Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2020**

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: 333-191801

PRIME MERIDIAN HOLDING COMPANY

(Exact Name of registrant as specified in its charter)

Florida	**27-2980805**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1471 Timberlane Road; Tallahassee, Florida	**32312**
(Address of principal executive offices)	(Zip Code)

(850) 907-2300

(Registrant’s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 such reports), and (2) has been subject to such filing requirements for the past 90 days. ☐ Yes☑ No

Explanatory Note: Prime Meridian Holding Company has filed, on a voluntary basis, all Securities Exchange Act of 1934 reports for the preceding 12 months.

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 (§232.405 of this chapter) during the preceding 12 months (or for 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 definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer:	☐	Accelerated filer:	☐
Nonaccelerated 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. ☐

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
None.	N/A	N/A

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 5, 2020: 3,116,499

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PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Balance Sheets

(in thousands)	March 31, 2020 (Unaudited)	December 31, 2019
Assets		
Cash and due from banks	$ 5,209	$ 9,024
Federal funds sold	21,242	24,613
Interest-bearing deposits	46,226	41,445
Total cash and cash equivalents	72,677	75,082
Debt securities available for sale	70,976	61,333
Loans held for sale	8,946	6,193
Loans, net of allowance for loan losses of $4,707 and $4,414	362,436	337,710
Federal Home Loan Bank stock	493	404
Premises and equipment, net	8,072	7,744
Right of use lease asset	3,619	3,669
Accrued interest receivable	1,273	1,137
Bank-owned life insurance	6,541	6,501
Other real estate owned	234	-
Other assets	850	1,088
Total assets	$ 536,117	$ 500,861
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	$ 106,176	$ 96,807
Savings, NOW and money-market deposits	297,991	272,283
Time deposits	70,116	69,174
Total deposits	474,283	438,264
Other borrowings	-	1,254
Official checks	1,391	606
Operating lease liability	3,714	3,758
Other liabilities	1,038	1,111
Total liabilities	480,426	444,993
Stockholders' equity:		
Preferred stock, undesignated; 1,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $.01 par value; 9,000,000 shares authorized, 3,115,334 and 3,191,288 issued and outstanding	31	32
Additional paid-in capital	38,336	39,456
Retained earnings	16,513	16,180
Accumulated other comprehensive income	811	200
Total stockholders' equity	55,691	55,868
Total liabilities and stockholders' equity	$ 536,117	$ 500,861

See Accompanying Notes to Condensed Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Earnings (Unaudited)

(in thousands, except per share amounts)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Interest income:		
Loans	$ 4,429	$ 3,856
Securities	384	296
Other	232	348
Total interest income	5,045	4,500
Interest expense:		
Deposits	899	813
Other borrowings	3	-
Total interest expense	902	813
Net interest income	4,143	3,687
Provision for loan losses	636	165
Net interest income after provision for loan losses	3,507	3,522
Noninterest income:		
Service charges and fees on deposit accounts	64	71
Debit card/ATM revenue, net	81	62
Mortgage banking revenue	148	106
Income from bank-owned life insurance	40	45
Gain on sale of debt securities available for sale	-	7
Other income	34	34
Total noninterest income	367	325
Noninterest expense:		
Salaries and employee benefits	1,618	1,557
Occupancy and equipment	338	275
Professional fees	91	77
Marketing	201	199
FDIC assessment	52	43
Software maintenance, amortization and other	193	152
Other	445	403
Total noninterest expense	2,938	2,706
Earnings before income taxes	936	1,141
Income taxes	220	274
Net earnings	$ 716	$ 867
Earnings per common share:		
Basic	$ 0.22	$ 0.28
Diluted	$ 0.22	$ 0.28
Cash dividends per common share(1)	$ 0.12	$ 0.12

(1) Annual cash dividends were paid during the first quarters of 2019 and 2020

See Accompanying Notes to Condensed Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
(in thousands)	**2020**	**2019**
Net earnings	$ 716	$ 867
Other comprehensive income:		
Change in unrealized gain on debt securities available for sale:		
Unrealized gain arising during the period	818	435
Reclassification adjustment for realized gain	-	(7)
Net change in unrealized gain	818	428
Deferred income tax expense on above change	(207)	(108)
Total other comprehensive income	611	320
Comprehensive income	$ 1,327	$ 1,187

See Accompanying Notes to Condensed Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders' Equity

Three Months Ended March 31, 2020 and 2019

	Common Stock		**Additional**		**Accumulated Other**	**Total**
(dollars in thousands)	**Shares**	**Amount**	**Paid-in Capital**	**Retained Earnings**	**Comprehensive Income (Loss)**	**Stockholders' Equity**
Balance at December 31, 2018	3,138,945	$ 31	$ 38,330	$ 13,015	$ (556)	$ 50,820
Net earnings for the three months ended March 31, 2019 (unaudited)	-	-	-	867	-	867
Dividends paid (unaudited)	-	-	-	(377)	-	(377)
Net change in unrealized gain on debt securities available for sale, net of income tax expense (unaudited)	-	-	-	-	320	320
Common stock issued as compensation to directors (unaudited)	595	-	12	-	-	12
Issuance of restricted stock (unaudited)	3,600	-	-	-	-	-
Stock-based compensation (unaudited)	-	-	42	-	-	42
Balance at March 31, 2019 (unaudited)	3,143,140	$ 31	$ 38,384	$ 13,505	$ (236)	$ 51,684
Balance at December 31, 2019	3,191,288	$ 32	$ 39,456	$ 16,180	$ 200	$ 55,868
Net earnings for the three months ended March 31, 2019 (unaudited)	-	-	-	716	-	716
Dividends paid (unaudited)	-	-	-	(383)	-	(383)
Net change in unrealized gain on debt securities available for sale, net of income tax expense (unaudited)	-	-	-	-	611	611
Stock options exercised (unaudited)	2,000	-	25	-	-	25
Common stock retirement (unaudited)	(82,784)	(1)	(1,216)	-	-	(1,217)
Common stock issued as compensation to directors (unaudited)	995	-	20	-	-	20
Issuance of restricted stock (unaudited)	3,835	-	-	-	-	-
Stock-based compensation (unaudited)	-	-	51	-	-	51
Balance at March 31, 2020 (unaudited)	3,115,334	$ 31	$ 38,336	$ 16,513	$ 811	$ 55,691

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flow (Unaudited)

(in thousands)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash flows from operating activities:		
Net earnings	$ 716	$ 867
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	142	153
Provision for loan losses	636	165
Net amortization of deferred loan fees	(17)	(9)
Gain on sale of debt securities available for sale	-	(7)
Amortization of premiums and discounts on debt securities available for sale	79	73
Gain on sale of loans held for sale	(148)	(106)
Proceeds from the sale of loans held for sale	24,238	14,170
Loans originated as held for sale	(26,843)	(15,105)
Stock issued as compensation	20	12
Stock-based compensation expense	51	42
Income from bank-owned life insurance	(40)	(45)
Net (increase) decrease in accrued interest receivable	(136)	11
Net change in operating leases	6	-
Net decrease (increase) in other assets	31	(357)
Net increase (decrease) in other liabilities and official checks	712	(163)
Net cash used in operating activities	(553)	(299)
Cash flows from investing activities:		
Loan originations, net of principal repayments	(25,579)	57
Purchase of debt securities available for sale	(12,191)	(8,238)
Principal repayments of debt securities available for sale	3,276	1,149
Proceeds from sale of debt securities available for sale	-	4,245
Maturities and calls of debt securities available for sale	11	385
Purchase of Federal Home Loan Bank stock	(89)	(49)
Purchase of premises and equipment	(470)	(2,552)
Net cash used in investing activities	(35,042)	(5,003)
Cash flows from financing activities:		
Net increase in deposits	36,019	24,446
Change in other borrowings	(1,254)	-
Proceeds from stock options exercised	25	-
Common stock retirement	(1,217)	-
Common stock dividends paid	(383)	(377)
Net cash provided by financing activities	33,190	24,069
Net (decrease) increase in cash and cash equivalents	(2,405)	18,767
Cash and cash equivalents at beginning of period	75,082	48,038
Cash and cash equivalents at end of period	$ 72,677	$ 66,805
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$ 895	$ 809
Income taxes	$ -	$ -
Noncash transactions:		
Accumulated other comprehensive income, net change in unrealized gain on debt securities available for sale, net of taxes	$ 611	$ 320
Loans transferred to other real estate owned	$ 234	$ -

See Accompanying Notes to Condensed Consolidated Financial Statements.

(1) General

Prime Meridian Holding Company ("PMHG") owns 100% of the outstanding common stock of Prime Meridian Bank (the "Bank") (collectively the "Company"). PMHG's primary activity is the operation of the Bank. The Bank is a Florida state-chartered commercial bank, and the deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers a variety of community banking services to individual and corporate clients through its four banking offices located in Tallahassee, Crawfordville, and Lakeland, Florida and its online banking platform.

The accounting and financial reporting policies of the Company conform, in all material respects, to accounting principles generally accepted in the United States ("GAAP") and to general practices within the banking industry. The condensed consolidated financial statements in the Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all necessary adjustments for a fair presentation of the Company's consolidated financial position and consolidated results of operations. All adjustments were of a normal and recurring nature. The condensed consolidated financial statements have been prepared in accordance with GAAP and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (the "SEC"). Accordingly, the condensed consolidated financial statements do not include all information and footnotes required by GAAP for complete financial presentation and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2019, included in our Annual Report on Form 10-K filed with the SEC on March 24, 2020. The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results to be expected for the full year or any future period.

Comprehensive Income. GAAP generally requires that recognized revenue, expenses, gains and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on debt securities available for sale, are reported as a separate component of the equity section of the condensed consolidated balance sheet, such items along with net earnings, are components of comprehensive income. The only component of other comprehensive income is the net change in the unrealized gain on debt securities available for sale.

Stock-Based Compensation. The Company expenses the fair value of stock options and restricted stock granted. The Company recognizes stock-based compensation expense in the condensed consolidated statements of earnings over the vesting period.

Mortgage Banking Revenue. Mortgage banking revenue includes gains and losses on the sale of mortgage loans originated for sale and wholesale brokerage fees, net of commissions and deferred loan costs. The Company recognizes mortgage banking revenue from mortgage loans originated in the condensed consolidated statements of earnings upon sale of the loans.

Reclassifications. Certain reclassifications of prior period amounts have been made to conform to the current period presentation.

Recent Accounting Standards Update.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. The ASU improves financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by the Company. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. 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. The Company will continue to use judgment to determine which loss estimation method is appropriate for its circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the condensed consolidated financial statements. Additionally, the ASU amends the accounting for credit losses on debt securities available for sale and purchased financial assets with credit deterioration. The new guidance was originally set to be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. However, on October 16, 2019, FASB approved an Accounting Standards Update that grants private companies, non-for-profit organizations and certain small public companies until January, 2023 to implement this ASU. The Company is classified as a small reporting company who would qualify for this additional time to implement this ASU. The Company is still in the process of determining the effect of the ASU on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13")*. ASU 2018-13 removes, modifies, and adds certain disclosure requirements associated with fair value measurements. ASU 2018-13 is effective for fiscal years, and interim periods, within those fiscal years, beginning after December 15, 2019. The removed and modified disclosures will be adopted on a prospective basis. Early adoption was permitted upon issuance of this ASU. The implementation had no significant impact on the Company's condensed consolidated Financial Statements.

(continued)

(2) Debt Securities Available for Sale

Debt securities are classified according to management's intent. The amortized cost of securities and fair values are as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At March 31, 2020				
U.S. Government agency securities	$ 275	$ 6	$ -	$ 281
Municipal securities	12,378	238	-	12,616
Mortgage-backed securities	49,649	1,232	(78)	50,803
Asset-backed securities	5,647	-	(310)	5,337
Corporate securities	1,940	-	(1)	1,939
Total	$ 69,889	$ 1,476	$ (389)	$ 70,976
At December 31, 2019				
U.S. Government agency securities	$ 408	$ -	$ (1)	$ 407
Municipal securities	9,332	81	(72)	9,341
Mortgage-backed securities	45,499	401	(97)	45,803
Asset-backed securities	5,825	14	(57)	5,782
Total	$ 61,064	$ 496	$ (227)	$ 61,333

The following table summarizes the sale of debt securities available for sale.

	Three Months Ended March 31,	
(in thousands)	2020	2019
Proceeds from sale of debt securities	$ -	$ 4,245
Gross gains	-	27
Gross losses	-	(20)
Net gain on sale of debt securities	$ -	$ 7

Debt securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

	Less Than Twelve Months		*Over Twelve Months*	
(in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
At March 31, 2020				
Mortgage-backed securities	$ (30)	$ 5,205	$ (48)	$ 2,362
Asset-backed securities	(310)	5,337	-	-
Corporate securities	(1)	1,939	-	-
Total	$ (341)	$ 12,481	$ (48)	$ 2,362
At December 31, 2019				
U.S. Government agency securities	$ (1)	$ 407	$ -	$ -
Municipal securities	(72)	3,814	-	-
Mortgage-backed securities	(56)	4,629	(41)	4,115
Asset-backed securities	(57)	3,901	-	-
Total	$ (186)	$ 12,751	$ (41)	$ 4,115

(continued)

(2) Debt Securities Available for Sale, Continued

The unrealized losses at March 31, 2020 and December 31, 2019 on eleven and thirteen securities, respectively, were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired. Debt securities available for sale measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements Using		
(in thousands)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At March 31, 2020				
U.S. Government agency securities	$ 281	$ -	$ 281	$ -
Municipal securities	12,616	-	12,616	-
Mortgage-backed securities	50,803	-	50,803	-
Asset-backed securities	5,337	-	5,337	-
Corporate securities	1,939	-	1,939	-
Total	$ 70,976	$ -	$ 70,976	$ -
At December 31, 2019				
U.S. Government agency securities	$ 407	$ -	$ 407	$ -
Municipal securities	9,341	-	9,341	-
Mortgage-backed securities	45,803	-	45,803	-
Asset-backed securities	5,782	-	5,782	-
Total	$ 61,333	$ -	$ 61,333	$ -

The scheduled maturities of debt securities are as follows:

	At March 31, 2020	
(in thousands)	Amortized Cost	Fair Value
Due in less than one year	$ 364	$ 366
Due in one to five years	3,172	3,181
Due in five to ten years	3,591	3,634
Due after ten years	13,113	12,992
Mortgage-backed securities	49,649	50,803
Total	$ 69,889	$ 70,976

(continued)

(3) Loans

Segments and classes of loans, excluding loans held for sale, are as follows:

(in thousands)	At March 31, 2020	At December 31, 2019
Real estate mortgage loans:		
Commercial	$ 106,819	$ 94,728
Residential and home equity	140,103	135,913
Construction	38,369	33,583
Total real estate mortgage loans	285,291	264,224
Commercial loans	73,733	69,770
Consumer and other loans	7,603	7,631
Total loans	366,627	341,625
Add (deduct):		
Net deferred loan costs	516	499
Allowance for loan losses	(4,707)	(4,414)
Loans, net	$ 362,436	$ 337,710

(continued)

(3) Loans, Continued

An analysis of the change in allowance for loan losses follows:

	Real Estate Mortgage Loans					
(in thousands)	Commercial	Residential and Home Equity	Construction	Commercial Loans	Consumer and Other Loans	Total
Three Month Period Ended March 31, 2020						
Beginning balance	$ 1,046	$ 1,573	$ 415	$ 1,284	$ 96	$ 4,414
Provision (credit) for loan losses	136	54	57	346	43	636
Net (charge-offs) recoveries	-	(15)	-	(315)	(13)	(343)
Ending balance	$ 1,182	$ 1,612	$ 472	$ 1,315	$ 126	$ 4,707
Three Month Period Ended March 31, 2019						
Beginning balance	$ 917	$ 1,397	$ 391	$ 876	$ 80	$ 3,661
Provision (credit) for loan losses	(70)	32	(29)	214	18	165
Net (charge-offs) recoveries	-	-	-	(22)	(4)	(26)
Ending balance	$ 847	$ 1,429	$ 362	$ 1,068	$ 94	$ 3,800
At March 31, 2020						
Individually evaluated for impairment:						
Recorded investment	$ 490	$ 911	$ -	$ 1,308	$ 45	$ 2,754
Balance in allowance for loan losses	$ -	$ -	$ -	$ 217	$ 45	$ 262
Collectively evaluated for impairment:						
Recorded investment	$ 106,329	$ 139,192	$ 38,369	$ 72,425	$ 7,558	$ 363,873
Balance in allowance for loan losses	$ 1,182	$ 1,612	$ 472	$ 1,098	$ 81	$ 4,445
At December 31, 2019						
Individually evaluated for impairment:						
Recorded investment	$ 611	$ 965	$ -	$ 1,631	$ 13	$ 3,220
Balance in allowance for loan losses	$ -	$ 15	$ -	$ 386	$ 13	$ 414
Collectively evaluated for impairment:						
Recorded investment	$ 94,117	$ 134,948	$ 33,583	$ 68,139	$ 7,618	$ 338,405
Balance in allowance for loan losses	$ 1,046	$ 1,558	$ 415	$ 898	$ 83	$ 4,000

(continued)

(3) Loans, Continued

The Company has divided the loan portfolio into three portfolio segments and five portfolio classes, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten based upon standards set forth in the policies approved by the Company's Board of Directors. The Company identifies the portfolio segments and classes as follows:

Real Estate Mortgage Loans. Real estate mortgage loans are typically divided into three classes: commercial, residential and home equity, and construction loans.

Commercial. Loans of this type are typically our more complex loans. This category of real estate loans is comprised of loans secured by mortgages on commercial property that are typically owner-occupied, but also includes nonowner-occupied investment properties. Commercial loans that are secured by owner-occupied commercial real estate are repaid through operating cash flows of the borrower. The maturity for this type of loan is generally limited to three to five years; however, payments may be structured on a longer amortization basis. Typically, interest rates on our commercial real estate loans are fixed for five years or less after which they adjust based upon a predetermined spread over a market index rate. At times, a rate may be fixed for longer than five years. As part of our credit underwriting standards, the Company typically requires personal guarantees from the principal owners of the business supported by a review of the principal owners' personal financial statements and tax returns. As part of the enterprise risk management process, it is understood that risks associated with commercial real estate loans include fluctuations in real estate values, the overall strength of the borrower and the economy, new job creation trends, tenant vacancy rates, environmental contamination, and the quality of the borrowers' management. In order to mitigate and limit these risks, we analyze the borrowers' cash flows and evaluate collateral value. Currently, the collateral securing our commercial real estate loans includes a variety of property types, such as office, warehouse, and retail facilities. Other types include multifamily properties, hotels, mixed-use residential and commercial properties. Generally, commercial real estate loans present a higher risk profile than our consumer real estate loan portfolio.

Residential and Home Equity. The Company offers first and second one-to-four family mortgage loans and home equity lines of credit; the collateral for these loans is generally the clients' owner-occupied residences. Although these types of loans present lower levels of risk than commercial real estate loans, risks do still exist because of possible fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrowers' financial condition. The nonowner-occupied investment properties are more similar in risk to commercial real estate loans, and therefore, are underwritten by assessing the property's income potential and appraised value. In both cases, we underwrite the borrower's financial condition and evaluate his or her global cash flow position. Borrowers may be affected by numerous factors, including job loss, illness, or other personal hardship. As part of our product mix, the Bank offers both portfolio and secondary market mortgages; portfolio loans generally are based on a 1-year, 3-year, 5-year, or 7-year adjustable rate mortgage; while 15-year or 30-year fixed-rate loans are generally sold in the secondary market.

Construction. Typically, these loans have a construction period of one to two years and the interest is paid monthly. Once the construction period terminates, some of these loans convert to a term loan with a maturity of one to ten years. This portion of our loan portfolio includes loans to small and midsized businesses to construct owner-user properties, loans to developers of commercial real estate investment properties, and residential developments. This type of loan is also made to individual clients for construction of single-family homes in our market area. An independent appraisal is used to determine the value of the collateral and confirm that the ratio of the loan principal to the value of the collateral will not exceed policies of the Bank. As the construction project progresses, loan proceeds are requested by the borrower to complete phases of construction and funding is only disbursed after the project has been inspected by a third-party inspector or experienced construction lender. Risks associated with construction loans include fluctuations in the value of real estate, project completion risk, and changes in market trends. The ability of the construction loan borrower to finance the loan or sell the property upon completion of the project is another risk factor that also may be affected by changes in market trends since the initial funding of the loan.

Commercial Loans. The Company offers a wide range of commercial loans, including business term loans, equipment financing, lines of credit, and U.S. Small Business Administration (SBA) loans. Small-to-medium sized businesses, retail, and professional establishments, make up our target market for commercial loans. Our Relationship Managers primarily underwrite these loans based on the borrower's ability to service the loan from cash flow. Lines of credit and loans secured by accounts receivable and/or inventory are monitored periodically by our staff. Loans secured by "all business assets," or a "blanket lien" are typically only made to highly qualified borrowers due to the nonspecific nature of the collateral and do not require a formal valuation of the business collateral. When commercial loans are secured by specifically identified collateral, then the valuation of the collateral is generally supported by an appraisal, purchase order, or third-party physical inspection. Personal guarantees of the principals of business borrowers are usually required. Equipment loans generally have a term of five years or less and may have a fixed or variable rate; we use conservative margins when pricing these loans. Working capital loans generally do not exceed one year and typically, they are secured by accounts receivable, inventory, and personal guarantees of the principals of the business. The Bank currently offers SBA 504 and SBA 7A loans. SBA 504 loans provide financing for major fixed assets such as real estate and equipment while SBA 7A loans are generally used to establish a new business or assist in the acquisition, operation, or expansion of an existing business. With both SBA loan programs, there are set eligibility requirements and underwriting standards outlined by SBA that can change as the government alters its fiscal policy. Significant factors affecting a commercial borrower's creditworthiness include the quality of management and the ability both to evaluate changes in the supply and demand characteristics affecting the business' markets for products and services and to respond effectively to such changes. These loans may be made unsecured or secured, but most are made on a secured basis. Risks associated with our commercial loan portfolio include local, regional, and national market conditions. Other factors of risk could include changes in the borrower's management and fluctuations in collateral value. Additionally, there may be refinancing risk if a commercial loan includes a balloon payment which must be refinanced or paid off at loan maturity. In reference to our risk management process, our commercial loan portfolio presents a higher risk profile than our consumer real estate and consumer loan portfolios. Therefore, we require that all loans to businesses must have a clearly stated and reasonable payment plan to allow for timely retirement of debt, unless secured by liquid collateral or as otherwise justified.

(continued)

(3) Loans, Continued

Consumer and Other Loans. These loans are made for various consumer purposes, such as the financing of automobiles, boats, and recreational vehicles. The payment structure of these loans is normally on an installment basis. The risk associated with this category of loans stems from the reduced collateral value for a defaulted loan; the collateral may not provide an adequate source of repayment of the principal. The underwriting on these loans is primarily based on the borrower's financial condition. In many cases, these are unsecured credits that subject us to risk when the borrower's financial condition declines or deteriorates. Based upon our current trend in consumer loans, management does not anticipate consumer loans will become a substantial component of our loan portfolio at any time in the foreseeable future. Consumer loans are made at fixed and variable interest rates and are based on the appropriate amortization for the asset and purpose.

The following summarizes the loan credit quality:

	Real Estate Mortgage Loans					
(in thousands)	**Commercial**	**Residential and Home Equity**	**Construction**	**Commercial Loans**	**Consumer and Other Loans**	**Total**
At March 31, 2020:						
Grade:						
Pass	$ 104,837	$ 137,753	$ 37,121	$ 70,900	$ 7,549	$ 358,160
Special mention	1,492	1,439	760	1,255	29	4,975
Substandard	490	911	488	1,578	25	3,492
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 106,819	$ 140,103	$ 38,369	$ 73,733	$ 7,603	$ 366,627
At December 31, 2019:						
Grade:						
Pass	$ 92,586	$ 133,351	$ 32,374	$ 66,649	$ 7,576	$ 332,536
Special mention	1,531	1,597	1,209	1,197	55	5,589
Substandard	611	965	-	1,924	-	3,500
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 94,728	$ 135,913	$ 33,583	$ 69,770	$ 7,631	$ 341,625

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed quarterly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Furthermore, construction loans, nonowner-occupied commercial real estate loans, and commercial loan relationships in excess of $500,000 are reviewed at least annually. The Company determines the appropriate loan grade during the renewal process and reevaluates the loan grade in situations when a loan becomes past due.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the client contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

Pass – A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – A loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not necessarily preclude the potential for recovery, but rather signifies it is no longer practical to defer writing off the asset.

(continued)

(3) Loans, Continued

Age analysis of past due loans is as follows:

(in thousands)	Accruing Loans 30-59 Days Past Due	Accruing Loans 60-89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Accruing Loans Total Past Due	Current	Nonaccrual Loans	Total Loans
At March 31, 2020:							
Real estate mortgage loans:							
Commercial	$ -	$ 490	$ -	$ 490	$ 106,329	$ -	$ 106,819
Residential and home equity	2,153	215	-	2,368	136,824	911	140,103
Construction	152	-	488	640	37,729	-	38,369
Commercial loans	-	-	65	65	72,360	1,308	73,733
Consumer and other loans	19	-	-	19	7,559	25	7,603
Total	$ 2,324	$ 705	$ 553	$ 3,582	$ 360,801	$ 2,244	$ 366,627
At December 31, 2019:							
Real estate mortgage loans:							
Commercial	$ -	$ -	$ -	$ -	$ 94,728	$ -	$ 94,728
Residential and home equity	569	-	-	569	134,379	965	135,913
Construction	82	-	-	82	33,501	-	33,583
Commercial loans	87	-	-	87	68,057	1,626	69,770
Consumer and other loans	-	5	-	5	7,626	-	7,631
Total	$ 738	$ 5	$ -	$ 743	$ 338,291	$ 2,591	$ 341,625

(continued)

(3) Loans, Continued

The following summarizes the amount of impaired loans:

	With No Related Allowance Recorded		With an Allowance Recorded			Total		
(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
At March 31, 2020:								
Real estate mortgage loans:								
Commercial	$ 490	$ 490	$ -	$ -	$ -	$ 490	$ 490	$ -
Residential and home equity	911	911	-	-	-	911	911	-
Commercial loans	348	348	960	960	217	1,308	1,308	217
Consumer and other loans	-	-	45	45	45	45	45	45
Total	$ 1,749	$ 1,749	$ 1,005	$ 1,005	$ 262	$ 2,754	$ 2,754	$ 262
At December 31, 2019:								
Real estate mortgage loans:								
Commercial real estate	$ 611	$ 611	$ -	$ -	$ -	$ 611	$ 611	$ -
Residential and home equity	716	716	249	249	15	965	965	15
Commercial loans	508	508	1,123	1,123	386	1,631	1,631	386
Consumer and other loans	-	-	13	13	13	13	13	13
Total	$ 1,835	$ 1,835	$ 1,385	$ 1,385	$ 414	$ 3,220	$ 3,220	$ 414

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows:

	Three Months Ended March 31,					
	2020			2019		
(in thousands)	Average Recorded Investment	Interest Income Recognized	Interest Income Received	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Real estate mortgage loans:						
Commercial	$ 573	$ 7	$ 7	$ 611	$ 8	$ 8
Residential and home equity	882	-	-	420	4	3
Commercial loans	1,554	4	4	399	1	1
Consumer	1	-	-	6	-	-
Total	$ 3,010	$ 11	$ 11	$ 1,436	$ 13	$ 12

There were no collateral dependent loans measured at fair value on a nonrecurring basis at March 31, 2020 or 2019.

(continued)

(3) Loans, Continued

The restructuring of a loan constitutes a troubled debt restructuring ("TDR") if the creditor grants a concession to the debtor that it would not otherwise consider in the normal course of business. A concession may include an extension of repayment terms which would not normally be granted, a reduction in interest rate or the forgiveness of principal and/or accrued interest. All TDRs are evaluated individually for impairment on a quarterly basis as part of the allowance for loan losses calculation. During the period of national emergency related to the COVID-19 pandemic, the banking regulatory agencies have confirmed with FASB that certain short-term loan modifications made in response to the pandemic's effects on borrowers should not be considered to be TDRs. The Company entered no new TDRs during the three months ended March 31, 2020 and one new TDR during the three months ended March 31, 2019.

	Three Months Ended March 31,							
	2020				2019			
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Modification Outstanding Recorded Investment
Troubled Debt Restructurings -								
Modified principal								
Commercial	-	-	-	-	1	$ 24	$ 24	$ 24
Total	-	$ -	$ -	$ -	1	$ 24	$ 24	$ 24

At March 31, 2020, the Company had $663,000 in loans identified as TDRs. The TDR entered into during the three months ended March 31, 2019 did not subsequently default.

(4) Regulatory Capital

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

(continued)

(4) Regulatory Capital, Continued

The Bank is subject to the Basel III capital level threshold requirements under the Prompt Corrective Action regulations. These regulations were designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses.

The Bank is subject to the capital conservation buffer rules which place limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, a bank must hold a capital conservation buffer above its minimum risk-based capital requirements. As of March 31, 2020, the Bank's capital conservation buffer exceeded the minimum requirement of 2.50%.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and percentages (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of March 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2020, the Bank is well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage percentages as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and percentages are also presented in the following table.

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
(dollars in thousands)	Amount	Percentage	Amount	Percentage	Amount	Percentage
As of March 31, 2020						
Tier 1 Leverage Capital	$ 47,609	9.33%	$ 20,417	4.00%	$ 25,522	5.00%
Common Equity Tier 1 Risk-based Capital	47,609	12.41	17,261	4.50	24,932	6.50
Tier 1 Risk-based Capital	47,609	12.41	23,014	6.00	30,686	8.00
Total Risk-based Capital	52,316	13.64	30,686	8.00	38,357	10.00
As of December 31, 2019						
Tier 1 Leverage Capital	$ 46,752	9.31%	$ 20,084	4.00%	$ 25,105	5.00%
Common Equity Tier 1 Risk-based Capital	46,752	13.24	15,885	4.50	22,945	6.50
Tier 1 Risk-based Capital	46,752	13.24	21,180	6.00	28,240	8.00
Total Risk-based Capital	51,165	14.49	28,240	8.00	35,300	10.00

(continued)

(5) Earnings Per Share

Earnings per share, ("EPS") have been computed on the basis of the weighted-average number of shares of common stock outstanding. For the three months ended March 31, 2020 and 2019, outstanding stock options are considered dilutive securities for purposes of calculating diluted EPS which was computed using the treasury stock method.

	2020			2019		
(dollars in thousands, except per share amounts)	**Earnings**	**Weighted-Average Shares**	**Per Share Amount**	**Earnings**	**Weighted-Average Shares**	**Per Share Amount**
Three Months Ending March 31:						
Basic EPS:						
Net earnings	$ 716	3,183,857	$ 0.22	$ 867	3,140,401	$ 0.28
Effect of dilutive securities-incremental shares from assumed conversion of options		1,701			3,670	
Diluted EPS:						
Net earnings	$ 716	3,185,558	$ 0.22	$ 867	3,144,071	$ 0.28

(continued)

(6) Stock Option Plans

2015 Stock Incentive Compensation Plan

The 2015 Stock Incentive Compensation Plan (the "2015 Plan") was approved by the shareholders at the Company's annual meeting of shareholders on May 20, 2015 and permits the Company to grant the Company's key employees and directors stock options, stock appreciation rights, performance shares, and phantom stock. Under the 2015 Plan, the number of shares which may be issued is 500,000, but in no instance more than 15% of the issued and outstanding shares of the Company's common stock.

As of March 31, 2020, 287,257 stock options and 7,435 restricted stock awards have been granted under the 2015 Plan and 172,598 options are available for grant. A summary of the stock option activity for the three months ended March 31, 2020 and 2019 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018 and March 31, 2019	263,457	$ 19.78		
Outstanding at December 31, 2019	272,257	$ 19.80		
Options granted	15,000	$ 20.05		
Outstanding at March 31, 2020	287,257	$ 19.82	7.66	$ 38,000
Exercisable at March 31, 2020	27,207	$ 17.13	5.89	$ 38,000

The fair value of shares vested and recognized as compensation expense was $51,000 and $42,000 for the three months ended March 31, 2020 and 2019, respectively. These amounts include expense of $10,000 and $2,000 recognized on restricted common stock shares issued during the three months ended March 31, 2020 and 2019, respectively. The deferred tax benefit related to stock options for the three months ended March 31, 2020 and 2019 was $5,000 and $4,000, respectively. At March 31, 2020, there was $545,000 in unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the 2015 Plan, with an average remaining life of 3.28 years.

(continued)

(6) Stock Option Plans, Continued

The fair value of each option granted during the three months ended March 31, 2020 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	March 31, 2020
Weighted average risk-free interest rate	1.46%
Expected dividend yield	0.60%
Expected stock volatility	14.69%
Expected life in years	6.5
Per share fair value of options issued during period	$ 3.26

The Company used the guidance in Staff Accounting Bulletin No. 107 to determine the estimated life of options issued. Expected volatility is based on volatility of similar companies' common stock. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is based on the Company's history and expectation of dividend payouts.

2007 Stock Option Plan

As of May 20, 2015, no further grants will be made under the 2007 Stock Option Plan (the "2007 Plan"). Unexercised stock options that were granted under the 2007 Plan will remain outstanding and will expire under the terms of the individual stock grant. A summary of the activity in the Company's 2007 Stock Option Plan for the three months ended March 31, 2020 and 2019 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018 and March 31, 2019	4,700	$ 11.37		
Outstanding at December 31, 2019	2,200	$ 12.27		
Options exercised	(2,000)	$ 12.50		
Outstanding at March 31, 2020	200	$ 10.00	0.76	$ 1,700
Exercisable at March 31, 2020	200	$ 10.00	0.76	$ 1,700

At March 31, 2020, there was no unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the 2007 plan.

(continued)

(6) Stock Option Plans, Continued

Directors' Plan

In 2012, the Company's Board of Directors and shareholders adopted the Directors' Plan. The Directors' Plan permits the Company's and the Bank's non-employee directors to elect to receive any compensation to be paid to them in shares of the Company's common stock. Pursuant to the Directors' Plan, each non-employee director is permitted to make an election to receive shares of stock instead of cash. To encourage directors to elect to receive stock, the Directors' Plan provides that if a director elects to receive stock, he or she will receive in common stock 110% of the amount of cash fees set by the Board or the Compensation and Nominating Committee. The value of stock to be awarded pursuant to the Directors' Plan will be the closing price of a share of common stock as traded on the Over-the-Counter Bulletin Board, or a price set by the Board or its Compensation and Nominating Committee, acting in good faith, but in no case less than fair market value. The maximum number of shares to be issued pursuant to the Directors' Plan is limited to 74,805 shares. For the three months ended March 31, 2020 and 2019, our directors received 995 and 595 shares of common stock, respectively, in lieu of cash fees calculated at 110% to be $20,000 and $12,000, respectively. At March 31, 2020, 50,645 shares remained available for grant.

Restricted Stock

During the three months ended March 31, 2020 and 2019, the Company issued 3,835 and 3,600 restricted common stock shares, respectively, to its CEO as part of his bonus incentive earned for the Company's performance in 2019 and 2018, respectively. One-third of the balance vests each year beginning on February 21, 2020 for the shares issued in 2019 and on January 16, 2021 for the shares issued in 2020. Holders of restricted stock have the right to vote and the right to receive dividends declared on common stock, if any. A summary of restricted stock transactions follows:

	Number of Shares	Wtd-Avg Grant-Date Fair Value per Share	Grant-Date Fair Value
Non-vested restricted stock outstanding at December 31, 2018	-	$ -	$ -
Restricted stock issued in 2019	3,600	$ 18.52	$ 67,000
Non-vested restricted stock outstanding at March 31, 2019 and December 31, 2019	3,600	$ 18.52	$ 67,000
Restricted stock issued in 2020	3,835	$ 20.40	$ 78,000
Restricted stock shares vested in 2020	(1,200)	$ (18.52)	$ (22,000)
Non-vested restricted stock outstanding at March 31, 2020	6,235	$ 19.72	$ 123,000

During the three months ended March 31, 2020 and 2019, the Company recognized $10,000 and $2,000, respectively, as expense. At March 31, 2020, the Company had $116,000 in unrecognized expense to be recognized over a weighted-average period of 2.5 years.

(7) Federal Home Loan Bank Advances

Federal Home Loan Bank ("FHLB") advances are collateralized by a blanket lien on qualifying residential real estate, commercial real estate, home equity lines of credit and multi-family loans. Under this blanket lien, the Company could borrow up to $63.2 million at March 31, 2020. At March 31, 2020 and December 31, 2019, the Company had no outstanding loans under this line.

(continued)

(8) Fair Value of Financial Instruments

The estimated fair values and fair value measurement method with respect to the Company's financial instruments were as follows:

		At March 31, 2020		At December 31, 2019	
(in thousands)	**Level**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:					
Cash and cash equivalents	1	$ 72,677	$ 72,677	$ 75,082	$ 75,082
Debt securities available for sale	2	70,976	70,976	61,333	61,333
Loans held for sale	3	8,946	9,094	6,193	6,296
Loans, net	3	362,436	368,901	337,710	342,435
Federal Home Loan Bank stock	3	493	493	404	404
Accrued interest receivable	3	1,273	1,273	1,137	1,137
Financial liabilities-					
Deposits	3	474,283	475,459	438,624	439,208
Off-Balance Sheet Items	3	-	-	-	-

Discussion regarding the assumptions used to compute the estimated fair values of financial instruments can be found in Note 1 to the consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2019.

(9) Off-Balance Sheet Financial Instruments

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 clients. These financial instruments are commitments to extend credit, construction loans in process, unused lines of credit, standby letters of credit, and guaranteed accounts and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the condensed consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for available lines of credit, construction loans in process and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend credit, construction loans in process and unused lines of credit are agreements to lend to a client 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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each client’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the counterparty.

(9) Off-Balance Sheet Financial Instruments, Continued

Standby letters of credit are written conditional commitments issued by the Company to guarantee the performance of a client to a third party. These letters of credit are primarily issued to support third-party borrowing arrangements and generally have expiration dates within one year of issuance. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to clients. In the event the client does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the client. Some of the Company's standby letters of credit are secured by collateral and those secured letters of credit totaled $678,000 at March 31, 2020.

Guaranteed accounts are irrevocable standby letters of credit issued by us to guarantee a client's credit line with our third-party credit card company, First Arkansas Bank & Trust. As a part of this agreement, we are responsible for the established credit limit on certain accounts plus 10%. The maximum potential amount of future payments we could be required to make is represented by the dollar amount disclosed in the table below.

Standby letters of credit and commitments to extend credit typically result in loans with a market interest rate when funded.

The maximum potential amount of future payments we could be required to make for off-balance sheet financial instruments is represented by the dollar amount disclosed in the table below.

(in thousands)	At March 31, 2020
Commitments to extend credit	$ 5,730
Construction loans in process	$ 17,625
Unused lines of credit	$ 47,064
Standby financial letters of credit	$ 2,127
Standby performance letters of credit	$ 328
Guaranteed accounts	$ 1,383

(continued)

(10) Contingency

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets and significantly increased unemployment levels. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, the duration of the pandemic, and actions taken by governmental authorities to slow the spread of the disease or to mitigate its effects.

The Company has taken action during the first quarter to prepare its employees, support its clients, and help its communities. In mid-March, the Company closed its lobbies to foot traffic, making them available by appointment only. At the same time, the Company moved to a split-staff schedule to decrease the number of employees in an office and enhanced its cleaning and disinfecting procedures. Meetings of more than ten people have transitioned to virtual or online platforms and clients have the option to sign documents electronically.

The Company is supporting small business owners by making loans through the Small Business Administration Paycheck Protection Program ("PPP"). As of April 29, 2020, the Bank had received approval on 746 loans for a total dollar amount of $80.0 million. As of this date, $74.4 million had been disbursed. These loans are 100% guaranteed by the Small Business Administration (the "SBA"). The Company plans to fund the majority of PPP loans through the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility (the "PPPLF"). Loans pledged to secure PPPLF advances will be excluded from the calculations of the Bank's regulatory capital ratios. Therefore, pledged PPP loans will have no effect on those and the PPPLF alleviates any potential liquidity issues at this time related to funding PPP loans.

Management expects payment deferral activity on existing loans will be concentrated in the second quarter and that credit quality deterioration directly related to the pandemic could materialize in the future. As of April 27, 2020, the Company had received 64 requests for payment deferrals on loans totaling $44.3 million. Approximately 85.5% of the forbearance requests are for loans secured by real estate. The total dollar amount, approximately $44.3 million, represents 12.1% of the total gross loan portfolio. During the period of national emergency related to the COVID-19 pandemic, the banking regulatory agencies have confirmed with FASB that certain short-term loan modifications made in response to the pandemic's effects on borrowers should not be considered TDRs. In addition, the Company expects some credit quality deterioration in the current loan portfolio as a result of the econmic effects of the pandemic. Management is fully monitoring this situation and anticipates providing more detail in the second quarter.

The amount of each category of loans for which the Company has received payment deferral requests is disclosed in the following table.

	As of April 27, 2020	
(dollars in thousands)	**Amount**	**% of Total**
Real estate mortgage loans:		
Commercial	$ 27,439	61.9%
Residential and home equity	9,750	22.0
Construction	740	1.6
Total real estate mortgage loans	37,929	85.5
Commercial loans	6,387	14.4
Consumer and other loans	29	0.1
Total loans	44,345	100.0%

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of Prime Meridian Holding Company, and its wholly-owned subsidiary, Prime Meridian Bank. This discussion and analysis should be read with the condensed consolidated financial statements, the footnotes thereto, and the other financial data included in this report and in our annual report on Form 10-K for the year ended December 31, 2019. Results of operations for the three ended March 31, 2020 are not necessarily indicative of results that may be attained for any other period. The following discussion and analysis present our financial condition and results of operations on a consolidated basis, however, because we conduct all of our material business operations through the Bank, the discussion and analysis relate to activities primarily conducted at the subsidiary level.

Certain information in this report may include "forward-looking statements" as defined by federal securities law. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "project," "is confident that," and similar expressions are intended to identify these forward-looking statements. These forward-looking statements involve risk and uncertainty and a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in these forward-looking statements. We do not have a policy of updating or revising forward-looking statements except as otherwise required by law, and silence by management over time should not be construed to mean that actual events are occurring as estimated in such forward-looking statements.

Our ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on our and our subsidiary's operations include, but are not limited to, changes in:

- local, regional, and national economic and business conditions;
- banking laws, compliance, and the regulatory environment;
- U.S. and global securities markets, public debt markets, and other capital markets;
- monetary and fiscal policies of the U.S. Government;
- litigation, tax, and other regulatory matters;
- demand for banking services, both loan and deposit products in our market area;
- quality and composition of our loan or investment portfolios;
- risks inherent in making loans such as repayment risk and fluctuating collateral values;
- competition;
- attraction and retention of key personnel, including our management team and directors;
- technology, product delivery channels, and end user demands and acceptance of new products;
- consumer spending, borrowing and savings habits;
- any failure or breach of our operational systems, information systems or infrastructure, or those of our third-party vendors and other service providers; including cyber-attacks;
- natural disasters, public unrest, adverse weather, pandemics, public health, and other conditions impacting our or our clients' operations;
- other economic, competitive, governmental, regulatory, or technological factors affecting us; and
- application and interpretation of accounting principles and guidelines.

GENERAL

Prime Meridian Holding Company ("PMHG") was incorporated as a Florida corporation on May 25, 2010, and is the one-bank holding company for, and sole shareholder of, Prime Meridian Bank (the "Bank") (collectively, the "Company"). The Bank opened for business on February 4, 2008 and was acquired by PMHG on September 16, 2010. PMHG has no significant operations other than owning the stock of the Bank. The Bank offers a broad array of commercial and retail banking services through four full-service offices located in Tallahassee, Crawfordville, and Lakeland, Florida and through its online banking platform.

As a one-bank holding company, we generate most of our revenue from interest on loans and investments. Our primary source of funding for our loans is deposits. Our largest expenses are interest on those deposits and salaries and employee benefits. We measure our performance through our net interest margin, return on average assets, and return on average equity, while maintaining appropriate regulatory leverage and risk-based capital ratios.

The following table shows selected information for the periods ended or at the dates indicated:

	At or for the		
	Three Months Ended March 31, 2020	**Year Ended December 31, 2019**	**Three Months Ended March 31, 2019**
Average equity as a percentage of average assets	11.02%	11.64%	12.09%
Equity to total assets at end of period	10.39	11.15	12.11
Return on average assets(1)	0.56	0.78	0.82
Return on average equity(1)	5.09	6.66	6.79
Noninterest expense to average assets(1)	2.30	2.45	2.60
Nonperforming loans to total loans at end of period	0.61	0.76	0.21

(1)Annualized for the three months ended March 31, 2020 and 2019

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies which involve significant judgments and assumptions that have a material impact on the carrying value of certain assets and liabilities and used in preparation of the Condensed Consolidated Financial Statements as of March 31, 2020, have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2019.

COVID-19 RESPONSE

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets and significantly increased unemployment levels. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments,the duration of the pandemic, and actions taken by governmental authorities to slow the spread of the disease or to mitigate its effects.

The Company has taken action during the first quarter to prepare its employees, support its clients, and help its communities. In mid-March, the Company closed its lobbies to foot traffic, making them available by appointment only. At the same time, the Company moved to a split-staff schedule to decrease the number of employees in an office and enhanced its cleaning and disinfecting procedures. Meetings of more than ten people have transitioned to virtual or online platforms and clients have the option to sign documents electronically.

The Company is supporting small business owners by making loans through the Small Business Administration Paycheck Protection Program ("PPP"). As of April 29, 2020, the Bank had received approval on 746 loans for a total dollar amount of $80.0 million. As of this date, $74.4 million had been disbursed. These loans are 100% guaranteed by the Small Business Administration (the "SBA"). The Company plans to fund the majority of PPP loans through the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility (the "PPPLF"). Loans pledged to secure PPPLF advances will be excluded from the calculations of the Bank's regulatory capital ratios. Therefore, pledged PPP loans will have no effect on those and the PPPLF alleviates any potential liquidity issues at this time related to funding PPP loans.

Management expects payment deferral activity on existing loans will be concentrated in the second quarter and that credit quality deterioration directly related to the pandemic could materialize in the future. As of April 27, 2020, the Company had received 64 payment deferral requests on loans totaling $44.3 million. . Approximately 85.5% of the forbearance requests are for loans secured by real estate and the total dollar amount, approximately $44.3 million, represents 12.1% of the total gross loan portfolio. During the period of national emergency related to the COVID-19 pandemic, the banking regulatory agencies have confirmed with FASB that certain short-term loan modifications made in response to the pandemic's effects on borrowers should not be considered TDRs. In addition, the Company expects some credit quality deterioration in the current loan portfolio as a result of the econmic effects of the pandemic. Management is fully monitoring this situation and anticipates providing more detail in the second quarter.

The amount of each category of loans for which the Company has received deferral payment requests is disclosed in the following table:

	As of April 27, 2020	
(dollars in thousands)	**Amount**	**% of Total**

Real estate mortgage loans:		
Commercial	$ 27,439	61.9%
Residential and home equity	9,750	22.0
Construction	740	1.6
Total real estate mortgage loans	37,929	85.5
Commercial loans	6,387	14.4
Consumer and other loans	29	0.1
Total loans	44,345	100.0%

FINANCIAL CONDITION

Average assets totaled $510.2 million for the three months ended March 31, 2020, an increase of $87.9 million, or 20.8%, over the comparable period in 2019, with the majority of growth coming from loans.

Investment Securities. Our primary objective in managing our investment portfolio is to maintain a portfolio of high quality, highly liquid investments yielding competitive returns. We use the investment securities portfolio for several purposes. It serves as a vehicle to manage interest rate and prepayment risk, to generate interest and dividend income, to provide liquidity to meet funding requirements, and to provide collateral for pledging to secure the deposit of public funds at the Bank. At March 31, 2020, our debt securities available for sale investment portfolio included U.S. government agency securities, municipal securities, mortgage-backed securities, asset-backed securities, and corporate securities. As of the same date, this portfolio had a fair market value of $71.0 million and an amortized cost value of $69.9 million. At March 31, 2020 and December 31, 2019, our investment securities portfolio represented approximately 13.2% and 12.2% of our total assets, respectively. The average yield on the average balance of investment securities for the three months ended March 31, 2020 was 2.42%, compared to 2.57% for the comparable period in 2019.

Loans. Our primary earning asset is our loan portfolio and our primary source of income is the interest earned on the loan portfolio. Our loan portfolio consists of commercial real estate loans, construction loans, and commercial loans made to small-to-medium sized companies and their owners, as well as residential real estate loans, including first and second mortgages, and consumer loans. Our goal is to maintain a high-quality portfolio of loans through sound underwriting and lending practices. We work diligently to attract new lending clients through direct solicitation by our loan officers, utilizing relationship networks from existing clients, competitive pricing, and innovative structure. Our loans are priced based upon the degree of risk, collateral, loan amount, and maturity.

The Company’s net loan portfolio increased $24.7 million since December 31, 2019. In total, approximately 77.8% of the total loan portfolio was collateralized by commercial and residential real estate mortgages at March 31, 2020, compared to 77.3% at December 31, 2019.

Nonperforming assets. We generally place loans on nonaccrual status when they become 90 days or more past due, unless they are well secured and in the process of collection. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. When a loan is placed on nonaccrual status, any interest previously accrued, but not collected, is reversed from income. At March 31, 2020, the Company had twelve nonaccrual loans totaling approximately $2.2 million. Accounting standards require the Company to identify loans as impaired loans 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. These standards require that impaired loans be valued at the present value of expected future cash flows, discounted at the loan’s effective interest rate, using one of the following methods: the observable market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. We implement these standards in our monthly review of the adequacy of the allowance for loan losses and identify and value impaired loans in accordance with GAAP. Thirteen loans and one overdraft account totaling $2.8 million were deemed to be impaired under the Company’s policy at March 31, 2020, compared to fourteen loans and one overdraft account totaling $3.2 million at December 31, 2019. The Company’s nonperforming assets represented 0.57% of total assets at March 31, 2020 and 0.52% at December 31, 2019. Also during the quarter, the Company transferred $234,000 in loans to other real estate owned.

Allowance for Loan Losses. Management’s policy is to maintain the allowance for loan losses at a level sufficient to absorb probable losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by the provision for loan losses and decreased by charge-offs, net of recoveries. Management believes that the allowance for loan losses, which was $4.7 million or 1.28% of gross loans, at March 31, 2020 is adequate to cover losses inherent in the loan portfolio. Five of the thirteen impaired loans and overdrafts carried aggregate specific reserves of $262,000 at March 31, 2020. None of the provision for loan losses or the charge-offs during the first quarter of 2020 was related to the COVID-19 pandemic.

Deposits. Deposits are the major source of the Company’s funds for lending and other investment purposes. Total deposits at March 31, 2020 were $474.3 million, an increase of $36.0 million, or 8.2%, from December 31, 2019, with growth coming primarily from interest-bearing accounts. The average balance of noninterest-bearing deposits accounted for 22.3% of the average balance of total deposits for the three months ended March 31, 2020, compared to 22.5% for the three months ended March 31, 2019.

Borrowings. The Company has an agreement with the Federal Home Loan Bank of Atlanta (“FHLB”) and pledges its qualified loans as collateral which would allow the Company, as of March 31, 2020, to borrow up to $63.2 million. In addition, the Company maintains unsecured lines of credit with correspondent banks that totaled $18.8 million at March 31, 2020. There were no loans outstanding under any of these lines at March 31, 2020.

RESULTS OF OPERATIONS

Net interest income constitutes the principal source of income for the Bank and results from the excess of interest income on interest-earning assets over interest expense on interest-bearing liabilities. The principal interest-earning assets are investment securities and loans. Interest-bearing liabilities primarily consist of time deposits, interest-bearing checking accounts, savings deposits, and money-market accounts. Funds attracted by these interest-bearing liabilities are invested in interest-earning assets. Accordingly, net interest income depends upon the volume of average interest-earning assets and average interest-bearing liabilities as well as the interest rates earned or paid on these assets and liabilities. The following tables set forth information regarding: (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) weighted-average yields and rates. Yields and costs were derived by dividing annualized income or expense by the average balance of assets or liabilities. The yields and costs depicted in the table include the amortization of fees, which are considered to constitute adjustments to yields.

As shown in the following two tables, the Company's average yield on interest-earning assets has declined 31 basis points from the three months ended March 31, 2019. Despite a higher balance of total interest-earning assets and lower cost of funds, the Company's net interest margin declined 25 basis points to 3.42%.

	For the Three Months Ended March 31,					
	2020			2019		
(dollars in thousands)	Average Balance	Interest and Dividends	Yield/ Rate(4)	Average Balance	Interest and Dividends	Yield/ Rate(4)
Interest-earning assets:						
Loans(1)	$ 352,921	$ 4,363	4.95%	$ 296,137	$ 3,798	5.13%
Loans held for sale	5,551	66	4.76	4,742	58	4.89
Securities	63,583	384	2.42	46,010	296	2.57
Other(2)	62,157	232	1.49	55,327	348	2.52
Total interest-earning assets	484,212	$ 5,045	4.17	402,216	$ 4,500	4.48
Noninterest-earning assets	26,021			20,134		
Total assets	$ 510,233			$ 422,350		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	$ 277,254	$ 544	0.78%	$ 243,509	$ 603	0.99%
Time deposits	69,906	355	2.03	42,699	210	1.97
Total interest-bearing deposits	347,160	$ 899	1.04	286,208	813	1.14
Other borrowings	1,273	3	0.94	-	-	
Total interest-bearing liabilities	348,433	$ 902	1.04	286,208	$ 813	1.14
Noninterest-bearing deposits	99,857			83,184		
Noninterest-bearing liabilities	5,690			1,900		
Stockholders' equity	56,253			51,058		
Total liabilities and stockholders' equity	$ 510,233			$ 422,350		
Net earning assets	$ 135,779			$ 116,008		
Net interest income		$ 4,143			$ 3,687	
Interest rate spread(3)			3.13%			3.34%
Net interest margin(4)			3.42%			3.67%
Ratio of interest-earning assets to average interest-bearing liabilities	138.97%			140.53%		

(1) Includes nonaccrual loans
(2) Other interest-earning assets include federal funds sold, interest-bearing deposits and FHLB stock.
(3) Interest rate spread is the difference between the total interest-earning asset yield and the rate paid on total interest-bearing liabilities.
(4) Net interest margin is net interest income divided by total average interest-earning assets, annualized

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

Earnings Summary
(dollars in thousands)

	1Q'20	1Q'19	Change 1Q'20 vs. 1Q'19 Amount	Change 1Q'20 vs. 1Q'19 Percentage
Net Interest Income	$ 4,143	$ 3,687	$ 456	12.4%
Provision for loan losses	636	165	471	285.5
Noninterest income	367	325	42	12.9
Noninterest expense	2,938	2,706	232	8.6
Income Taxes	220	274	(54)	(19.7)
Net Income	$ 716	$ 867	$ (151)	(17.4)%

Compared to the same period a year ago, the decrease in the Company's first quarter net income is primarily attributed to a $471,000 increase in the provision for loan losses and a $232,000 increase in noninterest expense, partially offset by the $456,000 increase in net interest income, $42,000 increase in noninterest income and lower income tax expense.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest and dividend income on interest-earning assets such as loans and securities, and interest expense on interest-bearing liabilities such as deposits.

Interest income
(dollars in thousands)

	1Q'20	1Q'19	Change 1Q'20 vs. 1Q'19 Amount	Change 1Q'20 vs. 1Q'19 Percentage
Interest income:				
Loans	$ 4,429	$ 3,856	$ 573	14.9%
Securities	384	296	88	29.7
Other	232	348	(116)	(33.3)
Total interest income	$ 5,045	$ 4,500	$ 545	12.1%

Net loans increased $72.5 million, or 25.0%, from March 31, 2019. This strong increase in volume was partially tempered by lower average loan yields which have declined 18 basis points since the first quarter of 2019 due to declining interest rates. Also during the first quarter of 2020, there was a shift in the earnings asset mix from federal funds sold and interest-bearing deposits at banks into high-yielding securities which positively affected total interest income and there was one additional day of interest bearing activity in the first quarter of 2020 compared to the same period a year ago.

Interest expense:
(dollars in thousands)

	1Q'20	1Q'19	Change 1Q'20 vs. 1Q'19 Amount	Change 1Q'20 vs. 1Q'19 Percentage
Total interest expense	$ 902	$ 813	$ 89	10.9%

The increase in the Company's interest expense from the first quarter of 2019 is primarily a function of volume as the average balance of interest-bearing deposits increased $61 million, or 21.3% from the first quarter of 2019 to the first quarter of 2020. This increase is interest expense due to volume was partially offset by a 10-basis point reduction in the average rate paid on deposits.

Net Interest Margin

During the quarter, the Company managed its liquidity position while funding strong loan growth. Compared to the first quarter of 2019, the Company's net interest margin declined 25 basis points to 3.42%. The average yield on interest-earning assets decreased 31 basis points as the Federal Reserve has decreased interest rates five times in that intervening 12-month period. Management strategically reduced its cost of funds in the fourth quarter, with average deposit costs down ten basis points since the first quarter of 2019, but this along with higher balances of interest-earning assets was not enough to overcome the effect of lower yields.

Provision for Loan Losses

The provision for loan losses is charged to earnings to increase the total loan loss allowance to a level deemed appropriate by management. The provision is based upon the volume and type of lending conducted by the Bank, industry standards, general economic conditions, particularly as they relate to our market areas, and other factors related to our historic loss experience and the collectibility of the loan portfolio. The provision for loan losses for the three months ended March 31, 2020 was $636,000, compared to $165,000 for the three months ended March 31, 2019. The provision for loan losses for the first quarter of 2020 mostly reflects $24.7 million in net loan growth during the quarter, partially offset by $343,000 in net charge-offs. Management believes that the allowance for loan losses, which was $4.7 million or 1.28% of total loans, at March 31, 2020 is adequate to cover losses inherent in the loan portfolio based on the assessment of the above-mentioned factors affecting the loan portfolio. None of the provision for loan losses or the charge-offs during the first quarter of 2020 was related to the COVID-19 pandemic. While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future losses will not exceed the amount of the established allowance for loan losses, or that any increased allowance for loan losses that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of our allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in additions to our provision for loan losses based upon their judgment of information available to them at the time of examination.

Noninterest income
(dollars in thousands)

	1Q'20	1Q'19	Change 1Q'20 vs. 1Q'19 Amount	Percentage
Service charges and fees on deposit accounts	$ 64	$ 71	$ (7)	(9.9)%
Debit card/ATM revenue, net	81	62	19	30.6
Mortgage banking revenue	148	106	42	39.6
Income from bank-owned life insurance	40	45	(5)	(11.1)
Other income	34	41	(7)	(17.1)
Total noninterest income	$ 367	$ 325	$ 42	12.9%

Noninterest income consists of service charges and fees on deposit accounts, mortgage banking revenue, income from bank-owned life insurance, and other income. The 12.9% increase in noninterest income is attributed to strong growth in debit card/ATM revenue and mortgage banking revenue, both of which reported over a 30% increase from the first quarter of 2019. The increase in debit card/ATM revenue, net of expenses, resulted mostly from higher usage. The declines in service charges and fees on deposit accounts is attributed to lower fees for non-sufficient funds while income from bank-owned life insurance declined due to market volatility at the end of the first quarter in 2020. Also, there was a $7,000 gain on the sale of securities in the first quarter of 2019 and no gain or loss reported on the sale of securities in the first quarter of 2020.

Noninterest expense
(dollars in thousands)

	1Q'20	1Q'19	Change 1Q'20 vs. 1Q'19 Amount	Percentage
Salaries and employee benefits	$ 1,618	$ 1,557	$ 61	3.9%
Occupancy and equipment	338	275	63	22.9
Professional fees	91	77	14	18.2
Marketing	201	199	2	1.0
FDIC Assessment	52	43	9	20.9
Software maintenance and amortization	193	152	41	27.0
Other	445	403	42	10.4
Total noninterest expense	$ 2,938	$ 2,706	$ 232	8.6%

The key driver of the increase in total noninterest expense is salaries and employee benefits. The Company had 88 full-time equivalent employees at March 31, 2020 compared to 83 at March 31, 2019.

Compared to the first quarter of 2019, the increase in occupancy and equipment expense largely stems from higher lease expense due to the increased amount of space under lease at our Timberlane Road office. The 27.0% increase in software maintenance and amortization expense is mostly attributed to additional technology and communication expenditures, some of which was related to enhancing digital capabilities for employees working from home. The 10.4% increase in other noninterest expense is primarily related to higher regulatory fees due to the larger size of the Bank and higher feeds paid for outside contract services.

Income Taxes

Income taxes are based on amounts reported in the condensed consolidated statements of earnings after adjustments for nontaxable income and nondeductible expenses and consist of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Income taxes were $220,000 for the three months ended March 31, 2020, compared to income taxes of $274,000 for the three months ended March 31, 2019, with the decrease attributed to higher pre-tax earnings in 2019.

LIQUIDITY

Liquidity describes our ability to meet financial obligations, including lending commitments and contingencies, which arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of the Company's clients, as well as meet current and planned expenditures. Management monitors the liquidity position daily.

Our liquidity is derived primarily from our deposit base, scheduled amortization and prepayments of loans and investment securities, funds provided by operations, and capital. Additionally, as a commercial bank, we are expected to maintain an adequate liquidity reserve. The liquidity reserve may consist of cash on hand, cash on demand deposit with correspondent banks, federal funds sold, and unpledged marketable securities such as United States government agency securities, municipal securities, and mortgage-backed securities.

The Bank also has external sources of funds through the FHLB, unsecured lines of credit with correspondent banks, and the State of Florida's Qualified Public Deposit Program ("QPD"). At March 31, 2020, the Bank had access to approximately $63.2 million of available lines of credit secured by qualifying collateral with the FHLB, in addition to $18.8 million in unsecured lines of credit maintained with correspondent banks. As of March 31, 2020, we had no borrowings under any of these lines. Furthermore, some of our securities are pledged to collateralize certain deposits through our participation in the State of Florida's QPD program. The market value of securities pledged to the QPD program was $8.6 million at March 31, 2020 and $8.8 million at December 31, 2019. Our primary liquid assets, excluding assets pledged to the QPD program accounted for 25.2% and 25.5% of total assets at March 31, 2020 and December 31, 2019, respectively.

Our core deposits consist of noninterest-bearing accounts, NOW accounts, money-market accounts, time deposits $250,000 or less, and savings accounts. We closely monitor our level of certificates of deposit greater than $250,000 and other large deposits. At March 31, 2020, total deposits were $474.3 million, of which $32.3 million were in certificates of deposits greater than $250,000, excluding Individual Retirement Accounts (IRAs). We maintain a Contingency Funding Plan ("CFP") that identifies liquidity needs and weighs alternate courses of action designed to address those needs in emergency situations. We perform a monthly cash flow analysis and stress test the CFP to evaluate the expected funding needs and funding capacity during a liquidity stress event. We believe that the sources of available liquidity are adequate to meet all reasonably immediate short-term and intermediate-term demands and do not know of any trends, events, or uncertainties that may result in a significant adverse effect on our liquidity position.

CAPITAL RESOURCES

Stockholders' equity was $55.7 million at March 31, 2020 compared to $55.9 million at December 31, 2019. As part of the Company's overall capital management plan, the Company elected to initiate a share repurchase program of up to $2 million in the first quarter. As of March 31, 2020, the Company had repurchased 82,784 shares at a weighted average cost per share of $14.70 for a total of $1.2 million. Depending on market conditions, the Company may continue to effect repurchases during the second quarter of 2020.

At March 31, 2020, the Bank was considered to be "well capitalized" under the FDIC's Prompt Corrective Action regulations with a 9.33% Tier 1 Leverage Capital Ratio, a 12.41 % Equity Tier 1 Risk-Based Capital Ratio, a 12.41% Tier 1 Risk-Based Capital Ratio, and a 13.64% Total Risk-Based Capital Ratio, all above the minimum ratios to be considered "well capitalized."

The following is a summary at March 31, 2020 and December 31, 2019 of the regulatory capital requirements to be "well capitalized" and the Bank's capital position.

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
(dollars in thousands)	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
As of March 31, 2020						
Tier 1 Leverage Capital	$ 47,609	9.33%	$ 20,417	4.00%	$ 25,522	5.00%
Common Equity Tier 1 Risk-based Capital	47,609	12.41	17,261	4.50	24,932	6.50
Tier 1 Risk-based Capital	47,609	12.41	23,014	6.00	30,686	8.00
Total Risk-based Capital	52,316	13.64	30,686	8.00	38,357	10.00
As of December 31, 2019						
Tier 1 Leverage Capital	$ 46,752	9.31%	$ 20,084	4.00%	$ 25,105	5.00%
Common Equity Tier 1 Risk-based Capital	46,752	13.24	15,885	4.50	22,945	6.50
Tier 1 Risk-based Capital	46,752	13.24	21,180	6.00	28,240	8.00
Total Risk-based Capital	51,165	14.49	28,240	8.00	35,300	10.00

The Bank is also subject to the following capital level threshold requirements under the FDIC's Prompt Corrective Action regulations.

	Threshold Ratios			
Capital Category	**Total Risk-Based Capital Ratio**	**Tier 1 Risk-Based Capital Ratio**	**Common Equity Tier 1 Risk-Based Capital Ratio**	**Tier 1 Leverage Capital Ratio**
Well capitalized	10.00%	8.00%	6.50%	5.00%
Adequately Capitalized	8.00%	6.00%	4.50%	4.00%
Undercapitalized	< 8.00%	< 6.00%	< 4.50%	< 4.00%
Significantly Undercapitalized	< 6.00%	< 4.00%	< 3.00%	< 3.00%
Critically Undercapitalized	Tangible Equity/Total Assets ≤ 2%			

Until such time as PMHG has $3 billion in total consolidated assets, it will not be subject to any consolidated capital requirements.

OFF-BALANCE SHEET ARRANGEMENTS

Refer to Note 9 in the notes to condensed consolidated financial statements included in this Form 10-Q for the period ending March 31, 2020 for a discussion of off-balance sheet arrangements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon management's evaluation of those controls and procedures performed within the 90 days preceding the filing of this Report, our Principal Executive Officer and Principal Financial Officer concluded that, subject to the limitations noted below, the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by PMHG in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms.

We intend to continually review and evaluate the design and effectiveness of the Company's disclosure controls and procedures and to improve the Company's controls and procedures over time and to correct any deficiencies that we may discover in the future. The goal is to ensure that senior management has timely access to all material financial and nonfinancial information concerning the Company's business. While we believe the present design of the disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

(b) Changes in Internal Controls

We have made no significant changes in our internal controls over financial reporting during the quarter ended March 31, 2020 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

(c) Limitations on the Effectiveness of Controls

Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to various matters incidental to the conduct of a banking business. Presently, we believe that we are not a party to any legal proceedings in which resolution would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows, or capital levels.

Item 1A. Risk Factors

While the Company attempts to identify, manage, and mitigate risks and uncertainties associated with its business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our cash flows, results of operations, and financial condition. The Company has updated one risk factor since the publication of our Form 10-K for the year ended December 31, 2019.

The COVID-19 pandemic has adversely impacted our business and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and significantly increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering-in-place requirements in many states and communities. As a result, the demand for our products and services may be significantly impacted, which could adversely affect the implementation of our growth strategy. Furthermore, the pandemic could cause the recognition of credit losses or other impairments in our loan portfolios and increases in our allowance for credit losses, particularly if businesses remain closed, the impact on the global economy worsens, or more clients draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize further impairments on the securities we hold as well as reductions in other comprehensive income. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the first quarter of 2020, the Company issued 995 shares to members of its Board of Directors in lieu of cash fees calculated at 110% to be $20,000 and issued 3,835 shares of restricted stock to its Chief Executive Officer, at a total valuation of $78,000, as part of his incentive package for 2019. Also during the first quarter, the Company's Chief Executive Officer exercised stock options to acquire 2,000 shares for aggregate proceeds of $25,000. These shares were issued in accordance with the intrastate exemption from registration pursuant to Section 3(a)(11) of the Securities Act of 1933, because the Company is doing business within the State of Florida and each acquirer and offeree of securities resides within the State of Florida.

As part of the Company's overall capital management plan, on March 11, 2020, the Company publicly announced that it had adopted a share repurchase program. Under this repurchase program, the maximum amount the Company will spend to repurchase shares of its common stock is $2 million. The program period will expire on June 30, 2020, unless shortened or extended by the Company’s Board of Directors. The amount of repurchases effected during each month in the quarter ended March 31, 2020, is reflected in the table below. Depending on market conditions, the Company may continue to effect repurchases during the second quarter of 2020.

Period	Total number of shares repurchased	Average price paid per share	Total number of shares repurchased as part of publicly announced plans or programs	Approximate dollar value of share that may yet be purchased under the plans or programs
January 1 to January 31, 2020	-	$ -	-	$ -
February 1 to February 29, 2020	-	-	-	-
March 1 to March 31, 2020	82,784	14.70	82,784	783,075
Total	82,784	$ 14.70	82,784	$ 783,075

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The following exhibits are filed with or incorporated by reference into this Report.

Exhibit Number	Description of Exhibit	Incorporated by Reference From or Filed Herewith
3.1	Articles of Incorporation	Exhibit 3.1 to Registration Statement on Form S-1 filed on October 18, 2013
3.2	Bylaws	Exhibit 3.2 to Registration Statement on Form S-1 filed on October 18, 2013
3.3	First Amendment to Bylaws dated December 17, 2015	Exhibit 3.3 to Form 10-Q filed on August 11, 2016
3.4	Second Amendment to Bylaws dated January 17, 2019	Exhibit 3.4 to Form 8-K filed on January 18, 2019
4.1	Specimen Common Stock Certificate	Exhibit 4.1 to Registration Statement on Form S-1 filed on October 18, 2013
4.2	2010 Articles of Share Exchange	Exhibit 4.2 to Registration Statement on Form S-1 filed on October 18, 2013
10.1	2007 Stock Option Plan	Exhibit 10.1 to Registration Statement on Form S-1 filed on October 18, 2013
10.2	Form of Non-Qualified Stock Option Agreement Under 2007 Plan	Exhibit 10.2 to Registration Statement on Form S-1 filed on October 18, 2013
10.3	Form of Incentive Stock Option Agreement Under 2007 Plan	Exhibit 10.3 to Registration Statement on Form S-1 filed on October 18, 2013
10.4	2012 Directors' Compensation Plan ("Directors' Plan")	Exhibit 10.4 to Registration Statement on Form S-1 filed on October 18, 2013
10.5	Lease for Branch Location on Timberlane Road	Exhibit 10.1 to Form 8-K filed on August 7, 2018
10.6	Amended and Restated Employment Agreement by and between Prime Meridian Holding Company, Inc. and Prime Meridian Bank, and Sammie D. Dixon, Jr., dated as of July 19, 2018	Exhibit 10.1 to Form 8-K filed on July 19, 2018
10.7	2015 Stock Incentive Compensation Plan	Exhibit 10.7 to Form 8-K filed on May 26, 2015
10.8	First Amendment to 2015 Stock Incentive Compensation Plan	Exhibit 10.8 to Form 10-Q filed on November 10, 2016
10.9	Employment Agreement by and between Prime Meridian Holding Company, Inc. and Prime Meridian Bank, and Chris L. Jensen, dated as of November 19, 2018	Exhibit 10.1 to Form 8-K filed on November 20, 2018
10.10	Defined Contribution Agreement by and among Prime Meridian Holding Company, Inc., and Prime Meridian Bank, and Sammie D. Dixon, Jr., dated as of November 19, 2018.	Exhibit 10.2 to Form 8-K filed on November 20, 2018
10.11	Defined Contribution Agreement by and among Prime Meridian Holding Company, Inc., and Prime Meridian Bank, and Chris L. Jensen, Jr., dated as of November 19, 2018.	Exhibit 10.3 to Form 8-K filed on November 20, 2018

Exhibit Number	Description of Exhibit	Incorporated by Reference From or Filed Herewith
10.12	Amendment to Defined Contribution Agreement by and among Prime Meridian Holding Company, Inc., and Prime Meridian Bank, and Sammie D. Dixon, Jr., dated as of December 11, 2018.	Exhibit 10.1 to Form 8-K filed on December 13, 2018.
10.13	Amendment to Defined Contribution Agreement by and among Prime Meridian Holding Company, Inc., and Prime Meridian Bank, and Chris L. Jensen, Jr., dated as of December 11, 2018.	Exhibit 10.2 to Form 8-K filed on December 13, 2018
10.14	First Amendment to Lease for Timberlane Branch	Filed Exhibit 10.14 to Form 10-Q filed on May 9, 2019
14.1	Code of Ethics	Exhibit 14.1 to Form 10-K filed on March 28, 2014
21.1	Subsidiaries of the Registrant	Exhibit 21.1 to Registration Statement on Form S-1 filed on October 18, 2013
31.1	Certification Under Section 302 of Sarbanes-Oxley by Sammie D. Dixon, Jr., Principal Executive Officer	Filed herewith
31.2	Certification Under Section 302 of Sarbanes-Oxley by Clint F. Weber, Principal Financial Officer	Filed herewith
32.1	Certification by the Chief Executive Officer and the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley	Filed herewith
99.1	Charter of the Audit Committee	Exhibit 99.1 to Form 10-K filed on March 28, 2014
99.2	Charter of the Compensation and Nominating Committee	Exhibit 99.2 to Form 10-K filed on March 21, 2018
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

* Furnished, not filed, for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements 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.

PRIME MERIDIAN HOLDING COMPANY

May 8, 2020	By:	/s/ Sammie D. Dixon
Date		Sammie D. Dixon, Jr. *Vice Chairman, Chief Executive Officer, President, and Principal Executive Officer*
May 8, 2020	By:	/s/ Clint F. Weber
Date		Clint F. Weber *Chief Financial Officer, Executive Vice President, Principal Accounting Officer and Principal Financial Officer*

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Sammie D. Dixon, Jr., certify that:

1. I have reviewed this report on Form 10-Q for the period ended March 31, 2020 of Prime Meridian Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial

reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Sammie D. Dixon

Sammie D. Dixon, Jr.
Vice Chairman, Chief Executive Officer, President, and Principal Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Clint F. Weber, certify that:

1. I have reviewed this report on Form 10-Q for the period ended March 31, 2020 of Prime Meridian Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Clint F. Weber

Clint F. Weber
Chief Financial Officer, Executive Vice President, Principal Accounting Officer and Principal Financial Officer

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

Certification of Chief Executive Officer
and Chief Financial Officer
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned officers of Prime Meridian Holding Company (the "Company"), hereby certify that the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2020

/s/ Sammie D. Dixon

Name: Sammie D. Dixon, Jr.
Title: *Vice Chairman, Chief Executive Officer, President, and Principal Executive Officer*

Dated: May 8, 2020

/s/ Clint F. Weber

Name: Clint F. Weber
Title: *Chief Financial Officer, Executive Vice President, Principal Accounting Officer and Principal Financial Officer*

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and is not being filed as part of the Report or as a separate disclosure document.

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