256	36,234,677	3,302,255	-	41,509,340
Collectively evaluated for impairment	$	98,085,757	80,922,637	370,707,344	148,107,137	21,575,577	719,398,452

Management individually evaluates loans for impairment that are on nonaccrual status with a total relationship balance greater than $500,000. Additionally, all troubled debt restructurings are individually evaluated for impairment. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

(3) Loans and Allowance for Loan Losses, continued

The following tables present impaired loans as of December 31, 2019 and 2018:

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with related allowance:					
Commercial, financial and agricultural	$ 1,050,208	1,075,197	45,000	1,087,659	62,189
Real estate-commercial	5,025,178	5,028,369	400,000	5,031,410	-
Impaired loans without related allowance:					
Commercial, financial and agricultural	1,376,688	1,615,883	-	1,460,462	7,487
Real estate-commercial	29,448,639	32,148,156	-	30,785,037	322,862
Real estate-residential	1,844,672	2,750,055	-	2,023,966	49,908
Total:					
Commercial, financial and agricultural	2,426,896	2,691,080	45,000	2,548,121	69,676
Real estate-commercial	34,473,817	37,176,525	400,000	35,816,447	322,862
Real estate-residential	1,844,672	2,750,055	-	2,023,966	49,908
	$ 38,745,385	42,617,660	445,000	40,388,534	442,446
December 31, 2018					
Impaired loans with related allowance:					
Commercial, financial and agricultural	$ 909,604	934,593	45,000	909,604	60,676
Impaired loans without related allowance:					
Commercial, financial and agricultural	1,062,548	1,155,446	-	1,124,152	5,981
Real estate-construction	256	67,120	-	222,004	-
Real estate-commercial	36,234,677	38,504,234	-	36,376,785	456,667
Real estate-residential	3,302,255	4,668,447	-	3,470,666	29,896
Total:					
Commercial, financial and agricultural	1,972,152	2,090,039	45,000	2,033,756	66,657
Real estate-construction	256	67,120	-	222,004	-
Real estate-commercial	36,234,677	38,504,234	-	36,376,785	456,667
Real estate-residential	3,302,255	4,668,447	-	3,470,666	29,896
	$ 41,509,340	45,329,840	45,000	42,103,211	553,220

(3) Loans and Allowance for Loan Losses, continued

The following tables present the aging of the recorded investment in past due loans and nonaccrual loans as of December 31, 2019 and 2018 by class of loans:

December 31, 2019		30–89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total	Non-Accrual	Recorded Investment > 90 days and Accruing
Commercial, financial and agricultural	$	1,277,862	3,629,367	4,907,229	102,192,893	107,100,122	1,431,462	2,498,928
Real estate-construction		2,335,272	1,477	2,336,749	66,203,121	68,539,870	-	1,477
Real estate-commercial		12,035,262	18,017,854	30,053,116	425,339,930	455,393,046	27,902,618	1,584,601
Real estate-residential		3,285,070	1,455,290	4,740,360	150,322,676	155,063,036	1,043,578	1,146,231
Installment loans to individuals and others		211,532	60,293	271,825	21,392,928	21,664,753	-	60,293
	$	19,144,998	23,164,281	42,309,279	765,451,548	807,760,827	30,377,658	5,291,530
December 31, 2018								
Commercial, financial and agricultural	$	1,070,803	2,649,938	3,720,741	96,337,168	100,057,909	1,310,519	1,922,068
Real estate-construction		148,962	105,670	254,632	80,668,261	80,922,893	256	105,670
Real estate-commercial		17,007,793	4,197,132	21,204,925	385,737,096	406,942,021	27,696,084	1,087,072
Real estate-residential		3,662,416	1,350,000	5,012,416	146,396,976	151,409,392	2,854,340	529,088
Installment loans to individuals and others		224,768	63,557	288,325	21,287,252	21,575,577	-	63,557
	$	22,114,742	8,366,297	30,481,039	730,426,753	760,907,792	31,861,199	3,707,455

Of the loans 90 days past due and accruing approximately $3,000,000 and $1,900,000, respectively for years ended 2019 and 2018 were 90% guaranteed by government entities.

The following tables present information on troubled debt restructurings that were modified during the year ended December 31, 2019 and 2018, including the number of loan contracts restructured and the pre- and post-modification recorded investment. The troubled debt restructurings in 2019 and 2018 resulted from extensions of maturity dates.

During the year ended December 31, 2019	Number of Contracts		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate-commercial	2	$	4,688,555	4,688,555

During the year ended December 31, 2018	Number of Contracts		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate-commercial	2	$	3,618,072	3,618,072
Real estate-residential	1		340,061	340,061

(3) Loans and Allowance for Loan Losses, continued

The tables below present information on troubled debt restructurings as of December 31, 2019 and 2018.

December 31, 2019		Performing	Nonperforming
Commercial, financial and agricultural	$	906,698	-
Real estate-commercial		430,659	4,779,085
Real estate-residential		-	528,686
	$	1,337,357	5,307,771
December 31, 2018			
Commercial, financial and agricultural	$	909,603	728,000
Real estate-commercial		3,618,072	137,628
Real estate-residential		-	340,061
	$	4,527,675	1,205,689

The Bank has allocated approximately $45,000 of specific allowances to customers whose loan terms have been modified in a troubled debt restructuring as of December 31, 2019 and 2018. During 2019 and 2018 there were no troubled debt restructurings that subsequently defaulted. The Bank has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Bank uses the following definitions for its risk ratings:

Other Assets Especially Mentioned
Weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

Substandard
Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts may be experiencing overdrafts. Immediate corrective action is necessary.

Doubtful
Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

Loss
Loans categorized as Loss have the same characteristics as Doubtful; however, probability of loss is certain. Loans classified as such are generally charged-off.

(3) Loans and Allowance for Loan Losses, continued

Loans not meeting the criteria above, and that are analyzed individually as part of the above described process, are considered to be pass rated loans. As of December 31, 2019 and 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2019	Pass	Special Mention	Substandard	Doubtful/ Loss	Total
Commercial, financial and agricultural	$ 104,195,465	787,831	2,116,826	-	107,100,122
Real estate-construction	68,539,870	-	-	-	68,539,870
Real estate-commercial	416,935,600	4,414,289	34,043,157	-	455,393,046
Real estate-residential	152,463,735	1,048,294	1,551,007	-	155,063,036
Installment loans to individuals and others	21,664,753	-	-	-	21,664,753
	$ 763,799,423	6,250,414	37,710,990	-	807,760,827

December 31, 2018	Pass	Special Mention	Substandard	Doubtful/ Loss	Total
Commercial, financial and agricultural	$ 96,768,314	1,317,443	1,972,152	-	100,057,909
Real estate-construction	80,922,637	-	256	-	80,922,893
Real estate-commercial	367,015,105	3,692,239	36,234,677	-	406,942,021
Real estate-residential	147,347,387	759,750	3,302,255	-	151,409,392
Installment loans to individuals and others	21,575,577	-	-	-	21,575,577
	$ 713,629,020	5,769,432	41,509,340	-	760,907,792

(4) Premises and Equipment

Major classifications of premises and equipment are summarized as follows:

	2019	2018
Land	$ 8,714,044	8,406,560
Buildings and improvements	26,188,615	25,687,414
Furniture and fixtures	12,445,067	11,894,433
	47,347,726	45,988,407
Less accumulated depreciation	17,570,860	16,843,540
	$ 29,776,866	29,144,867

Depreciation expense amounted to $1,247,002 and $1,178,343 in 2019 and 2018, respectively.

(5) Goodwill and Core Deposit Intangible

The following table presents information about our intangible assets at December 31:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Indefinite lived intangible asset:				
Goodwill	$ 3,388,930	$ -	$ 3,388,930	$ -
Finite lived intangible asset:				
Core deposit intangibles	$ 608,290	$ 353,674	$ 608,290	$ 266,722

(5) Goodwill and Core Deposit Intangible, continued

Based on the core deposit intangibles as of December 31, 2019, the following table presents the expected aggregate amortization expense for each of the succeeding years ending December 31:

	Amount
2020	$ 86,952
2021	86,952
2022	80,712
Total	$ 254,616

Amortization expense of $86,952 related to the core deposit intangibles was recognized in 2019 and 2018, respectively.

As of December 31, 2019 and 2018, goodwill totaled $3,388,930. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. As of December 31, 2019 and 2018, management determined that no impairment existed on the goodwill.

(6) Deposits

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

Year ending December 31,	
2020	$ 145,708,294
2021	46,065,949
2022	23,198,351
2023	7,511,013
2024	9,743,974
Thereafter	96,373
	$ 232,323,954

Brokered deposits totaled $3,100,000 and $11,076,000 as of December 31, 2019 and 2018, respectively.

(7) Borrowings and Unused Lines of Credit

The Bank is a shareholder of the FHLB and as such has access to borrowings from the FHLB. At December 31, 2019, the Bank had one outstanding loan advance in the amount of $10,000,000 maturing in 2021 with an interest rate of 1.85%. During 2019 the Bank borrowed $10,000,000 and repaid advances totaling $500,000 from the FHLB. The advances were collateralized by a blanket floating lien agreement on all unencumbered first mortgage residential and commercial real estate loans. Loans qualifying as collateral had a discounted value of approximately $40,416,000 at December 31, 2019.

The Bank has federal funds accommodations of $44,000,000 at December 31, 2019 with other financial institutions where the Bank may borrow funds on a short-term basis at the market rate in effect at the time of borrowing. There were no federal funds purchased outstanding as of December 31, 2019 or 2018.

(8) Junior Subordinated Debentures

In February 2004 and May 2007, Queensborough formed wholly owned Delaware statutory business trusts, Queensborough Capital Trust II ("Trust II") and Queensborough Capital Trust III ("Trust III"), respectively (collectively, the "Trusts"). The Trusts each issued $6 million of guaranteed preferred beneficial interests in Queensborough's junior subordinated deferrable interest debentures that qualify as Tier I Capital under Federal Reserve Board guidelines. Queensborough owns all of the common securities of the Trusts. The debentures relating to Trust II pay interest at a floating rate, equal to three-month LIBOR plus 2.85%. The debentures relating to Trust III pay interest at a floating rate equal to three-month LIBOR plus 1.65%.

The proceeds received by the Company from the sale of the junior subordinated debentures were used to infuse capital into the Bank to improve its capital position and for other general corporate purposes. The debentures represent the sole asset of each of the Trusts. The Trusts are not included in these consolidated financial statements.

The trust preferred securities accrue and pay quarterly distributions based on the liquidation value of $50,000 per capital security at the respective floating or fixed interest rate, which at December 31, 2019 was 4.84% for Trust II and 3.64% for Trust III. The Company has guaranteed distributions and other payments due on the trust preferred securities to the extent the Trusts have funds with which to make the distributions and other payments. The net combined effect of all the documents entered into in connection with the trust preferred securities is that the Company is liable to make the distributions and other payments required on the trust preferred securities.

The trust preferred securities are mandatorily redeemable upon maturity of the debentures on April 7, 2034 for Trust II and June 15, 2037 for Trust III, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the debentures purchased by the Trusts, in whole or in part, at a redemption price equal to the principal amount and any accrued but unpaid interest.

(9) Income Taxes

The Tax Cuts and Jobs Act (TCJA) was signed into law by the President on December 22, 2017. The TCJA includes a reduction in the corporate tax rate from a top rate of 35% to a flat rate of 21%, beginning January 1, 2018, changes in business deductions, and many international provisions.

The components of income tax expense in the consolidated statements of operations are as follows:

	2019	2018
Current	$ 3,688,352	3,461,469
Deferred	492,178	123,272
Total income tax expense	$ 4,180,530	3,584,741

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate of 21% in 2019 and 2018, respectively, to earnings before income taxes are as follows:

	2019	2018
Pretax income at statutory rate	$ 3,824,570	3,263,219
Add (deduct):		
Tax-exempt interest income	(150,511)	(151,154)
Non-deductible interest expense	2,684	2,287
State taxes and credits, net of federal benefit	452,234	424,118
Other	51,553	46,271
	$ 4,180,530	3,584,741

(9) Income Taxes, continued

The following summarizes the components of the net deferred tax asset. The deferred tax asset is included as a component of other assets at December 31, 2019 and 2018.

	2019	2018
Deferred income tax assets:		
Allowance for loan losses	$ 2,827,310	3,175,668
Other than temporary impairment loss on securities available for sale	48,526	48,906
Stock Benefit Plan	81,847	36,036
Net unrealized loss on securities available for sale	-	1,098,766
Total gross deferred income tax assets	2,957,683	4,359,376
Deferred income tax liabilities:		
Premises and equipment	(1,656,849)	(1,768,185)
Net unrealized gain on securities available for sale	(189,558)	-
Intangible asset	(375,978)	(373,139)
Total gross deferred income tax liabilities	(2,222,385)	(2,141,324)
Net deferred income tax asset	$ 735,298	2,218,052

(10) Related Party Transactions

The Bank has entered into transactions with certain directors, executive officers and their affiliates. The following summary reflects related party loan activity during the years ended December 31, 2019 and 2018:

	2019	2018
Beginning balance	$ 11,288,543	12,925,862
New loans	16,059,712	5,147,252
Repayments	(9,856,121)	(6,784,571)
Ending balance	$ 17,492,134	11,288,543

The Bank had deposits from related parties totaling approximately $14,608,000 and $12,506,000 as of December 31, 2019 and 2018, respectively.

The Bank leases office space from a company that has several common shareholders with the Company under an annual lease arrangement. Rent expense for 2019 and 2018, which is deemed to approximate the normal market rate, was approximately $88,000 for each year. The lease is renewed annually and is approved by the Board of Directors of the Company for each annual renewal.

(11) Commitments

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 standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank'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 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.

In most cases, the Bank does require collateral to support financial instruments with credit risk.

	Contractual Amount	
	2019	2018
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 196,297,000	150,230,000
Standby letters of credit	$ 4,434,000	3,360,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness 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 unimproved and improved real estate, certificates of deposit or personal property.

Standby letters of credit are conditional commitments issued by the Bank 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 Bank holds collateral supporting these commitments for which collateral is deemed necessary.

(12) Preferred Stock

On January 9, 2009, the Company sold 12,000 shares of Series A preferred stock with a warrant to purchase 600 shares of the Company's Series B preferred stock (which was immediately exercised), to the U. S. Treasury under the Treasury's Capital Purchase Program. In March, 2013, the U. S. Treasury sold all of the Series A and Series B Preferred Stock to private investors, who continue to own the shares.

The Series A preferred stock and the Series B preferred stock qualifies as Tier I capital and pay cumulative dividends at a rate of 9% per annum. Both series of the preferred stock are redeemable at any time at $1,000 per share plus any accrued and unpaid dividends with the consent of the Company's primary federal regulator.

No shares were redeemed in 2019 or 2018.

(13) Stock Options, Warrants, and Repurchase

In 1998, the Company adopted The Queensborough Company Stock Incentive Plan, which provides that certain officers, key employees, directors and consultants of the Company may be granted stock options to purchase shares of common stock of the Company. The plan limits the total number of shares which may be awarded to 120,000. The options are granted at the market value of the shares on the date of grant, vest over four years and are exercisable within ten years of grant. At December 31, 2019, options for 107,700 shares remain available for future grants.

(13) Stock Options, Warrants, and Repurchase, continued

There were no options granted, forfeited or exercised in 2019 or 2018. As of December 31, 2019 and 2018, there were no stock options outstanding.

In 2011, the Company sold and issued 56,113 shares of common stock to certain directors, officers, and stockholders in its effort to raise capital for its subsidiary bank. Along with the common shares sold and issued, the Company granted warrants for the purchase of the same amount of shares at 60% of book value determined at the time of exercise. During 2019, 13,986 warrants were exercised at a range of $36.72 to $45.03 per share. During 2018, 6,521 warrants were exercised at a range of $35.63 to $37.69 per share. As of December 31, 2019 and 2018, respectively, there were 12,986 and 26,972 warrants outstanding.

In 2017, the Company completed a private placement of its common stock. 62,830 shares were sold and issued at an average price of $55.64 per share for a total of $3,496,000. Along with the common shares there were two warrants issued for every ten shares purchased. The warrants allow the holder to purchase additional common shares of the Company at a price of $72.00 per share through February 1, 2027, at which date the warrants will expire if not exercised. A total of 12,566 warrants were issued. The first date the warrants become exercisable is February 1, 2020.

On January 17, 2018, the Company announced a stock repurchase program approved by its Board of Directors, whereby the Company will purchase and retire up to 15,000 shares of its common stock. Subsequently, the Company notified all common stockholders of its intent to repurchase up to 15,000 shares and prescribed the manner and method for shareholders to participate in the program. The Company repurchased 12,307 shares under the program at $60.00 per share for a total of $738,420 in 2018. In addition, the Company repurchased 1,698 shares during 2018 outside of the stock repurchase program for $60.00 per share for a total of $101,880.

On March 20, 2019, the Company announced a stock repurchase program approved by its Board of Directors, whereby the Company will purchase and retire up to 14,950 shares of its common stock. Subsequently, the Company notified all common stockholders of its intent to repurchase up to 14,950 shares and prescribed the manner and method for shareholders to participate in the program. The Company repurchased 14,887 shares under the program at $69.00 per share for a total of $1,027,203 in 2019.

(14) Benefit Plan

The Company has a 401(k) profit sharing plan which is available to employees subject to certain age and service requirements. The plan covers substantially all employees and allows for employee pre-tax and post-tax contributions. Contributions to the plan by the Company are determined under a matching formula. The Company, at its discretion, may contribute additional amounts. For the years ended December 31, 2019 and 2018, contributions of $668,274 and $617,587, respectively, were expensed to salaries and employee benefits.

(15) Fair Value of Financial Instruments

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, impaired loans, real estate acquired in lieu of foreclosure and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

Investment Securities

Investment securities available for sale are recorded at fair value on a recurring basis. For securities available for sale as well as securities held to maturity, fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques, such as the present value of future cash flows adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets and trust preferred securities.

(15) Fair Value of Financial Instruments, continued

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allocation is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the fair value of impaired loans in a relationship with a balance greater than $500,000 by using one of three methods, including collateral value, market value of similar debt and discounted cash flows. Impaired loan relationships below the threshold for individual evaluation for impairment are reserved for using general allocation. Those impaired loans individually evaluated not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investment in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When the fair value is based on an appraised value, the Company records the impaired loan as nonrecurring Level 3.

Loans Held for Sale

Loans held for sale, generally consisting of first-lien residential mortgages recently originated and intended for sale in the secondary market, are carried at the lower of cost or estimated fair value. The estimated fair value of loans held for sale is approximated by the carrying value, given the short-term nature of the loans and similarity to what secondary markets are currently offering for portfolios of loans with similar characteristics. The Company records loans held for sale as recurring level 2.

Other Real Estate

Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the other real estate as nonrecurring Level 2. When the fair value is based on an appraised value or management's estimation of the value of the collateral, the Company records the other real estate asset as nonrecurring Level 3.

(15) Fair Value of Financial Instruments, continued

Assets Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2019 and 2018, respectively.

Balance at December 31, 2019		Level 1	Level 2	Level 3	Total
State, county and municipals	$	-	3,127,729	-	3,127,729
Mortgage-backed securities		-	154,510,145	-	154,510,145
Trust preferred securities		-	-	300,000	300,000
Loans held for sale		-	13,254,727	-	13,254,727
Total	$	-	170,892,601	300,000	171,192,601
Balance at December 31, 2018					
State, county and municipals	$	-	5,554,723	-	5,554,723
Mortgage-backed securities		-	155,090,803	-	155,090,803
Trust preferred securities		-	-	300,000	300,000
Loans held for sale		-	5,122,470	-	5,122,470
Total	$	-	165,767,996	300,000	166,067,996

The following table presents the changes in Level 3 assets measured at fair value on a recurring basis during the years ended December 31:

		Trust Preferred Securities	
Level 3 Fair Value Measurements		2019	2018
Balance at beginning of year	$	300,000	300,000
(Sales)/purchases		-	-
Net changes in gain/(loss) realized and unrealized		-	-
Transfers out of Level 3 to other investments		-	-
Balance at end of year	$	300,000	300,000

(15) Fair Value of Financial Instruments, continued

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31, 2019 and 2018, respectively.

Balance at December 31, 2019		Level 1	Level 2	Level 3	Total
Other real estate owned	$	-	-	3,885,496	3,885,496
Impaired loans, net		-	-	38,300,385	38,300,385
Total assets at fair value	$	-	-	42,185,881	42,185,881
Balance at December 31, 2018					
Other real estate owned	$	-	-	3,638,791	3,638,791
Impaired loans, net		-	-	41,464,340	41,464,340
Total assets at fair value	$	-	-	45,103,131	45,103,131

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2019 and December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

		Fair Value as of December 31, 2019	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$	38,300,385	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost
Other real estate owned	$	3,885,496	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost

		Fair Value as of December 31, 2018	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$	41,464,340	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost
Other real estate owned	$	3,638,791	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost

(16) Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. These capital requirements were modified in 2013 with the Basel III capital rules, which establish a new comprehensive capital framework for U.S. banking organizations. The Company and the Bank became subject to the new rules on January 1, 2015, with a phase-in period for many new provisions. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures for their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier I and total capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). It is management's opinion, as of December 31, 2019, that the Company and the Bank meet all applicable capital adequacy requirements.

The Basel III capital rule requires banking organizations to maintain a minimum CET1 ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0% to be considered "adequately capitalized." The Basel III capital rule also includes a capital conservation buffer requirement above the minimum risk-based capital ratio requirements that banking organizations must meet in order to avoid limitations on capital distributions (including dividends and repurchases of any Tier 1 capital instrument, including common and qualifying preferred stock) and certain discretionary incentive compensation payments. The multi-year phase-in of the capital conservation buffer requirement began on January 1, 2016, and, for 2017, banking organizations are required to maintain a CET1 capital ratio of at least 5.125%, a Tier 1 capital ratio of at least 6.625%, and a total capital ratio of at least 8.625% to avoid limitations on capital distributions and certain discretionary incentive compensation payments. When fully phased-in on January 1, 2019, banking organizations must maintain a CET1 capital ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a total capital ratio of at least 10.5% to avoid limitations on capital distributions and certain discretionary incentive compensation payments.

As of December 31, 2019, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or event since that notification which management believes have changed the bank's category.

(16) Regulatory Matters, continued

The Company's and the Bank's actual capital amounts and ratios are presented in the table below (dollars in thousands).

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:						
Total Capital (to Risk-weighted Assets)						
Consolidated	131,362	14.85%	70,770	8.00%	N/A	N/A
Bank	130,482	14.77%	70,691	8.00%	88,364	10.00%
Tier I Capital (to Risk-weighted Assets)						
Consolidated	120,304	13.60%	53,077	6.00%	N/A	N/A
Bank	119,436	13.52%	53,018	6.00%	70,691	8.00%
Common Equity Tier 1 capital (to risk-weighted assets)						
Consolidated	95,954	10.85%	39,808	4.50%	N/A	N/A
Bank	119,436	13.52%	39,764	4.50%	57,436	6.50%
Tier I Leverage (to Average Assets)						
Consolidated	120,304	9.82%	48,986	4.00%	N/A	N/A
Bank	119,436	9.76%	48,946	4.00%	61,182	5.00%
As of December 31, 2018:						
Total Capital (to Risk-weighted Assets)						
Consolidated	119,494	14.49%	65,985	8.00%	N/A	N/A
Bank	118,996	14.44%	65,925	8.00%	82,407	10.00%
Tier I Capital (to Risk-weighted Assets)						
Consolidated	109,184	13.24%	49,489	6.00%	N/A	N/A
Bank	108,670	13.19%	49,444	6.00%	65,925	8.00%
Common Equity Tier 1 capital (to risk-weighted assets)						
Consolidated	84,834	10.29%	37,117	4.50%	N/A	N/A
Bank	108,670	13.19%	37,083	4.50%	53,564	6.50%
Tier I Leverage (to Average Assets)						
Consolidated	109,184	9.58%	45,555	4.00%	N/A	N/A
Bank	108,670	9.54%	45,555	4.00%	56,944	5.00%

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior years' net earnings and the ratio of equity capital to total assets.

(17) Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2019, management, after consultation with legal counsel, is not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, would be material to the financial statements.

(18) Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 19, 2020, the date the financial statements were available to be issued and one subsequent events occurred requiring disclosure.

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 Company and its customers, and their respective suppliers, vendors and processors may be adversely affected. On March 15, 2020, the Federal Open Market Committee reduced the target federal funds rate by 100 basis points to a range of 0.00% to 0.25%. 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.

(19) The Queensborough Company (Parent Company Only) Financial Information

Balance Sheets

December 31, 2019 and 2018

	2019	2018
Assets		
Cash	$ 2,529,802	2,396,349
Investment in Bank	122,635,429	108,250,239
Other assets	1,501,634	1,389,835
Total assets	$ 126,666,865	112,036,423
Liabilities and Shareholders' Equity		
Other liabilities	$ 294,599	217,351
Dividends payable	1,979,380	1,650,610
Junior subordinated debentures	12,372,000	12,372,000
Total liabilities	14,645,979	14,239,961
Total shareholders' equity	112,020,886	97,796,462
Total liabilities and shareholders' equity	$ 126,666,865	112,036,423

(19) The Queensborough Company (Parent Company Only) Financial Information, continued

Statements of Earnings

For the Years Ended December 31, 2019 and 2018

	2019	2018
Dividends from Bank	$ 3,880,000	2,953,698
Other income	250	-
Total income	3,880,250	2,953,698
Interest expense	575,785	532,464
Other expense	114,040	111,278
Total expenses	689,825	643,742
Income before income tax benefit and equity in undistributed earnings of Bank	3,190,425	2,309,956
Income tax benefit	172,909	163,094
Income before equity in undistributed earnings of Bank	3,363,334	2,473,050
Equity in undistributed earnings of Bank	10,668,372	9,481,345
Net earnings	$ 14,031,706	11,954,395

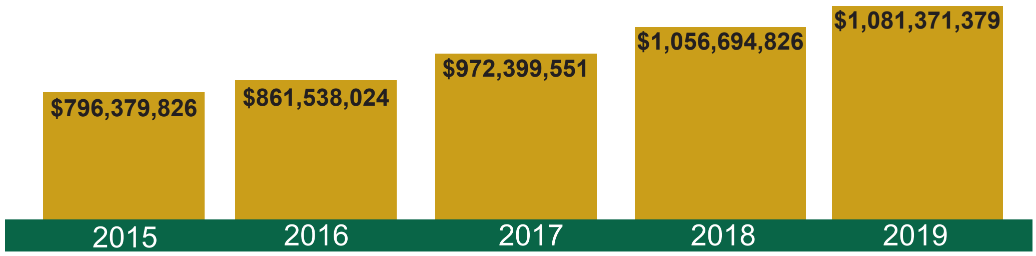
Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

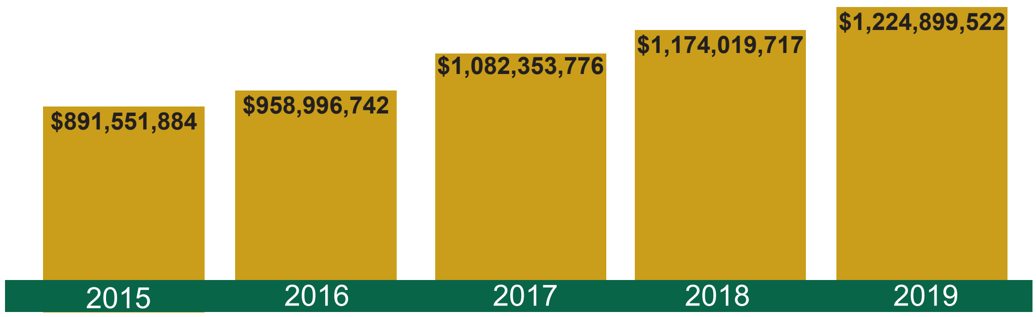
	2019	2018
Cash flows from operating activities:		
Net earnings	$ 14,031,706	11,954,395
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in earnings of Bank	(10,668,372)	(9,481,345)
Change in other	622,989	309,755
Net cash provided by operating activities	3,986,323	2,782,805
Cash flows from financing activities:		
Dividends paid	(3,420,003)	(2,762,110)
Redemption and retirement of common stock	(1,027,203)	(840,300)
Proceeds from sale of common stock	594,336	241,163
Net cash used by financing activities	(3,852,870)	(3,361,247)
Net change in cash	133,453	(578,442)
Cash at beginning of year	2,396,349	2,974,791
Cash at end of year	$ 2,529,802	2,396,349

THE QUEENSBOROUGH COMPANY

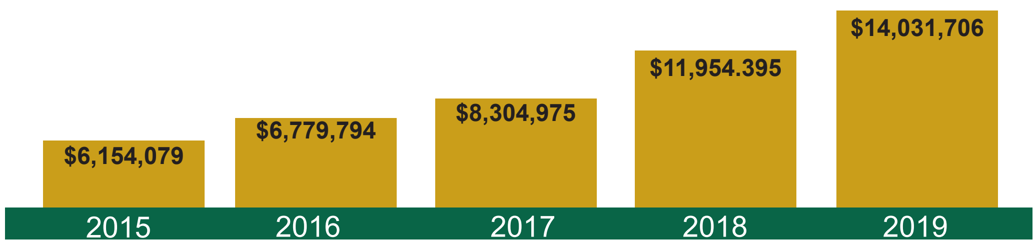
TOTAL DEPOSITS



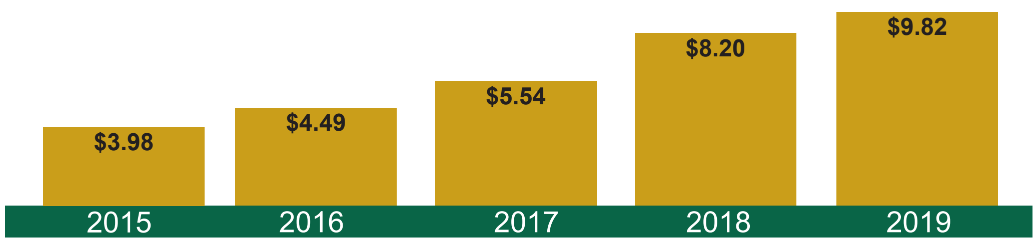
TOTAL ASSETS



NET INCOME



NET INCOME PER SHARE OF COMMON STOCK



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