
BANCORP 34
STRONG & STEADY SINCE 1934
2019 ANNUAL REPORT

Dear Fellow Stockholders,

As I write this letter to you, the world is confronting one of the greatest health threats of a generation, one that profoundly impacts the global, U.S. and our local economies and citizens. Our thoughts remain with the communities and individuals, including healthcare workers and first responders, most deeply hit by this COVID-19 pandemic.

Throughout our 86-year history, our Company has built its reputation on being there to support our clients and communities at the most critical times. We have weathered some unprecedented challenges, as we will with this current pandemic, but that will not stop us from accomplishing our mission. We know our support during this crisis is essential in keeping our local economies strong, and our performance in that regard defines us, and will continue to do so for years to come. We entered 2020 in a position of strength and we must continue to focus on those strategic initiatives intended for us to remain strong and resilient, and well-positioned to provide that needed support for our clients, employees and communities.

Although 2019 seems like a distant memory, we believe a review of our accomplishments last year is appropriate given they set the foundation for the success of our franchise in the current difficult economic environment and into the future.

In 2019 we saw economic expansion in both of our major banking hubs, the Phoenix metropolitan area and New Mexico, growth in our loan portfolio and deposits, improved credit quality and increased stockholder value aided by stock repurchases and dividends.

STRONG AND GROWING BALANCE SHEET

GROWTH - Balance sheet growth was more sporadic in 2019 than 2018. Portfolio loan growth was 3% compared to 10% in 2018 due primarily to late fourth quarter payoffs. We increased commercial and industrial loans 15% in 2019 following 42% in 2018 as we continue to diversify our loan portfolio by adding commercial relationships encompassing loan and deposit elements. Despite the more muted growth in 2019, our portfolio loan five-year compound annual growth rate was 11%. Every category of deposits grew for the second straight year. We accomplished a 15% increase in total deposits compared to 13% in 2018. Non-interest bearing demand deposits led the way with 24% growth, followed by 17% growth in savings and NOW deposits and 5% in time deposits. Our deposit five-year compound annual growth rate was 9%.

CREDIT QUALITY AND RESERVES – Credit quality has continuously improved over the past few years. We have carried no foreclosed properties on our balance sheet for the past three years. Our allowance for loan losses represented 0.99% of total gross loans at year end. We have had three consecutive years of contraction in our nonperforming assets to total assets ratio dropping from 1.81% at year-end 2016 to 0.89% in 2019. We believe the current carrying values of those assets are at realistic levels and the risk of material credit losses on those assets is mitigated as 66% of our nonperforming loan balances are guaranteed by the Small Business Administration. Our five-year compound annual growth rate for nonperforming assets net of government guarantees was a negative 13%.

CAPITAL - In terms of capital strength, Bancorp 34's equity to assets at December 31, 2019 was a healthy 11.5% and Bank 34's Tier 1 Risk-Based Capital Ratio was 13.6%. This level of capital provides significant flexibility in supporting organic growth and/or acquisitions, and ample capital resources if needed to offset the potential financial impacts of unanticipated loan quality problems or other unforeseen operating losses.

OPERATING PERFORMANCE

Net income for 2019 was $710,000 compared to $1.1 million for 2018; however, 2019 results included $845,000 in pre-tax, one-time disposal charges from exiting the mortgage banking business.

We had a net loss from mortgage banking operations (discontinued operations) of $1.3 million for 2019, $454,000 more than the $802,000 net loss for 2018, due primarily to the $845,000 pre-tax, one-time disposal charges. The discontinuation of mortgage banking operations reduced our reliance on an earnings stream that can be more cyclical and volatile in order to focus on expanding the more stable earnings from our core commercial banking business. We previously conducted operations through nine loan production offices and four full-service banking centers. We continue to offer traditional banking services through those four full-service banking centers.

Net income from continuing operations for 2019 was $2.0 million, 5% larger than $1.9 million in 2018. The increase was primarily caused by a $437,000, or 3%, increase in net interest income, a $296,000, or 93%, smaller provision for loan losses, and a $118,000, or 13% increase in noninterest income, partially offset by a $769,000, or 7%, increase in noninterest expense. The increase in net interest income from continuing operations was primarily due to a 10.5% increase in average interest earning assets, partially offset by a 39 basis point decrease in net interest rate spread. Average interest bearing liability rates increased 48 basis points compared to a nine basis point increase in average interest earning assets yield. Our average net interest-earning assets increased 5.2% due to organic growth.

CAPITAL ACTIVITIES & STOCKHOLDER RETURN

STOCK REPURCHASES - In an effort to improve long-term stockholder return by leveraging existing capital and improving go-forward return on equity, Bancorp 34 adopted its first stock repurchase program in October 2017 authorizing repurchases of up to 5% of its shares. Between December 2017 and February 2019, 171,910 shares were purchased under that program at an average cost of $15.23 per share. In 2019 a second 5% stock repurchase program was adopted and another 157,042 shares were purchased in 2019 at an average cost per share of $15.63. We will consider similar activities in the future taking into consideration liquidity, share availability, pricing and other strategic initiatives.

DIVIDENDS –Bancorp 34 suspended the payment of regular dividends in July 2012 due to operating losses, and chose to invest in franchise growth after its return to profitability in the second half of 2014. In 2016, a $15.9 million capital infusion from a well-received stock offering and another $4.2 million from returning deferred tax assets to our balance sheet boosted our capital. Recognizing our stockholders had been patient, our balance sheet was strong and operating earnings were improving, Bancorp 34 paid a special dividend of $1.25 per share on May 9, 2018. Since June 2019 we have been paying regular quarterly dividends of $0.05 per share. We continue to consider dividends a key element of capital planning and stockholder return.

STOCK PRICE & TOTAL RETURN – Bancorp 34 stock finished the year at $15.27 per share compared to $14.79 a year earlier. We don't run the company worrying about the stock price in the short run; however, in the long run our stock price is a measure of the progress we have made over the years. We believe in continual investment, in good times and bad, expanding the core strengths of the franchise. This positions our company to grow and prosper in the long run. In the five years ended December 31, 2019, Bancorp 34 stock appreciated 108% and our 127% total return to shareholders (including dividends) outperformed both the S&P 500 and SNL U.S. Bank indexes.

We assure you we have been, and will continue to, strive for long-term franchise value improvement and reasonable stockholder returns. On behalf of every member of the Bancorp 34 team and the Board of Directors, we thank you for your continued support and for entrusting us with your financial assets.

Be safe out there!

Jill Gutierrez
President and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to _______________

Commission File Number: **001-37912**

Bancorp 34, Inc.

(Exact Name of Registrant as Specified in its Charter)

Maryland	**74-2819148**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
500 East 10th Street, Alamogordo, New Mexico	**88310**
(Address of Principal Executive Offices)	(Zip Code)

(575) 437-9334
(Registrant's Telephone Number Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	BCTF	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒	Smaller reporting company ☒	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

As of February 17, 2020 there were 3,168,574 shares outstanding of the registrant’s common stock. The aggregate value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock as of June 30, 2019 of $15.46, was $48.6 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2020 Annual Meeting of Stockholders. (Part III)

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PART I

ITEM 1. Business

Forward Looking Statements

This Report contains certain "forward-looking statements" which may be identified by the use of words such as "believe," "project," "intend," "plans," "seek," "will," "would," "may," "expect," "anticipate," "should," "planned," "estimated" and "potential." These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, including employment prospects, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce our mortgage banking revenues or the fair value of financial instruments, or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, as well as the impact of laws and regulations, including changes in regulatory fees and capital requirements;
- changes in monetary or fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- our ability to manage operations in current economic conditions;
- our ability to manage market risk, credit risk and operational risk;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to implement changes in our business strategies;

- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we have acquired or may acquire and our ability to realize related revenue synergies and cost savings within expected time frames and any acquisition goodwill charges related thereto;

- changes in consumer demand, borrowing and savings habits;

- our ability to access cost-effective funding;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;

- changes in the level of government support for housing finance;

- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;

- fluctuations in real estate values and both residential and commercial real estate market conditions;

- demand for loans and deposits in our market area;

- cyber-attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information and destroy data or disable our systems;

- technological changes that may be more difficult or expensive than expected;

- our ability to attract and retain key employees;

- the ability of third-party providers to perform their obligations to us;

- the ability of the U.S. Government to manage federal debt limits;

- demand for loans and deposits in our market area;

- our ability to attract and retain key employees;

- changes in our organization, compensation and benefit plans; and

- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Bancorp 34, Inc.

Bancorp 34, Inc. (the “Company”), a Maryland corporation that was organized in 2016, is a savings and loan holding company headquartered in Alamogordo, New Mexico. Bancorp 34, Inc.’s common stock is quoted on NASDAQ under the symbol “BCTF.” Bancorp 34, Inc. conducts its operations primarily through its wholly owned subsidiary, Bank 34, a federally chartered savings association. Bancorp 34, Inc. manages its operations as one unit, and thus does not have separate operating segments. At December 31, 2019, Bancorp 34, Inc. had total assets of $393.7 million, loans held for investment of $291.7 million, available-for-sale securities of $44.5 million, deposits of $303.9 million, and stockholders’ equity of $45.1 million.

The Company was formed to be the successor to Alamogordo Financial Corp. upon completion of the second step mutual-to-stock conversion (the "Conversion") of AF Mutual Holding Company (the "MHC"), the top tier mutual holding company of Alamogordo Financial Corp. Alamogordo Financial Corp. was the former mid-tier holding company for Bank 34. Prior to completion of the Conversion, approximately 54.7% of the shares of common stock of Alamogordo Financial Corp. were owned by the MHC. In conjunction with the Conversion, the MHC and Alamogordo Financial Corp. merged into the Company. The Conversion was completed on October 11, 2016. The Company sold a total of 1,879,484 shares of common stock at $10.00 per share in the second-step offering. Concurrent with the completion of the stock offering, each share of Alamogordo Financial Corp. stock owned by public stockholders (stockholders other than the MHC) was exchanged for 2.0473 shares of Company common stock. The Conversion was accounted for as a capital raising transaction by entities under common control. The historical financial results of the MHC are immaterial to the results of the Company and therefore the net assets of the MHC have been reflected as an increase to stockholders' equity.

As a result of the Conversion, all share and per share information for periods prior to October 11, 2016 has been revised to reflect the 2.0473-to-one exchange ratio. Such revised financial information presented in this Form 10-K is derived from the consolidated financial statements of Alamogordo Financial Corp. and its subsidiaries.

The executive offices of Bancorp 34, Inc. are located at 500 East 10th Street, Alamogordo, New Mexico 88310, and its telephone number is (575) 437-9334. Bancorp 34, Inc. is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System.

Bank 34

Bank 34 operates four full-service banking centers, one each in Otero and Dona Ana counties in New Mexico and two in Maricopa County, Arizona. Bank 34's New Mexico offices include the main office and corporate headquarters located in Alamogordo and a branch office in Las Cruces. The Bank's Arizona branch offices include the regional headquarters located in Scottsdale and a branch office in Peoria.

In May 2019, Bank 34 took steps to exit the Bank's operations with respect to originating residential mortgage loans for sale into the secondary market ("Mortgage Banking"). The Mortgage Banking operations that were disposed of, and that represent a strategic shift that will have a major effect on operations and financial results, are accounted for as discontinued operations. Additional information on discontinued operations can be found in The consolidated financial statements, Note 2 – Discontinued Operations.

Bank 34's business model focuses on two primary areas. The commercial focus is on the credit, deposit and treasury management needs of small businesses and real estate professionals and investors. Bank 34 originates conventional, SBA and USDA loans within its primary market areas. Commercial loan types offered include: owner and non-owner occupied real estate (including construction loans), multi-family loans, and commercial and industrial loans. The consumer focus is on deposit, online banking and ancillary financial service needs of families and businesses served by Bank 34. While most of Bank 34's real estate loans are secured by properties in the counties served by its branch offices, it does actively seek business in other areas of New Mexico, Arizona and the surrounding states.

Bank 34 originates deposits from its business and consumer customers predominantly from the areas where its branch offices are located. Bank 34's emphasis is on generating business operating accounts and consumer checking and money market accounts.

Bank 34 is subject to comprehensive regulation and examination by the Office of the Comptroller of the Currency. Bank 34 is a member of the Federal Home Loan Bank system. Our website address is www.Bank 34.com. Information on our website is not considered a part of this report.

Business Strategy

Our goal is to enhance long-term stockholder and franchise value by executing a safe and sound growth strategy that produces increasing earnings. We have sought to accomplish this objective by implementing a business strategy designed to grow our loan portfolio while maintaining a strong capital position and solid asset quality.

Our current business strategy consists of the following:

- ***Continued commercial loan growth.*** The Arizona market continues to provide a significant source of new commercial clients to supplement the New Mexico region of our franchise. Our Arizona market has experienced strong population and job growth, contributing to favorable economic conditions for generating new commercial loans. Our commercial real estate loans are generally secured by properties used for business purposes such as hotels, office buildings and industrial and retail facilities. In addition to commercial real estate loans, we originate multi-family real estate loans to experienced, growing small- and mid-size owners and investors in our market areas and commercial and industrial loans. Our multi-family real estate loans are generally secured by properties consisting of five to 40 rental units. In all of our markets, we seek commercial loan customers with whom we can establish multiple lending relationships and provide other services, such as business checking accounts. We target new commercial loan originations to experienced, growing small- and mid-size owners and investors in our market area.

  We grew commercial real estate loans and commercial and industrial loans 4.8% in 2019, 10.3% in 2018 and 10.4% in 2017. Commercial loans in our Arizona region represented 72%, 70% and 69% of our total commercial loans outstanding as of December 31, 2019, 2018 and 2017, respectively. Commercial real estate and commercial and industrial loans totaled 88.9% of our loan portfolio at December 31, 2019, compared to 87.4% of our loan portfolio at December 31, 2018 and 86.7% at December 31, 2017.

  In addition, we continue to seek and originate Small Business Administration ("SBA") credits and we are actively pursuing other government-sponsored loan programs, such as those offered through the U.S. Department of Agriculture, as a way to generate government-guaranteed loans with the opportunity to sell the guaranteed portion of the loan at a premium and retain the non- guaranteed portion as well as the servicing rights. We sold $2.0 million, $1.6 million and $11.7 million of SBA and USDA loans in the secondary market during the years ended December 31, 2019, 2018 and 2017, respectively, recognizing gains of $272,000, $129,000 and $1.0 million directly into income during those periods. We also intend to build on our experience of selectively pursuing construction lending to established builders with proven track records.

- ***Disciplined expansion through organic growth and opportunistic bank or branch acquisitions.*** We completed our acquisition of Bank 1440 in August 2014. While we expect organic growth will be our primary strategic focus, we will also consider acquisition opportunities that we believe would enhance the value of our franchise and yield potential financial benefits for our stockholders.

- ***Manage credit risk to maintain a low level of nonperforming assets.*** We believe strong asset quality is a key to our long-term financial success, and we have maintained this focus through our acquisition of Bank 1440 and our subsequent increase in commercial lending from 2015 through 2019. Our strategy for credit risk management focuses on having a very experienced team of credit professionals, well-defined policies and procedures, appropriate loan underwriting criteria and active credit monitoring. Our nonperforming assets to total assets ratio was 0.89% at December 31, 2019, 0.95% as of December 31, 2018 and 1.62% as of December 31, 2017. Approximately 66% of our nonperforming assets as of December 31, 2019 are covered by government guarantees.

- ***Increase core deposits, with emphasis on low cost commercial demand deposits.*** We seek core deposits to provide a stable source of funds for loan growth, at costs consistent with improving our interest rate spread and profitability. Core deposits also help us maintain loan-to-deposit ratios at levels consistent with our risk tolerance and regulatory expectations. We consider our core deposits to include demand deposits, negotiable orders of withdrawal (NOW) and automatic transfer service accounts, money market deposit accounts, other savings deposits, and certificates of deposit under $250,000, excluding wholesale and brokered deposits. As part of our focus on commercial loan growth, our lenders are expected to source business checking accounts from our borrowers. Noninterest bearing deposits were $56.4 million, or 18.6% of deposits at December 31, 2019, $45.4 million, or 17.1% of deposits, at December 31, 2018, and $37.5 million, or 15.9% of deposits, at December 31, 2017.

Competition

We face significant competition in originating loans and attracting deposits. Our primary market area and other areas in which we operate have a high concentration of financial institutions, many of which are significantly larger institutions that have greater financial resources than we have, and many of which are our competitors to varying degrees. Our competition for loans and leases comes principally from commercial banks, savings the U.S. Government, credit unions, leasing companies, insurance companies, real estate conduits and other companies that provide financial services to businesses and individuals. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from online financial institutions and non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

We seek to meet this competition by emphasizing personalized service and efficient decision-making tailored to individual needs. In addition, we reward long-standing relationships with preferred rates and terms on deposit products based on existing and prospective lending business. We do not rely on any individual, group or entity for a material portion of our loans or deposits.

As of June 30, 2019 (the latest date for which information is available), Bank 34's deposit market share was 13.12% of total deposits in Otero County, New Mexico, representing the third largest market share of nine institutions in Otero County; 2.05% of total deposits in Dona Ana County, New Mexico, representing the 13th largest market share of 18 institutions in Dona Ana County; and 0.15% of total deposits in Maricopa County, Arizona, representing the 36th largest market share of 62 institutions in Maricopa County.

Market Area

Bank 34 operates four full-service banking centers, one each in Otero and Dona Ana counties in New Mexico and two in Maricopa County, Arizona.

Arizona. 2019 brought diverse employment growth as year-to–date job growth through October 2019 exceeded 73,000. The economy has diversified from a population-driven model and has attracted higher value-added industries since the end of the Great Recession. Arizona is currently the third fastest growing state for job growth with much of that growth centered in metropolitan Phoenix area. The combination of new residents and an aging Baby Boomer cohort is pushing demand for health care, construction, restaurants, and retailing. Based on data through October 2019, Arizona saw an increase in personal income of 5.9%, increase in population of 112,000 and a decrease in unemployment from 4.7% to 4.5%. Arizona's home prices, in comparison to other western states, are still considered very affordable. It is anticipated that Arizona's economy will continue with solid growth, driven by a mix of new and long established drivers. A consensus forecast for the metropolitan Phoenix area has employment increasing 2.8% and unemployment dropping below 4.0% by the end of 2020.

New Mexico. Las Cruces' metropolitan statistical area (MSA) unemployment as of October 2019 was 5.6% while Otero county's was 4.6% as compared to 5.7% and 5.0%, respectively, a year before. October 2019 state unemployment was at 4.8%. New Mexico's total population has been consistently around or slightly below 2.1 million since crossing 2 million in 2008 followed by population decreases in 2014 and 2015. New Mexico gained a little over 2,000 residents between July 1, 2017 and July 1, 2018. New Mexico is beginning to attract higher-wage employment with commitments from Facebook, Netflix, Safelite and Union Pacific. One of the main advantages that New Mexico has to offer is very affordable housing and; therefore, an overall affordable cost of living.

Lending Activities

At December 31, 2019, our gross loans held for investment consisted of $242.7 million, or 82.1%, commercial real estate loans (including multi-family); $28.9 million, or 9.8%, one- to four-family residential real estate loans; $20.1 million, or 6.8%, commercial and industrial loans, and $3.9 million, or 1.3%, consumer and other loans. At December 31, 2019, commercial real estate and multi-family loans included construction loans of $16.1 million.

Commercial Real Estate Loans. At December 31, 2019, commercial real estate loans were $242.7 million, or 82.1%, of our total gross loans held for investment. This amount includes $37.8 million of multi-family residential real estate loans which are described below. Our commercial real estate loans are generally secured by properties used for business purposes such as office buildings, industrial and retail facilities. At December 31, 2019, $39.8 million of our commercial real estate portfolio was owner occupied commercial real estate, and $202.9 million was secured by income producing, or non-owner occupied commercial real estate. We currently target new commercial real estate loan originations to experienced, growing small- and mid-size owners and investors in our market area. The average outstanding loan in our commercial real estate portfolio was $678,000 as of December 31, 2019, although we originate commercial real estate loans with balances significantly larger than this average. At December 31, 2019, our ten largest commercial real estate loans had an average balance of $3.4 million.

We focus our commercial real estate lending on properties within our primary market areas, but we will originate commercial real estate loans on properties located outside this area based on an established relationship with a strong borrower. We intend to continue to grow our commercial real estate loan portfolio while maintaining prudent underwriting standards.

We originate a variety of fixed and adjustable rate commercial real estate loans with terms and amortization periods generally up to 25 years, although our commercial real estate loans generally have balloon terms. Interest rates and payments on our adjustable rate loans generally adjust daily and generally are indexed to the prime rate as published in *The Wall Street Journal,* plus a margin. We generally include pre-payment penalties on commercial real estate loans we originate. Commercial real estate loan amounts generally do not exceed 75% to 80% of the property's appraised value at the time the loan is originated., Aggregate debt service ratios, including the guarantor's cash flow and the borrower's other projects, have a guideline minimum income to debt service ratio of 1.30x. For commercial real estate loans in excess of $500,000, we require independent appraisals from an approved appraisers list. For such loans below $500,000, we require formal evaluations but do not require an independent appraisal. We require commercial real estate loan borrowers with loan relationships in excess of $100,000 to submit annual financial statements and/or rent rolls on the subject property. We may request such information for smaller loans on a case-by-case basis. Commercial real estate properties may also be subject to annual inspections with pictures as evidence appropriate maintenance is being performed by the owner/borrower. The loan and its borrowers and/or guarantors are subject to an annual loan review verifying the loan is properly risk rated based upon covenant compliance and other terms as provided for in the loan agreements. While this process does not prevent loans from becoming delinquent, it provides us with the opportunity to better identify problem loans in a timely manner and to work with the borrower.

Our three largest commercial real estate loans at December 31, 2019 included a $4.5 million school loan originated in May 2016 and increased in April 2017, a $3.7 million retail strip center and restaurant building loan originated in March 2017 and a $3.5 million apartment complex loan originated in July 2019. The collateral securing these loans is all located in our primary lending areas. At December 31, 2019, all of these loans were performing in accordance with their terms.

Multi-Family Real Estate Loans. At December 31, 2019, multi-family real estate loans were $37.8 million, or 12.8%, of our total loan portfolio. We originate individual multi-family real estate loans to experienced, growing small- and mid-size owners and investors in our market areas. Our multi-family real estate loans are generally secured by properties consisting of five to 40 rental units. The average outstanding loan size in our multi-family real estate portfolio was $858,000 as of December 31, 2019. We generally do not make multi-family real estate loans outside our primary market areas.

We originate a variety of fixed and adjustable rate multi-family real estate loans with balloon and amortization terms up to 30 years. Interest rates and payments on our adjustable rate loans generally adjust daily and generally are indexed to the prime rate as published in *The Wall Street Journal,* plus a margin. We generally include pre-payment penalties on loans we originate. Multi-family real estate loan amounts generally do not exceed 65% to 70% of the property's appraised value at the time the loan is originated. Aggregate debt service ratios, including the guarantor's cash flow and the borrower's other projects, have a guideline minimum income to debt service ratio of 1.30x. We require multi-family real estate loan borrowers with loan relationships in excess of $100,000 to submit annual financial statements and/or rent rolls on the subject property. We may request such information for smaller loans on a case-by-case basis. These properties may also be subject to annual inspections with pictures as evidence appropriate maintenance is being performed.

Our largest multi-family real estate loan at December 31, 2019 totaled $3.5 million, was originated in July 2019 and is secured by a 47-unit apartment complex. At December 31, 2019, this loan was performing in accordance with its terms.

Commercial and Industrial Loans. We make commercial and industrial loans. primarily in our market area, to a variety of professionals, sole proprietorships and small businesses. These loans are generally secured by business assets, and we may support this collateral with junior liens on real property. At December 31, 2019, commercial and industrial loans were $20.1 million, or 6.8% of our total loan portfolio. As part of our relationship driven focus, we encourage our commercial borrowers to maintain their primary deposit accounts with us, which enhances our interest rate spread and profitability.

Commercial lending products include term loans and revolving lines of credit. Commercial loans and lines of credit are made with either adjustable or fixed rates of interest. Adjustable rates and fixed rates are based on the prime rate as published in *The Wall Street Journal*, plus a margin. We are focusing our efforts on experienced, growing small- to medium-sized, privately-held companies with solid historical and projected cash flow that operate in our market areas.

When making commercial and industrial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities and global cash flows of the borrower and other guarantors, the projected cash flows of the business and the value of the collateral, accounts receivable, inventory and equipment. Depending on the collateral used to secure the loans, commercial and industrial loans are made in amounts of up to 80% of the value of the collateral securing the loan. All of these loans are secured by assets of the respective borrowers.

A portion of our commercial and industrial loans are guaranteed by the U.S. Small Business Administration ("SBA") through the SBA 7(a) loan program. The SBA 7(a) loan program supports, through a U.S. Government guarantee, some portion of the traditional commercial loan underwriting that might not be fully covered absent the guarantee. A typical example would be a business acquiring another business, where the value purchased is an enterprise value (as opposed to tangible assets), which results in a collateral shortfall under traditional loan underwriting requirements. In addition, SBA 7(a) loans, through term loans, can provide a good source of permanent working capital for growing companies.

Our largest commercial and industrial loan at December 31, 2019 was a $1.9 million equipment loan originated in October 2019. This loan is to an equipment leasing company and is secured by 89 tractors and trailers, an assignment of leases, and all other business assets of the company.

Construction and Land Development Loans. At December 31, 2019, construction and land development loans were $22.3 million, or 7.6% of our total loan portfolio, consisting of $16.1 million of commercial and multi-family real estate loans, $5.1 million of residential land or development loans and $1.1 million of consumer one- to four-family residential loans, At December 31, 2019, none of our consumer one- to four-family residential construction loans and $15.7 million of our commercial and multi-family real estate construction loans are expected to convert to permanent loans upon completion of the construction phase. The majority of the balance of these loans is secured by properties located in our primary lending area.

We primarily make construction loans for commercial development projects, including hotels, small industrial, retail, office and apartment buildings. Most of our construction loans are interest-only loans that provide for the payment of interest during the construction phase, which is usually up to 12 to 24 months. At the end of the construction phase, the loan may convert to a permanent mortgage loan or the loan may be paid in full. Construction loans generally can be made with a maximum loan-to-value ratio of 80% of the estimated appraised market value upon completion of the project. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser for loans in excess of $500,000. We also generally require inspections of the property before disbursements of funds during the term of the construction loan.

We also originate construction and land development loans to contractors and builders to finance the construction of single-family homes and subdivisions. While we may originate these loans whether or not the collateral property underlying the loan is under contract for sale, we consider each project carefully in light of current residential real estate market conditions. We actively monitor the number of unsold homes in our construction loan portfolio and local housing markets to attempt to maintain an appropriate balance between home sales and new loan originations. We generally will limit the maximum number of speculative units (units that are not pre-sold) approved for each builder. We have attempted to diversify the risk associated with speculative construction lending by doing business with experienced small and mid-sized builders within our market area.

Our largest construction loan at December 31, 2019 totaled $2.3 million, was originated in November 2018 and is secured by 21 townhomes and an assisted living residence located in our primary market area. At December 31, 2019, this loan was performing in accordance with its terms.

One- to Four-Family Residential Real Estate Loans. Our one- to four-family residential real estate loan portfolio consists of mortgage loans that enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. At December 31, 2019, $28.9 million, or 9.8% of our loan portfolio, consisted of one- to four-family residential real estate loans, compared to $29.9 million, or 10.4% of total loans, at December 31, 2018.

Generally, one- to four-family residential real estate loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, with private mortgage insurance required on loans with a loan-to-value ratio in excess of 80%. We will not make loans with a loan-to-value ratio in excess of 100% for loans secured by single family homes. Fixed rate one- to four-family residential real estate loans generally are originated for terms of 10 to 30 years. Generally, all fixed rate one- to four-family residential real estate loans are underwritten according to Freddie Mac, FHA, VA, USDA and Correspondent Investors policies and procedures.

In an effort to provide financing for moderate income home buyers, we offer Veterans Administration (VA), Federal Housing Administration (FHA) and bond loans specific to the states where we conduct business. These programs offer one- to four-family residential real estate loans to qualified individuals. These loans are offered with fixed rates of interest and terms of up to 30 years, and are secured by one- to four-family residential properties. All of these loans are originated using agency underwriting guidelines.

We also offer adjustable rate mortgage loans for one- to four-family properties, with an interest rate based on the one-year Constant Maturity Treasury Bill Index, which adjusts annually from the outset of the loan or which adjusts annually after a three-, five-, seven-, or ten-year initial fixed rate period. We originated $6.9 million of adjustable rate one-to four-family residential loans during the year ended December 31, 2019, all of which was sold in the secondary market. Our adjustable rate mortgage loans generally provide for maximum rate adjustments of 2% per adjustment, with a lifetime maximum adjustment up to 6% above the initial rate, regardless of the initial rate. Our adjustable rate one- to four-family residential real estate loans amortize over terms of up to 30 years.

Regulations limit the amount that an institution may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal of the property at the time the loan is originated. All borrowers are required to obtain title insurance. We also require homeowner's insurance and fire and casualty insurance and, where circumstances warrant, flood insurance, on properties securing real estate loans. At December 31, 2019, our largest one- to four-family residential real estate loan had a principal balance of $593,000 and was secured by a residence located in Arizona. At December 31, 2019, this loan was performing in accordance with its original terms.

Consumer and Other Loans. We offer a limited range of consumer and other loans, principally to customers with other relationships residing in our primary market area with acceptable credit ratings. Our consumer and other loans generally consist of home equity loans or lines of credit, loans secured by deposit accounts, loans on new and used automobiles and unsecured personal loans. At December 31, 2019, consumer loans were $3.9 million, or 1.3% of total loans. The underwriting standards utilized for home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan and the value of the collateral securing the loan. The loan-to-value ratio for a home equity line of credit is generally limited to 75%. The procedures for underwriting other consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations plus payments on the proposed loan.

Loan Underwriting Risks

Commercial and Multi-Family Real Estate Loans. Loans secured by commercial and multi-family real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential real estate loans. Of primary concern in commercial and multi-family real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors to provide annual financial statements on commercial and multi-family real estate loans. In reaching a decision on whether to make a commercial or multi-family real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have an aggregate debt service ratio, including the guarantor's cash flow and the borrower's other projects, of at least 1.30x. An environmental phase one report is obtained when the possibility exists that hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials.

If we foreclose on a commercial real estate or multi-family loan, the marketing and liquidation period to convert the real estate asset to cash can be lengthy with substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability. Depending on the individual circumstances, initial charge-offs and subsequent losses on commercial real estate loans can be unpredictable and substantial.

Construction *and Land Development Loans.* Our construction loans are based upon estimates of costs and values associated with the completed project. Underwriting is focused on the borrowers' financial strength, credit history and demonstrated ability to produce a quality product and effectively market and manage their operations.

Construction lending involves additional risks when compared with permanent lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. In addition, generally during the term of a construction loan, interest may be funded by the borrower or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraised value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

Commercial and Industrial Loans. Unlike residential real estate loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial and industrial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business and the collateral securing these loans may fluctuate in value. Our commercial and industrial loans are originated primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of real estate, accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Adjustable Rate Loans. While we anticipate that adjustable rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate loans, an increased monthly payment required of adjustable rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. In a high interest rate environment, the marketability of the underlying collateral may be adversely affected as the value of the underlying collateral decreases. For our adjustable rate one- to four-family real estate loans, upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents and, therefore, the effectiveness of adjustable rate real estate loans may be limited during periods of rapidly rising interest rates.

Consumer and Other Loans. Consumer loans may entail greater risk than residential real estate loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as motor vehicles. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. Consumer loan collections depend on the borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Loan Originations, Purchases and Sales

Lending activities are conducted primarily by our loan personnel operating at our four full-service banking offices. All loans originated by us are underwritten pursuant to our policies and procedures. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed or adjustable-rate loans is dependent upon competition for such loans and the relative customer demand for such loans, which is affected by current and expected future levels of market interest rates.

We participate out interests in commercial real estate loans to other financial institutions, including the guaranteed portions of SBA or USDA loans, the portion of other loans exceeding our borrowing limits and periodically other loans when portfolio growth surges and the balances exceeds target portfolio loan levels. At December 31, 2019, we were servicing $33.2 million of commercial real estate loans where we had participated out an interest to other financial institutions. For the years ended December 31, 2019 and 2018, we participated out loan participations of $8.6 million and $9.2 million, respectively.

Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by management and approved by the Board of Directors. The Board of Directors has granted loan approval authority to certain officers up to prescribed limits, depending on the officer's experience, the type of loan and whether the loan is secured or unsecured. Loans to relationships of $2.0 million and below require approval by members of senior management. Loans to relationships greater than $2.0 million require approval by the Director's Loan Committee. Loans that involve exceptions to loan policy must be authorized by senior management. Loan policy exceptions are fully disclosed to the approving authority, either an individual officer or the appropriate management or Director's Loan Committee prior to commitment. Exceptions are reported to the Board of Directors monthly.

Loans-to-One Borrower Limit

The maximum amount that we may lend to one borrower and the borrower's related entities is generally limited, by regulation, to 15% of our unimpaired capital and surplus. At December 31, 2019, our regulatory limit on loans-to-one borrower was $6.4 million. At that date, the largest aggregate amount loaned to one borrower was $5.6 million, consisting of a 28-unit apartment complex and 39 condominium units. The loans comprising this lending relationship were performing in accordance with their original repayment terms at December 31, 2019.

Investment Activities

Bank 34 has an Asset/Liability Committee which is responsible, among other duties, for implementing the Bank's Investment Policy. The Investment Policy is reviewed annually and any changes to the policy are recommended to, and subject to the approval of, our board of directors. While general investment strategies are developed and authorized by the Asset/Liability Committee, the execution of specific actions rests with the Chief Financial Officer, who is Bank 34's designated Investment Officer. In the absence of the Chief Financial Officer, the Chief Executive Officer will be the designated Investment Officer. The Investment Officer is responsible for ensuring that the guidelines and requirements included in the Investment Policy are followed and that all securities are considered prudent for investment. The Investment Officer is authorized to execute investment transactions (purchases and sales) without the prior approval of the Asset/Liability Committee and within the scope of the established investment policy; however, all transactions shall be reviewed and ratified by the Asset/Liability Committee and Board of Directors.

Bank 34 utilizes the services of an independent investment advisor to assist in managing the investment portfolio. The investment advisor is responsible for maintaining current information regarding securities dealers with whom they are conducting business on our behalf. A list of appropriate dealers is provided annually to the board of directors for approval and authorization prior to execution of trades. The investment advisor, through its assigned portfolio manager, must contact our designated Investment Officer to review all investment recommendations and transactions and receive approval from the designated Investment Officer prior to execution of any transaction that might be executed on our behalf. Upon receipt of approval, the investment advisor, or its assigned portfolio manager, is authorized to conduct all investment business on our behalf.

We have legal authority to invest in various types of investment securities and liquid assets, including U.S. Treasury obligations, securities of various government-sponsored enterprises, residential mortgage-backed securities and municipal governments, deposits at the Federal Home Loan Bank of Dallas, certificates of deposit of federally insured institutions, investment grade corporate bonds and investment grade marketable equity securities, including common stock and money market mutual funds. Our equity securities generally pay dividends. We also are required to maintain an investment in Federal Home Loan Bank of Dallas stock, which investment is based on the level of our Federal Home Loan Bank borrowings. We have the authority under applicable law to invest in derivative securities. At December 31, 2019, due to our exit from mortgage banking operations in June 2019, the Company had no mortgage interest rate lock commitment ("IRLC") assets and no liabilities to national investment brokers. At December 31, 2018, the Company had $381,000 in fair value of mortgage IRLC assets and $154,000 in liabilities to national investment brokers representing the net fair value of forward trade commitments utilized to hedge loans in our mortgage banking pipeline with a notional value of $21.5 million. Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide a use of funds when demand for loans is weak and to generate a favorable return.

At December 31, 2019 our investment security portfolio had a fair value of $44.5 million, and consisted primarily of mortgage-backed securities, taxable municipal bonds and securities of U.S. Government Agencies. All investment securities as of December 31, 2019 were classified as available-for-sale. Bonds secured by adjustable rate loans were 3.0% of the total portfolio.

Each reporting period, we evaluate all securities with a decline in fair value below the amortized cost to determine whether or not the impairment is deemed to be other than temporary. Other than temporary impairment is required to be recognized if (1) we intend to sell the security; (2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. At December 31, 2019 our investment securities had a fair value of $44.5 million and a net unrealized gain of $412,000. The Bank does not have the intent to sell these securities before maturity and it is unlikely that it will be required to sell them before their maturity. No other-than-temporary impairment was recognized for any periods from 2012 through 2019.

Mortgage-Backed Securities. We purchase mortgage-backed securities insured or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. We invest in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense, and lower our credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae and Ginnie Mae.

Mortgage-backed securities are created by the pooling of mortgages and the issuance of a security with an interest rate that is less than the interest rates on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although we focus our investments on mortgage-backed securities backed by one- to four-family mortgages. The issuers of such securities (generally U.S. government agencies and government-sponsored enterprises, including Fannie Mae, Freddie Mac and Ginnie Mae) pool and resell the participation interests in the form of securities to investors such as Putnam Bank, and guarantee the payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize our specific liabilities and obligations.

At December 31, 2019 mortgage-backed securities totaled $31.0 million, or 69.7% of total securities, of which 4.4% were backed by adjustable rate mortgage loans and 95.6% were backed by fixed rate mortgage loans. The mortgage-backed securities portfolio had a weighted average yield of 2.60% at December 31, 2019.

Investments in mortgage-backed securities involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

U.S. Government and Government-Sponsored Securities. At December 31, 2019, our U.S. Government and government-sponsored securities portfolio totaled $1.1 million, or 2.4% of total securities. While U.S. Government and government-sponsored securities generally provide lower yields than other investments in our securities investment portfolio, we maintain these investments, to the extent appropriate, for liquidity purposes, as collateral for borrowings and prepayment protection.

Municipal Obligations. At December 31, 2019 our investment in municipal obligations totaled $12.4 million or 27.9% of total securities and 3.2% of total assets. The Bank's investment in municipal bonds may not exceed 5% of total assets. Municipal obligations generally carry a higher interest rate than U.S. Government obligations but also carry a higher credit risk.

Deposit Activities

Our deposit accounts consist principally of certificates of deposit, savings accounts, checking accounts and money market accounts. We provide commercial checking accounts and related services, such as online cash management. We also provide low-cost checking account services.

Our deposits are generated mainly from residents and businesses within our primary deposit market area. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis, supported by third party reporting of competitive deposit rates by market. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. Personalized customer service and long-standing relationships with customers are relied upon to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts offered allows us to be competitive in obtaining funds and responding to changes in consumer demand. Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions.

At December 31, 2019, our deposits totaled $303.9 million. Interest-bearing deposits totaled $247.5 million and noninterest-bearing deposits totaled $56.4 million. Savings, money market and checking deposits totaled $166.1 million, and certificates of deposit totaled $81.4 million, of which $55.6 million had maturities of one year or less.

Subsidiary Activities

Bancorp 34, Inc. has no subsidiaries other than Bank 34.

Personnel

At December 31, 2019, Bank 34 had 54 full-time employees and 3 part-time employees, none of whom was party to a collective bargaining agreement. Bank 34 believes it has a good working relationship with its employees.

TAXATION

Bancorp 34 and Bank 34 are subject to federal and state income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal and state taxation is intended only to summarize certain pertinent tax matters and is not a comprehensive description of the tax rules applicable to Bancorp 34 or Bank 34.

Our federal and state tax returns have not been audited for the past five years.

Federal Taxation

Method of Accounting. For federal income tax purposes, Bancorp 34 and Bank 34 currently report their income and expenses on the accrual method of accounting and use a tax year ending December 31 for filing their federal income tax returns.

Taxable Distributions and Recapture. Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income if Bank 34 failed to meet certain thrift asset and definitional tests. Federal legislation has eliminated these thrift-related recapture rules. At December 31, 2019, our total federal pre-1988 base year reserve was approximately $2.7 million, or $680,000 tax-effected. However, under current law, pre-1988 base year reserves remain subject to recapture if Bank 34 makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter.

Alternative Minimum Tax. Prior to January 1, 2018, the Internal Revenue Code imposes an alternative minimum tax ("AMT") at a rate of 20% on a base of regular taxable income plus certain tax preferences, which we refer to as "alternative minimum taxable income." The AMT is payable to the extent such alternative minimum taxable income is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain AMT payments may be used as credits against regular tax liabilities in future years Effective January 1, 2018, the corporate AMT is repealed. At December 31, 2019, the Company had no AMT credit carryforwards.

Net Operating Loss Carryovers. Prior to January 1, 2018, subject to certain limitations, a company may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. For net operating losses generated beginning January 1, 2018, there are no carry backs allowed and an unlimited carry forward period. At December 31, 2019, Bancorp 34 had $3.8 million in net operating loss carry forwards for federal income tax purposes.

Corporate Dividends-Received Deduction. Bancorp 34 may exclude from its income 100% of dividends received from Bank 34 as a member of the same affiliated group of corporations. Through December 31, 2017, the corporate dividends-received deduction is 80% in the case of dividends received from a corporation in which a corporate recipient owns at least 20% of its stock, and corporations that own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf. Effective January 1, 2018, the dividends received deduction decreases from 80% to 65% and 70% to 50% for corporate recipients owning at least 20% or less than 20%, respectively, of a corporation's stock.

State Taxation

Bank 34's full service branches and loan production offices in New Mexico and Arizona subject Bank 34 to taxation in those states. During 2019, Bank 34 closed loan production offices in Oregon, Texas, and Washington. Bank 34 regularly assesses where it is doing business and has state income tax nexus. As a Maryland business corporation, Bancorp 34 is required to file an annual report with and pay franchise taxes to the state of Maryland.

SUPERVISION AND REGULATION

General

As a federal savings association, Bank 34 is subject to examination and regulation by the Office of the Comptroller of the Currency, and is also subject to examination by the Federal Deposit Insurance Corporation (FDIC). The federal system of regulation and supervision establishes a comprehensive framework of activities in which Bank 34 may engage and is intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation's Deposit Insurance Fund. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance fund and depositors, and not for the protection of security holders. Bank 34 also is a member of and owns stock in the Federal Home Loan Bank of Dallas, which is one of the 11 regional banks in the Federal Home Loan Bank System.

Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; determine the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of assessments and fees. Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. These ratings are inherently subjective and the receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as Bank 34 or its holding company, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

As a savings and loan holding company, Bancorp 34 is required to comply with the rules and regulations of the Federal Reserve Board. It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. Bancorp 34 is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Securities and Exchange Commission or Congress, could have a material adverse impact on the operations and financial performance of Bancorp 34 and Bank 34.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to Bank 34 and Bancorp 34. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Bank 34 and Bancorp 34.

Federal Banking Regulation

Business Activities. A federal savings association derives its lending and investment powers from the Home Owners' Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, Bank 34 may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. Bank 34 may also establish subsidiaries that may engage in certain activities not otherwise permissible for Bank 34, including real estate investment and securities and insurance brokerage.

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets ratio of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that made such an election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the Office of the Comptroller of the Currency takes into consideration not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increased each year until fully implemented at 2.5% of risk-weighted assets on January 1, 2019.

At December 31, 2019, Bank 34's capital exceeded all applicable requirements.

Legislation enacted in May 2018 required the federal banking agencies, including the Office of the Comptroller of the Currency, to establish a "community bank leverage ratio" of between 8% to 10% of average total consolidated assets for qualifying institutions with assets of less than $10 billion of assets. Institutions with capital meeting the specified requirement and electing to follow the alternative framework would be deemed to comply with the applicable regulatory capital requirements, including the risk-based requirements. The federal regulators have adopted a final rule that set the ratio at 9%, Tier 1 capital to average total consolidated assets, effective January 1, 2020.

Loans-to-One Borrower. Generally, a federal savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2019, Bank 34 was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings association, Bank 34 must satisfy the qualified thrift lender, or "QTL," test. Under the QTL test, Bank 34 must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of every 12-month period. "Portfolio assets" generally means total assets of a savings association, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association's business.

Bank 34 also may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code of 1986, as amended. This test generally requires a savings association to have at least 75% of its deposits held by the public and earn at least 25% of its income from loans and U.S. government obligations. Alternatively, a savings association can satisfy this test by maintaining at least 60% of its assets in cash, real estate loans and U.S. Government or state obligations.

A savings association that fails the qualified thrift lender test must operate under specified restrictions set forth in the Home Owners' Loan Act. The Dodd-Frank Act made noncompliance with the QTL test subject to agency enforcement action for a violation of law. At December 31, 2019, Bank 34 satisfied the QTL test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the savings association's capital account. A federal savings association must file an application with the Office of the Comptroller of the Currency for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or
- the savings association is not eligible for expedited treatment of its filings, generally due to an unsatisfactory CAMELS rating or being subject to a cease and desist order or formal written agreement that requires action to improve the institution's financial condition.

Even if an application is not otherwise required, every savings association that is a subsidiary of a savings and loan holding company, such as Bank 34, must still file a notice with the Federal Reserve Board at least 30 days before the board of directors declares a dividend or approves a capital distribution.

A notice or application related to a capital distribution may be disapproved if:

- the federal savings association would be undercapitalized following the distribution;

- the proposed capital distribution raises safety and soundness concerns; or

- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement. A federal savings association also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its conversion to stock form.

Community Reinvestment Act and Fair Lending Laws. All Federal Deposit Insurance Corporation-insured institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings association, the Office of the Comptroller of the Currency is required to assess the federal savings association's record of compliance with the Community Reinvestment Act. A savings association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of the Comptroller of the Currency, as well as other federal regulatory agencies and the Department of Justice.

The Community Reinvestment Act requires all institutions insured by the Federal Deposit Insurance Corporation to publicly disclose their rating. Bank 34 received a "satisfactory" Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings association's authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with, an insured depository institution such as Bank 34. Bancorp 34 is an affiliate of Bank 34 because of its control of Bank 34. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

Bank 34's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and

- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Bank 34's capital.

In addition, extensions of credit in excess of certain limits must be approved by Bank 34's board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The Office of the Comptroller of the Currency has primary enforcement responsibility over federal savings associations and has authority to bring enforcement action against all "institution-affiliated parties," including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on a federal savings association. Formal enforcement action by the Office of the Comptroller of the Currency may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $50,000 per day (as adjusted for inflation), unless a finding of reckless disregard is made, in which case penalties may be as high as $2 million per day. The Federal Deposit Insurance Corporation also has the authority to terminate deposit insurance or recommend to the Office of the Comptroller of the Currency that enforcement action be taken with respect to a particular savings association. If such action is not taken, the Federal Deposit Insurance Corporation has authority to take the action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Interstate Banking and Branching. Federal law permits well capitalized and well managed holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, among other things, recent amendments made by the Dodd-Frank Act permit banks to establish de novo branches on an interstate basis provided that branching is authorized by the law of the host state for the banks chartered by that state.

Prompt Corrective Action. Federal law requires, among other things, that federal bank regulators take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For this purpose, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under applicable regulations, an institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends, and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. An undercapitalized bank's compliance with a capital restoration plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including but not limited to a regulatory order to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, ceasing receipt of deposits from correspondent banks, dismissal of directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

At December 31, 2019, Bank 34 met the criteria for being considered “well capitalized.”

The previously referenced final rule establishing an elective “community bank leverage ratio” regulatory capital requirement provides that a qualifying institution whose capital exceeds the community bank leverage ratio and opts to use that framework will be considered “well-capitalized” for purposes of prompt corrective action.

Insurance of Deposit Accounts. The Deposit Insurance Fund of the Federal Deposit Insurance Corporation insures deposits at Federal Deposit Insurance Corporation insured financial institutions such as Bank 34. Deposit accounts in Bank 34 are insured by the Federal Deposit Insurance Corporation generally up to a maximum of $250,000 per separately insured depositor. The Federal Deposit Insurance Corporation charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

Under the Federal Deposit Insurance Corporation’s risk-based assessment system, insured institutions were assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. Rates were based on each institution’s risk category and certain specified risk adjustments. Institutions deemed to be less risky paid lower rates while institutions deemed riskier pay higher rates. Assessment rates (inclusive of possible adjustments) ranged from $2\ ^1/2$ to 45 basis points of each institution’s total assets less tangible capital.

Effective in 2016, the Federal Deposit Insurance Corporation adopted changes that eliminated the risk categories. Assessments for most institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. The assessment range (inclusive of possible adjustments) for most banks and savings associations is currently 1.5 basis points to 30 basis points.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The Federal Deposit Insurance Corporation was required to seek to achieve the 1.35% ratio by September 30, 2020. The Federal Deposit Insurance Corporation indicated that the 1.35% ratio was exceeded in 2018. Insured institutions of less than $10 billion of assets received credits for the portion of their assessments that contributed to the reserve ratio between 1.15% and 1.35%. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the Federal Deposit Insurance Corporation, and the Federal Deposit Insurance Corporation has exercised that discretion by establishing a long-range fund ratio of 2%.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Bank 34. We cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation. We do not know of any practice, condition or violation that may lead to termination of our deposit insurance.

Privacy Regulations. Federal regulations generally require that Bank 34 disclose its privacy policy, including identifying with whom it shares a customer’s “non-public personal information,” to customers at the time of establishing the customer relationship and annually thereafter. In addition, Bank 34 is required to provide its customers with the ability to “opt-out” of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. Bank 34 currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

USA PATRIOT Act. Bank 34 is subject to the USA PATRIOT Act, which gives federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act contains provisions intended to encourage information sharing among bank regulatory agencies and law enforcement bodies and imposes affirmative obligations on financial institutions, such as enhanced recordkeeping and customer identification requirements.

Prohibitions Against Tying Arrangements. Federal savings associations are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Other Regulations

Interest and other charges collected or contracted for by Bank 34 are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to state and federal laws applicable to credit transactions, such as the:

- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies; and

- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of Bank 34 also are subject to, among others, the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from that image, the same legal standing as the original paper check; and

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Federal Reserve System

The Federal Reserve Board regulations require depository institutions to maintain noninterest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2019, the Federal Reserve Board regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating $124.2 million or less (which may be adjusted by the Federal Reserve Board) the reserve requirement is 3.0% and the amounts greater than $124.2 million require a 10.0% reserve (which may be adjusted annually by the Federal Reserve Board between 8.0% and 14.0%). The first $16.3 million of otherwise reservable balances (which may be adjusted by the Federal Reserve Board) are exempted from the reserve requirements. Bank 34 was in compliance with these requirements at December 31, 2019.

Federal Home Loan Bank System

Bank 34 is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Members of the Federal Home Loan Bank are required to acquire and hold shares of capital stock in the Federal Home Loan Bank. Bank 34 was in compliance with this requirement at December 31, 2019. Based on redemption provisions of the Federal Home Loan Bank of Dallas, the stock has no quoted market value and is carried at cost. Bank 34 reviews for impairment, based on the ultimate recoverability, the cost basis of the Federal Home Loan Bank of Dallas stock. As of December 31, 2019, no impairment had been recognized.

Final Federal Regulation

Effective July 1, 2019, the Office of the Comptroller of the Currency issued a final rule implementing a section of the Economic Growth, Relief and Consumer Protection Act that permits an eligible federal savings association with total consolidated assets of $20 billion or less as of December 31, 2017, to elect to operate with national bank powers without converting to a national bank charter. An eligible savings association is a federal savings association that: (1) is well capitalized; (2) has a CAMELs composite rating of 1 or 2; (3) has a consumer compliance rating of 1 or 2; (4) has a Community Reinvestment Act rating of "outstanding" or "satisfactory," if applicable; and (5) is not subject to an enforcement action.

Holding Company Regulation

Bancorp 34 is a unitary savings and loan holding company subject to regulation and supervision by the Federal Reserve Board. The Federal Reserve Board has enforcement authority over Bancorp 34 and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a risk to Bank 34.

As a savings and loan holding company, Bancorp 34's activities are limited to those activities permissible by law for financial holding companies (if Bancorp 34 makes an election to be treated as a financial holding company and meets the other requirements to be a financial holding company) or multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, incidental to financial activities or complementary to a financial activity. Such activities include lending and other activities permitted for bank holding companies under Section 4(c) (8) of the Bank Holding Company Act, insurance and underwriting equity securities. Multiple savings and loan holding companies are authorized to engage in activities specified by federal regulation, including activities permitted for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or savings and loan holding company without prior written approval of the Federal Reserve Board, and from acquiring or retaining control of any depository institution not insured by the Federal Deposit Insurance Corporation. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider such things as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on and the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors. A savings and loan holding company may not acquire a savings institution in another state and hold the target institution as a separate subsidiary unless it is a supervisory acquisition or the law of the state in which the target is located authorizes such acquisitions by out-of-state companies.

Savings and loan holding companies historically have not been subject to consolidated regulatory capital requirements. The Dodd-Frank Act required the Federal Reserve Board to establish minimum consolidated capital requirements for all depository institution holding companies that were as stringent as those required for the insured depository subsidiaries. However, pursuant to federal legislation, the Federal Reserve Board maintains a "small holding company" exception to the applicability of consolidated holding company capital requirements. That exception generally applies to holding companies with less than $3 billion of consolidated assets, such as Bancorp 34. Such holding companies are not subject to the requirements unless otherwise advised by the Federal Reserve Board.

The Dodd-Frank Act extended the "source of strength" doctrine to savings and loan holding companies. The Federal Reserve Board has promulgated regulations implementing the "source of strength" doctrine that require holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of capital distributions previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also states that a holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of Bancorp 34 to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Federal Securities Laws

Bancorp 34 common stock is registered with the Securities and Exchange Commission. Bancorp 34 is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in Bancorp 34's public offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of Bancorp 34 may be resold without registration. Shares purchased by an affiliate of Bancorp 34 are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Bancorp 34 meets the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of Bancorp 34 that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Bancorp 34, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, Bancorp 34 may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Change in Control Regulations

Under the Change in Bank Control Act, no person may acquire control of a savings and loan holding company, such as Bancorp 34, unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the institution's directors, or a determination by the regulator that the acquirer has the power, directly or indirectly, to exercise a controlling influence over the management or policies of the institution. Acquisition of more than 10% of any class of a savings and loan holding company's voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances including where, as is the case with Bancorp 34, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

In addition, federal regulations provide that no company may acquire control of a savings and loan holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination and regulation by the Federal Reserve Board.

Emerging Growth Company Status

Bancorp 34 was an emerging growth company under the JOBS Act. The Company lost its status as an emerging growth company at the end of 2019.

Bancorp 34 elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements were made applicable to private companies. Accordingly, these financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

ITEM 1A. **Risk Factors**

Not applicable, as Bancorp 34, Inc. is a "Smaller Reporting Company."

ITEM 1B. **Unresolved Staff Comments**

None.

ITEM 2. **Properties**

We conduct business through our main office in Alamogordo, New Mexico and three branch offices located in Las Cruces, New Mexico and Peoria and Scottsdale, Arizona. At December 31, 2019, the total net book value of our premises, land and equipment was $9.0 million.

ITEM 3. **Legal Proceedings**

Periodically, we are involved in claims and lawsuits, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. **Mine Safety Disclosures**

Not applicable.

PART II

ITEM 5. **Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the NASDAQ Capital Market under the symbol "BCTF." As of February 12, 2020, we had 364 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 3,168,574 shares of common stock outstanding.

There were no sales of unregistered securities during the quarter ended December 31, 2019.

On October 24, 2017, the Company adopted its initial stock repurchase program under which it would repurchase up to 171,910 shares of its common stock, or approximately 5.0% of the Company's outstanding shares. This repurchase program was completed in February 2019. On May 24, 2019, the Company adopted a second repurchase program under which it was authorized to repurchase up to 167,747 shares of its common stock, or approximately 5.0% of the Company's outstanding shares. 157,042 shares were repurchased under this program through December 31, 2019. The Company did not repurchase common stock in the three months ended December 31, 2019.

ITEM 6. Selected Financial Data

You should read the following summary financial information in connection with our historical financial information, which appears elsewhere in this annual report. The selected historical financial data at December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018 is derived in part from the audited consolidated financial statements that appear in this report. The information at December 31, 2017, 2016 and 2015 is derived in part from audited consolidated financial statements that do not appear in this report.

The following summary financial tables comprise of total operations, including continuing and discontinued.

	At December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
	(Dollars in thousands)				
Selected Financial Condition:					
Total assets	**$ 393,739**	$ 383,278	$ 336,221	$ 328,867	$ 270,984
Cash and cash equivalents	**29,486**	11,774	9,873	16,411	19,825
Available-for-sale securities, at fair value	**44,517**	33,429	24,400	31,499	28,631
Loans held for investment, net	**291,739**	282,790	257,896	241,399	192,137
Loans held for sale	**-**	26,884	15,424	14,221	11,381
Deposits	**303,897**	265,239	235,561	224,522	225,700
Federal Home Loan Bank advances	**40,000**	67,000	45,000	50,000	13,000
Stockholders' equity	**45,083**	46,423	50,971	50,777	29,644

	Years Ended December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
	(In thousands, except per share data)				
Selected Operating Data:					
Interest income	**$ 19,316**	$ 17,622	$ 15,965	$ 13,502	$ 12,224
Interest expense	**5,018**	3,605	2,272	1,684	1,434
Net interest income	**14,298**	14,016	13,693	11,818	10,790
Provision for loan losses	**23**	318	575	1,019	694
Net interest income after provision for loan losses	**14,275**	13,698	13,118	10,799	10,096
Non-interest income	**5,833**	15,194	11,906	11,213	4,903
Non-interest expense (1)	**19,160**	27,403	22,695	20,888	14,658
Income before income taxes	**948**	1,489	2,329	1,124	341
Income taxes (2)	**238**	416	1,968	(4,171)	20
Net income	**$ 710**	$ 1,074	$ 361	$ 5,295	$ 321
Earnings per share - basic (3)	**$ 0.23**	$ 0.33	$ 0.11	$ 1.57	$ 0.09
Earnings per share - diluted (3)	**$ 0.23**	$ 0.33	$ 0.11	$ 1.57	$ 0.09

(1) Non-interest expense for the year ended December 31, 2015 includes merger-related expenses of $100,000.

(2) As a result of the reduction in the Federal corporate tax rate effective in 2018 under the Tax Cuts and Jobs Act signed into law in December 2017, income tax expense for 2017 includes a $1.2 million deferred tax asset re-measurement adjustment. An $4.2 million net income tax benefit was recognized in 2016 primarily due to the reversal of all valuation reserves on net deferred tax assets.

(3) Basic and diluted earnings per share amounts in the above table for all periods prior to October 2016 have been restated at the second-step conversion exchange rate of 2.0473 to one.

	At or For the Years Ended December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
Performance Ratios:					
Return on average assets (ratio of net income to average total assets)	**0.18%**	0.30%	0.11%	1.78%	0.12%
Return on average equity (ratio of net income to average stockholders' equity)	**1.53%**	2.24%	0.69%	16.31%	1.08%
Net interest rate spread (1)	**3.58%**	3.87%	4.19%	4.11%	4.36%
Net interest margin (2)	**3.95%**	4.17%	4.38%	4.26%	4.47%
Noninterest expense to average assets	**4.97%**	7.61%	6.66%	7.52%	5.64%
Dividend payout ratio	**67.85%**	387.62%	-%	-%	-%
Efficiency ratio (3)	**95.18%**	93.81%	88.05%	90.70%	93.41%
Average interest-earning assets to average interest-bearing liabilities	**127.06%**	127.87%	125.95%	123.69%	118.80%
Capital Ratios:					
Total capital to risk-weighted assets (Bank only)	**14.59%**	14.50%	17.21%	18.14%	16.93%
Tier 1 capital to risk-weighted assets (Bank only)	**13.58%**	13.46%	15.96%	17.03%	15.91%
Tier 1 capital to average assets (Bank only)	**10.30%**	10.29%	11.96%	11.91%	11.06%
Average stockholders' equity to average total assets	**12.03%**	13.29%	15.22%	10.91%	11.46%
Asset Quality Ratios:					
Allowance for loan losses to total gross loans	**0.99%**	1.02%	1.19%	1.03%	0.97%
Allowance for loan losses to total gross loans less acquired loans	**0.99%**	1.04%	1.29%	1.19%	1.28%
Allowance for loan losses to nonperforming loans	**83.36%**	79.62%	57.33%	41.99%	102.71%
Net (charge-offs) recoveries to average loans	**(0.00)%**	(0.20)%	0.01%	(0.20)%	(0.25)%
Nonperforming loans to total gross loans	**1.19%**	1.27%	2.08%	2.44%	0.95%
Nonperforming loans to total assets	**0.89%**	0.95%	1.62%	1.81%	0.68%
Nonperforming assets and accruing troubled debt restructurings to total assets	**0.91%**	0.96%	1.62%	1.81%	0.79%
Other Data:					
Number of full service offices	**4**	4	4	4	4
Full time equivalent employees	**56**	166	145	138	98

(1) Net interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.

(2) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(3) Efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.

The following selected financial data for the years ended December 31, 2019 and 2018 consists of continuing operations only.

	Years Ended December 31, 2019	2018
	(In thousands, except per share data)	
Selected Operating Data:		
Interest income	$ **18,947**	$ 16,864
Interest expense	**4,820**	3,174
Net interest income	**14,127**	13,690
Provision for loan losses	**23**	318
Net interest income after provision for loan losses	**14,104**	13,372
Non-interest income	**1,019**	901
Non-interest expense	**12,491**	11,723
Income before income taxes - continuing operations	**2,632**	2,550
Income taxes	**666**	675
Net income from continuing operations	$ **1,966**	$ 1,875
Basic earnings per share - continuing operations	$ **0.64**	$ 0.59
Diluted earnings per share - continuing operations	$ **0.64**	$ 0.59

	For the Years Ended December 31, 2019	2018
Performance Ratios:		
Return on average assets (ratio of net income to average total assets)	**0.52%**	0.55%
Net interest rate spread (1)	**3.67%**	4.06%
Net interest margin (2)	**4.00%**	4.28%
Noninterest expense to average assets	**3.31%**	3.42%
Efficiency ratio (3)	**82.47%**	80.34%

(1) Net interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.
(2) Net interest margin represents net interest income as a percentage of average interest-earning assets.
(3) Efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section as of and for the year ended December 31, 2019 and 2018, has been derived from the consolidated financial statements that appear elsewhere in this annual report. You should read the information in this section in conjunction with the business and financial information regarding Bancorp 34, Inc. and the financial statements provided in Part II, Item 8 of this annual report.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assumptions by management and that have, or could have, a material impact on our income or the carrying value of our assets. Our critical accounting policies are those related to our allowance for loan losses, the evaluation of other-than-temporary impairment of securities, the valuation of and our ability to realize deferred tax assets and the measurement of fair values of financial instruments.

Allowance for Loan Losses. The allowance for loan losses is calculated with the objective of maintaining an allowance necessary to absorb probable credit losses inherent in the loan portfolio. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective, as it requires an estimate of the losses for each risk rating and for each impaired loan, an estimate of the amounts and timing of expected future cash flows, and an estimate of the value of collateral.

We have established a systematic method of periodically reviewing the credit quality of the loan portfolio in order to establish an allowance for loan losses. The allowance for loan losses is based on our current judgments about the credit quality of individual loans and segments of the loan portfolio. The allowance for loan losses is established through a provision for loan losses based on our evaluation of the probable losses inherent in the loan portfolio, and considers all known internal and external factors that affect loan collectability as of the reporting date. Our evaluation, which includes a review of loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, our knowledge of inherent losses in the portfolio that are probable and reasonably estimable and other factors that warrant recognition in providing an appropriate loan loss allowance. Management believes this is a critical accounting policy because this evaluation involves a high degree of complexity and requires us to make subjective judgments that often require assumptions or estimates about various matters.

The allowance for loan losses consists primarily of specific allocations and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral, including adjustments for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting and payment history. We also analyze delinquency trends, general economic conditions, trends in historical loss experience and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allowance. The principal assumption used in calculating the allowance for loan losses is the estimate of loss for each risk rating. Actual loan losses may be significantly more than the allowance we have established, which could have a material negative effect on our financial results.

Other-Than-Temporary Impairment. Securities are evaluated on at least a quarterly basis, to determine whether a decline in their value is other-than-temporary. In estimating other-than-temporary impairment losses, management considers (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) whether or not we intend to sell or expect that it is more likely than not that we will be required to sell the investment security prior to an anticipated recovery in fair value. Once a decline in value for a debt security is determined to be other than temporary, the other-than-temporary impairment is separated in (a) the amount of total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to credit loss is recognized in operations. The amount of other-than-temporary impairment related to other factors is recognized in other comprehensive loss.

Valuation of Deferred Tax Assets. As a result of the reduction in the Federal corporate tax rate effective in 2018 under the Tax Cuts and Jobs Act signed into law in December 2017, income tax expense for 2017 includes a $1.2 million deferred tax asset re-measurement adjustment. Effective December 31, 2016, we reversed 100% of our net deferred tax asset valuation allowances and recognized an income tax benefit based upon our assessment of net deferred tax assets that are more-likely-than-not to be realized. The net deferred tax asset had been offset by an equal valuation allowance from June 2012 through November 2016. In evaluating our ability to realize deferred tax assets, management considers all positive and negative information, including our past operating results and our forecast of future taxable income. In determining future taxable income, management utilizes a budget process that makes business assumptions and the implementation of feasible and prudent tax planning strategies, if any. These assumptions require us to make judgments about our future taxable income that are consistent with the plans and estimates we use to manage our business. Any change in estimated future taxable income or effective tax rates may result in changes to the carrying balance of our net deferred tax assets which would result in an income tax benefit or expense in the same period.

Fair Value Measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A three-level of fair value hierarchy prioritizes the inputs used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities; includes certain U.S. Treasury and other U.S. Government agency debt that is highly liquid and actively traded in over-the-counter markets.

- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Average Balance Sheet

The following table sets forth average balances, average yields and costs, and certain other information for the years indicated. Tax-equivalent yield adjustments have not been made for tax-exempt securities, as the effect thereof was not material. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income.

	For the Years Ended December 31,								
	2019			2018			2017		
	Average Outstanding Balance	**Interest**	**Yield/ Rate**	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Loans - continuing operations	**$ 295,755**	**$ 17,490**	**5.91%**	$ 273,839	$ 15,847	5.79%	$ 259,791	$ 14,794	5.69%
Securities	**36,603**	**973**	**2.66%**	28,477	654	2.30%	28,744	529	1.84%
Other interest earning assets	**21,092**	**484**	**2.29%**	17,673	362	2.05%	13,866	215	1.55%
Total interest-earning assets - continuing operations	**353,450**	**18,947**	**5.36%**	319,989	16,863	5.27%	302,401	15,538	5.14%
Loans held for sale - discontinued operations	**8,398**	**369**	**4.39%**	16,196	758	4.68%	10,247	427	4.17%
Total interest-earning assets	**361,848**	**19,316**	**5.34%**	336,185	17,621	5.24%	312,648	15,965	5.11%
Noninterest-earning assets	**23,539**			23,770			28,347		
Total assets	**$ 385,387**			$ 359,955			$ 340,995		
Interest-bearing liabilities:									
Checking, money market and savings accounts	**$ 154,843**	**$ 2,160**	**1.39%**	$ 132,347	$ 1,324	1.00%	$ 128,835	$ 1,049	0.81%
Certificates of deposit	**79,432**	**1,640**	**2.06%**	70,363	1,106	1.57%	63,415	624	0.98%
Total deposits	**234,275**	**3,800**	**1.62%**	202,710	2,430	1.20%	192,250	1,673	0.87%
Advances from FHLB of Dallas - continuing operations	**50,518**	**1,020**	**2.02%**	60,209	743	1.23%	55,984	439	0.78%
Total interest-bearing liabilities - continuing operations	**284,793**	**4,820**	**1.69%**	262,919	3,173	1.21%	248,234	2,112	0.85%
Advances from FHLB of Dallas - discontinued operations	**-**	**198**	**-**	-	432	-	-	160	-
Total interest-bearing liabilities	**284,793**	**5,018**	**1.76%**	262,919	3,605	1.37%	248,234	2,272	0.92%
Non-interest bearing deposits	**49,813**			44,215			37,361		
Non-interest bearing liabilities	**4,427**			4,978			3,493		
Total liabilities	**339,033**			312,112			289,088		
Stockholders' equity	**46,354**			47,843			51,907		
Total liabilities and stockholders' equity	**$ 385,387**			$ 359,955			$ 340,995		
Net interest income - continuing operations		**$ 14,127**			$ 13,690			$ 13,426	
Net interest rate spread - continuing operations (1)			**3.67%**			4.06%			4.29%
Net interest margin - continuing operations (3)			**4.00%**			4.28%			4.44%
Net interest income		**$ 14,298**			$ 14,016			$ 13,693	
Net interest rate spread (1)			**3.58%**			3.87%			4.19%
Net interest-earning assets (2)	**$ 77,055**			$ 73,266			$ 64,414		
Net interest margin (3)			**3.95%**			4.17%			4.38%
Average interest-earning assets to average interest-bearing liabilities	**127.06%**			127.87%			125.95%		

(1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.
(2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income as a percentage of average total interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Years Ended December 31,					
	2019 vs. 2018			2018 vs. 2017		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(Dollars in thousands)					
Interest-earning assets:						
Loans - continuing operations	**$ 1,329**	**$ 314**	**$ 1,643**	$ 458	$ 595	$ 1,053
Securities	**229**	**90**	**319**	9	116	125
Other interest earning assets	**70**	**52**	**122**	4	143	147
Total interest-earning assets - continuing operations	**1,628**	**456**	**2,084**	471	854	1,325
Loans held for sale - discontinued operations	**(347)**	**(42)**	**(389)**	273	58	331
Total interest-earning assets	**1,281**	**414**	**1,695**	744	912	1,656
Interest-bearing liabilities:						
Checking, money-market and savings accounts	**287**	**549**	**836**	35	241	276
Certificates of deposit	**146**	**388**	**534**	248	234	482
Total deposits	**433**	**937**	**1,370**	283	475	758
Advances from FHLB of Dallas - continuing operations	**(208)**	**485**	**277**	49	255	304
Total interest-bearing liabilities - continuing operations	**225**	**1,422**	**1,647**	332	730	1,062
Advances from FHLB of Dallas - discontinued operations	**-**	**(234)**	**(234)**	-	271	271
Total interest-bearing liabilities	**225**	**1,188**	**1,413**	332	1,001	1,333
Change in net interest income - continuing operations	**$ 1,403**	**$ (966)**	**$ 437**	$ 139	$ 124	$ 263
Change in net interest income	**$ 1,056**	**$ (774)**	**$ 282**	$ 412	$ (89)	$ 323

Comparison of Financial Condition at December 31, 2019 and December 31, 2018

Cash and cash equivalents were $29.5 million at December 31, 2019 and $11.8 million at December 31, 2018. Daily cash and cash equivalent balances vary around our target levels of $5.0 to $10.0 million primarily due to the timing of commercial loan fundings and payoffs and changes in deposit balances and FHLB advances. Cash and cash equivalents were above normal target level at December 31, 2019 due to the reduction in mortgage loans held for sale during the year ended December 31, 2019.

Available-for-sale securities increased $11.1 million, or 33.2%, during the year ended December 31, 2019 to $44.5 million. There were no sales of available-for-sale securities and we purchased $16.2 million of securities in the year ended December 31, 2019.

There were no loans held for sale at December 31, 2019. Until June 30, 2019 we sold a significant majority of our residential mortgage loans in the secondary market. At December 31, 2018, loans held for sale totaled $26.9 million and all were residential mortgage loans. As discussed in The consolidated financial statements, Note 2 – Discontinued Operations, the Company discontinued originating mortgage loans held for sale in its name in June 2019 due to the mortgage banking business exit.

Loans held for investment increased $9.0 million, or 3.1%, to $294.7 million at December 31, 2019 from $285.7 million at December 31, 2018, due to organic growth. In the year ended December 31, 2019, commercial real estate loans increased $9.6 million to $242.7 million and represented 82.1% of the gross loan portfolio at December 31, 2019, compared to 81.3% at December 31, 2018.

The core deposit intangible recorded in connection with the acquisition of Bank 1440 decreased $39,000 to $133,000 at December 31, 2019 from $172,000 at December 31, 2018, reflecting normal amortization.

Total deposits increased $38.7 million, or 14.6%, to $303.9 million at December 31, 2019 from $265.2 million at December 31, 2018. The increase included an $23.8 million, or 16.7%, increase in savings and NOW deposits, a $3.8 million, or 5.0%, increase in time deposits and a $11.1 million, or 24.4%, increase in demand deposits.

Federal Home Loan Bank advances were down $27.0 million, or 40.3%, to $40.0 million at December 31, 2019 compared to $67.0 million at December 31, 2018. The reduction was due to a $26.9 million decrease in residential mortgage loans held for sale. We utilize short-term borrowings to fund loans held for sale, and long-term borrowings and some short-term borrowings to fund net growth in loans held for investment.

Accrued interest and other liabilities increased $267,000, or 6.3%, to $4.5 million at December 31, 2019 compared to $4.2 million at December 31, 2018.

Total stockholders' equity decreased $1.3 million to $45.1 million at December 31, 2019 from $46.4 million at December 31, 2018. The largest changes in stockholders' equity were a $2.7 million reduction due to common stock repurchases and a $703,000 increase due to available-for-sale securities fair value appreciation.

Comparison of Operating Results for the Years Ended December 31, 2019 and December 31, 2018

General. We had net income of $710,000 for the year ended December 31, 2019, which was $363,000 less than net income of $1.1 million for the year ended December 31, 2018. This includes net income from continuing operations of $2.0 million and net loss from discontinued operations of $1.3 million for the year ended December 31, 2019, and net income from continuing operations of $1.9 million and net loss from discontinued operations of $802,000 for the year ended December 31, 2018. The comparison of operating results is discussed in more detail between continuing operations and discontinued operations.

We had net income from continuing operations of $2.0 million for the year ended December 31, 2019, which was $91,000 more than net income from continuing operations of $1.9 million for the year ended December 31, 2018. The increase was primarily caused by a $437,000, or 3.2%, increase in net interest income, a $296,000, or 92.9%, smaller provision for loan losses, and a $265,000, or 35.2% increase in noninterest income, partially offset by a $916,000, or 7.9%, increase in noninterest expense.

We had a net loss from discontinued operations, as discussed in The consolidated financial statements, Note 2 – Discontinued Operations, of $1.3 million for the year ended December 31, 2019, which was $454,000 more than the net loss from discontinued operations of $802,000 for the year ended December 31, 2018. The increased net loss from discontinued operations was primarily caused by a $9.5 million, or 66.3%, decrease in noninterest income, partially offset by a $9.0 million, or 57.5%, decrease in noninterest expense. Noninterest expense for the year ended December 31, 2019 included an $845,000 loss on disposal of discontinued operations.

Interest Income. Interest income from continuing operations increased $2.1 million, or 12.4%, to $18.9 million for the year ended December 31, 2019 from $16.9 million for the year ended December 31, 2018. The increase was due to a $33.5 million, or 10.5%, increase in average interest-earning assets and a nine basis point increase in average yields. Loans, which are our highest yielding asset, decreased to 83.7% of average interest-earning assets from 85.6% of average interest-earning assets. The increase in yield on average interest earning assets included yield increases on loans, securities and other interest earning assets of 12 basis points, 36 basis points and 24 basis points, respectively. Interest income on loans increased due to a $21.9 million, or 8.0%, increase in average loan balances due to organic growth and a 12 basis point increase in yield to 5.91% for the year ended December 31, 2019 from 5.79% for the year ended December 31, 2018. Interest on securities increased $319,000, or 48.8%, for the year ended December 31, 2019 compared to the year ended December 31, 2018 due primarily to an $8.1 million, or 28.5%, increase in average securities balances due to second, third and fourth quarter 2019 purchases and a 36 basis point increase in yield due to favorable market rate increases.

Interest Expense. Interest expense from continuing operations increased $1.6 million, or 51.9%, to $4.8 million for the year ended December 31, 2019 from $3.2 million for the year ended December 31, 2018. The increase was the result of increases of $1.4 million, or 56.4%, in interest expense on deposits and $277,000, or 37.3%, in interest expense on borrowings.

Interest paid on checking, money market and savings accounts increased $836,000, or 63.1%, to $2.2 million for the year ended December 31, 2019 from $1.3 million for the year ended December 31, 2018. The average rate we paid on such deposit accounts increased 39 basis points to 1.39% for the year ended December 31, 2019 from 1.00% for the year ended December 31, 2018 due to the increase in market interest rates. The average balance increased $22.5 million, or 17.0%, to $154.8 million for the year ended December 31, 2019 from $132.3 million for the year ended December 31, 2018.

Interest on certificates of deposit increased $534,000, or 48.3%, to $1.6 million for the year ended December 31, 2019 from $1.1 million for the year ended December 31, 2018. The average rate paid on certificates of deposit increased 49 basis points, or 31.4%, to 2.06% for the year ended December 31, 2019 compared to 1.57% for the year ended December 31, 2018 due to the increase in market interest rates. The average balance of certificates of deposit increased $9.1 million, or 12.9%, to $79.4 million for the year ended December 31, 2019 from $70.4 million for the year ended December 31, 2018.

The average balance of borrowings decreased $9.7 million, or 16.1%, from the year ended December 31, 2018 to the year ended December 31, 2019 and the average rate paid increased 79 basis points to 2.02% for the year ended December 31, 2019 from 1.23% for the year ended December 31, 2018.

Net Interest Income. Net interest income from continuing operations increased $437,000, or 3.2%, to $14.1 million for the year ended December 31, 2019 from $13.7 million for the year ended December 31, 2018, primarily due to a 10.5% increase in average interest earning assets, mostly offset by a 39 basis point decrease in net interest rate spread to 3.67% for the year ended December 31, 2019 from 4.06% for the year ended December 31, 2018. Average interest bearing liability rates for continuing operations increased 48 basis points compared to a nine basis point increase in the average interest earning assets yield for continuing operations. Our average net interest-earning assets increased by $3.8 million, or 5.2%, to $77.1 million for the year ended December 31, 2019 from $73.3 million for the year ended December 31, 2018 due primarily to organic growth.

Net interest income from discontinued operations decreased $156,000, or 47.7%, to $171,000 for the year ended December 31, 2019 from $326,000 for the year ended December 31, 2018, primarily due to an 48.1% decrease in average mortgage loans held for sale to $8.4 million for the year ended December 31, 2019 from $16.2 million for the year ended December 31, 2018.

Provision for Loan Losses. We recorded a provision for loan losses of $23,000 for the year ended December 31, 2019, compared to $318,000 for the year ended December 31, 2018. In the year ended December 31, 2019, the allowance for loan losses increased $21,000, or 0.7%, including an $23,000 increase from provisions, partially offset by $2,000 in net charge-offs.

Noninterest Income. Noninterest income from continuing operations increased $118,000, or 13.1%, to $1.0 million for the year ended December 31, 2019 from $901,000 for the year ended December 31, 2018 due primarily to an $143,000, or 110.7%, increase in loan sales gains.

The gain on sale of loans from continuing operations increased $143,000, or 110.7%, to $272,000 for the year ended December 31, 2019 from $129,000 for the year ended December 31, 2018. We sold $3.4 million of SBA and USDA loans during the year ended December 31, 2019 and recognized $272,000 of sales gains directly into income, compared to $1.6 million of SBA and USDA loan sales in the year ended December 31, 2018 with gains of $129,000.

Noninterest income from discontinued operations, represented by loan sales gains, decreased $9.5 million, or 66.3%, to $4.8 million for the year ended December 31, 2019 from $14.3 million for the year ended December 31, 2018. The gain on sale of loans from discontinued operations decreased due primarily to the mortgage banking business exit in the second quarter of 2019.

During the year ended December 31, 2019, we sold $146.3 million of mortgage loans for a gain of $4.8 million, compared to $305.8 million of mortgage loan sales during the year ended December 31, 2018 for a gain of $14.3 million. We realized a 4.2% average premium (gain on sale/sold loans) on the sales of mortgage loans for the year ended December 31, 2019 and 4.25% for the year ended December 31, 2018. Premiums vary from period to period based upon the mix of government Federal Housing Administration (FHA) and Veterans Administration (VA) loans to conventional loans, geographic markets and market interest rates, specifically 10-year U.S. Treasury rates.

Noninterest Expense. Noninterest expense from continuing operations increased $769,000, or 6.6%, to $12.5 million for the year ended December 31, 2019 from $11.7 million for the year ended December 31, 2018. The increase was primarily related to higher salaries and benefits and data processing fees, partially offset by a decrease in professional fees, and by $84,000 in FDIC credits recognized in 2019 which reduced expense. Average assets from continuing operations for the year ended December 31, 2019 were 9.7% larger than for the year ended December 31, 2018.

Noninterest expense from discontinued operations decreased $9.0 million, or 57.5%, to $6.7 million for the year ended December 31, 2019 from $15.7 million for the year ended December 31, 2018. The decrease was primarily related to the mortgage banking business exit in the second quarter of 2019, partially offset by the net loss on disposal for the quarter ended June 30, 2019.

Provision for Income Tax. Provision for income tax expense from continuing operations was $666,000 for the year ended December 31, 2019, representing an effective tax rate of 25.3% on pre-tax income from continuing operations. There are numerous differences between pre-tax income and actual taxable income that have an effect on the effective income tax rate for any given period. We recognized an income tax expense from continuing operations of $675,000 for the year ended December 31, 2018 representing 26.5% of the $2.5 million income from continuing operations before income taxes.

Benefit for income taxes from discontinued operations was $428,000 for the year ended December 31, 2019, representing an effective tax rate of 25.4% on pre-tax loss from discontinued operations. We recognized a benefit for income taxes from discontinued operations of $259,000 for the year ended December 31, 2018 representing 24.4% of the $1.1 million loss before benefit for income taxes.

Loans Held for Investment

We originate residential real estate loans, as well as commercial real estate loans, including multi-family residential real estate loans, construction loans, commercial and industrial loans and consumer and other loans. The following tables set forth the composition of our loans held for investment by type at the dates indicated.

	At December 31,									
	2019		2018		2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial real estate (1)	**$242,683**	**82.1%**	$233,103	81.3%	$214,872	82.0%	$195,814	80.0%	$146,644	75.3%
One- to four-family residential real estate	**28,850**	**9.8%**	29,855	10.4%	29,114	11.1%	29,977	12.2%	31,412	16.1%
Commercial and industrial	**20,075**	**6.8%**	17,508	6.1%	12,296	4.7%	9,876	4.0%	10,235	5.3%
Consumer and other	**3,861**	**1.3%**	6,375	2.2%	5,740	2.2%	9,191	3.8%	6,429	3.3%
Total gross loans	**295,469**	**100.0%**	286,841	100.0%	262,022	100.0%	244,858	100.0%	194,720	100.0%
Less:										
Unamortized loan fees	**(808)**		(1,150)		(1,010)		(953)		(689)	
Allowance for loan losses	**(2,922)**		(2,901)		(3,117)		(2,506)		(1,894)	
Loans held for investment, net	**$291,739**		$282,790		$257,895		$241,399		$192,137	

(1) Includes multi-family real estate loans.

The following table sets forth the contractual maturities of our loans held for investment at December 31, 2019. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. The table presents contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities may differ.

	Commercial real estate		One- to four-family residential real estate	
	Amount	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
Due during the years ending December 31,		(Dollars in thousands)		
2020	$ 19,748	5.51%	$ 601	5.86%
2021 to 2024	135,636	5.39%	1,700	5.46%
2025 and beyond	87,299	5.29%	26,549	5.09%
	$ 242,683	5.37%	$ 28,850	5.13%

	Commercial and industrial		Consumer and other		Total	
	Amount	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
Due during the years ending December 31,			(Dollars in thousands)			
2020	$ 8,913	5.51%	$ 2,055	5.42%	$ 31,317	5.51%
2021 to 2024	9,597	5.41%	1,702	5.80%	148,635	5.40%
2025 and beyond	1,565	5.73%	104	7.14%	115,517	5.25%
	$ 20,075	5.48%	$ 3,861	5.63%	$ 295,469	5.35%

The following table sets forth our fixed and adjustable-rate loans at December 31, 2019 that are contractually due after December 31, 2020.

	Due after December 31, 2020		
	Fixed	**Adjustable**	**Total**
		(Dollars in thousands)	
Commercial real estate	$ 145,789	$ 77,146	$ 222,935
One- to four-family residential real estate	25,514	2,735	28,249
Commercial and industrial	9,702	1,460	11,162
Consumer and other	188	1,618	1,806
	$ 181,193	$ 82,959	$ 264,152

Asset Quality

We review loans on a regular basis, and place loans on nonaccrual status when either principal or interest is 90 days or more past due, or earlier if we do not expect to receive full payment of interest or principal. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is reversed from interest income. Once a loan is placed on nonaccrual status, the borrower must generally demonstrate at least six months of payment performance before the loan is eligible to return to accrual status.

Nonperforming Assets. The following table sets forth information regarding our nonperforming assets.

	At December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Nonaccrual loans					
Real estate loans:					
One- to four-family residential real estate	**$ 787**	$ 650	$ 679	$ 649	$ 1,490
Commercial real estate	**2,719**	2,994	3,483	3,719	-
Commercial and industrial loans	**-**	-	1,275	1,600	354
Consumer and other loans	**-**	-	-	-	-
Total nonaccrual loans	**3,506**	3,644	5,437	5,968	1,844
Accruing loans past due 90 days or more	**-**	-	-	-	-
Total nonaccrual loans and accruing loans past due 90 days or more	**3,506**	3,644	5,437	5,968	1,844
Other real estate (ORE)					
One- to four-family residential real estate	**-**	-	-	-	-
Commercial real estate	**-**	-	-	-	306
Total other real estate	**-**	-	-	-	306
Total nonperforming assets	**$ 3,506**	$ 3,644	$ 5,437	$ 5,968	$ 2,150
Ratios:					
Nonperforming loans to gross loans held for investment	**1.19%**	1.27%	2.08%	2.44%	0.95%
Nonperforming assets to total assets	**0.89%**	0.95%	1.62%	1.81%	0.79%
Nonperforming assets to gross loans held for investment and ORE	**1.19%**	1.27%	2.08%	2.44%	1.10%

Nonaccrual loan balances guaranteed by the SBA are $2.3 million, or 66.0% of the nonaccrual loan balances at December 31, 2019.

The largest nonaccrual relationship, with a $2.7 million outstanding balance, is a loan to an operating commercial entity that has filed for Chapter 11 bankruptcy protection. The loan is 75% SBA guaranteed and the outstanding balance is collateralized by the real estate and all business assets.

Due to the decrease in nonaccrual loans and increases in gross loans and total assets, the nonperforming asset ratios decreased from December 31, 2018 to December 31, 2019.

Interest income that would have been recorded for the year ended December 31, 2019, had nonaccruing loans been current according to their original terms amounted to $243,000 and $4,000 had troubled debt restructurings been current according to their original terms. We recognized $10,000 in interest income on nonaccrual loans and $24,000 related to troubled debt restructurings for the year ended December 31, 2019.

In addition to nonperforming assets, as of December 31, 2019, we had $71,000 in accruing troubled debt restructurings. There were no accruing troubled debt restructurings as of December 31, 2018, 2017, 2016 and 2015.

Delinquent Loans. The following table sets forth our loan delinquencies by type and amount at the dates indicated.

	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days or more Past Due
		(In thousands)	
At December 31, 2019			
Commercial real estate	**$ -**	**$ -**	**$ 2,719**
One- to four-family residential real estate	**758**	**37**	**639**
Commercial and industrial	**-**	**-**	**-**
Consumer and other	**-**	**-**	**-**
	$ 758	**$ 37**	**$ 3,358**
At December 31, 2018			
Commercial real estate	$ -	$ 2,744	$ -
One- to four-family residential real estate	783	235	393
Commercial and industrial	-	-	-
Consumer and other	-	-	-
	$ 783	$ 2,979	$ 393
At December 31, 2017			
Commercial real estate	$ 246	$ -	$ 550
One- to four-family residential real estate	236	117	525
Commercial and industrial	-	-	1,275
Consumer and other	-	-	-
	$ 482	$ 117	$ 2,350
At December 31, 2016			
Commercial real estate	$ 550	$ -	$ -
One- to four-family residential real estate	108	501	69
Commercial and industrial	1,140	-	461
Consumer and other	-	-	-
	$ 1,798	$ 501	$ 530
At December 31, 2015			
Commercial real estate	$ -	$ -	$ -
One- to four-family residential real estate	315	173	788
Commercial and industrial	-	-	-
Consumer and other	-	-	-
	$ 315	$ 173	$ 788

Classified Assets. Federal regulations require loans and other assets of lesser quality be classified as "substandard", "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that we will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We designate an asset as "special mention" if the asset has a potential weakness that warrants management's close attention.

The following table sets forth our amounts of classified assets and assets designated as special mention as of December 31, 2019, 2018 and 2017. The classified assets total at December 31, 2019 includes $3.5 million of nonperforming loans. Three loan relationships secured by real estate comprise $4.4 million of classified loans at December 31, 2019, and $2.3 million of those, representing 36% of total classified loans, are guaranteed by the SBA. The classified assets total at December 31, 2018 includes $3.6 million of nonperforming loans.

	At December 31,		
	2019	2018	2017
		(In thousands)	
Classified assets:			
Substandard loans	**$ 6,434**	$ 6,477	$ 8,529
Substandard ORE	**-**	-	-
Substandard assets	**6,434**	6,477	8,529
Doubtful	**-**	-	550
Loss	**-**	-	-
Total classified assets	**$ 6,434**	$ 6,477	$ 9,079
Special mention	$ **883**	$ 2,251	$ 955

Allowance for Loan Losses. The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by full and partial charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Management's periodic evaluation of the adequacy of the allowance is based on the current level of net loan losses, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

The following table sets forth activity in our allowance for loan losses (ALLL) for the years indicated.

	Years Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Balance at beginning of year	**$ 2,901**	$ 3,117	$ 2,506	$ 1,894	$ 1,707
Provision for loan losses	**23**	318	575	1,019	694
Charge-offs:					
One- to four-family residential real estate loans	**(9)**	(36)	(21)	(141)	(339)
Commercial real estate loans	**-**	(550)	-	-	-
Commercial and industrial loans	**-**	(10)	-	(384)	(359)
Consumer and other loans	**-**	-	-	-	-
Total charge-offs	**(9)**	(596)	(21)	(525)	(698)
Recoveries:					
One- to four-family residential real estate loans	**6**	12	25	2	3
Commercial real estate loans	**-**	-	1	116	183
Commercial and industrial loans	**1**	50	31	-	-
Consumer and other loans	**-**	-	-	-	-
Total recoveries	**7**	62	57	118	186
Net (charge-offs) recoveries	**(2)**	(534)	36	(407)	(512)
Balance at end of year	**$ 2,922**	$ 2,901	$ 3,117	$ 2,506	$ 1,889
Allowance for loan losses to nonperforming loans	**83.36%**	79.62%	57.33%	41.99%	102.71%
Allowance for loan losses to total loans	**0.99%**	1.02%	1.19%	1.03%	0.97%
Allowance for loan losses to total loans less acquired loans	**0.99%**	1.04%	1.29%	1.19%	1.28%
Net (charge-offs) recoveries to average loans outstanding during the period	**(0.00)%**	(0.20)%	0.01%	(0.20)%	(0.25)%

The ratio of our allowance for loan losses to nonperforming loans increased in the year ended December 31, 2019 due to a 3.8% decrease in nonperforming loans and a 0.7% increase in the allowance for loan losses and increased in the year ended December 31, 2018 due to a 33.0% decrease in nonperforming loans partially offset by a 6.9% decrease in the allowance for loan losses.

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans held for investment at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,									
	2019		2018		2017		2016		2015	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
One- to four-family residential real estate loans	**$ 187**	**9.76%**	$ 360	10.4%	$ 567	11.1%	$ 618	12.2%	$ 656	16.1%
Commercial real estate loans	**2,589**	**82.14%**	2,130	81.3%	2,056	82.0%	1,689	80.0%	1,136	75.3%
Commercial and industrial loans	**116**	**6.79%**	377	6.1%	462	4.7%	147	4.0%	64	5.3%
Consumer and other loans	**30**	**1.31%**	34	2.2%	32	2.2%	52	3.8%	38	3.3%
Total allocated allowance	**$ 2,922**	**100.00%**	$ 2,901	100.0%	$ 3,117	100.0%	$ 2,506	100.0%	$ 1,894	100.0%

Investments

Our investment policy is established by our Board of Directors. The policy emphasizes safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management strategy.

The following table sets forth the amortized cost and estimated fair value of our available-for-sale securities portfolio at the dates indicated.

	At December 31,					
	2019		2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)					
Mortgage-backed securities (1)	**$ 30,723**	**$ 31,019**	$ 28,800	$ 28,310	$ 21,029	$ 20,769
Agency securities	**1,103**	**1,079**	1,488	1,445	2,007	1,958
Municipal obligations	**12,279**	**12,419**	3,672	3,673	1,672	1,673
Total	**$ 44,105**	**$ 44,517**	$ 33,960	$ 33,428	$ 24,708	$ 24,400

(1) Includes Freddie Mac, Ginnie Mae and Fannie Mae.

At December 31, 2019, 2018 and 2017, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Portfolio Maturities and Yields. The composition and maturities of the securities portfolio at December 31, 2019, are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the effect of scheduled principal repayments, prepayments, or early redemptions that may occur. Tax-equivalent yield adjustments have not been made for tax-exempt securities, as the effect thereof was not material.

	One Year or Less		More than One Year Through Five Year		More than Five Years Through Ten Years		More Than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Mortgage-backed securities (1)	$ -	-%	$ 23,716	2.59%	$ 7,007	2.61%	$ -	-%	$ 30,723	$ 31,019	2.60%
Agency securities	-	-%	1,103	2.05%	-	-%	-	-%	1,103	1,079	2.05%
Municipal obligations	-	-%	2,333	3.24%	7,041	2.97%	2,905	2.62%	12,279	12,419	2.94%
	$ -	-%	$ 27,152	2.63%	$ 14,048	2.79%	$ 2,905	2.62%	$ 44,105	$ 44,517	2.68%

(1) Includes Freddie Mac, Ginnie Mae and Fannie Mae.

Sources of Funds

General. Deposits traditionally have been our primary source of funds for use in lending and investment activities. We also use Federal Home Loan Bank of Dallas advances to supplement cash flow needs, lengthen the maturities of liabilities, for interest rate risk purposes and to manage the cost of funds. Funds are derived from scheduled loan payments, securities maturities, loan prepayments, loan sales, and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. The following tables set forth the distribution of average total deposits by account type, for the years indicated.

	For the Years Ended December 31,								
	2019			2018			2017		
	Average Balance	**Percent**	**Weighted Average Rate**	**Average Balance**	**Percent**	**Weighted Average Rate**	**Average Balance**	**Percent**	**Weighted Average Rate**
	(Dollars in thousands)								
Deposit Type:									
Non-interest bearing	**$ 49,813**	**17.5%**	**-**	$ 44,215	17.9%	-	$ 44,285	18.7%	-
Checking	**26,337**	**9.3%**	**0.48%**	25,967	10.5%	0.49%	26,521	11.2%	0.49%
Money market	**121,408**	**42.7%**	**1.66%**	100,399	40.7%	1.18%	96,751	40.9%	0.94%
Savings	**7,098**	**2.6%**	**0.18%**	5,981	2.5%	0.18%	5,545	2.4%	0.15%
Certificates of deposit	**79,432**	**27.9%**	**2.06%**	70,363	28.4%	1.57%	63,406	26.8%	1.07%
Total deposits	**$284,088**	**100.0%**	**1.34%**	$246,925	100.0%	0.98%	$236,508	100.0%	0.78%

As of December 31, 2019, the aggregate amount of all our certificates of deposit in amounts greater than or equal to $250,000 was $12.4 million. The $12.4 million excludes $20.0 million of brokered certificates of deposit as individual investors only invest in $1,000 increments up to the $250,000 insured limit. The following table sets forth the maturity of these certificates of deposit as of December 31, 2019:

	At December 31, 2019
	(In thousands)
Three months or less	**$ 1,398**
Over three through six months	**1,430**
Over six through twelve months	**8,004**
Over twelve months	**1,547**
Total	**$ 12,379**

Borrowings. As of December 31, 2019, 2018 and 2017 our borrowings consisted solely of Federal Home Loan Bank of Dallas advances. The following table sets forth information concerning balances and interest rates on our Federal Home Loan Bank advances at the dates and for the years indicated.

	At or For the Years Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Average amount outstanding during the year	**$ 50,518**	$ 60,209	$ 55,984
Highest amount outstanding at any month end during the year	**$ 75,000**	$ 80,000	$ 67,000
Weighted average interest rate during the year	**2.02%**	1.95%	1.07%
Balance outstanding at end of year	**$ 40,000**	$ 67,000	$ 45,000
Weighted average interest rate at end of year	**2.34%**	2.45%	1.26%

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of real estate loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our board of directors has established an Asset/Liability Management Committee, which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Management Committee reviews our asset/liability policies and position and the implementation of interest rate risk strategies.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk:

- forward commitments were used to mitigate our exposure to interest rate risk associated with interest rate lock commitments and mortgage loans held for sale in our mortgage banking operation;
- offering a variety of adjustable rate loan products;
- using alternate funding sources, such as advances from the Federal Home Loan Bank of Dallas;
- maintaining pricing strategies that encourage "core" deposits;
- selling longer-term, fixed rate loans into the secondary market.

By following these strategies, we believe that we are better positioned to react to increases in market interest rates.

Economic Value of Equity. We monitor interest rate risk through the use of a simulation model that estimates the amounts by which the fair value of our assets and liabilities (our economic value of equity or "EVE") would change in the event of a range of assumed changes in market interest rates. The quarterly reports developed in the simulation model assist us in identifying, measuring, monitoring and controlling interest rate risk to ensure compliance within our policy guidelines.

The table below sets forth, as of December 31, 2019 and 2018, the estimated changes in our EVE that would result from the designated instantaneous changes in market interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

December 31, 2019				December 31, 2018			
Change in Interest Rates (basis points)(1)	**Estimated EVE (2)**	**Estimated Increase (Decrease) in EVE**		Change in Interest Rates (basis points)(1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE	
		Amount	**Percent**			Amount	Percent
(Dollars in thousands)							
+400	**$ 22,644**	**$ (28,647)**	**-55.85%**	+400	$ 33,264	$ (22,762)	-40.63%
+300	**32,741**	**(18,550)**	**-36.17%**	+300	40,599	(15,427)	-27.54%
+200	**40,055**	**(11,236)**	**-21.91%**	+200	46,541	(9,485)	-16.93%
+100	**46,474**	**(4,817)**	**-9.39%**	+100	51,908	(4,118)	-7.35%
-	**51,291**	**-**	**-**	-	56,026	-	-
-100	**52,945**	**1,654**	**3.22%**	-100	57,682	1,656	2.96%
-200	**49,016**	**(2,275)**	**-4.44%**	-200	52,643	(3,383)	-6.04%

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

The table above indicates that at December 31, 2019, in the event of a 100 basis point decrease in interest rates, we would experience a 3.22% increase in EVE. In the event of a 200 basis point increase in interest rates at December 31, 2019, we would experience a 21.91% decrease in EVE. At December 31, 2018, in the event of a 100 basis point decrease in interest rates, we would experience a 2.96% increase in EVE. In the event of a 200 basis point increase in interest rates at December 31, 2018, we would experience a 16.93% decrease in EVE.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in EVE require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the EVE table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the EVE table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on EVE and will differ from actual results.

EVE calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of our loans, deposits and borrowings.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities, and the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits with other banks and short- and intermediate-term securities.

We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of December 31, 2019.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2019, cash and cash equivalents totaled $29.5 million. Available-for-sale securities, which provide additional sources of liquidity, totaled $44.5 million at December 31, 2019. In addition, at December 31, 2019, we had $40.0 million of advances outstanding from the Federal Home Loan Bank of Dallas and the ability to borrow an additional $105.4 million from the FHLB, $9.8 million from The Independent BankersBank (TIB) and $6.0 million from the Pacific Coast Bankers Bank (PCBB).

At December 31, 2019, we had $25.7 million in loan commitments outstanding. In addition, we had $17.8 million in unused lines of credit.

Time deposits due within one year of December 31, 2019 totaled $55.6 million, or 68.3% of total time deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2019. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us, either as certificates of deposit or as other deposit products. We expect that we will be able to attract and retain deposits by adjusting the interest rates offered.

We have no material commitments or demands that are likely to affect our liquidity other than set forth above. In the event loan demand were to increase at a pace greater than expected, or any unforeseen demand or commitment were to occur, we would access our borrowing capacity with the Federal Home Loan Bank of Dallas.

During the year ended December 31, 2019 net cash provided for operating activities was $32.0 million representing net income adjusted for non-cash items. The largest cash inflow was the $25.6 million in proceeds from sales of loans held for sale.

Our primary investing activities are the origination of loans and the purchase of securities. In the years ended December 31, 2019 and 2018, we originated $119.0 million and $437.1 million of loans and purchased $16.2 million and $15.5 million of securities, respectively. We have not purchased any whole loans in the past two years.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced a net increase in total deposits of $38.7 million during the year ended December 31, 2019 including $23.8 million in savings and NOW deposits, $11.1 million in noninterest bearing demand deposits and $3.8 million in time deposits.

Federal Home Loan Bank advances decreased $27.0 million during the year ended December 31, 2019 primarily due to our exit from mortgage banking operations.

Bancorp 34, Inc. is a separate legal entity from the Bank and must provide for its own liquidity to pay any dividends to stockholders, to repurchase its common stock, and for other corporate purposes. Bancorp 34, Inc.'s primary source of liquidity is dividend payments it may receive from the Bank. At December 31, 2019, Bancorp 34, Inc. (on an unconsolidated basis) had liquid assets of $2.0 million. In June, September and December 2019, the Company paid quarterly cash dividends of $0.05 per share each. Dividends paid in 2019 totaled $482,000.

Bank 34 is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2019, Bank 34 exceeded all regulatory capital requirements. Bank 34 is categorized as "well-capitalized" under regulatory guidelines.

Off-Balance Sheet Arrangements and Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our potential future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. For additional information, see Note 12 of the Notes to the Consolidated Financial Statements.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment, agreements with respect to borrowings and deposits and agreements with respect to securities.

Derivative Financial Instrument. We used forward commitments to mitigate our exposure to interest rate risk associated with interest rate lock commitments and mortgage loans held for sale when we were actively involved in mortgage banking operation.

Recent Accounting Pronouncements

For recent accounting pronouncements see Note 1 of the Notes to the Consolidated Financial Statements.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of Bancorp 34, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

For information regarding market risk, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 8. Financial Statements and Supplementary Data

CONTENTS

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

Management, including the principal executive officer and principal financial officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal control — Integrated Framework* (2013). Based on such assessment, management concluded that, as of December 31, 2019, the Company's internal control over financial reporting is effective based upon those criteria.

Because the Company is a smaller reporting company, it is not required to receive, and has not received, a report with respect to the effectiveness of internal control over financial reporting from an independent registered public accounting firm.

/s/ Jill Gutierrez	/s/ Jan R. Thiry
Jill Gutierrez	Jan R. Thiry
President and Chief Executive Officer	Executive Vice President, Chief Financial Officer & Treasurer

MOSSADAMS

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors
Bancorp 34, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Bancorp 34, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws, and the applicable rules and regulations of the Securities and Exchange Commission, and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Phoenix, Arizona
February 18, 2020

We have served as the Company's auditor since 2017.

BANCORP 34, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	**$ 4,496,465**	$ 6,374,457
Interest-bearing deposits with banks	**24,990,000**	5,400,000
Total cash and cash equivalents	**29,486,465**	11,774,457
Available-for-sale securities, at fair value	**44,517,178**	33,428,658
Loans held for sale - discontinued operations	**-**	26,884,014
Loans held for investment	**294,660,719**	285,691,372
Allowance for loan losses	**(2,921,931)**	(2,901,091)
Loans held for investment, net	**291,738,788**	282,790,281
Premises and equipment, net	**8,990,955**	9,558,943
Premises and equipment, net - discontinued operations	**-**	56,683
Stock in financial institutions, restricted, at cost	**4,016,761**	3,910,361
Accrued interest receivable	**961,105**	863,513
Accrued interest receivable - discontinued operations	**-**	11,527
Deferred income tax asset, net	**1,907,876**	2,196,928
Bank owned life insurance	**10,850,085**	10,573,069
Core deposit intangible, net	**133,052**	172,108
Prepaid and other assets	**1,137,090**	815,950
Prepaid and other assets - discontinued operations	**-**	241,415
TOTAL ASSETS	**$ 393,739,355**	$ 383,277,907
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand deposits	**$ 56,401,370**	$ 45,350,477
Savings and NOW deposits	**166,107,428**	142,349,920
Time deposits	**81,387,861**	77,538,576
Total deposits	**303,896,659**	265,238,973
Federal Home Loan Bank advances	**40,000,000**	67,000,000
Escrows	**254,593**	228,816
Escrows - discontinued operations	**-**	149,776
Accrued interest and other liabilities	**4,271,437**	3,520,201
Accrued interest and other liabilities - discontinued operations	**233,427**	717,407
Total liabilities	**348,656,116**	336,855,173
Commitments and contingencies (note 12)	**-**	-
Stockholders' equity		
Preferred stock, $0.01 par value, 50,000,000 authorized, none issued and outstanding	**-**	-
Common stock, $0.01 par value, 100,000,000 authorized, 3,208,618 and 3,374,565 issued and outstanding.	**32,086**	33,746
Additional paid-in capital	**23,168,176**	25,500,873
Retained earnings	**23,157,134**	22,928,777
Accumulated other comprehensive income (loss), net of tax	**307,255**	(396,148)
Unearned employee stock ownership plan (ESOP) shares	**(1,581,412)**	(1,644,514)
Total stockholders' equity	**45,083,239**	46,422,734
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 393,739,355**	$ 383,277,907

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2019	2018
Interest income		
Interest and fees on loans	**$ 17,489,918**	$ 15,846,938
Interest on securities	**972,524**	654,444
Interest on other interest-earning assets	**484,546**	362,047
Total interest income	**18,946,988**	16,863,429
Interest expense		
Interest on deposits	**3,799,642**	2,430,616
Interest on borrowings	**1,020,368**	743,196
Total interest expense	**4,820,010**	3,173,812
Net interest income	**14,126,978**	13,689,617
Provision for loan losses	**22,500**	318,000
Net interest income after provision for loan losses	**14,104,478**	13,371,617
Noninterest income		
Gain on sale of loans	**272,293**	129,231
Service charges and fees	**362,293**	367,346
Bank owned life insurance	**370,388**	365,705
Other	**14,225**	38,888
Total noninterest income	**1,019,199**	901,170
Noninterest expense		
Salaries and benefits	**6,619,148**	6,131,107
Occupancy	**1,462,077**	1,426,701
Data processing fees	**2,092,060**	1,566,001
FDIC and other insurance expense	**181,206**	206,633
Professional fees	**815,278**	944,932
Advertising	**260,440**	170,723
Other	**1,061,408**	1,276,723
Total noninterest expense	**12,491,617**	11,722,820
Income from continuing operations before provision for income taxes	**2,632,060**	2,549,967
Provision for income taxes	**665,953**	674,712
Net income from continuing operations	**1,966,107**	1,875,255
Discontinued operations		
Loss from discontinued operations	**(1,683,555)**	(1,060,754)
Benefit for income taxes	**(427,627)**	(259,013)
Net loss from discontinued operations	**(1,255,928)**	(801,741)
NET INCOME	**710,179**	1,073,514
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	**943,533**	(223,210)
Tax effect of unrealized (gain) loss on available-for-sale securities	**(240,130)**	57,107
Unrealized gain (loss) on available-for-sale securities, net of tax	**703,403**	(166,103)
COMPREHENSIVE INCOME	**$ 1,413,582**	$ 907,411
Earnings per common share - Basic		
Earnings per common share - continuing operations	**$ 0.64**	$ 0.59
Loss per common share - discontinued operations	**(0.41)**	(0.26)
Earnings per common share - Basic	**$ 0.23**	$ 0.33
Earnings per common share - Diluted		
Earnings per common share - continuing operations	**$ 0.64**	$ 0.59
Loss per common share - discontinued operations	**(0.41)**	(0.26)
Earnings per common share - Diluted	**$ 0.23**	$ 0.33

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Total Stockholders' Equity
BALANCE, DECEMBER 31, 2017	3,490,672	$ 34,907	$ 26,849,822	$ 26,060,598	$ (274,266)	$ (1,700,372)	$ 50,970,689
Net income	-	-	-	1,073,514	-	-	1,073,514
Unrealized loss on available-for-sale securities, net	-	-	-	-	(166,103)	-	(166,103)
Stock option exercise	15,464	155	149,073	-	-	-	149,228
Restricted stock awards	429	4	(4)	-	-	-	-
Restricted stock forfeitures	(6,500)	(65)	65	-	-	-	-
Amortization of equity awards	-	-	427,382	-	-	55,858	483,240
Tax rate effect reclassification (1)	-	-	-	(44,221)	44,221	-	-
Share repurchase	(125,500)	(1,255)	(1,925,465)	-	-	-	(1,926,720)
Dividend paid - $1.25 per share	-	-	-	(4,161,114)	-	-	(4,161,114)
BALANCE DECEMBER 31, 2018	**3,374,565**	**$ 33,746**	**$ 25,500,873**	**$ 22,928,777**	**$ (396,148)**	**$ (1,644,514)**	**$ 46,422,734**
Net income	**-**	**$ -**	**$ -**	**$ 710,179**	**$ -**	**$ -**	**$ 710,179**
Unrealized gain on available-for-sale securities, net	**-**	**-**	**-**	**-**	**703,403**	**-**	**703,403**
Stock option exercise	**7,300**	**73**	**69,962**	**-**	**-**	**-**	**70,035**
Restricted stock awards	**4,000**	**40**	**(40)**	**-**	**-**	**-**	**-**
Restricted stock forfeitures	**(1,800)**	**(18)**	**18**	**-**	**-**	**-**	**-**
Amortization of equity awards	**-**	**-**	**328,256**	**-**	**-**	**63,102**	**391,358**
Share repurchase	**(175,447)**	**(1,755)**	**(2,730,893)**	**-**	**-**	**-**	**(2,732,648)**
Dividends paid - $0.15 per share	**-**	**-**	**-**	**(481,822)**	**-**	**-**	**(481,822)**
BALANCE DECEMBER 31, 2019	**3,208,618**	**$ 32,086**	**$ 23,168,176**	**$ 23,157,134**	**$ 307,255**	**$ (1,581,412)**	**$ 45,083,239**

(1) The stranded tax element of accumulated other comprehensive income created by the 2017 Tax Cuts and Jobs Act is reclassified to retained earnings.

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2019	2018
Cash flows from operating activities		
Net income	**$ 710,179**	$ 1,073,514
Less: Net loss from discontinued operations	**(1,255,928)**	(801,741)
Net income from continuing operations	**1,966,107**	1,875,255
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	**611,200**	702,956
Stock dividends on financial institution stock	**(106,400)**	(84,500)
Amortization of premiums and discounts on securities, net	**122,057**	250,556
Amortization of ESOP awards	**99,367**	89,883
Stock-based compensation expense	**291,991**	393,357
Amortization of core deposit intangible	**39,056**	48,556
Gain on sale of loans	**(272,293)**	(129,231)
Proceeds from sale of loans	**3,714,648**	1,703,987
Provision for loan losses	**22,500**	318,000
Net appreciation on bank-owned life insurance	**(277,016)**	(282,397)
Deferred income tax (benefit) expense	**48,922**	(36,975)
Changes in operating assets and liabilities:		
Accrued interest receivable	**(86,065)**	(36,080)
Prepaid and other assets	**(79,725)**	325,921
Accrued interest and other liabilities	**267,256**	(154,044)
Net cash from operating activities - continuing operations	**6,361,605**	4,985,244
Net cash from operating activities - discontinued operations	**25,628,086**	(12,222,996)
Net cash from operating activities	**31,989,691**	(7,237,752)
Cash flows from investing activities		
Proceeds from principal payments on available-for-sale securities	**5,940,620**	6,014,670
Purchases of available-for-sale securities	**(16,207,664)**	(15,517,212)
Purchase of bank-owned life insurance	**-**	(155,000)
Net change in loans held for investment	**(12,413,363)**	(26,826,528)
Proceeds from disposals of premises and equipment	**33,516**	-
Purchases of premises and equipment	**(20,044)**	(197,678)
Net cash from investing activities	**(22,666,935)**	(36,681,748)
Cash flows from financing activities		
Net change in deposits	**38,657,686**	29,677,640
Net change in escrows	**(123,999)**	81,745
Proceeds from Federal Home Loan Bank advances	**30,000,000**	132,000,000
Repayments of Federal Home Loan Bank advances	**(57,000,000)**	(110,000,000)
Exercise of stock options	**70,035**	149,228
Dividends paid	**(481,822)**	(4,161,114)
Common stock repurchases	**(2,732,648)**	(1,926,720)
Net cash from financing activities	**8,389,252**	45,820,779
Net change in cash and cash equivalents	**17,712,008**	1,901,279
Cash and cash equivalents, beginning of period	**11,774,457**	9,873,178
Cash and cash equivalents, end of period	**$ 29,486,465**	$ 11,774,457
Supplemental disclosures:		
Interest on deposits and advances paid	**$ 4,802,125**	$ 3,470,186
Income taxes paid	**$ 19,553**	$ 352,600
Loans transferred to loans held for sale	**$ 3,423,909**	$ 2,037,039

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

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Bancorp 34, Inc. (“Bancorp 34” or the “Company”) is a Maryland corporation organized in 2016 to be the successor to Alamogordo Financial Corp (“AFC”), a savings and loan holding company, upon completion of the second-step conversion of Bank 34 (the “Bank”) from the two-tier mutual holding company structure to the stock holding company structure. AF Mutual Holding Company (the “MHC”) was the former mutual holding company for AFC prior to completion of the second-step conversion. In conjunction with the second-step conversion, both the MHC and AFC ceased to exist. The second-step conversion was completed on October 11, 2016 at which time Bancorp 34 sold 1,879,484 shares of its common stock (including 150,358 shares purchased by the Bank’s employee stock ownership plan) at $10.00 per share for gross proceeds of approximately $18.8 million. Expenses related to the stock offering totaled $1.3 million and were netted against proceeds. As part of the second-step conversion, each of the outstanding shares of common stock of AFC held by persons other than the MHC were converted into 2.0473 shares of Bancorp 34 common stock with cash paid in lieu of fractional shares. As a result, a total of 1,558,706 shares were issued to persons previously owning AFC shares in the second-step conversion. After the conversion and stock offering 3,438,190 shares of Bancorp 34 common stock were outstanding. As a result of the conversion, Bancorp 34 now owns 100% of the Bank.

The Bank provides a variety of banking services to individuals and businesses through its full-service branches in Alamogordo and Las Cruces, New Mexico, and Scottsdale and Peoria, Arizona.

In May 2019, Bank 34 took steps to exit the Bank's operations with respect to originating residential mortgage loans for sale into the secondary market ("Mortgage Banking"). The Mortgage Banking operations that were disposed of, and that represent a strategic shift that will have a major effect on operations and financial results, are accounted for as discontinued operations. Additional information on discontinued operations can be found in The consolidated financial statements, Note 2 – Discontinued Operations.

The primary deposit products are demand deposits, certificates of deposit, NOW, savings and money market accounts. The primary lending products are commercial loans. The Bank is subject to competition from other financial institutions, regulation by certain federal agencies and undergoes periodic examinations by regulatory authorities.

Rising and falling interest rate environments can have various impacts on the Bank’s net interest income, depending on the short-term interest rate gap that the Bank maintains. The Bank’s net interest income is also affected by prepayments of loans and early withdrawals of deposits.

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Discontinued Operations – As discussed in The consolidated financial statements, Note 2 – Discontinued Operations, current and prior periods presented in the consolidated statements of comprehensive income as well as the related note disclosures covering income and expense amounts have been retrospectively adjusted for the impact of discontinued operations for comparative purposes. The consolidated balance sheets and related note disclosures for prior periods also reflect the reclassification of certain assets and liabilities to discontinued operations.

Basis of Consolidation – The consolidated financial statements include the accounts of Bancorp 34 and the Bank. All significant intercompany accounts and transactions have been eliminated.

Emerging Growth Company Status - Bancorp 34 was an emerging growth company under the JOBS Act and lost its status as an emerging growth company at the end of 2019. Bancorp 34 elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements were made applicable to private companies. We remain a smaller reporting company, which still permits us to provide streamlined financial statement and other disclosures, and exempts us from external attestation of our internal controls.

Reclassifications – Certain reclassifications have been made to prior period's financial information to conform to the current period presentation.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include, but are not limited to, allowance for loan losses, useful lives used in depreciation and amortization, deferred income taxes and related valuation allowance and core deposit intangibles.

Subsequent Events - Subsequent events have been evaluated through the date the consolidated financial statements were issued.

Cash and Cash Equivalents – Cash and cash equivalents include cash, due from banks, and federal funds sold. Generally, the Company considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents. In monitoring credit risk associated with deposits in other banks, the Bank periodically evaluates the stability of the correspondent financial institutions.

Available for Sale Securities – The Company reviews its financial position, liquidity, and future plans in evaluating the criteria for classifying securities. Available-for-sale securities consist of bonds, notes, debentures, mortgage-backed securities, municipal obligations and certain equity securities not classified as trading securities or as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of stockholders' equity. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the expected life of the security.

Loans Held for Sale – Loans held for sale includes one- to four-family residential real estate loans, and periodically, a portion of Small Business Administration ("SBA") or United States Department of Agriculture (USDA) loans the Bank intends to sell. They are carried at fair value. Gains and losses on the sale of mortgage loans are recognized upon sale and are determined by the difference between the sales proceeds and carrying value of the loans. As discussed in The consolidated financial statements, Note 2 – Discontinued Operations, the Company discontinued originating mortgage loans held for sale in its name in June 2019. Net unrealized losses, if any, are recorded as a valuation allowance and charged to operations. The December 31, 2019 and 2018 loans held for sale portfolio totaled $0 and $26.9 million, respectively, all of which were one- to four-family residential real estate loans.

Derivative Financial Instruments - In connection with its mortgage banking operation, the Company had the following derivative financial instruments which were carried at fair value and included in Prepaid and other assets or Other liabilities in the Consolidated Balance Sheets with fair value changes recorded in Gain on sale of loans in the Consolidated Statement of Comprehensive Income:

- *Interest Rate Lock Commitments* – The Company entered into Interest Rate Lock Commitments ("IRLCs") to set mortgage loan interest rates with its mortgage loan customers prior to funding.

- *Forward Commitments* – The Company entered into forward commitments as part of its strategy to manage its exposure to changes in interest rates related to its interest rate lock commitments provided to customers to fund mortgages and on mortgage loans held for sale. These forward commitments were not designated as hedges for accounting purposes under GAAP.

As discussed in The consolidated financial statements, Note 2 – Discontinued Operations, the Company discontinued issuing mortgage interest rate lock commitments (IRLCs) in its name in May 2019. Fair values of IRLCs at December 31, 2019 and 2018 were $0 and $381,000, respectively, and fair value losses of forward commitments were $0 and $154,000 at December 31, 2019 and 2018, respectively.

Loans Held for Investment, Net – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific allowances and net of any deferred fees or costs. Loans are considered past due or delinquent based on the contractual terms in the loan agreement and how recently repayments have been received. Interest income is recognized based upon principal amounts outstanding. The accrual of interest is discontinued at the time the loan is 90 days past due or when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal, unless the credit is well secured and in process of collection. Interest previously accrued but uncollected on such loans is reversed and charged against current income. Subsequent interest collected on such loans is credited to loan principal if, in the opinion of management, collectability of principal is doubtful; otherwise, the interest collected is recognized as income and resumption of interest accruals may occur. Loans are charged-off as uncollectible when, in the opinion of management, collectability of principal is improbable. Personal loans are typically charged off when no later than 180 days past due.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio; credit concentrations; trends in historical loss experience; and specific impaired loans and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Management's periodic evaluation of the adequacy of the allowance is based on the current level of net loan losses, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Premises and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets which range from three to seven years for equipment and fifteen to forty years for leasehold improvements and buildings. Maintenance and repairs that do not extend the useful lives of premises and equipment are charged to expense as incurred.

Stock in Financial Institutions - The Bank has investments in other financial institutions including the Federal Home Loan Bank (FHLB) and other correspondent banks. The Bank is a member of FHLB system. Members are required to own stock in the FHLB. The level of stock ownership is based on the level of borrowing and other factors, and member banks may invest in additional amounts at times. Financial institution stock is carried at cost, is classified as a restricted security and is periodically evaluated for impairment based on ultimate recovery. Cash and stock dividends are recorded in Other income in the Consolidated Statement of Comprehensive Income.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Owned Life Insurance (BOLI) – The Bank holds BOLI representing life insurance on the lives of certain executives of the Bank purchased in order to help offset the costs of the Bank's benefit expenses. BOLI is carried on our consolidated balance sheets at the net cash surrender value of the policies and increases in the net cash surrender value are recorded in noninterest income in the consolidated statements of comprehensive income (loss) as bank owned life insurance income.

Core deposit intangible (CDI) – Core deposit intangible represents a premium paid to acquire core deposits representing the net present value of core deposits acquired over their book value on the acquisition date. The core deposit intangible is amortized using the double declining balance method over the 9-year estimated useful lives of the core deposits. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying value of the assets may be larger than the value of the future undiscounted cash flows.

Other Real Estate (ORE) – ORE consists of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. These properties are carried at fair value based on appraisal value less estimated sales costs. Loan losses arising from the acquisition of such properties are charged against the allowance for loan losses; any subsequent valuation adjustments are charged to expense, and the basis of the properties is reduced accordingly. These properties are not held for the production of income and, therefore, are not depreciated. Significant improvements expected to increase the resale value are capitalized and added to the value of the property.

Fair Value Measurements – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A three-level fair value hierarchy prioritizes the inputs used to measure fair value:

- **Level 1** – Quoted prices in active markets for identical assets or liabilities; includes certain U.S. Treasury and other U.S. Government agency debt that is highly-liquid and is actively traded in over-the-counter markets.

- **Level 2** – Inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- **Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Escrow Accounts – Funds collected from loan customers for insurance, real estate taxes and other purposes are maintained in escrow accounts and carried as a liability in the Consolidated Balance Sheets. These funds are periodically remitted to the appropriate entities to satisfy those claims.

Financial Instruments with Off-Balance-Sheet Risk – In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received. The credit risk associated with these instruments is evaluated using the same methodology as for loans held for investment.

Advertising Cost – The Bank conducts direct and non-direct response advertising and purchases prospective customer lists from various sources. These costs are expensed as incurred. Advertising costs from continuing operations for the years ended December 31, 2019 and 2018 were $260,000 and $171,000, respectively.

Employee Stock Ownership Plan (ESOP) – The Bank sponsors an internally leveraged ESOP. The cost of shares issued to the ESOP but not yet released is shown as unearned employee stock ownership plan (ESOP) shares, an element of stockholders' equity in our consolidated balance sheets. As shares are committed to be released, compensation expense is recorded equal to the market price of the shares, and the shares become outstanding for purposes of earnings per share calculations. To the extent that the fair value of ESOP shares committed differs from the cost of such shares, the difference is charged or credited to additional paid-in capital in stockholders' equity.

Cash dividends on unallocated ESOP shares may be used to make payments on the ESOP loan and may be allocated to participant accounts in proportion to their account balances. Cash dividends paid on allocated shares are recorded as a reduction of retained earnings and, at the direction of the employer may be: a) credited directly to participant accounts in proportion to their account balances, or b) distributed directly to participants (outside the plan) in proportion to their account balances, or c) used to make payments on the ESOP loan requiring the release of shares with at least a similar fair market value be allocated to participant accounts. In addition, participants have the right to receive an immediate distribution of their vested cash dividends paid on shares of common stock credited to their accounts.

Other Stock-Based Compensation – The Company has stock-based compensation plans which provide for the award of various benefits to Directors and employees, including restricted stock and options to purchase stock. Each restricted stock award is separated into vesting tranches and compensation expense is recognized based on the fair value at the date of grant for each tranche on a straight-line basis over the vesting period reduced for estimated forfeitures. Cash dividends on unvested restricted shares are charged to compensation expense. The fair value of stock option awards granted is estimated using the Black-Scholes-Merton option pricing model using inputs including the option exercise price and risk free rate of return, and assumptions for expected dividend yield, expected stock price volatility and the expected life of the awards. The closing market price of the Company's stock on the date of grant is the exercise price for the stock options and the estimated fair value of the restricted stock awards. Expense is recognized over the required service period, defined as the vesting period. For awards with graded vesting, expense is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize expense net of actual forfeitures.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Accrued interest and penalties associated with uncertain tax positions are recognized as part of the income tax provision. The Company has no uncertain tax provisions.

Comprehensive Income (Loss) – Comprehensive income (loss) consists of net income (loss) and net unrealized gains and losses on securities available-for-sale, net of taxes when applicable.

Earnings per Common Share - Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Maryland corporate law does not provide for treasury shares; therefore, shares repurchased are removed from issued and outstanding immediately and would not be considered outstanding. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements. The Company has restricted stock awards that participate in dividends ("participating securities"), and is required to apply the two-class method to compute earnings per share. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period.

Business Combinations – The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations" ("ASC 805"). The Company recognizes the full estimated fair value of the assets received and liabilities assumed, immediately expenses transaction costs and accounts for restructuring plans separately from the business combination. There is no recognition of the acquired allowance for loan losses on our consolidated balance sheet as credit related factors are incorporated directly into the estimated fair value of the loans recorded at the effective date of the business combination. The excess of the cost of the merger over the fair value of the net tangible and intangible assets acquired, if any, is recorded as goodwill. Alternatively, a bargain purchase gain is recorded equal to the amount by which the estimated fair value of assets received exceeds the estimated fair value of liabilities assumed and consideration paid. Results of operations of the acquired business are included in our statement of comprehensive income (loss) from the effective date of the business combination.

Summary of Recent Accounting Pronouncements:

Revenue Recognition - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU replaced the most existing revenue recognition guidance in GAAP when it became effective. ASU 2014-09 would have been initially effective for the Company's reporting period beginning January 1, 2018. However, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers - Deferral of the Effective Date*, which deferred the effective date by one year. For financial reporting purposes, the standard allows for either a full retrospective or modified retrospective adoption. The FASB has also issued additional updates to provide further clarification to specific implementation issues associated with ASU 2014-09. These updates include ASU 2016-08, *Principal versus Agent Considerations*, ASU 2016-10, *Identifying Performance Obligations and Licensing*, ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients*, and ASU 2016-20, *Technical Corrections and Improvements to Topic 606*. We adopted the standard on January 1, 2019, using the modified retrospective method, which resulted in no cumulative effect and no other adjustment or significant impact to the timing of revenue recognition.

Under Topic 606, we 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) we satisfy the performance obligations. Our 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. We have evaluated the nature of our contracts with customers and determined that further disaggregation of revenue from contracts with customers into categories beyond what is presented in the Consolidated Statements of Comprehensive Income was not necessary. For revenue sources that are within the scope of Topic 606, we fully satisfy our performance obligations and recognize revenue in the period it is earned as services are rendered. Transaction prices are typically fixed, charged on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with our customers.

All of our revenue from contracts with customers in the scope of Accounting Standards Codification (ASC) 606 is recognized in Non-Interest Income. Sources of revenue from contracts with customers that are in the scope of ASC 606 include the following:

• Service Charges on Deposit accounts - We earn monthly account fees and transaction-based fees from our customers for services rendered on deposit accounts. Fees charged to deposit accounts on a monthly basis are recognized as the performance obligation is satisfied at the end of the service period.

• Transaction-based fees - We earn fees based on specific services provided to our customer. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

• ATM and Point of Sale fees – We earn fees when debit cards we issued are used in transactions through card processing networks. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' account. The fees are recognized monthly.

Leases – In February 2016, the FASB issued ASU 2016-02 *"Leases (Topic 842)."* This standard requires entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018 for public companies, but the Company will have until the first quarter of 2020 to adopt due to its emerging growth company status. The guidance is required to be applied by the modified retrospective transition approach. Early adoption is permitted. We have performed an analysis of our existing leases and expect to recognize a new right-of-use asset and related lease liability between $1.3 million and $1.4 million upon implementation of this ASU, effective January 1, 2020.

Credit Losses - In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments—Credit Losses (Topic* 326*): Measurement of Credit Losses on Financial Instruments."* The amendments in this update replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to create credit loss estimates. The new guidance is effective for public companies that are U.S. Securities and Exchange Commission filers for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. For all other public companies, the amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For all other companies, including emerging growth companies, the amendments were to be effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. On October 16, 2019, FASB announced a delay in the implementation schedule allowing certain entities, including smaller reporting companies, as defined in Securities and Exchange Commission regulations, such as the Company, to adopt effective for the first fiscal year beginning after December 15, 2022. The guidance is required to be applied by the modified retrospective approach. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently assessing the impact of the adoption of this authoritative guidance on our consolidated financial statements.

Premium on Callable Debt - In March 2017, the FASB issued ASU No. 2017-08, *"Receivables–Nonrefundable Fees and Other Costs (Subtopic* 310-20*)"* to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Currently, entities generally amortize the premium as a yield adjustment over the contractual life of the security. The guidance does not change the accounting for callable debt securities held at a discount. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including in an interim period. The adoption of ASU 2017-08 in January 2019 did not have a significant impact on our consolidated financial statements.

Reporting Tax Effects of Tax Cuts and Jobs Act - In February 2018, the FASB issued ASU No. 2018-02, *"Income Statement-Reporting Comprehensive Income (Topic* 220*): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"* that helps organizations address certain stranded income tax effects in accumulated other comprehensive income (AOCI) resulting from the 2017 Tax Cuts and Jobs Act. The ASU provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The ASU requires financial statement preparers to disclose a description of the accounting policy for releasing income tax effects from AOCI, whether they elect to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act, and information about the other income tax effects that are reclassified. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. We adopted ASU 2018-02 effective December 2018 and reclassified the stranded tax effects from AOCI to retained earnings. Adoption did not have a significant impact on our consolidated financial statements.

NOTE 2 – DISCONTINUED OPERATIONS

On May 9, 2019, the Company entered into a purchase and assumption agreement to transfer its mortgage banking operations to another financial institution. Under the agreement, the other financial institution would offer employment to a majority of the Company's mortgage operations employees. Assuming a majority of key employees at those locations agreed to transfer, the other financial institution would assume certain leases and fixed assets at those locations. Subsequent to that transaction, a majority of the mortgage operation employees made arrangements to transfer to different financial institutions, which similarly agreed to assume certain leases and fixed assets at those respective locations. Sales and assumption agreements with different financial institutions were consummated in 2019. All related transactions were completed by December 31, 2019. The Company no longer has continuing involvement with mortgage banking operations. The Company discontinued issuing mortgage interest rate lock commitments (IRLCs) in its name in May 2019 and originating mortgage loans held for sale in its name in June 2019.

Income and expense related to mortgage banking operations are included in discontinued operations and prior period financial information has been retrospectively adjusted for the impact of discontinued operations.

Liabilities for costs associated with discontinued operations were recognized and measured initially at their fair values during the quarter ended June 30, 2019 and adjusted on December 31, 2019. Those costs include, but are not limited to, involuntary employee termination benefits, cost to terminate contracts, and other associated costs. The liability itself consists of future cash flows expected to be incurred in the exit and disposal activity, which are discounted at a credit-adjusted risk-free interest rate.

The following table summarizes the one-time charge on net loss on disposal of discontinued operations:

Severance benefits	**$ 147,948**
Leases, software & other contractual obligations	**360,613**
Fixed asset losses	**30,423**
Other costs	**305,915**
Net Loss on Disposal	**$ 844,899**

The following table presents results of discontinued operations for the years ended December 31, 2019, and 2018:

	Year Ended December 31,	
	2019	2018
Net interest income	**$ 170,782**	$ 326,446
Gain on sale of loans	**4,813,660**	14,292,592
Other	**190**	-
Total noninterest income	**4,813,850**	14,292,592
Salaries and benefits	**4,480,025**	12,067,023
Occupancy	**232,360**	674,977
Data processing fees	**584,369**	1,394,464
Professional fees	**107,972**	178,906
Advertising	**118,801**	356,419
Net loss on disposal	**844,899**	-
Other	**299,761**	1,008,003
Total noninterest expense	**6,668,187**	15,679,792
Loss from discontinued operations	**(1,683,555)**	(1,060,754)
Benefit for income taxes	**(427,627)**	(259,013)
Net loss from discontinued operations	**$ (1,255,928)**	$ (801,741)

Net interest income from discontinued operations includes interest income on mortgage loans held for sale less interest expense allocated to mortgage banking operations equal to the average mortgage loans held for sale times the average rate on FHLB short-term borrowings.

Material assets and liabilities of mortgage banking operations are classified as Discontinued Operations in the consolidated balance sheet as of December 31, 2019, and prior year balances have been adjusted to conform with the current period presentation.

The following table summarizes the major categories of assets and liabilities classified as held for sale related to discontinued operations in the consolidated balance sheet as of:

	December 31, 2019	December 31, 2018
Loans held for sale - discontinued operations	**$ -**	$ 26,884,014
Premises and equipment, net - discontinued operations	**-**	56,683
Accrued interest receivable - discontinued operations	**-**	11,527
Prepaid and other assets - discontinued operations	**-**	241,415
Total assets	**$ -**	$ 27,193,639
Escrows - discontinued operations	**-**	149,776
Accrued interest and other liabilities - discontinued operations	**233,427**	717,407
Total liabilities	**$ 233,427**	$ 867,183
Net (liabilities) assets	**$ (233,427)**	$ 26,326,456

NOTE 3 – RESTRICTIONS ON CASH AND DUE FROM BANKS

Banks are required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The reserves required at December 31, 2019 and 2018 were $1.1 million and $1.1 million, respectively, and is included in cash and cash equivalents in the consolidated balance sheets.

NOTE 4 – AVAILABLE-FOR-SALE SECURITIES

Available-for-sale securities have been classified in the consolidated balance sheets according to management's intent at December 31, 2019 and 2018. The amortized cost of such securities and their approximate fair values were as follows:

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Available-for-sale securities				
Mortgage-backed securities	**$ 30,722,958**	**$ 415,564**	**$ (119,774)**	**$ 31,018,748**
U.S. Government agencies	**1,102,532**	**1,739**	**(24,824)**	**1,079,447**
Municipal obligations	**12,279,341**	**254,521**	**(114,879)**	**12,418,983**
Total	**$ 44,104,831**	**$ 671,824**	**$ (259,477)**	**$ 44,517,178**
December 31, 2018				
Available-for-sale securities				
Mortgage-backed securities	$ 28,799,904	$ 115,824	$ (605,370)	$ 28,310,358
U.S. Government agencies	1,487,917	-	(42,885)	1,445,032
Municipal obligations	3,672,023	2,363	(1,118)	3,673,268
Total	$ 33,959,844	$ 118,187	$ (649,373)	$ 33,428,658

There were no sales of available-for-sale securities in 2019 or 2018.

Amortized cost and fair value of securities by contractual maturity as of December 31, 2019 and 2018 are shown below. For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the actual contractual maturities of underlying collateral. Expected maturities may differ from contractual maturities because borrowers may call or prepay obligations.

The scheduled maturities of available-for-sale securities at December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Due in one year or less	**$ -**	**$ -**	$ 403,612	$ 402,924
Due after one to five years	**27,151,751**	**27,510,536**	23,040,618	22,482,300
Due after five to ten years	**14,048,273**	**14,163,270**	10,515,614	10,543,434
Due after ten years	**2,904,807**	**2,843,372**	-	-
Totals	**$ 44,104,831**	**$ 44,517,178**	$ 33,959,844	$ 33,428,658

At December 31, 2019 and 2018, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

At December 31, 2019 and 2018, mortgage-backed securities included collateralized mortgage obligations of $13.4 million and $13.8 million, respectively, which are backed by single-family mortgage loans. The Company does not hold any securities backed by commercial real estate loans.

Gross Unrealized Losses and Fair Value – The following tables show the gross unrealized losses and fair values of securities by length of time that individual securities in each category have been in a continuous loss position.

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:						
Mortgage-backed securities	**$ 10,201,840**	**$ (64,195)**	**$ 6,459,069**	**$ (55,579)**	**$ 16,660,909**	**$ (119,774)**
U.S. Government agencies	**-**	**-**	**843,719**	**(24,824)**	**843,719**	**(24,824)**
Municipal obligations	**4,676,851**	**(114,879)**	**-**	**-**	**4,676,851**	**(114,879)**
Total temporarily impaired securities	**$ 14,878,691**	**$ (179,074)**	**$ 7,302,788**	**$ (80,403)**	**$ 22,181,479**	**$ (259,477)**

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:						
Mortgage-backed securities	$ 8,605,742	$ (200,190)	$ 10,740,671	$ (405,180)	$ 19,346,413	$ (605,370)
U.S. Government agencies	302,219	(885)	1,142,814	(42,000)	1,445,033	(42,885)
Municipal obligations	1,747,571	(430)	402,924	(688)	2,150,495	(1,118)
Total temporarily impaired securities	$ 10,655,532	$ (201,505)	$ 12,286,409	$ (447,868)	$ 22,941,941	$ (649,373)

At December 31, 2019 and 2018, all of the government agencies and mortgage-backed securities held by the Company were issued by U.S. Government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2019.

Loans and securities carried at approximately $147.2 million at December 31, 2019 were pledged to secure FHLB advances. In addition, securities carried at approximately $4.2 million at December 31, 2019 were pledged to secure public deposits.

NOTE 5 – LOANS HELD FOR INVESTMENT, NET

The components of loans held for investment, net in the consolidated balance sheets were as follows:

	December 31, 2019		December 31, 2018	
	Amount	Percent	Amount	Percent
Loans held for investment, net:				
Commercial real estate	**$242,682,721**	**82.1%**	$233,102,637	81.3%
One- to four-family residential real estate residential real estate	**28,849,640**	**9.8**	29,855,462	10.4
Commercial and industrial	**20,075,236**	**6.8**	17,508,258	6.1
Consumer and other	**3,860,991**	**1.3**	6,374,532	2.2
Total gross loans	**295,468,588**	**100.0%**	286,840,889	100.0%
Unamortized loan fees	**(807,869)**		(1,149,517)	
Loans held for investment	**294,660,719**		285,691,372	
Allowance for loan losses	**(2,921,931)**		(2,901,091)	
Loans held for investment, net	**$291,738,788**		$282,790,281	

At December 31, 2019 and 2018 commercial real estate loans include construction loans of $16.1 million and $20.8 million, respectively.

Allowance for Loan Losses and Recorded Investment in Loans – The following is a summary of the allowance for loan losses and recorded investment in loans as of December 31, 2019 and 2018:

	As of December 31, 2019				
	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Other	Total
Allowance for loan losses					
Ending balance: individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Ending balance: collectively evaluated for impairment	**2,588,714**	**187,345**	**115,502**	**30,370**	**2,921,931**
Total	**$ 2,588,714**	**$ 187,345**	**$ 115,502**	**$ 30,370**	**$ 2,921,931**
Gross loans					
Ending balance: individually evaluated for impairment	**$ 2,718,731**	**$ 786,557**	**$ -**	**$ -**	**$ 3,505,288**
Ending balance: collectively evaluated for impairment	**239,963,990**	**28,063,083**	**20,075,236**	**3,860,991**	**291,963,300**
Total	**$ 242,682,721**	**$ 28,849,640**	**$ 20,075,236**	**$ 3,860,991**	**$295,468,588**

	As of December 31, 2018				
	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Other	Total
Allowance for loan losses					
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	2,130,124	359,705	377,180	34,082	2,901,091
Total	$ 2,130,124	$ 359,705	$ 377,180	$ 34,082	$ 2,901,091
Gross loans					
Ending balance: individually evaluated for impairment	$ 2,993,923	$ 649,685	$ -	$ -	$ 3,643,608
Ending balance: collectively evaluated for impairment	230,108,714	29,205,777	17,508,258	6,374,532	283,197,281
Total	$233,102,637	$ 29,855,462	$ 17,508,258	$ 6,374,532	$286,840,889

The following is a summary of activities for the allowance for loan losses for the years ended December 31, 2019 and 2018:

	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Consumer and Other	Total
Balance December 31, 2018	**$ 2,130,124**	**$ 359,705**	**$ 377,180**	**$ 34,082**	**$ 2,901,091**
Provision for loan losses	**458,590**	**(169,193)**	**(263,185)**	**(3,712)**	**22,500**
Charge-offs	**-**	**(8,686)**	**-**	**-**	**(8,686)**
Recoveries	**-**	**5,519**	**1,507**	**-**	**7,026**
Net (charge-offs) recoveries	**-**	**(3,167)**	**1,507**	**-**	**(1,660)**
Balance December 31, 2019	**$ 2,588,714**	**$ 187,345**	**$ 115,502**	**$ 30,370**	**$ 2,921,931**
Balance December 31, 2017	$ 2,055,911	$ 567,290	$ 462,406	$ 31,583	$ 3,117,190
Provision for loan losses	624,213	(183,988)	(124,724)	2,499	318,000
Charge-offs	(550,000)	(36,096)	(10,322)	-	(596,418)
Recoveries	-	12,499	49,820	-	62,319
Net (charge-offs) recoveries	(550,000)	(23,597)	39,498	-	(534,099)
Balance December 31, 2018	$ 2,130,124	$ 359,705	$ 377,180	$ 34,082	$ 2,901,091

Nonperforming Assets – The following tables present an aging analysis of the recorded investment of past due loans as of December 31, 2019 and 2018. Payment activity is reviewed by management on a monthly basis to determine the performance of each loan. Per Company policy, loans past due 90 days or more no longer accrue interest.

	Past Due					Total
	30 - 59 Days	60 - 89 Days	90 Days or More	Total	Current	Financing Receivables
December 31, 2019						
Commercial real estate	**$ -**	**$ -**	**$ 2,718,731**	**$ 2,718,731**	**$239,963,990**	**$242,682,721**
One- to four-family residential real estate	**758,197**	**36,520**	**638,623**	**1,433,340**	**27,416,300**	**28,849,640**
Commercial and industrial	**-**	**-**	**-**	**-**	**20,075,236**	**20,075,236**
Consumer and other	**-**	**-**	**-**	**-**	**3,860,991**	**3,860,991**
Totals	**$ 758,197**	**$ 36,520**	**$ 3,357,354**	**$ 4,152,071**	**$291,316,517**	**$295,468,588**

	Past Due					Total
	30 - 59 Days	60 - 89 Days	90 Days or More	Total	Current	Financing Receivables
December 31, 2018						
Commercial real estate	$ -	$ 2,744,405	$ -	$ 2,744,405	$230,358,232	$233,102,637
One- to four-family residential real estate	782,835	234,524	393,068	1,410,427	28,445,035	29,855,462
Commercial and industrial	-	-	-	-	17,508,258	17,508,258
Consumer and other	-	-	-	-	6,374,532	6,374,532
Totals	$ 782,835	$ 2,978,929	$ 393,068	$ 4,154,832	$282,686,057	$286,840,889

The following table sets forth nonaccrual loans and other real estate at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Nonaccrual loans		
Commercial real estate	**$ 2,718,731**	$ 2,993,923
One- to four-family residential real estate	**786,557**	649,685
Commercial and industrial	**-**	-
Consumer and other	**-**	-
Total nonaccrual loans	**3,505,288**	3,643,608
Other real estate (ORE)	**-**	-
Total nonperforming assets	**$ 3,505,288**	$ 3,643,608
Nonperforming assets to gross loans held for investment and ORE	**1.19%**	1.27%
Nonperforming assets to total assets	**0.89%**	0.95%

Nonaccrual loan balances guaranteed by the SBA are $2.3 million, or 66%, and $2.3 million, or 63%, of the nonaccrual loan balances at December 31, 2019 and December 31, 2018, respectively.

Credit Quality Indicators – The following table represents the credit exposure by internally assigned grades at December 31, 2019 and 2018. This grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements in accordance with the loan terms. The Bank's internal credit risk grading system is based on management's experiences with similarly graded loans. Credit risk grades are reassessed each quarter based on any recent developments potentially impacting the creditworthiness of the borrower, as well as other external statistics and factors, which may affect the risk characteristics of the respective loan.

	As of December 31, 2019				
	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Consumer and Other	Total
Grade					
Pass	**$ 237,546,684**	**$ 26,969,204**	**$ 19,774,797**	**$ 3,860,991**	**$ 288,151,676**
Special mention	**508,201**	**375,054**	**-**	**-**	**883,255**
Substandard	**4,627,836**	**1,505,382**	**300,439**	**-**	**6,433,657**
Doubtful	**-**	**-**	**-**	**-**	**-**
Loss	**-**	**-**	**-**	**-**	**-**
Totals	**$ 242,682,721**	**$ 28,849,640**	**$ 20,075,236**	**$ 3,860,991**	**$ 295,468,588**

	As of December 31, 2018				
	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Consumer and Other	Total
Grade					
Pass	$ 226,510,803	$ 27,990,417	$ 17,237,690	$ 6,374,532	$ 278,113,442
Special mention	1,981,667	268,892	-	-	2,250,559
Substandard	4,610,167	1,596,153	270,568	-	6,476,888
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Totals	$ 233,102,637	$ 29,855,462	$ 17,508,258	$ 6,374,532	$ 286,840,889

The Bank's internally assigned grades are as follows:

Pass – Strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – Potential weaknesses that deserve management's close attention. Borrower and guarantor's capacity to meet all financial obligations is marginally adequate or deteriorating.

Substandard – Inadequately protected by the paying capacity of the Borrower and/or collateral pledged. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

Doubtful – All the weakness inherent in one classified as substandard with the added characteristic that those weaknesses in place make the collection or liquidation in full, on the basis of current conditions, highly questionable and improbable.

Loss – Considered uncollectible or no longer a bankable asset. This classification does not mean that the asset has absolutely no recoverable value. In fact, a certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

Impaired Loans – The following tables include the recorded investment and unpaid principal balances, net of charge-offs for impaired loans with the associated allowance amount, if applicable. Management determined the allocated allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the allocated allowance recorded.

	As of December 31, 2019			
	Recorded Investment	Principal Net of Charge-offs	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial real estate	**$ 2,718,731**	**$ 2,718,731**	**$ -**	**$ 2,738,545**
One- to four-family residential real estate	**786,557**	**786,557**	**-**	**791,476**
Commercial and industrial	**-**	**-**	**-**	**-**
Consumer and other	**-**	**-**	**-**	**-**
	$ 3,505,288	**$ 3,505,288**	**$ -**	**$ 3,530,021**
With an allowance recorded:	**$ -**	**$ -**	**$ -**	**$ -**
Total:				
Commercial real estate	**$ 2,718,731**	**$ 2,718,731**	**$ -**	**$ 2,738,545**
One- to four-family residential real estate	**786,557**	**786,557**	**-**	**791,476**
Commercial and industrial	**-**	**-**	**-**	**-**
Consumer and other	**-**	**-**	**-**	**-**
	$ 3,505,288	**$ 3,505,288**	**$ -**	**$ 3,530,021**

	As of December 31, 2018			
	Recorded Investment	Principal Net of Charge-offs	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial real estate	$ 2,993,923	$ 2,993,923	$ -	$ 3,007,495
One- to four-family residential real estate	649,685	649,685	-	656,436
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
	$ 3,643,608	$ 3,643,608	$ -	$ 3,663,931
With an allowance recorded:	$ -	$ -	$ -	$ -
Total:				
Commercial real estate	$ 2,993,923	$ 2,993,923	$ -	$ 3,007,495
One- to four-family residential real estate	649,685	649,685	-	656,436
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
	$ 3,643,608	$ 3,643,608	$ -	$ 3,663,931

During the years ended December 31, 2019 and 2018, no interest income was recognized on these loans while in nonaccrual status as interest collected was credited to loan principal. We recognized $10,000 of income in 2019 and $4,000 in 2018 prior to the loans being placed on non-accrual.

Certain loans within the Company's loan and ORE portfolios are guaranteed by the Veterans Administration (VA). In the event of default by the borrower, the VA can elect to pay the guaranteed amount or take possession of the property. If the VA takes possession of the property, the Company is entitled to be reimbursed for the outstanding principal balance, accrued interest and certain other expenses. There were no commitments from the VA to take title to foreclosed VA properties at December 31, 2019 and 2018.

Troubled Debt Restructurings – Restructured loans are considered "troubled debt restructurings" if due to the borrower's financial difficulties, the Bank has granted a concession that they would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, rates, or a combination of the two. All troubled debt restructurings placed on nonaccrual status must show no less than six months of repayment performance by the borrower in accordance with contractual terms to return to accrual status. Once a loan has been identified as a troubled debt restructuring, it will continue to be reported as such until the loan is paid in full.

In the normal course of business, the Company may modify a loan for a credit worthy borrower where the modified loan is not considered a troubled debt restructuring. In these cases, the modified terms are consistent with loan terms available to credit worthy borrowers and within normal loan pricing. The modifications to such loans are done according to existing underwriting standards which include review of historical financial statements, including current interim information if available, an analysis of the causes of the borrower's decline in performance, and projections intended to assess repayment ability going forward.

There was one troubled debt restructuring with a principal balance of less than $75,000 as of December 31, 2019 and December 31, 2018.

NOTE 6 – STOCK IN FINANCIAL INSTITUTIONS

The Bank has stock in the FHLB of Dallas, The Independent Bankers Bank (TIB) and Pacific Coast Bankers' Bancshares (PCBB). The carrying value of the stocks at December 31, 2019 and 2018 was $4.0 million and $3.9 million, respectively, and is accounted for using the cost basis of accounting. The Bank is required to maintain minimum levels of FHLB stock based on various factors, including the amount of borrowings outstanding, mortgage assets and the Bank's total assets.

NOTE 7 – PREMISES AND EQUIPMENT, NET

Components of premises and equipment, net included in the consolidated balance sheets at December 31, 2019 and 2018 were as follows:

	At December 31,	
	2019	2018
Cost:		
Land and improvements	**$ 2,452,807**	$ 2,452,807
Building and improvements	**12,250,011**	12,264,369
Furniture and equipment	**1,790,529**	2,073,474
Automobiles	**91,387**	91,387
Total cost	**16,584,734**	16,882,037
Accumulated depreciation and amortization	**(7,593,779)**	(7,323,094)
Net book value	**$ 8,990,955**	$ 9,558,943

Depreciation and amortization expense was $611,000 and $703,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8 – CORE DEPOSIT INTANGIBLE

The gross carrying value and accumulated amortization of core deposit intangible is as follows:

	December 31, 2019	December 31, 2018
Gross carrying value	**$ 502,000**	$ 502,000
Less accumulated amortization	**(368,948)**	(329,892)
Core deposit intangible	**$ 133,052**	$ 172,108

Amortization of core deposit intangible was $39,000 and $49,000 for the years ended December 31, 2019 and 2018, respectively.

The future amortization expense related to core deposit intangible remaining as of December 31, 2019 is as follows:

Year one	$ 35,443
Year two	35,443
Year three	35,443
Year four	26,723
Year five	-
Core deposit intangible	$ 133,052

NOTE 9 – TIME DEPOSITS

Following are maturities of time deposits at December 31, 2019 and 2018:

Maturity	At December 31, 2019 Weighted-Average Rate	At December 31, 2019 Amount	At December 31, 2018 Weighted-Average Rate	At December 31, 2018 Amount
One year or less	**2.09%**	**$ 55,567,378**	1.51%	$ 30,457,540
Over one through three years	**2.08%**	**22,461,008**	2.20%	43,552,518
Over three through five years	**1.85%**	**3,359,475**	1.58%	3,528,518
	2.08%	**$ 81,387,861**	1.90%	$ 77,538,576

At December 31, 2019 and 2018, the Bank had $12.4 million and $10.7 million, respectively, in time deposits of $250,000 or more. At December 31, 2019 and 2018, $10.8 million and $6.4 million, respectively, of such time deposits mature within one year.

Interest expense on time deposits in denominations of $250,000 or more amounted to $212,000 and $133,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 – BORROWINGS

The Bank has established a borrowing line with the FHLB of Dallas. As of December 31, 2019 and 2018, the Bank had outstanding advances totaling $40.0 million and $67.0 million, respectively, carrying interest rates from 1.32% to 3.03%. As of December 31, 2019, the Bank had unused credit available under the FHLB blanket pledge agreement of $105.4 million. The following are maturities of outstanding FHLB advances at December 31, 2019 and 2018:

Maturity	At December 31, **2019**	At December 31, 2018
Year one	**$ 40,000,000**	$ 27,000,000
Year two	**-**	40,000,000
Year three	**-**	-
Year four	**-**	-
Total borrowings	**$ 40,000,000**	$ 67,000,000

The Bank has two lines of credit available with other financial institutions of $9.8 and $6.0 million with no outstanding balances at December 31, 2019 and 2018.

NOTE 11 – DERIVATIVES

As discussed in The consolidated financial statements, Note 2 – Discontinued Operations, the Company discontinued issuing mortgage interest rate lock commitments (IRLCs) in its name in May 2019. These derivatives are not designated as hedge accounting under GAAP and accordingly the fair value of these derivatives is included in Prepaid and other assets or Other liabilities in the Consolidated Balance Sheets with fair value changes recorded in Gain on sale of loans in the Consolidated Statements of Comprehensive Income.

The following table shows the fair value of derivatives included in Gain on sale of loans as part of the results of discontinued operations in The consolidated financial statements, Note 2 - Discontinued Operations:

	For the Year Ended December 31,	
	2019	2018
Forward Commitments	**$ (272,012)**	$ (58,344)
Interest rate lock commitments	**(380,866)**	197,779
	$ (652,878)	$ 139,435

The following table shows the fair value of derivatives included in Prepaid and other assets in the Consolidated Balance Sheets:

	As of December 31,			
	2019		2018	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Forward Commitments	**$ -**	**$ -**	$ 21,500,000	$ (153,906)
Interest rate lock commitments	**-**	**-**	27,000,000	380,886
	$ -	**$ -**	$ 48,500,000	$ 226,980

NOTE 12 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank has outstanding commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amounts represent off-balance-sheet credit risk are as follows as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Commitments to originate and sell mortgage loans	**$ -**	$ 34,268,309
Commitments to extend credit	**25,739,246**	25,323,822
Unused lines of credit	**17,765,580**	18,281,453
Totals	**$ 43,504,826**	$ 77,873,584

There were no commitments to originate and sell mortgage loans at December 31, 2019 due to the Company exiting mortgage banking operations, see The consolidated financial statements, Note 2 – Discontinued Operations.

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 are expected to 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 by and may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

NOTE 13 – LEASES

The Bank has noncancelable operating leases that expire over the next three years that require the payment of base lease amounts and executory costs such as taxes, maintenance and insurance. Rental expense for leases was $664,000 and $938,000 for the years ended December 31, 2019 and 2018, respectively.

Approximate future minimum rental commitments under noncancelable leases are:

For the Year Ending December 31,	Amount
2020	$ 581,943
2021	507,522
2022	363,921
	$ 1,453,386

NOTE 14 – EMPLOYEE RETIREMENT BENEFIT PLANS

Profit Sharing Plan – The Company has established a profit-sharing 401(k) type salary reduction plan (Plan) for all employees that meet the necessary eligibility requirements and participants are fully vested after six years of service. For Company matching contributions made for plan years prior to 2014, annual Company contributions were at the discretion of the Board of Directors. Effective January 1, 2014, the Company adopted a Safe Harbor matching contribution provision, whereby it agreed to match 100% of participant's contributions up to the first 3% of salary and 50% of the next 2%, for a total maximum Company matching contribution of 4% of participant salary, as defined by the Plan. The Safe Harbor matching contribution is guaranteed.

Profit sharing plan expense was $336,000 and $375,000 for the years ended December 31, 2019 and 2018, respectively.

Employee Stock Ownership Plan – The ESOP covers substantially all employees that meet certain age and service requirements. Under the plan, annual retirement expense is generally defined as a percentage of employee compensation, net of forfeitures from employees who have terminated employment.

In October 2016, the ESOP borrowed $1.5 million from the Company to purchase 150,358 shares of common stock from the Company at $10 per share. Bancorp 34 accepted a $1.8 million note from the ESOP secured by all unallocated shares in the plan with a 30-year repayment term. The principal balance includes $1.5 million used to purchase stock in 2016 and $266,000 used to pay off already outstanding ESOP loans used to purchase shares in 2012 and 2014. Principal and interest payments on the note are made every December 31 and the interest rate on the loan adjusts annually on January 1st to the prime rate of interest as published in the Wall Street Journal. The Bank makes at least annual discretionary contributions to the ESOP and the ESOP uses all funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation for that plan year. At the discretion of the employer, participants may receive the shares, cash, or a combination of stock and cash at the end of employment.

Since the Bank is the primary source of repayment on ESOP loans, the Bank records the note payable and an equal contra-equity account on its balance sheet and interest expense and ESOP benefit plan expense on its statement of comprehensive income equal to the annual loan payments. As inter-company borrowings, all bank-recorded balance sheet items, Bancorp 34 interest income and Bank 34 interest expense on the ESOP loan are eliminated in consolidation. Bancorp 34 consolidated financial statements include a contra-equity account with a balance equal to the purchase price of all unallocated shares in the ESOP.

Shares held by the ESOP at December 31, 2019 and 2018 were as follows:

	At December 31,	
	2019	2018
Allocated and committed to be allocated to participants	**35,566**	33,318
Unallocated/unearned	**163,745**	170,316
Total ESOP shares	**199,311**	203,634
Fair value of unallocated/unearned shares	**$ 2,500,386**	$ 2,452,557

ESOP expense was $99,000 and $90,000 for the years ended December 31, 2019 and 2018, respectively.

Defined Benefit Plan – The Company contributes to a multi-employer defined benefit pension plan, the Pentegra Defined Benefit Plan for Financial Institutions ("Pentegra DB Plan", EIN 13-5645888 and Plan No. 333). On June 1, 2006, the Company froze the benefits available under the defined benefit pension plan. The risk of participating in the Pentegra DB Plan is different from single-employer plans in the following aspects:

- Assets contributed to the Pentegra DB Plan may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the Pentegra DB Plan, the unfunded obligations may be borne by the remaining participating employers.
- If the Company chooses to stop participating in the Pentegra DB Plan, it may be required to pay a withdrawal liability.

The Company's cash contributions to the Pentegra DB Plan were $225,000 and $82,000 during the years ended December 31, 2019 and 2018, respectively, all of which represented less than 5% of the total plan contributions. As of July 1, 2019 (the most recent valuation report available), the unfunded pension liability was approximately $572,000 (87% funded). Pension plan expense (benefit) for the years ended December 31, 2019 and 2018 was $158,000 and $44,000, respectively. There are no funding improvement or rehabilitation plans pending, and no future minimum contributions required by collective-bargaining or other contractual agreements. Under U.S. legislation regarding multi-employer pension plans, a company is required to pay an amount that represents its proportionate share of a plan's unfunded vested benefits in the event of withdrawal (as defined by the legislation) from a plan or upon plan termination.

In January 2020 the Company gave notice of its intention to withdraw from the Pentegra DB Plan and transfer the assets and liabilities to a new single-employer plan. An estimated $1.5 million contribution will be required to be made by June 30, 2020 to cover the unfunded liabilities before full withdrawal from the Pentegra DB Plan.

Deferred Compensation and Directors Fee Plans – A deferred compensation plan covers all senior officers and a deferred directors fee plan covers all directors. Under these plans, the company pays each participant that elects to defer, or their beneficiary, the amount deferred plus interest over a pre-selected period up to 10 years, beginning with the participant's termination of service. A liability is accrued monthly for the deferred amount plus interest earned. The interest rate on deferred balances is determined annually on January 1st at the greater of Wall Street Journal Prime or 5%, and was 5.5% and 5.0%, in the years ended December 31, 2019 and 2018, respectively. Interest expense for the deferred plans was $77,000 and $57,000, for the years ended December 31, 2019 and 2018, respectively. Deferred plan liabilities, included in accrued interest and other liabilities on the balance sheet, were $1.5 million and $1.3 million, as of December 31, 2019 and 2018, respectively.

NOTE 15 – BOARD OF DIRECTORS' RETIREMENT POLICY

The Bank has entered into director retirement agreements with three current Board members, which were amended in 2013. Each agreement provides for a normal retirement benefit equal to each director's accrual balance of $74,238 amortized with interest and payable upon the later of the director's normal retirement date (age 70) or his separation from service, in monthly installments over a 15-year period. The director's account balance is payable to the director or the director's beneficiary under certain circumstances as set forth in the director's individual agreement.

The Board previously had a deferred compensation policy (Policy) to compensate Board members for their service to the Company. The retirement date for directors was the later of the last month in which they reached age 70 or completion of their term if they were elected to the Board during the annual meeting resulting in service beyond age 70. Upon retirement, Board members receive deferred compensation for the remainder of their life up to a maximum of $2,000 per month. Board members vested in the Policy based on service as follows: zero to four years of service (20%), five years of service (40%), six years of service (60%), seven years of service (80%) and eight years of service (100%). On September 21, 2011, the Board rescinded this retirement policy for current directors. The total liability for the combined policies and agreements was $268,000 at December 31, 2019 and 2018.

NOTE 16 – INCOME TAXES

The provision for income taxes from continuing operations for the years ended December 31, 2019 and 2018, includes these components:

	Years Ended December 31,	
	2019	2018
Current		
Federal	**$ 510,945**	$ 508,165
State	**106,086**	114,841
Deferred expense	**48,922**	51,706
Provision for income taxes from continuing operations	**$ 665,953**	$ 674,712

Income tax expense from continuing operations differs from the amounts computed by applying the federal income tax rate of 21% in 2019 and 2018, to earnings before federal income tax expense. These differences are primarily caused by state income taxes, net of federal tax benefit, income that is not taxable for federal and state income tax purposes, expenses that are not deductible for tax purposes and tax adjustments related to prior federal income tax returns.

A reconciliation of income tax expense from continuing operations at the Federal statutory rate to the Company's actual income tax expense for all periods presented is shown below:

	Years Ended December 31,	
	2019	2018
Federal tax at the statutory rate (21%)	**$ 552,733**	$ 535,493
Benefit from permanent differences:		
State income taxes, net of Federal tax benefit	**109,048**	216,188
Bank-owned life insurance	**(58,173)**	(59,303)
Meals & entertainment	**11,080**	6,486
Other, net	**51,265**	(24,152)
Provision for income taxes from continuing operations	**$ 665,953**	$ 674,712

The tax effects of temporary differences related to deferred taxes were:

	As of December 31,	
	2019	2018
Deferred tax assets:		
Allowance for loan losses	**$ 734,048**	$ 721,765
Unrealized losses on AFS securities	**-**	135,038
Board of Directors retirement plan	**271,099**	239,957
Other, net	**278,581**	311,762
Deferred compensation	**248,271**	215,033
Accrued bonus	**192,331**	216,254
Organizational costs	**50,451**	70,638
Net operating loss carryforwards	**787,500**	840,001
Total deferred tax assets	**2,562,281**	2,750,448
Deferred tax liabilities:		
FHLB stock dividends	**(79,953)**	(52,709)
Depreciation and amortization	**(217,321)**	(276,802)
Loan origination costs	**(218,615)**	(195,770)
Purchase accounting	**(33,425)**	(28,239)
Unrealized gains on AFS securities	**(105,091)**	-
Total deferred tax liabilities	**(654,405)**	(553,520)
Net deferred tax asset	**$ 1,907,876**	$ 2,196,928

A valuation allowance for deferred tax assets is recorded when it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, NOL carry-back potential, and tax planning strategies in making this assessment. Based upon the Company's assessment of all available evidence, management determined it was more-likely-than-not that the net deferred tax asset would be realized at December 31, 2019.

At December 31, 2019, the Company had federal operating loss carry-forwards of approximately $3.8 million, all of which are subject to Internal Revenue Code ("IRC") Section 382 limitations, which limit the annual use of acquired losses to $250,000 per year, and begin to expire in 2028. At December 31, 2019, the Company has recorded deferred tax assets of $788,000 related to the Federal net operating loss carry-forwards.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2019, 2018 and 2017, there were no material uncertain tax positions related to federal and state income tax matters. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

The Company files consolidated U.S. federal and various state income/franchise tax returns. The Company is no longer subject to examination by U.S. federal taxing authorities for years before 2016 and is no longer subject to examination by state taxing authorities for years before 2015 or 2016. Our federal and state tax returns have not been audited for the past five years.

NOTE 17 – REGULATORY MATTERS

Bank 34 is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and Tier 1 capital to adjusted total assets. Management believes, as of December 31, 2019 and 2018, the Bank meets all capital adequacy requirements to which it is subject.

Banks are also subject to certain restrictions on the amount of dividends that they may declare without prior regulatory approval.

As of December 31, 2019, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank has to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events that management believes have changed the Bank's prompt corrective action category.

The Bank's actual and required capital amounts and ratios are as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2019:						
Total Capital (to Risk-Weighted Assets)	**$ 42,944**	**14.59%**	**$ 23,554**	**≥8.00%**	**$ 29,443**	**≥10.00%**
Tier I Capital (to Risk-Weighted Assets)	**$ 39,982**	**13.58%**	**$ 17,666**	**≥6.00%**	**$ 23,554**	**≥8.00%**
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	**$ 39,982**	**13.58%**	**$ 13,249**	**≥4.50%**	**$ 19,138**	**≥6.50%**
Tier I Capital (to Average Assets)	**$ 39,982**	**10.30%**	**$ 15,529**	**≥4.00%**	**$ 19,411**	**≥5.00%**
As of December 31, 2018:						
Total Capital (to Risk-Weighted Assets)	$ 41,685	14.50%	$ 22,999	≥8.00%	$ 28,748	≥10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 38,703	13.46%	$ 17,252	≥6.00%	$ 23,003	≥8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$ 38,703	13.46%	$ 12,939	≥4.50%	$ 18,690	≥6.50%
Tier I Capital (to Average Assets)	$ 38,703	10.29%	$ 15,045	≥4.00 %	$ 18,806	≥5.00%

NOTE 18 – RELATED PARTY TRANSACTIONS

The Bank has entered into transactions with its executive officers, directors, significant stockholders, and their affiliates (related parties).

The activity of loans to such related parties is as follows:

	Years Ended December 31,	
	2019	2018
Beginning balance	**$ -**	$ -
New loans	**-**	500,000
Repayments	**-**	(500,000)
Ending balance	**$ -**	$ -
Fees and bonuses paid to directors during the period	**$ 218,475**	$ 244,125
Deposits from related parties held by the Bank at end of period	**$ 2,392,225**	$ 2,470,696

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

NOTE 19 – STOCK-BASED COMPENSATION

Stock-based expense for the years ended December 31, 2019 and 2018, was $299,000 and $487,000 of which $188,000 and $354,000 was charged to stock-based compensation expense and $111,000 and $133,000 was charged to stock-based other noninterest expense, respectively.

The Company accounts for forfeitures when they occur by reversing any previously accrued compensation expense on forfeited options in accordance with ASC 718 Compensation – Stock Compensation.

The stock option plan allows for net settlement of vested options. In a net settlement, the Company, at the direction of the optionee, net settles the options by issuing new shares to the optionee with a value, at the current per share trading price, equal to the total in-the-money or intrinsic value of the options less any necessary tax withholdings on the disqualifying disposition of Incentive Stock Options. The optionee is granted newly issued shares and a small amount of cash in lieu of partial shares. In 2019, 40 shares of common stock were issued in net settlements. There were no net settlements in 2018.

On November 17, 2017 the stockholders approved the adoption of the 2017 Equity Incentive Plan ("Incentive Plan"). The Incentive Plan provides for the grant of a maximum of 263,127 shares of the Company's common stock of which up to 187,948 shares of common stock may be granted for stock options and 75,179 shares of common stock may be issued as restricted stock to Directors and employees of the Company. Stock options and restricted stock awards under the Incentive Plan vest at 20% per year beginning on the first university of date of grant and have a maximum term of seven years.

On February 27, 2018 the Company awarded options to purchase 5,000 shares of the Company's common stock and issued 439 shares of restricted stock. All stock option awards were granted with an exercise price equal to the grant date closing price of the Company's common stock of $15.48 per share.

In 2019, 2,750 stock options were granted and 4,000 shares of restricted stock were issued. The average grant-date fair value of stock option awards granted in 2019 was $3.72 using the Black Scholes Merton options pricing model with the following weighted average inputs and assumptions:

Grant date stock price and exercise price	$ 14.71
Dividend yield	0.86%
Expected volatility	25.10%
Risk-free interest rate	1.84%
Expected life in years	6

Historical data is used to estimate expected volatility and the term of options expected to be outstanding and takes into account that options are not transferable. The risk-free interest rate is based on the U.S. Treasury yield curve for the expected term in effect at the date of grant.

A summary of stock option activity during the years ended December 31, 2019 and 2018 is presented below:

	For the Year Ended December 31, 2019			
	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding, December 31, 2018	**164,410**	**$ 14.68**	**5.8**	**$ 37,316**
Granted	**2,750**	**14.71**		
Exercised	**(8,460)**	**10.39**		
Forfeited or expired	**(12,400)**	**14.90**		
Outstanding, December 31, 2019	**146,300**	**$ 14.92**	**5.0**	**$ 53,166**
Exercisable, December 31, 2019	**57,910**	**$ 14.91**	**4.9**	**$ 21,131**

Information related to stock options during each year is as follows:

	Year Ended December 31, 2019	2018
Intrinsic value of options exercised	**$ 42,616**	$ 89,080
Cash received from option exercises	**$ 70,035**	$ 149,228
Tax benefit from option exercises	**$ 10,708**	$ 24,866
Total weighted average fair value of options granted	**$ 10,230**	$ 20,200

A summary of restricted stock activity during the years ended December 31, 2019 and 2018 is presented below:

	Shares	Weighted Average Grant Date Price	Average Remaining Contractual Term (years)
	For the Year Ended December 31, 2019		
Outstanding, December 31, 2018	**49,829**	**$ 14.90**	**4.0**
Granted	**4,000**	**$ 14.76**	
Vested	**(11,985)**	**14.90**	
Forfeited or expired	**(1,800)**	**14.90**	
Outstanding, December 31, 2019	**40,044**	**$ 14.89**	**3.4**

As of December 31, 2019, there was $319,000 and $581,000 of total unrecognized equity-based expense related to unvested stock options and restricted stock awards granted under the 2017 Equity Incentive Plan, respectively, that is expected to be recognized ratably over the next 3 years.

NOTE 20– FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table presents information about assets and liabilities measured at fair value on a recurring and non-recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair values as of December 31, 2019 and 2018.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
December 31, 2019:				
Recurring basis				
Mortgage-backed securities	**$ -**	**$ 31,018,748**	**$ -**	**$ 31,018,748**
U.S. Government agencies	**-**	**1,079,447**	**-**	**1,079,447**
Municipal obligations	**-**	**12,418,983**	**-**	**12,418,983**
Nonrecurring basis				
Impaired loans	**-**	**-**	**3,505,288**	**3,505,288**
Totals	**$ -**	**$ 44,517,178**	**$ 3,505,288**	**$ 48,022,466**
December 31, 2018:				
Recurring basis				
Mortgage-backed securities	$ -	$ 28,310,358	$ -	$ 28,310,358
U.S. Government agencies	-	1,445,032	-	1,445,032
Municipal obligations	-	3,673,268	-	3,673,268
Loans held for sale	-	26,884,014	-	26,884,014
Derivative IRLCs	-	-	380,866	380,866
Derivative forward commitments	-	(153,906)	-	(153,906)
Nonrecurring basis				
Impaired loans	-	-	3,643,608	3,643,608
Totals	$ -	$ 60,158,766	$ 4,024,474	$ 64,183,240

The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Bank does not know whether the fair values shown represent values at which the respective financial instruments could be sold individually or in the aggregate.

There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2019 or 2018.

The following tables present estimated fair values of the Company's financial instruments at December 31, 2019 and 2018.

	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(Dollars in thousands)				
At December 31, 2019:					
Financial assets:					
Cash and due from banks	**$ 4,496**	**$ 4,496**	**$ 4,496**	**$ -**	**$ -**
Interest-bearing deposits with banks	**24,990**	**24,990**	**24,990**	**-**	**-**
Available-for-sale securities	**44,517**	**44,517**	**-**	**44,517**	**-**
Loans held for investment, net	**291,739**	**292,246**	**-**	**-**	**292,246**
Stock in financial institutions	**4,017**	**4,017**	**-**	**4,017**	**-**
Financial liabilities:					
Demand deposits, savings and NOW deposits	**222,509**	**214,611**	**214,611**	**-**	**-**
Time deposits	**81,388**	**81,638**	**-**	**81,638**	**-**
Federal Home Loan Bank advances	**40,000**	**40,075**	**-**	**40,075**	**-**
At December 31, 2018					
Financial assets:					
Cash and due from banks	$ 6,374	$ 6,374	$ 6,374	$ -	$ -
Interest-bearing deposits with banks	5,400	5,400	5,400	-	-
Available-for-sale securities	33,429	33,429	-	33,429	-
Loans held for sale	26,884	26,884	-	26,884	-
Loans held for investment, net	282,790	283,466	-	-	283,466
Derivative IRLCs	381	381	-	-	381
Derivative forward commitments	(154)	(154)	-	(154)	-
Stock in financial institutions	3,910	3,910	-	3,910	-
Financial liabilities:					
Demand deposits, savings and NOW deposits	187,700	172,049	172,049	-	-
Time deposits	77,539	77,688	-	77,688	-
Federal Home Loan Bank advances	67,000	66,653	-	66,653	-

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

Cash and Due from Banks, Interest-Bearing Deposits with Banks and Stock in Financial Institutions– The carrying amount approximates fair value.

Deposits and FHLB Advances – Deposits include demand deposits, savings accounts, NOW accounts and money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits and FHLB advances is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits and advances of similar remaining maturities.

Available-for-sale Securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly-liquid government bonds, mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include certain collateralized mortgage and debt obligations and certain municipal securities. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities and other less liquid securities.

Loans Held for Sale – The fair value of loans held for sale is based on quoted market prices from FHLMC. FHLMC quotes are updated daily and represent prices at which loans are exchanged in high volumes and in a liquid market.

Other Real Estate – Other real estate is fair valued under Level 3 based on property appraisals less estimated disposition costs, which include both observable and unobservable inputs, at the time of transfer and as appropriate thereafter.

Loans Held for Investment – Loans held for investment, which are recorded at amortized cost, now incorporate the exit price notion reflecting factors such as a liquidity premium. Periodically, the Bank records nonrecurring adjustments to the carrying value of these loans based on fair value measurements for loans subject to impairment. The fair value of impaired loans is typically determined using a combination of observable inputs, such as interest rates, contract terms, appraisals of collateral supporting the loan and recent comparable sales of similar properties, and unobservable inputs such as creditworthiness, disposition costs and underlying cash flows associated with the loan. Since the estimates of fair value utilized for loans also involve unobservable inputs, valuations of impaired loans have been classified as Level 3.

The following table presents the significant unobservable inputs used in the fair value measurements for Level 3 financial assets measured on a non-recurring basis:

		Fair Value	Valuation Methodologies	Valuation Model	Unobservable Input Valuation
At December 31, 2019					
Impaired loans					
Commercial real estate	**$**	**2,718,731**	Appraisal	Appraisal discount and estimated selling costs	17 - 18%
One- to four-family residential real estate		**786,557**	Appraisal	Appraisal discount and estimated selling costs	17 - 18%
Total Impaired Loans	**$**	**3,505,288**			
At December 31, 2018					
Impaired loans					
Commercial real estate	$	2,993,923	Appraisal	Appraisal discount and estimated selling costs	17 - 18%
One- to four-family residential real estate		649,685	Appraisal	Appraisal discount and estimated selling costs	17 - 18%
Total Impaired Loans	$	3,643,608			
Derivative IRLCs	$	380,866	Internal pricing model	Pull-through rate	77%

NOTE 21 – CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Financial information as of December 31, 2019 and 2018, pertaining only to Bancorp 34 is as follows:

BALANCE SHEETS

	As of December 31, 2019	As of December 31, 2018
ASSETS		
Cash and due from banks	**$ 1,960,863**	$ 4,993,568
Investment in wholly owned subsidiary	**40,934,500**	39,044,001
ESOP note receivable	**1,672,606**	1,700,795
Prepaid and other assets	**520,270**	684,370
TOTAL ASSETS	**$ 45,088,239**	$ 46,422,734
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable	**$ 5,000**	$ -
Total liabilities	**5,000**	-
Stockholders' equity		
Preferred stock, $0.01 par value, 50,000,000 authorized, none issued and outstanding	**-**	-
Common stock, $0.01 par value, 100,000,000 authorized, 3,208,618 and 3,374,565 issued and outstanding.	**32,086**	33,746
Additional paid-in capital	**23,168,176**	25,500,873
Retained earnings	**23,157,134**	22,928,777
Accumulated other comprehensive income (loss), net of tax	**307,255**	(396,148)
Unearned employee stock ownership plan (ESOP) shares	**(1,581,412)**	(1,644,514)
Total stockholders' equity	**45,083,239**	46,422,734
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 45,088,239**	$ 46,422,734

STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2019	2018
Interest income on ESOP note receivable	**$ 93,544**	$ 77,917
Noninterest income		
Equity in income of subsidiary	**795,761**	1,100,091
Noninterest expense		
Professional fees and other	**175,833**	121,957
Income before income taxes	**713,472**	1,056,051
Provision (benefit) for income taxes	**3,293**	(17,463)
Net income	**710,179**	1,073,514
Other comprehensive income (loss)		
Unrealized income (loss) on available-for-sale securities	**703,403**	(121,882)
COMPREHENSIVE INCOME	**$ 1,413,582**	$ 951,632

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2019	2018
Cash flows from operating activities		
Net income	**$ 710,179**	$ 1,073,514
Adjustments to reconcile net income to net cash from operating activities:		
Equity in (income) of subsidiary	**(795,761)**	(1,100,091)
Changes in operating assets and liabilities		
Prepaid and other assets	**164,100**	(325,408)
Accrued interest and other liabilities	**5,000**	(35,828)
Net cash provided by (used for) operating activities	**83,518**	(387,813)
Cash flows from investing activities -		
Principal collections on ESOP note receivable	**28,189**	30,699
Net cash provided by investing activities	**28,189**	30,699
Cash flows from financing activities -		
Dividend from subsidiary	**-**	4,800,000
Stock option exercise	**70,058**	149,228
Share repurchase	**(2,732,648)**	(1,926,720)
Dividends paid - $0.15 per share 2019, $1.25 per share 2018	**(481,822)**	(4,161,114)
Net cash provided by financing activities	**(3,144,412)**	(1,138,606)
Net increase (decrease) in cash and due from banks	**(3,032,705)**	(1,495,720)
Cash and due from banks, beginning of period	**4,993,568**	6,489,288
Cash and due from banks, end of period	**$ 1,960,863**	$ 4,993,568

NOTE 22 –EARNINGS PER SHARE

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share computation follow:

	Year Ended December 31, 2019	2018
Basic:		
Net income from continuing operations	**$ 1,966,107**	$ 1,875,255
Net loss from discontinued operations	**(1,255,928)**	(801,741)
Less: Earnings allocated to participating securities	**(11,456)**	(24,642)
Net income allocated to common shareholders	**$ 698,723**	$ 1,048,872
Weighted-average common shares outstanding including participating securities	**3,298,548**	3,410,670
Less: Average participating securities	**(48,982)**	(70,988)
Less: Average unallocated ESOP Shares	**(164,096)**	(176,102)
Average shares	**3,085,470**	3,163,581
Basic earnings per common share - continuing operations	**$ 0.64**	$ 0.59
Basic loss per common share - discontinued operations	**(0.41)**	(0.26)
Basic earnings per common share	**$ 0.23**	$ 0.33
Diluted:		
Net income allocated to common shareholders	**$ 698,723**	$ 1,048,872
Weighted-average common shares outstanding for basic earnings per common share	**3,085,470**	3,163,581
Add: Dilutive effects of assumed exercises of stock options	**2,766**	8,076
Weighted average shares and dilutive potential common shares	**3,088,236**	3,171,655
Diluted earnings per common share - continuing operations	**$ 0.64**	$ 0.59
Diluted loss per common share - discontinued operations	**(0.41)**	(0.26)
Diluted earnings per common share	**$ 0.23**	$ 0.33

Participating securities are restricted stock awards since they participate in common stock dividends. Stock options for 4,000 shares of common stock were not considered in computing diluted earnings per common share for 2019 and 2018, because they were antidilutive.

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no changes made in our internal controls during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

See Management's Report On Internal Control Over Financial Reporting - filed herewith under Part II, Item 8, "Financial Statements and Supplementary Data."

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Bancorp 34, Inc. has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. A copy of the Code is available on Bancorp 34, Inc.'s website at www.Bank 34online.com under "About Bank 34 – Investor Relations."

The information contained under the sections captioned "Proposal I – Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for the 2020 Annual Meeting of Stockholders (The "Proxy Statement") is incorporated herein by reference or will be filed by amendment to this Annual Report on Form 10-K.

ITEM 11. Executive Compensation

The information contained under the section captioned "Executive Compensation" in the definitive Proxy Statement is incorporated herein by reference or will be filed by amendment to this Annual Report on Form 10-K.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Securities Authorized for issuance under Stock-Based Compensation Plans

Set forth below is information as of December 31, 2019 with respect to compensation plans (other than our employee stock ownership plan) under which equity securities of the Registrant are authorized for issuance. Other than our Employee Stock Ownership Plan, we do not have any equity compensation plans that were not approved by our stockholders. Equity compensation plans approved by stockholders consist of our 2001 Stock Option Plan and our 2017 Equity Incentive Plan.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under stock-based compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	**146,300**	**$14.92**	**44,748**
Equity compensation plans not approved by security holders	**N/A**	**N/A**	**N/A**
Total	**146,300**	**$14.92**	**44,748**

(b) Security Ownership of Certain Beneficial Owners

The information required by this item is incorporated herein by reference to the section captioned "Voting Securities and Principal Holders" in the Proxy Statement or will be filed by amendment to this Annual Report on Form 10-K.

(c) Security Ownership of Management

The information required by this item is incorporated herein by reference to the section captioned "Proposal I – Election of Directors" in the Proxy Statement or will be filed by amendment to this Annual Report on Form 10-K.

(d) Changes in Control

Management of the Company know of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the section captioned "Proposal I – Election of Directors – Certain Relationships and Related Transactions" of the Proxy Statement or will be filed by amendment to this Annual Report on Form 10-K.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned "Proposal II – Ratification of Appointment of Independent Registered Public Accounting Firm" of the Proxy Statement or will be filed by amendment to this Annual Report on Form 10-K.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

3.1	Articles of Incorporation of Bancorp 34, Inc. (1)
3.2	Bylaws of Bancorp 34, Inc. (1)
4.1	Form of Common Stock Certificate of Bancorp 34, Inc. (1)
4.2	Description of Registrant's Securities
10.1	Amended and Restated Employee Stock Ownership Plan, including amendments (2) †
10.2	Deferred Compensation Agreement with Jill Gutierrez (3) †
10.3	Deferred Compensation Plan Agreement with Jan R. Thiry (3) †
10.4	Intentionally omitted
10.5	Split Dollar Life Insurance Agreement with Jill Gutierrez (3) †
10.6	Form of Director Retirement Agreement, as amended (3) †
10.7	Form of Director Split Dollar Life Insurance Agreement (3) †
10.8	Alamogordo Financial Corp. 2001 Stock Option Plan (4) †
10.9	Alamogordo Financial Corp. 2001 Recognition and Retention Plan (4) †
10.10	Form of Amendment to Deferred Compensation Plan Agreement with Jill Gutierrez and Jan R. Thiry (5) †
10.11	Director Deferred Fee Plan (6) †
10.12	Retention Bonus Agreement with Jan R. Thiry (7) †
10.13	Employment Agreement By and Between Bancorp 34, Inc. and Jill Gutierrez (8) †
10.14	Intentionally omitted
10.15	Employment Agreement By and Between Bancorp 34, Inc. and Jan R. Thiry (10) †
10.16	Employment Agreement By and Between Bank 34 and Jill Gutierrez (11) †
10.17	Intentionally omitted
10.18	Employment Agreement By and Between Bank 34 and Jan R. Thiry (13) †
10.19	Bancorp 34, Inc. 2017 Equity Incentive Plan (14) †
10.20	Form of Incentive Stock Option Award Agreement (15) †
10.21	Form of Non-Qualified Stock Option Award Agreement (16) †
10.22	Form of Restricted Stock Award Agreement (17) †
10.23	Second Amendment to Deferred Compensation Agreement with Jill Gutierrez †
10.24	Second Amendment to Deferred Compensation Agreement with Jan R. Thiry †
21	Subsidiaries of Registrant
23	Consent of Moss Adams LLP
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company's Annual Report on Form 10-K, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements

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† Management contract or compensation plan or arrangement.

(1) Incorporated by reference to the Registration Statement on Form S-1 of Bancorp 34, Inc. (File No. 333-21182), initially filed with the Securities and Exchange Commission on June 30, 2016.

(2) Incorporated by reference to Exhibit 10.1 to Alamogordo Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 000-29655) as filed with the Securities and Exchange Commission on March 28, 2016.

(3) Incorporated by reference to the Registration Statement on Form S-4 of Alamogordo Financial Corp. (File No. 333-192233), originally filed with the Securities and Exchange Commission on November 8, 2013, as amended.

(4) Incorporated by reference to the exhibits to Alamogordo Financial Corp.'s Definitive Proxy Statement for the Special Meeting of Stockholders (File No. 000-29655) as filed with the Securities and Exchange Commission on May 5, 2001.
(5) Incorporated by reference to Exhibit 10.1 to Alamogordo Financial Corp.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (File No. 000-29655) as filed with the Securities and Exchange Commission on July 30, 2015.
(6) Incorporated by reference to Exhibit 10.11 to Alamogordo Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 000-29655) as filed with the Securities and Exchange Commission on March 28, 2016.
(7) Incorporated by reference to Exhibit 10.12 to Alamogordo Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 000-29655) as filed with the Securities and Exchange Commission on March 28, 2016.
(8) Incorporated by reference to Exhibit 10.13 to Bancorp 34, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-37912) as filed with the Securities and Exchange Commission on March 23, 2017.
(9) Intentionally omitted.
(10) Incorporated by reference to Exhibit 10.15 to Bancorp 34, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-37912) as filed with the Securities and Exchange Commission on March 23, 2017.
(11) Incorporated by reference to Exhibit 10.16 to Bancorp 34, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-37912) as filed with the Securities and Exchange Commission on March 23, 2017.
(12) Intentionally omitted
(13) Incorporated by reference to Exhibit 10.18 to Bancorp 34, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-37912) as filed with the Securities and Exchange Commission on March 23, 2017.
(14) Incorporated by reference to Appendix A to Bancorp 34, Inc.'s definitive proxy statement for the Annual Meeting of Stockholders (File No. 001-37912) as filed with the Securities and Exchange Commission on October 13, 2017.
(15) Incorporated by reference to Exhibit 10.1 to Bancorp 34, Inc.'s Current Report on Form 8-K (File No. 001-37912) as filed with the Securities and Exchange Commission on December 8, 2017.
(16) Incorporated by reference to Exhibit 10.2 to Bancorp 34, Inc.'s Current Report on Form 8-K (File No. 001-37912) as filed with the Securities and Exchange Commission on December 8, 2017.
(17) Incorporated by reference to Exhibit 10.3 to Bancorp 34, Inc.'s Current Report on Form 8-K (File No. 001-37912) as filed with the Securities and Exchange Commission on December 8, 2017.

ITEM 16. <u>Form 10-K Summary</u>

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANCORP 34, INC.

Date: February 18, 2020

By: /s/ Jill Gutierrez
Jill Gutierrez
President, Chief Executive Officer and Director
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Jill Gutierrez Jill Gutierrez	President, Chief Executive Officer and Director (Principal Executive Officer)	February 18, 2020
/s/ Jan R. Thiry Jan R. Thiry	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 18, 2020
/s/ William F. Burt William F. Burt	Vice Chairman	February 18, 2020
/s/ Wortham A. (Pete) Cook Wortham A. (Pete) Cook	Director	February 18, 2020
/s/ James D. Harris James D. Harris	Director	February 18, 2020
/s/ Randal L. Rabon Randal L. Rabon	Chairman	February 18, 2020
/s/ Elaine E. Ralls Elaine E. Ralls	Director	February 18, 2020
/s/ Don P. Van Winkle Don P. Van Winkle	Director	February 18, 2020

Our mission is to be the preferred financial services provider in the communities we serve by building solid client relationships to earn their loyalty, and increase shareholder value and employee satisfaction. In this tumultuous time, rest assured your board of directors is intensely focused on the efficiency of our core operation and maximizing capital allocation opportunities to enhance franchise value.

– **Randal L. Rabon, Chairman of the Board**

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