High Country Bancorp, Inc.

Annual Report

For the year ended
June 30, 2018

High Country
Bancorp, Inc.

To Our Stockholders,

Management and the Board of Directors of High Country Bancorp, Inc. are pleased to present this 2018 Annual Report to you. We are appreciative of your support and encourage you to attend our Annual Meeting of Stockholders.

Fiscal 2018 was an exceptional year for growth in assets, net interest income and core earnings, as the Company continued to benefit from improving economic conditions and asset quality. As a result of changes to federal income tax rates enacted in December, 2017, the Company recorded a one-time charge to net provision for income taxes of approximately $500,000 to reduce its recorded balance of deferred tax assets; however, the changes to the tax rates also resulted in a reduction to the Company's federal tax rate during the final six months of our fiscal year. The strength of the Company's financial condition continues to be evidenced by our subsidiary bank's asset quality and capital levels.

For the fiscal year ended June 30, 2018, net income was $2.7 million compared to $3.0 million in the previous fiscal year. Earnings per share was $2.89 in fiscal 2018 compared to $3.30 in fiscal 2017. The Company's earnings and a continued strengthening of our capital position enabled us to pay a dividend on our common stock of $2.00 per share in fiscal 2018

Consistent with our strategic plan of targeted growth with a focus on asset quality, the Company's total assets increased 7% to $265.4 million at June 30, 2018 from $247.5 million a year earlier. The Company achieved this growth organically through core deposit and loan growth.

As always, we remain committed to support our communities, promote the career growth and development of our employees and reward our stakeholders. While the current operating environment remains favorable, as in the past, potential challenges such as rising interest rates or a downturn in economic conditions do exist and underscore the importance of our asset quality and capital strength. We acknowledge our fortunate position and will continue to dedicate ourselves to the continued prosperity of the Company.

Sincerely,

Larry D. Smith
President and Chief Executive Officer

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HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

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stockman kast ryan + CO LLP

INDEPENDENT AUDITORS' REPORT

Board of Directors
High Country Bancorp, Inc.

We have audited the accompanying consolidated financial statements of High Country Bancorp, Inc. and Subsidiaries (collectively, the Company), which comprise the consolidated statements of financial condition as of June 30, 2018 and 2017, and the related consolidated statements of income, equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of High Country Bancorp, Inc. and Subsidiaries as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Stockman Kast Ryan & Co., LLP

August 22, 2018

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JUNE 30, 2018 AND 2017

(ROUNDED TO THOUSANDS)

	2018	2017
ASSETS		
Cash and equivalents, non-interest bearing	$ 6,543,000	$ 9,494,000
Cash and equivalents, interest earning	4,245,000	7,088,000
Mortgage-backed securities, available for sale	10,554,000	11,379,000
Mortgage-backed securities, held to maturity	62,000	470,000
Securities available for sale	25,996,000	27,667,000
Securities held to maturity	751,000	1,008,000
Loans held for sale	1,146,000	259,000
Loans receivable, net	201,661,000	175,532,000
FHLBank, Federal Reserve Bank and other stock, at cost	459,000	454,000
Accrued interest receivable	932,000	982,000
Foreclosed assets, net	390,000	390,000
Property and equipment, net	5,194,000	5,048,000
Deferred income taxes	868,000	1,431,000
Bank owned life insurance	5,125,000	5,007,000
Prepaid expenses and other assets	1,427,000	1,273,000
TOTAL ASSETS	$ 265,353,000	$ 247,482,000
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits	$ 236,634,000	$ 219,683,000
Advances from FHLBank	80,000	100,000
Accrued interest payable and other liabilities	2,435,000	2,111,000
TOTAL LIABILITIES	239,149,000	221,894,000
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Preferred stock- $.01 par value; authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock - $.01 par value; 3,000,000 shares authorized; 922,034 and 922,534 shares issued and outstanding, respectively	9,000	9,000
Paid-in capital	6,387,000	6,005,000
Other comprehensive income - unrealized gain (loss) on securities available for sale, net of deferred income taxes	(674,000)	(79,000)
Note receivable from ESOP	(50,000)	—
Retained earnings	20,532,000	19,653,000
TOTAL EQUITY	26,204,000	25,588,000
TOTAL LIABILITIES AND EQUITY	$ 265,353,000	$ 247,482,000

See notes to consolidated financial statements.

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

(ROUNDED TO THOUSANDS)

	2018	2017
Interest income		
Interest and fees on loans	$ 11,701,000	$ 10,363,000
Interest on securities available for sale	761,000	777,000
Interest on securities held to maturity	29,000	59,000
Interest on other interest earning assets	89,000	54,000
Total interest income	12,580,000	11,253,000
Interest expense		
Deposits	445,000	460,000
FHLBank advances and other borrowing	8,000	13,000
Total interest expense	453,000	473,000
Net interest income	12,127,000	10,780,000
Provision for losses on loans	225,000	—
Net interest income after provision for losses on loans	11,902,000	10,780,000
Non-interest income		
Gain on loans sold	766,000	901,000
Service charges on deposits	234,000	234,000
Other	612,000	658,000
Total non-interest income	1,612,000	1,793,000
Non-interest expense		
Compensation and benefits	6,404,000	5,740,000
Occupancy, equipment and data processing expense	1,690,000	1,543,000
Insurance and professional fees	335,000	311,000
Other	576,000	515,000
Total non-interest expense	9,005,000	8,109,000
Net income before income taxes	4,509,000	4,464,000
Income tax expense	1,848,000	1,490,000
Net income	2,661,000	2,974,000
Other comprehensive income		
Unrealized losses on securities available for sale, net of deferred income taxes	(536,000)	(362,000)
Reclassification of unrealized gains (losses) to net income, net of deferred income taxes	3,000	(9,000)
Total comprehensive income	$ 2,128,000	$ 2,603,000
Basic earnings per common share	$ 2.89	$ 3.30
Diluted earnings per common share	$ 2.89	$ 3.30
Weighted average common shares outstanding		
Basic	921,286	902,266
Fully diluted	921,286	902,266
Dividends paid per share	$ 2.00	$ 2.00

See notes to consolidated financial statements.

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

(ROUNDED TO THOUSANDS)

	COMMON STOCK		PAID-IN	OTHER COMPREHENSIVE	NOTE RECEIVABLE	RETAINED	
	SHARES	AMOUNT	CAPITAL	INCOME	FROM ESOP	EARNINGS	TOTAL
BALANCES JULY 1, 2016	895,534	$ 9,000	$ 5,813,000	$ 292,000	$ (125,000)	$ 18,497,000	$ 24,486,000
Net income	—	—	—	—	—	2,974,000	2,974,000
Compensation for vesting of stock awards	—	—	192,000	—	—	—	192,000
Common stock issued as compensation	27,000	—	—	—	—	—	—
Allocation of common stock in ESOP to employees	—	—	—	—	125,000	—	125,000
Unrealized gains on available for sale securities, net of deferred income taxes	—	—	—	(362,000)	—	—	(362,000)
Reclassification of unrealized losses to net income, net of deferred income taxes	—	—	—	(9,000)	—	—	(9,000)
Dividends declared and paid	—	—	—	—	—	(1,818,000)	(1,818,000)
BALANCES JUNE 30, 2017	922,534	9,000	6,005,000	(79,000)	—	19,653,000	25,588,000
Net income	—	—	—	—	—	2,661,000	2,661,000
Compensation for vesting of stock awards	—	—	403,000	—	—	—	403,000
Common stock issued as compensation, net of (forfeitures)	(500)	—	(21,000)	—	—	—	(21,000)
Issuance of note receivable to ESOP	—	—	—		(100,000)	—	(100,000)
Allocation of common stock				—			
in ESOP to employees	—	—	—	—	50,000	—	50,000
Unrealized losses on available for sale securities, net of deferred income taxes	—	—	—	(536,000)	—	—	(536,000)
Reclassification of unrealized gains to net income, net of deferred income taxes	—	—	—	3,000	—	—	3,000
Reclassification of stranded tax effects due to 2017 tax law changes	—	—	—	(62,000)	—	62,000	—
Dividends declared and paid	—	—	—	—	—	(1,844,000)	(1,844,000)
BALANCES JUNE 30, 2018	922,034	$ 9,000	$ 6,387,000	$ (674,000)	$ (50,000)	$ 20,532,000	$ 26,204,000

See notes to consolidated financial statements.

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

(ROUNDED TO THOUSANDS)

	2018	2017
OPERATING ACTIVITIES		
Net income	$ 2,661,000	$ 2,974,000
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Amortization (accretion) of:		
Deferred loan origination fees	(362,000)	(321,000)
Premiums, net of discounts on investment securities	488,000	588,000
Net gain on sale of investment securities	(14,000)	(27,000)
FHLBank stock dividends	(5,000)	(4,000)
Net loss on disposition of foreclosed assets	—	11,000
Provision for losses on loans	225,000	—
Restricted stock earned, net of forfeitures	382,000	192,000
Deferred income taxes	846,000	(82,000)
Depreciation	404,000	339,000
Change in bank owned life insurance income	(118,000)	(127,000)
Originations of loans held for sale	(55,279,000)	(57,412,000)
Proceeds from sale of loans held for sale	54,392,000	58,271,000
Changes in:		
Accrued interest receivable	50,000	(93,000)
Prepaid expenses and other assets	(154,000)	(163,000)
Accrued interest payable and other liabilities	324,000	494,000
Net cash provided by operating activities	3,840,000	4,640,000
INVESTING ACTIVITIES		
Net change in loans receivable	(25,991,000)	(23,468,000)
Principal repayments of securities available for sale	3,531,000	9,614,000
Proceeds from sale or maturity of securities available for sale	5,171,000	3,364,000
Principal repayments of securities held to maturity	13,000	876,000
Proceeds from sale or maturity of securities held to maturity	662,000	333,000
Purchase of securities available for sale	(7,507,000)	(8,280,000)
Proceeds from sale of foreclosed assets	—	33,000
Purchases of property and equipment	(550,000)	(302,000)
Net cash used in investing activities	(24,671,000)	(17,830,000)
FINANCING ACTIVITIES		
Net change in deposits	16,951,000	15,391,000
Cash dividends paid	(1,844,000)	(1,818,000)
Net ESOP loan	(50,000)	125,000
Payments on FHLBank advances	(20,000)	(20,000)
Net cash provided by financing activities	15,037,000	13,678,000
Net change in cash and cash equivalents	(5,794,000)	488,000
Cash and cash equivalents, beginning	16,582,000	16,094,000
Cash and cash equivalents, ending	$ 10,788,000	$ 16,582,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for:		
Taxes, net of refunds	$ 930,000	$ 1,613,000
Interest	453,000	466,000
Non-cash transactions:		
Loans closed to foreclosed assets	—	390,000
Adoption of ASU 2018-02 – reclassification of stranded tax effects due to 2017 tax law change	62,000	—

See notes to consolidated financial statements.

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business — High Country Bancorp, Inc. is a bank holding company which has two wholly-owned subsidiaries, High Country Bank (the Bank) and B.Ass. Co., Inc. (B.Ass). The Bank is a Colorado state chartered commercial bank with Federal Reserve Bank membership; its main office is in Salida, Colorado and has branch offices in Salida, Buena Vista, and Canon City, Colorado. The Bank provides a variety of financial services to the area it serves. Its primary deposit products are noninterest-bearing and interest-bearing checking accounts, savings accounts and time deposit accounts, and its primary lending products are real estate mortgage loans, construction, consumer and commercial loans. B.Ass makes limited investments in notes receivable and real estate acquired at fair value from the Bank.

Deposit accounts of the Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limitations. The Bank pays a premium to the FDIC for the insurance of such deposit accounts.

Principles of Consolidation — The consolidated financial statements include the accounts of High Country Bancorp, Inc., High Country Bank, and B.Ass. Co., Inc. (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates — The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses and the valuation of foreclosed real estate is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Equivalents — Cash on hand, cash items in process of collection and amounts due from the Federal Reserve Bank and FHLBank of Topeka are included in cash and equivalents.

Investment Securities and Mortgage-Backed Securities — The Company accounts for its investments in accordance with their classification as available-for-sale, held-to-maturity or trading securities. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. Trading securities are carried at fair value with unrealized gains and losses reported in operations. The Company had no trading securities during the years ended June 30, 2018 and 2017.

Debt securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in non-interest income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Any related write-downs are included in earnings as realized losses. 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) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

FHLBank Stock — The Company, as a member of the Federal Home Loan Bank system, is required to maintain an investment in capital stock of the FHLBank of Topeka. FHLBank stock can only be sold at par value to the FHLBank or to another member institution and is therefore recorded at cost. The FHLBank declares cash and stock dividends. The stock dividends are recognized as income due to the fact they are redeemable at par value ($100 per share) from the FHLBank or another member institution.

Federal Reserve Bank Stock — At June 30, 2018 and 2017 the Company held 3,516 shares of Federal Reserve Bank stock with a cost of $176,000 (par value of $50). This investment represents 50% of the subscription amount due to the Federal Reserve to become a member bank and the stock cannot be sold, traded, or pledged as collateral for loans. Although the probability is remote, the remaining 50% or $176,000 due may be called at the Federal Reserve Bank's discretion.

Loans — Loans are stated at unpaid principal balances, less the allowance for loan losses, net of deferred loan fees and loans in process.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Accrual of interest may be discontinued when collection of principal and interest is delinquent for 90 days or more. Uncollectible interest on these loans is charged off, based on management's periodic evaluation, by a charge to interest income equal to all accrued interest deemed uncollectible. Income is subsequently recognized only to the extent that cash payments are received until the loan's return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans Held for Sale — Loans originated and held for sale to the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Allowance for Loan Losses — The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon the factors listed below. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the changes in lending policies and procedures, which includes changes in underwriting standards and collection procedures, charge-off and recovery practices not considered elsewhere in estimating credit losses, changes in economic and business conditions, the condition of various market segments, changes in the nature and volume of the portfolio and in the terms of loans, changes in the experience, ability and depth of lending management and other relevant staff, changes in the volume and severity of past due loans, the volume of nonaccrual loans, the volume and severity of adversely classified or graded loans, changes in the quality of the Company's loan review system, changes in the value of underlying collateral for collateral-dependent loans, the existence and effect of any concentrations of credit, changes in the level of such concentrations, and the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company's existing portfolio.

Management has determined that first mortgage loans on one-to-four family properties, home equity, second mortgage loans, and all consumer loans are large groups of smaller-balance homogenous loans that are collectively evaluated.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. Within the general component is an element to cover uncertainties that could affect management's estimate of probable losses. This component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Property and Equipment — Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using primarily the straight-line method over the estimated useful lives of the related assets. Estimated useful lives of furniture, fixtures, and equipment range from two to ten years and those assigned to buildings and improvements range from ten to forty years.

Foreclosed Assets — Assets acquired through, or in lieu of, foreclosure are held for sale and initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are charged to operations.

Bank Owned Life Insurance — The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified in non-interest income.

Income Taxes — The Company accounts for income taxes using the asset and liability method under which a deferred tax liability or asset (net of a valuation allowance, if necessary) is provided in the financial statements by applying the provisions of applicable tax laws to measure the deferred tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These temporary differences will result in net taxable or deductible amounts in future years as a result of events recognized in the financial statements in the current or preceding years.

The Company accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective assumptions and judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time and may result in changes to the Company's subjective assumptions and judgments which can materially affect amounts recognized in the consolidated statements of financial condition and consolidated statements of income. The Company believes that it does not have any uncertain tax positions that are material to the financial statements. Tax years that remain subject to examination include 2015 through the current period.

Fair Values of Financial Instruments — The Company follows an established hierarchical framework for measuring fair value that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of an input that is significant to the fair value measurement. The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein:

Cash and Equivalents – The carrying amounts of cash and equivalents approximate fair values and are Level 1.

Available-For-Sale and Held-To-Maturity Securities – Fair values for U.S. federal agency securities, municipal obligations and mortgage backed securities are valued by a third party based on quoted market prices for identical or similar assets in active markets. Certificates of deposit are recorded at cost which approximates fair value. These securities are Level 2. The government bond fund is valued at the quoted prices of the shares which are actively traded and is Level 1.

Loans Receivable – For unimpaired variable-rate loans that re-price frequently, fair values are based on carrying values. Fair values for other unimpaired loans with a fixed rate or a variable rate that does not re-price frequently are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. Loans receivable are Level 2.

Deposit Liabilities – The fair values disclosed for non-term deposits are, by definition, equal to the amount payable on demand at the reporting date. The carrying amounts of variable-rate, fixed-term money market accounts and time deposits approximate their fair values at the reporting date. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities on time deposits. Deposit liabilities are Level 2.

Advances From FHLBank – The fair values are estimated using a discounted cash flow calculation that applies interest rates currently being offered for an instrument of comparable risk and duration. Advances from FHLBank are Level 2.

Earnings Per Share — The Company calculates its earnings per share (EPS) in accordance with FASB Accounting Standards Codification (ASC) 260. Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share are computed using the treasury stock method and reflect the potential dilution assuming the issuance of common shares for all dilutive potential stock options outstanding during the period. There were no outstanding options as of June 30, 2018 or 2017.

Subsequent Events — The Company has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

Adoption of New Financial Accounting Standards — In August, 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provided guidance applicable to contracts with customers so that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For financial institutions, significant changes are not expected because most financial instruments are not in the scope of the update. ASU 2015-14 defers the implementation for ASU 2014-09 to be effective for annual periods beginning after December 15, 2017. Early adoption is not permitted and the standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the impact of the adoption of this standard, though our initial conclusion is that the new standard will not have a significant impact on our financial statements as the majority of our business transactions are outside of the scope of the standard.

In January, 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities. The guidance is intended to improve the recognition and measurement of financial instruments for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ASU 2016-01 requires equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income, eliminated available-for-sale classification (changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values, and eliminated the cost method for equity securities without readily determinable fair values. Entities will be permitted to elect to record equity securities without readily determinable fair values at cost, less impairment, with changes in the basis reported in current earnings. ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities, eliminates the requirement for non-public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is to be required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2017. The Company will adopt the provisions of ASU 2016-01 beginning July 1, 2018. The adoption of ASU 2016-01 is not expected to have a significant effect on the Company's financial position, results of operations, or its financial statement disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The standard requires a lessee to recognize a right-of-use asset and liability on the balance sheet for leases with lease terms greater than 12 months. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements, though our preliminary finding is that the new pronouncement will not have a significant impact on our consolidated financial statements as the projected minimum lease payments under existing leases subject to the new pronouncement are immaterial to the financial condition of the Company.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The guidance removes the existing "probable" and "incurred" loss recognition threshold and requires an entity to estimate lifetime expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts, including estimates for prepayments. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU does not prescribe a specific method to estimate credit losses. ASU 2016-13 is effective for public business entities that are not SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. We are currently evaluating the impact that the standard will have on our consolidated financial statements, and are currently evaluating various loss estimation methodologies.

In February 2018, FASB issued ASU 2018-02 "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" which permits entities to reclassify tax effects stranded in accumulated other comprehensive income (loss) (AOCI) as a result of the Tax Cuts and Jobs Act (the "Tax Act"). ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018; however, early adoption is permitted. The Company adopted the provisions of ASU 2018-02 which resulted in a reclassification from AOCI to retained earnings in the amount of $62,000, which is reflected in the consolidated financial statements as of and for the fiscal year ending June 30, 2018. The adoption of ASU 2018-02 during the year ended June 30, 2018 allowed the Company to align the tax effects included in accumulated other comprehensive income (loss) with the revised federal tax rates included in the Tax Act.

Reclassification — Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on net income.

2. SECURITIES

Securities are classified in categories as follows:

Mortgage-Backed Securities Available For Sale — The amortized cost and estimated fair value of mortgage-backed securities available for sale at June 30 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(rounded to thousands)		
2018:				
Mortgage-backed securities:				
GNR CMO certificates	$ 297,000	$ —	$ (10,000)	$ 287,000
FNR CMO certificates	3,005,000	—	(125,000)	2,880,000
FNMA certificates	3,334,000	—	(137,000)	3,197,000
GNMA certificates	2,255,000	—	(60,000)	2,195,000
FHLMC certificates	2,085,000	—	(90,000)	1,995,000
	$ 10,976,000	$ —	$ (422,000)	$ 10,554,000
2017:				
Mortgage-backed securities:				
GNR CMO certificates	$ 321,000	$ —	$ (4,000)	$ 317,000
FNR CMO certificates	3,700,000	7,000	(46,000)	3,661,000
FNMA certificates	3,443,000	7,000	(44,000)	3,406,000
GNMA certificates	852,000	5,000	(2,000)	855,000
FHLMC certificates	3,166,000	4,000	(30,000)	3,140,000
	$ 11,482,000	$ 23,000	$ (126,000)	$ 11,379,000

The unrealized gains and losses on mortgage-backed securities available for sale are included in other comprehensive income. During the years ended June 30, 2018 and 2017, sales proceeds from mortgage backed securities were $1,398,000 and $2,371,000, respectively. Gross realized gains and losses on those sales were $6,000 and $(10,000), respectively, in 2018 and $10,000 and $(25,000), respectively, in 2017. Realized gains and losses are determined by specific identification of security sales.

Expected maturities on the mortgage backed securities available for sale will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

Securities Available For Sale — The amortized cost and estimated fair value of available for sale securities as of June 30 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(rounded to thousands)		
2018:				
Municipal bonds	$ 12,330,000	$ 24,000	$ (221,000)	$ 12,133,000
Agency notes	3,574,000	—	(105,000)	3,469,000
SBA securities	5,603,000	—	(138,000)	5,465,000
Certificates of deposit	2,884,000	—	—	2,884,000
Government bond fund	2,120,000	—	(75,000)	2,045,000
	$ 26,511,000	$ 24,000	$ (539,000)	$ 25,996,000
2017:				
Municipal bonds	$ 13,172,000	$ 160,000	$ (68,000)	$ 13,264,000
Agency notes	996,000	1,000	—	997,000
SBA securities	7,165,000	5,000	(79,000)	7,091,000
Certificates of deposit	4,278,000	—	—	4,278,000
Government bond fund	2,072,000	—	(35,000)	2,037,000
	$ 27,683,000	$ 166,000	$ (182,000)	$ 27,667,000

The unrealized gains and losses on securities available for sale are included in other comprehensive income. There were no sales proceeds from agency notes in 2018. During the year ended June 30, 2017, sales proceeds from agency notes were $993,000. Gross realized gains and losses on those sales were $12,000 and $0, respectively, in 2017. Realized gains are determined by specific identification of security sales.

Maturities of Debt Securities Available for Sale — The amortized cost and fair value of securities available for sale by contractual maturity at June 30, 2018 were as follows:

	Amortized Cost	Fair Value
	(rounded to thousands)	
Less than 1 year	$ 1,777,000	$ 1,777,000
Over 1 year through 5 years	8,003,000	7,868,000
Over 5 years through 10 years	8,744,000	8,589,000
Over 10 years	264,000	252,000
Total debt securities available for sale	18,788,000	18,486,000
SBA securities	5,603,000	5,465,000
Government bond fund	2,120,000	2,045,000
	$ 26,511,000	$ 25,996,000

Mortgage-Backed Securities Held-to-Maturity — The amortized cost and estimated fair value of mortgage-backed securities held-to-maturity at June 30 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(rounded to thousands)		
2018:				
Mortgage-backed securities:				
FNMA certificates	$ —	$ —	$ —	$ —
GNMA certificates	62,000	—	—	62,000
FHLMC certificates	—	—	—	—
	$ 62,000	$ —	$ —	$ 62,000
2017:				
Mortgage-backed securities:				
FNMA certificates	$ 169,000	$ 15,000	$ —	$ 184,000
GNMA certificates	119,000	4,000	—	123,000
FHLMC certificates	182,000	7,000	—	189,000
	$ 470,000	$ 26,000	$ —	$ 496,000

Expected maturities on the mortgage backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

During the years ended June 30, 2018 and 2017, held-to-maturity securities with an amortized cost of $394,000 and $326,000, respectively, were sold. Gross realized gains and losses on those sales were $18,000 and $0, respectively, in 2018 and $8,000 and $(1,000), respectively, in 2017. Realized gains and losses are determined by specific identification of security sales. The held-to-maturity securities that were sold during the years ended June 30, 2018 and 2017 were considered to have been held to maturity as over 85% of the principal at acquisition had been received from prepayments or regular scheduled payments.

Debt Securities Held-to-Maturity — The amortized cost and estimated fair value of debt securities held-to-maturity at June 30 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(rounded to thousands)		
2018:				
Municipal bonds	$ 751,000	$ 12,000	$ —	$ 763,000
2017:				
Municipal bonds	$ 1,008,000	$ 31,000	$ —	$ 1,039,000

Maturities of Debt Securities Held-To-Maturity — The amortized cost and fair value of debt securities held-to-maturity by contractual maturity at June 30, 2018 were as follows:

	Amortized Cost	Fair Value
	(rounded to thousands)	
Less than 1 year	$ 251,000	$ 251,000
Over 1 year through 5 years	500,000	512,000
Over 5 years through 10 years	—	—
Over 10 years	—	—
	$ 751,000	$ 763,000

At June 30, 2018 and 2017, investments with a carrying value of $12,321,000 and $12,616,000, respectively, were pledged as collateral for deposits of public funds, and investments with a carrying value of $2,494,000 and $996,000, respectively, were pledged as collateral to secure a line of credit with the Federal Reserve Bank of Kansas City (see Note 9).

The following table sets forth by level within the fair value hierarchy, the Company's investment securities measured at fair value on a recurring basis:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(rounded to thousands)		
2018:				
Mortgage-backed securities	$ 10,554,000	$ —	$ 10,554,000	$ —
Municipal bonds	12,133,000	—	12,133,000	—
Certificates of deposit	2,884,000	—	2,884,000	—
Agency notes	8,934,000	—	8,934,000	—
Government bond fund	2,045,000	2,045,000	—	—
	$ 36,550,000	$ 2,045,000	$ 34,505,000	$ —
2017:				
Mortgage-backed securities	$ 11,379,000	$ —	$ 11,379,000	$ —
Municipal bonds	13,264,000	—	13,264,000	—
Certificates of deposit	4,278,000	—	4,278,000	—
Agency notes	8,088,000	—	8,088,000	—
Government bond fund	2,037,000	2,037,000	—	—
	$ 39,046,000	$ 2,037,000	$ 37,009,000	$ —

3. LOANS RECEIVABLE

The following disclosure reports the Company's loan portfolio segments and classes. Segments are groupings of similar loans at a level at which the Company has adopted systematic methods for determining its allowance for loan and credit losses. Classes are a disaggregation of the portfolio segments. The Company's loan portfolio segments are:

Real estate – Real estate loans include various types of loans for which the Company holds liens on real property as collateral. One-to-four family residential real estate lending activity is primarily dependent on the borrowers' ability to pay and the fair value of the underlying collateral. Commercial real estate lending activity is comprised of both owner-occupied and non-owner occupied properties. The primary risks of commercial real estate loans include adverse changes in economic conditions and significant increases in interest rates, which may adversely impact the borrowers' ability to pay as well as material decreases in the value of the real estate securing the loans. The Company primarily originates loans to finance construction of one-to four-family residences, though also finances construction of multifamily residential and commercial and industrial projects. The majority of the Company's residential construction loans are to owners for construction of primary or second residences, are generally collateralized by first liens on the real estate and have fixed interest rates. The inherent risks to construction loans are considered to be due to the completion of the construction project and its timing, the impact on repayment ability from interest rate changes, and the borrowers' availability to obtain permanent financing. However, the Company generally underwrites its construction loans to conforming secondary market standards. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans. Adverse economic conditions may negatively impact the borrowers' ability to complete the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change. The Company also originates loans for the acquisition and future development of land for residential and commercial building projects. The primary risks include the borrower's inability to pay and the inability of the Company to recover its investment due to a decline in the fair value of the underlying collateral.

Commercial loans – Commercial loans consist of loans to small and medium-sized business enterprises in a wide variety of industries. The composition of the Bank's commercial loan segment includes, but is not limited to, loans to business enterprises engaged in tourism, restaurant, retail sales, heavy equipment and excavation, and lodging. Commercial loans are generally collateralized by real estate, equipment, and other commercial assets, and are generally further supported by other credit enhancements such as personal guarantees or assignments of life insurance on business principals. Risk to Commercial loans primarily arises due to changes in economic conditions. However, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans. The fair value of the collateral securing these loans may fluctuate as market conditions change.

Consumer and other loans – The Company provides loans to customers, including personal loans and automobile loans. Repayment of these loans is dependent on the borrowers' ability to pay and the fair value of the underlying collateral.

Loans receivable as of June 30 are summarized as follows:

	2018	2017
	(rounded to thousands)	
Loans secured by real estate:		
One-to-four family residences	$ 65,644,000	$ 59,822,000
Commercial real estate	71,421,000	58,067,000
Construction	22,181,000	20,314,000
Land	16,338,000	14,116,000
Total loans secured by real estate	175,584,000	152,319,000
Commercial loans	25,700,000	22,240,000
Consumer and other loans	3,095,000	3,207,000
Total loans	204,379,000	177,766,000
Less:		
Deferred loan origination fees	1,250,000	1,013,000
Allowance for loan losses	1,468,000	1,221,000
Loans receivable, net	$ 201,661,000	$ 175,532,000

Overdrafts in demand deposit accounts in the amount of $17,000 and $13,000 have been reclassified as consumer loans as of June 30, 2018 and 2017, respectively.

The Company's lending activity occurs primarily within Chaffee and Fremont Counties, Colorado. The majority of the loan portfolio consists of loans secured by real estate and commercial loans.

The Company maintains a loan review program independent of the lending function that is designed to reduce and control risk in the lending function. The Company also has a systematic process to evaluate individual loans and pools of loans within their portfolio. The Company uses an 8 point loan grading system, with grades 1 through 4 reflecting Pass credits. Grade 5 correlates with the regulatory classification of Other Assets Especially Mentioned (Special Mention). Grade 6 correlates with the regulatory classification of Classified Substandard. Grade 7 correlates to Doubtful and Grade 8 is a Loss.

Commercial loans are graded on their independent merits and characteristics at the time they are originated. Commercial revolving credit lines are reviewed at a minimum annually and also upon renewal of the operating lines of credit, at which time the grade is updated. All term loans above are reviewed quarterly for grading purposes. The Company's asset classification committee determines the final loan grade on loans. Consumer loans are graded based on delinquency. Current consumer loans receive a grade of Pass.

The loan portfolio showing total non-classified, special mention and classified balances by loan class is summarized below as of June 30:

	Non-Classified	Special Mention	Classified	Total
		(rounded to thousands)		
2018:				
Loans secured by real estate:				
One-to-four family residences	$ 65,418,000	$ —	$ 226,000	$ 65,644,000
Commercial real estate	71,025,000	—	396,000	71,421,000
Construction	22,076,000	—	105,000	22,181,000
Land	14,619,000	—	1,719,000	16,338,000
Total loans secured by real estate	173,138,000	—	2,446,000	175,584,000
Commercial loans	25,579,000	—	121,000	25,700,000
Consumer and other loans	3,087,000	—	8,000	3,095,000
Total loans	201,804,000	—	2,575,000	204,379,000
Allowance for loan losses	(1,372,000)	—	(96,000)	(1,468,000)
Total loans net of allowance for loan losses	$ 200,432,000	$ —	$ 2,479,000	$ 202,911,000
2017:				
Loans secured by real estate:				
One-to-four family residences	$ 59,822,000	$ —	$ —	$ 59,822,000
Commercial real estate	58,067,000	—	—	58,067,000
Construction	20,314,000	—	—	20,314,000
Land	13,958,000	134,000	24,000	14,116,000
Total loans secured by real estate	152,161,000	134,000	24,000	152,319,000
Commercial loans	22,240,000	—	—	22,240,000
Consumer and other loans	3,207,000	—	—	3,207,000
Total loans	177,608,000	134,000	24,000	177,766,000
Allowance for loan losses	(1,199,000)	(18,000)	(4,000)	(1,221,000)
Total loans net of allowance for loan losses	$ 176,409,000	$ 116,000	$ 20,000	$ 176,545,000

The allowance for loan losses (ALLL) is management's estimate of probable losses in the loan portfolio as of the balance sheet date.

The Company estimates its ALLL in accordance with Accounting Standards Codification (ASC) 310 for purposes of evaluating loan impairment on a loan-by-loan basis and ASC 450 for purposes of collectively evaluating loan impairment by grouping loans with common risk characteristics.

Specific Reserves — The Company continuously evaluates its reserve for loan losses to maintain an adequate level to absorb loan losses inherent in the loan portfolio. Reserves on loans identified as Classified or Special Mention are based on discounted expected cash flows using the loan's initial effective interest rate, the market value of the loan or the fair value of the collateral for certain collateral-dependent loans. Loans are considered impaired in accordance with provisions of ASC

310, when it is probable that all amounts due in accordance with the contractual terms will not be collected. Factors contributing to the determination of specific reserves include the financial condition of the borrower, changes in the value of pledged collateral and general economic conditions.

General Reserves — The Company reviews the Non-Classified portfolio of loans in their various class groupings. A combination of loss experience and external loss data is used in determining the appropriate loss factor. The estimate represents the potential unconfirmed losses within the portfolio. In evaluating the adequacy of the ALLL, management considers historical losses as well as other factors including changes in:

- Lending policies and procedures
- National, regional and local economic conditions and business developments
- Nature and volume of portfolio
- Credit concentrations
- Trends in the volume and severity of past-due, non-accrual and identified loans

In assessing the reasonableness of management's assumptions, consideration is given to industry standards and directional consistency of the ALLL. Ratio analysis highlights divergent trends in the relationship of the ALLL to total loans and historical charge-offs. This analysis is used as a supplement to assess the reasonableness of management's assumptions that are not, by themselves, sufficient basis for determining the adequacy of the ALLL. While management utilizes its best judgment and information available, the ultimate adequacy of the ALLL is dependent upon a variety of factors beyond the Company's control, including the performance of the loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications. Within the general reserve may be an unallocated component that is judgmentally determined and is maintained to recognize the imprecision in estimating and measuring loss when evaluating reserves for individual loans or pools of loans.

The changes in the allowance for loan losses were as follows for the years ended June 30, 2018 and 2017 (rounded to thousands):

	Loans Secured by Real Estate							
	One-to-Four Family Residences	Commercial Real Estate	Construction	Land	Commercial	Consumer and Other	Unallocated	Total
Balance July 1, 2016	$ 279,000	$ 307,000	$ 42,000	$ 189,000	$ 182,000	$ 21,000	$ 195,000	$ 1,215,000
Provision for losses	(57,000)	28,000	161,000	4,000	7,000	2,000	(145,000)	—
Recoveries	5,000	—	—	—	—	1,000	—	6,000
Balance June 30, 2017	227,000	335,000	203,000	193,000	189,000	24,000	50,000	1,221,000
Provision for losses	(44,000)	60,000	—	(46,000)	35,000	—	221,000	226,000
Recoveries	5,000	16,000	—	—	—	—	—	21,000
Balance June 30, 2018	$ 188,000	$ 411,000	$ 203,000	$ 147,000	$ 224,000	$ 24,000	$ 271,000	$ 1,468,000

The table below presents the allowance for loan losses on the basis of the Company's impairment method as of June 30, 2018 and 2017 (rounded to thousands):

	Loans Secured by Real Estate							
	One-to-Four Family Residences	Commercial Real Estate	Construction	Land	Commercial	Consumer and Other	Unallocated	Total
2018								
Allowance for loan losses:								
Individually evaluated for provision	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for provision	188,000	411,000	203,000	147,000	224,000	24,000	271,000	1,468,000
	$ 188,000	$ 411,000	$ 203,000	$ 147,000	$ 224,000	$ 24,000	$ 271,000	$ 1,468,000
Loans receivable:								
Individually evaluated for provision	$ 226,000	$ 771,000	$ —	$ 1,719,000	$ —	$ —	$ —	$ 2,716,000
Collectively evaluated for provision	65,418,000	70,650,000	22,181,000	14,619,000	25,700,000	3,095,000	—	201,663,000
	$ 65,644,000	$ 71,421,000	$ 22,181,000	$ 16,338,000	$ 25,700,000	$ 3,095,000	$ —	$ 204,379,000

	Loans Secured by Real Estate							
	One-to-Four Family Residences	Commercial Real Estate	Construction	Land	Commercial	Consumer and Other	Unallocated	Total
2017								
Allowance for loan losses:								
Individually evaluated for provision	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for provision	227,000	335,000	203,000	193,000	189,000	24,000	50,000	1,221,000
	$ 227,000	$ 335,000	$ 203,000	$ 193,000	$ 189,000	$ 24,000	$ 50,000	$ 1,221,000
Loans receivable:								
Individually evaluated for provision	$ —	$ 583,000	$ —	$ —	$ 183,000	$ —	$ —	$ 766,000
Collectively evaluated for provision	59,822,000	57,484,000	20,314,000	14,116,000	22,057,000	3,207,000	—	177,000,000
	$ 59,822,000	$ 58,067,000	$20,314,000	$ 14,116,000	$ 22,240,000	$ 3,207,000	$ —	$ 177,766,000

Information on impaired loans is presented in the following table as of and for the years ended June 30, 2018 and 2017:

	Recorded Investment in Impaired Loans	Unpaid Principal Balance	Recorded Investment With Related Allowance	Recorded Investment With No Related Allowance	Average Recorded Investment	Related Allowance	Interest Income Recognized
				(rounded to thousands)			
2018:							
Real Estate							
One-to-four residences	$ 226,000	$ 226,000	$ —	$ 226,000	$ 104,000	$ —	$ —
Commercial real estate	727,000	771,000	—	727,000	611,000	—	37,000
Construction	—	—	—	—	4,000	—	—
Land	1,719,000	1,719,000	—	1,719,000	547,000	—	—
	2,672,000	2,716,000	—	2,672,000	1,266,000	—	37,000
Commercial	—	—	—	—	128,000	—	9,000
Consumer and other loans	—	—	—	—	—	—	—
Total	$ 2,672,000	$ 2,716,000	$ —	$ 2,672,000	$ 1,394,000	$ —	$ 46,000
2017:							
Real Estate							
One-to-four residences	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate	541,000	583,000	—	541,000	547,000	—	26,000
Construction	—	—	—	—	—	—	—
Land	—	—	—	—	—	—	—
	541,000	583,000	—	541,000	547,000	—	26,000
Commercial	170,000	183,000	—	170,000	173,000	—	—
Consumer and other loans	—	—	—	—	—	—	8,000
Total	$ 711,000	$ 766,000	$ —	$ 711,000	$ 720,000	$ —	$ 34,000

Information on non-accrual and past due loans as of June 30 is presented in the following table as of June 30, 2018 and 2017:

	2018	2017
	(rounded to thousands)	
Non-accrual loans	$ 1,945,000	$ —
Loans 90 days or more delinquent and still accruing	$ —	$ —
Non-performing troubled debt restructuring loans	$ —	$ —
Performing troubled debt restructuring	$ 727,000	$ 711,000

The segment and class of the Company's non-accrual loans as of June 30, 2018 and 2017 are presented in the following table:

	2018	2017
	(rounded to thousands)	
Real estate:		
One-to-four family residences	$ 226,000	$ —
Land	1,719,000	—
Total loans on non-accrual status	$ 1,945,000	$ —

The following table summarizes the aging of the Company's loan portfolio by segment and class as of June 30, 2018 and 2017:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
2018:			*(rounded to thousands)*			
Real Estate						
One-to-four family residences	$ 130,000	$ —	$ 226,000	$ 356,000	$ 65,288,000	$ 65,644,000
Commercial real estate	—	—	—	—	71,421,000	71,421,000
Construction	594,000	—	—	594,000	21,587,000	22,181,000
Land	—	—	1,719,000	1,719,000	14,619,000	16,338,000
	724,000	—	1,945,000	2,669,000	172,915,000	175,584,000
Commercial	40,000	49,000	—	89,000	3,062,000	3,151,000
Consumer and other loans	33,000	—	—	33,000	25,611,000	25,644,000
Total	$ 797,000	$ 49,000	$ 1,945,000	$ 2,791,000	$ 201,588,000	$ 204,379,000
2017						
Real Estate						
One-to-four family residences	$ 120,000	$ 79,000	$ —	$ 199,000	$ 59,623,000	$ 59,822,000
Commercial	85,000	—	—	85,000	57,982,000	58,067,000
Construction	—	—	—	—	20,314,000	20,314,000
Land	76,000	—	—	76,000	14,040,000	14,116,000
	281,000	79,000	—	360,000	151,959,000	152,319,000
Commercial	2,318,000	—	—	2,318,000	19,922,000	22,240,000
Consumer and other loans	10,000	—	—	10,000	3,197,000	3,207,000
Total	$ 2,609,000	$ 79,000	$ —	$ 2,688,000	$ 175,078,000	$ 177,766,000

Pursuant to collateral agreements with the FHLBank of Topeka, advances from FHLBank of Topeka are secured by a blanket pledge agreement which included single family and commercial real estate loans. See Note 10.

4. LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The summarized unpaid principal balances of these loans at June 30, 2018 and 2017 was:

	2018	2017
	(rounded to thousands)	
Mortgage loan portfolios serviced for:		
Federal Home Loan Mortgage Corporation (FHLMC)	$ 7,028,000	$ 5,303,000

5. ACCRUED INTEREST RECEIVABLE

Interest receivable relates to the following at June 30, 2018 and 2017:

	2018	2017
	(rounded to thousands)	
Loans	$ 704,000	$ 750,000
Mortgage-backed securities	31,000	35,000
Other investments	197,000	197,000
	$ 932,000	$ 982,000

6. FORECLOSED ASSETS

Foreclosed assets are presented net of an allowance for losses, if any. The following analysis summarizes the activity of the Company's foreclosed assets for the years ended June 30, 2018 and 2017:

	2018	2017
	(rounded to thousands)	
Balance at beginning of year	$ 390,000	$ 44,000
Loans transferred to foreclosed assets, net	—	390,000
Proceeds from sale	—	(33,000)
Net gains (losses) on disposition	—	(11,000)
Balance at end of year	$ 390,000	$ 390,000

There were no write-downs of foreclosed assets during the years ended June 30, 2018 and 2017. Fair values of real estate and consumer goods are determined through independent appraisals. Those independent appraisals are derived principally from or corroborated by observable market data and accordingly are considered Level 2 inputs as defined in Note 1.

7. PROPERTY AND EQUIPMENT

Summary classifications of the Company's property and equipment and the related accumulated depreciation at June 30, 2018 and 2017 are presented below:

	2018	2017
	(rounded to thousands)	
Land and improvements	$ 1,274,000	$ 1,226,000
Buildings and improvements	6,015,000	5,787,000
Office furniture and equipment	3,360,000	3,085,000
	10,649,000	10,098,000
Less accumulated depreciation	5,455,000	5,050,000
	$ 5,194,000	$ 5,048,000

Depreciation expense for the years ended June 30, 2018 and 2017 totaled $404,000 and $339,000, respectively.

8. DEPOSIT ACCOUNTS

Summary classifications of the Company's deposit balances at June 30, 2018 and 2017 are presented below:

	2018	2017
	(rounded to thousands)	
Non-interest-bearing transaction deposits	$ 51,654,000	$ 37,328,000
Interest-bearing transaction deposits	99,875,000	99,936,000
Savings accounts	50,295,000	43,245,000
Time deposits	34,810,000	39,174,000
	$ 236,634,000	$ 219,683,000

Scheduled maturities of time deposits as of June 30, 2018 are summarized as follows:

2019	$ 17,916,000
2020	8,146,000
2021	3,487,000
2022	3,362,000
2023	1,899,000
	$ 34,810,000

The aggregate amount of time deposits with a minimum denomination of $250,000 at June 30, 2018 and 2017 was $4,013,000 and $3,593,000, respectively.

Deposits in excess of $250,000 per depositor are not insured by the Federal Deposit Insurance Corporation (FDIC).

9. LINES OF CREDIT

The Company has a revolving line of credit agreement with the FHLBank of Topeka collateralized by real estate loans (see Note 10).

The Company also has a revolving line of credit agreement with a financial institution in the amount of $5,000,000 as of June 30, 2018, with a variable interest rate at the average National Prime Rate as published in the Wall Street Journal plus 0.75% per annum, and expiring on November 30, 2018. Interest payments are due monthly. The line of credit is secured by 3,000,000 shares of the Bank's stock. There was no outstanding balance on the line of credit at June 30, 2018 or June 30, 2017.

The Company also has a revolving line of credit agreement with the Federal Reserve Bank of Kansas City in the amount of $2,494,000 as of June 30, 2018, with a variable interest rate at the federal funds rate plus 0.50% per annum. Interest payments are due daily when advances are drawn on the line of credit. The line of credit is secured by specific pledged investment securities (see Note 2). There was no outstanding balance on the line of credit at June 30, 2018 or June 30, 2017.

10. ADVANCES FROM FEDERAL HOME LOAN BANK

Maturities of advances from the Federal Home Loan Bank (FHLB) at June 30, 2018 are summarized as follows:

	Interest Rate	Maturities
2019	5.36%	$ 20,000
2020	5.36%	20,000
2021	5.36%	20,000
2022	5.36%	20,000
Total		$ 80,000

Pursuant to collateral agreements with the FHLB, advances are secured by a blanket pledge agreement with the FHLB, which includes single family and commercial real estate loans.

At June 30, 2018, the Company has an approved line of credit, with an interest rate at 2.11% per annum, subject to the maximum amount of credit available to the Company under the FHLB's credit policies, and which expires April 5, 2019. FHLB advance availability is determined quarterly and at June 30, 2018, there was no outstanding balance on the line of credit and approximately $86.9 million was available.

11. INCOME TAXES

The provision for income taxes for the years ended June 30, 2018 and 2017 consists of the following:

	2018	2017
	(rounded to thousands)	
Current provision	$ 1,089,000	$ 1,574,000
Income tax expense from revaluation of deferred tax assets and liabilities	500,000	—
Deferred provision (benefit)	259,000	(84,000)
Total	$ 1,848,000	$ 1,490,000

A reconciliation of the Company's income tax expense, which differs from income tax expense calculated at the federal statutory income tax rate of 27.5% (2018) and 34% (2017), is presented below:

	2018	2017
Provision for income taxes at statutory rate	$ 1,240,000	$ 1,518,000
Nondeductible/nontaxable income/expenses for tax purposes	(93,000)	(118,000)
State income taxes, net of federal income tax benefit	63,000	71,000
Income tax expense from revaluation of deferred tax assets and liabilities	500,000	—
Other, net	138,000	19,000
	$ 1,848,000	$ 1,490,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax assets (liabilities) at June 30, 2018 and 2017 are presented below:

	2018	**2017**
Deferred income tax assets:		
Difference between tax basis and carrying basis of long term incentive plan	$ 283,000	$ 300,000
Loan loss allowance	337,000	902,000
Incentive compensation	143,000	202,000
Unrealized loss on available for sale securities	225,000	29,000
Other	25,000	39,000
Total deferred income tax assets	1,013,000	1,472,000
Deferred income tax liabilities:		
Difference between tax basis and carrying basis of FHLB stock	(28,000)	(41,000)
Tax depreciation in excess of financial statement amounts	(117,000)	—
Total deferred income tax liabilities	(145,000)	(41,000)
Net deferred tax asset	$ 868,000	$ 1,431,000

12. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines 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 as outlined below. Management believes, as of June 30, 2018, the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2018 and 2017, the most recent regulatory notification categorized the Bank as well capitalized under the framework for prompt corrective action. To be well capitalized the Bank must maintain minimum common equity Tier I capital, total capital, Tier I capital and leverage ratios. There are no conditions or events since that notification that management believes have changed the Bank's categorization.

The Bank's actual regulatory capital amounts and ratios as of June 30, 2018 and 2017 are presented below:

	Actual		For Capital Adequacy Purposes		Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
2018:						
Total Capital Ratio:	$ 27,570,000	13.50%	$ 16,339,000	8.00%	$ 20,424,000	10.00%
Tier I Capital Ratio:	26,102,000	12.78%	12,255,000	6.00%	16,339,000	8.00%
Leverage Ratio:	26,102,000	10.15%	10,291,000	4.00%	12,864,000	5.00%
Common Equity Tier I Capital Ratio:	26,102,000	12.78%	9,191,000	4.50%	13,276,000	6.50%
2017:						
Total Capital Ratio:	$ 26,097,000	14.30%	$ 14,603,000	8.00%	$ 18,254,000	10.00%
Tier I Capital Ratio:	24,877,000	13.63%	10,952,000	6.00%	14,603,000	8.00%
Leverage Ratio:	24,877,000	10.31%	9,650,000	4.00%	12,062,000	5.00%
Common Equity Tier I Capital Ratio:	24,877,000	13.63%	8,214,000	4.50%	11,865,000	6.50%

The Company's management believes that, under the current regulations, the Bank will continue to meet its minimum capital requirements in the coming year. However, events beyond the control of the Bank, such as increased interest rates or adverse economic conditions, could adversely affect the Bank's financial condition and future earnings and, consequently, the ability of the Bank to meet its future minimum capital requirements.

Effective January 1, 2015, the Bank became subject to new capital regulations ("Basel III Capital Rules"), adopted by the Federal Reserve, which establish a new comprehensive capital framework for U.S. banks and are phased in over a multi-year schedule. The above minimum capital requirements exclude the capital conservation buffer implemented by the Basel III Capital Rules. The Bank is required maintain the capital conservation buffer in excess of its capital adequacy limitations for common equity tier 1 capital, total capital and tier 1 capital to avoid certain limitations on distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is phased-in to 2.50% of risk-weighted assets by 2019. The Bank's net unrealized gain or loss on available-for-sale securities is excluded from the computations of regulatory capital above. As of June 30, 2018 and 2017, the Bank's capital conservation buffer exceeded the required minimum.

13. BENEFIT PLANS

The Company has adopted two Long-Term Incentive Plans covering the directors, one for which Company contributions and new director entry have ceased and a second for which the Company may accrue contributions to participant accounts providing the participant continues to be a director of the Company. Under the terms of the first Plan, prior to distribution, each participant's account shall be credited with a rate of return, on any amounts previously credited, equal to the highest rate of interest paid by the Company on one-year certificates of deposit, or the rate of return equal to the dividend-adjusted rate of return on the Company's common stock. Under the terms of the second

Plan, prior to distribution, each participant's account shall be credited with a rate of return prescribed by the Plan Administrator.

Company contributions and returns thereon are credited to participants' accounts on the effective date and thereafter shall be fully vested. Account balances shall be paid in cash, in ten equal annual installments beginning during the first quarter of the calendar year which next follows the calendar year in which the participant ceases to be a director for any reason, with subsequent payments being made by the last day of the first quarter of each subsequent calendar year until the participant has received the entire amount of his account. Notwithstanding the foregoing a participant may elect to have his account paid in a lump sum distribution or in annual payments over a period less than ten years. Any benefits accrued under the plan will be paid from the Company's general assets. The Company has established a trust in order to hold assets with which to pay benefits. Trust assets, which are included in the consolidated statement of financial condition, will be subject to the claims of the Bank's general creditors. The Company recorded accrued contributions to the Plans of $68,000 and $60,000 for the years ended June 30, 2018 and 2017, respectively.

As part of its conversion to a federal stock savings association in 1997, the Bank established an Employee Stock Ownership Plan (ESOP) to benefit substantially all employees. The ESOP purchased 105,800 shares of common stock of the Company at the time of the conversion. Cash contributions to the ESOP are recorded as compensation expense.

The Company had loans outstanding to the ESOP totaling $50,000 as of June 30, 2018. There were no loans outstanding to the ESOP as of June 30, 2017. Proceeds from the loans were used by the ESOP to purchase shares of stock from participants leaving the plan or exercising diversification rights under the plan. During the year ended June 30, 2018 the Company loaned $100,000 to the ESOP, and during the years ending June 30, 2018 and 2017 repayments were $50,000 and $125,000, respectively. The notes receivable are secured by common stock of the Company and, accordingly, the notes receivable are recorded as a reduction of the Company's stockholders' equity. As the notes are repaid, shares are released from collateral and allocated to employees based on the proportion of debt service paid in the year.

The ESOP shares are as follows as of June 30:

	2018	**2017**
Allocated shares	91,058	92,828
Unallocated shares	1,213	—
Total	92,271	92,828

The Company made discretionary cash contributions to the ESOP of $166,000 and $106,000 during the years ended June 30, 2018 and 2017, respectively. Dividends on the allocated and unallocated ESOP shares are recorded as a reduction of retained earnings. The fair value of the unallocated shares was approximately $50,000 and $125,000 as of June 30, 2018 and 2017, respectively.

The Company also has a noncontributory 401(k) plan which employees may elect to join after 90 days of employment.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. At June 30, 2018 the Company had commitments to fund loans of $10,340,000, with interest rates from 3.625% to 7.50%, unfunded lines of credit and construction loans in process of $33,027,000, and letters of credit of $1,866,000. The Company makes contractual commitments to extend credit, which are legally binding agreements to lend money to customers at prevailing interest rates for specified periods of time. The credit risk involved in issuing these commitments is essentially the same as that involved in extending loan facilities to customers.

As such, the Company's exposure to credit loss, in the event of non-performance by the counterparty to the financial instrument, is represented by the contractual amount of those instruments. The Company applies the same credit standards used in the lending process when extending these commitments, and periodically reassesses the customers' credit worthiness. Additional risks associated with these commitments arise when they are drawn upon, such as the demands on liquidity that the Bank could experience if a significant portion were drawn down at once. This is considered unlikely, however, as commitments may expire without having been drawn upon.

15. CONCENTRATIONS OF CREDIT RISK

Federal banking regulators have issued guidance using certain criteria to identify institutions that are potentially exposed to commercial real estate concentration risk to include reported loans for construction, land development, and other land loans that represent more than 100% of the institution's total risk-based capital; or total commercial real estate loans representing more than 300% of the institution's total risk-based capital. Although the Company has a diversified loan portfolio, as of June 30, 2018 the Company's loans secured by commercial real estate, specifically those in the category of construction, land development, and other land loans exceed 100% of the institutions total risk-based capital by approximately 23%.

The Company originates loans primarily in Chaffee and Fremont Counties, Colorado. Any future deterioration in the real estate markets could adversely impact borrowers' ability to repay loans secured by real estate and the value of real estate collateral, thereby increasing the credit risk associated with the loan portfolio. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' ability to repay their loans is dependent upon economic conditions in the market.

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. For additional information on how the Bank measures fair values refer to Note 1 Summary of Significant Accounting Policies.

Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets.

The approximate carrying amounts and fair values of the Company's financial instruments are as follows at June 30:

	2018		2017	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(rounded to thousands)			
Cash & equivalents	$ 10,788,000	$ 10,788,000	$16,582,000	$ 16,582,000
Mortgage-backed securities - available for sale	10,554,000	10,554,000	11,379,000	11,379,000
Mortgage-backed securities - held to maturity	62,000	62,000	470,000	496,000
Securities available for sale	25,996,000	25,996,000	27,667,000	27,667,000
Securities held to maturity	751,000	763,000	1,008,000	1,039,000
Loans held for sale	1,146,000	1,146,000	259,000	259,000
Loans receivable, net	201,661,000	198,781,000	175,532,000	174,949,000
FHLBank stock	258,000	258,000	254,000	254,000
Federal Reserve Bank stock	176,000	176,000	176,000	176,000
Bank Owned Life Insurance	5,125,000	5,125,000	5,007,000	5,007,000
Financial liabilities:				
Deposits	236,634,000	212,614,000	219,683,000	207,319,000
Advances from FHLBank	80,000	87,000	100,000	112,000

17. OTHER NON-INTEREST EXPENSES

Other non-interest expenses consist of the following at June 30:

	2018	2017
	(rounded to thousands)	
Postage	$ 126,000	$ 141,000
Stationery Supplies	117,000	121,000
Dues and Subscriptions	60,000	75,000
Advertising	56,000	57,000
Community Support	87,000	76,000
Other	130,000	45,000
Total	$ 576,000	$ 515,000

18. STOCKHOLDERS' EQUITY

During the year ended June 30, 2018, 2,000 shares of restricted common stock were issued under the 2014 Stock Incentive Plan. The stock grants vest over a five year period beginning in May, 2018. 2,500 shares of previously-issued unvested restricted stock were forfeited during the year ended June 30, 2018. During the year ended June 30, 2017, 27,000 shares of restricted common stock were issued under the 2014 Stock Incentive Plan. The stock grants vest over a five year period beginning in March, 2018.

During each of the years ended June 30, 2018 and 2017, the Company paid cash dividends of $2 per share.

19. STOCK INCENTIVE PLANS

2014 Stock Incentive Plan — In November 2014, Company stockholders approved the High County Bancorp, Inc. 2014 Stock Incentive Plan (2014 Plan), which provides for the grant of incentive stock options, non-statutory stock options and restricted stock. Under the 2014 Plan, 85,000 shares of common stock have been reserved for issuance to participants who receive awards.

Unless earlier terminated, the authority to make grants under the 2014 Plan will terminate in 2024 or when no shares remain available for grants and there is no further obligation with respect to any outstanding award. Employees of the Company or one of its subsidiaries or affiliates, and non-employee directors, are eligible to be granted awards under the 2014 Plan. The exercise price for shares under option, or compensation for stock awards, shall be the fair market value as of the date of the grant.

The 2014 Plan is administered by a committee consisting of the entire Board of Directors (the Committee). Subject to the terms and conditions of the 2014 Plan, the Committee is authorized to: select participants; determine the type and number of awards to be granted and the number of shares to which awards will relate; specify times at which awards will be exercisable or settled; set other terms and conditions of such awards; waive or amend any terms, conditions, restrictions or limitations on an award; prescribe forms of award agreements; and make all other determinations which may be necessary or advisable for the administration of the 2014 Plan. Unless otherwise determined by the Committee at the time an award is made, a participant's award(s) under the 2014 Plan will vest in full upon the participant's death or disability. In the event a participant's employment or service is terminated for cause, all unvested awards are forfeited and all unexercised stock options are cancelled.

Stock awards made under the Plan are subject to restriction including non-transferability and forfeiture upon termination of employment or board service. Such restrictions expire proportionately over a required service period. Restricted shares have full voting and dividend rights during the restricted period.

Stock Awards — The Company has issued shares of restricted stock to certain officers, directors, and employees which shares vest over a five year period. A summary of non-vested restricted stock outstanding and changes as of and for the years ending June 30 follows:

	2018		2017	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	31,040	$ 35.48	8,080	$ 23.61
Granted	2,000	39.80	27,000	37.11
Vested	(9,020)	31.01	(4,040)	23.50
Forfeited	(2,500)	34.93	—	
Outstanding at end of year	21,520	$ 37.31	31,040	$ 35.48

As of June 30, 2018, there was $485,000 of total unrecognized compensation cost related to non-vested restricted share based compensation arrangements, which is expected to be recognized over a weighted average remaining period of approximately 3.5 years. Share-based compensation expense, net of de-recognition for forfeitures, charged to operations for the years ended June 30, 2018 and 2017 was $382,000 and $192,000, respectively while the related deferred tax benefit was approximately $115,000 and $65,000 for each year, respectively.

20. CONTINGENCIES AND COMMITMENTS

In the normal course of business, the Company is involved in various legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position of the Company.

Loans sold to the Federal Home Loan Mortgage Corporation (FHLMC) are sold without recourse unless the Company did not comply with the requirements or conditions of the purchase document, breached any agreements, made false warranties or representations or failed to provide FHLMC with information that is true, complete and accurate concerning the mortgages.

21. RELATED PARTY TRANSACTIONS

In the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, the Company has granted loans to principal officers and directors and their affiliates amounting to $2,179,000 at June 30, 2018 and $2,982,000 at June 30, 2017. During the year ended June 30, 2018, total principal additions were $804,000 and total principal payments were $1,607,000. During the year ended June 30, 2017, total principal additions were $719,000 and total principal payments were $1,188,000. The Company paid certain members of its Board of Directors for professional services rendered in the ordinary course of business during the year ending June 30, 2018 and 2017 in the amount of $14,000 and $9,000, respectively.

Deposits from principal officers and directors and their affiliates held by the Company at June 30, 2018 and 2017 amounted to $3,039,000 and $2,796,000, respectively.

22. CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

The following condensed statements summarize the financial position, operating results and cash flows of High Country Bancorp, Inc.:

	2018	**2017**
	(rounded to thousands)	
CONDENSED BALANCE SHEET		
ASSETS		
Cash	$ 343,000	$ 304,000
Investment in subsidiaries	25,829,000	25,209,000
Other	296,000	261,000
Total assets	$ 26,468,000	$ 25,774,000

LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses and other liabilities	263,000	$ 186,000
Stockholders' equity	26,205,000	25,588,000
Total liabilities and stockholders' equity	$ 26,468,000	$ 25,774,000

CONDENSED STATEMENT OF INCOME

Equity in undistributed net income of subsidiaries	3,136,000	$ 3,175,000
Other, net	(475,000)	(201,000)
Net income	$ 2,661,000	$ 2,974,000

CONDENSED STATEMENT OF CASH FLOWS

Operating activities:		
Net income	$ 2,661,000	$ 2,974,000
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Equity in undistributed net income of subsidiary	(3,136,000)	(3,175,000)
Restricted stock earned, net of forfeitures	383,000	192,000
Deferred income taxes	(25,000)	(43,000)
Other	66,000	114,000
Net cash provided by (used in) operating activities	(51,000)	62,000
Investing activities:		
Investment in subsidiary	(1,000)	(25,000)
Dividends received	1,985,000	1,050,000
Net cash provided by investing activities	1,984,000	1,025,000
Financing activities:		
Dividends paid	(1,844,000)	(1,818,000)
Net ESOP loan	(50,000)	125,000
Net cash used in financing activities	(1,894,000)	(1,693,000)
Net change in cash	39,000	(606,000)
Cash, beginning of year	304,000	910,000
Cash, ending of year	$ 343,000	$ 304,000

23. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At June 30, 2018, these required reserve balances amounted to $1,000,000.

BOARD OF DIRECTORS

Larry D. Smith
President and Chief Executive Officer of the Company and the Bank

Philip W. Harsh
Retired Insurance Broker/Agent, Investor & Director

Timothy R. Glenn
Owner and Funeral Director of Lewis and Glenn Home

Richard A. Young, CPA
Swartz & Young, P.C.

Pete Cordova
Cordova Law Firm, LLP

Richard Edgington
Pinon Development Corporation
Pinon Real Estate Group, LLC

EXECUTIVE OFFICERS

Larry D. Smith
President and Chief Executive Officer of the Company and the Bank

Dennis M. Weber
Chief Financial Officer

Gail A. Granzella
Executive Vice President

GENERAL INFORMATION

Independent Public Accountants
Stockman Kast Ryan & Company
102 N. Cascade Avenue
Suite 400
Colorado Springs, Colorado 80903

Annual Meeting
The 2018 Annual Meeting of Shareholders will be held on October 30, 2018 at 4:00 p.m. MST
High Country Bank,
7360 West US Highway 50
Salida, Colorado 81201

Transfer Agent and Registrar
Broadridge Corporate Issuer Solutions, Inc.
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