Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)), sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

NOTE: The Annual Report of Holding Companies must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I. Samuel J. Munafò
Name of the Holding Company Director and Official
Director, President & CEO
Title of the Holding Company Director and Official

attest that the Annual Report of Holding Companies (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official
March 27, 2020

For holding companies not registered with the SEC—indicate status of Annual Report to Shareholders:
☑ is included with the FR Y-6 report
☐ will be sent under separate cover
☐ is not prepared

For Federal Reserve Bank Use Only
RSSD ID
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2019
Month / Day / Year
N/A

Reporters' Legal Entity Identifier (LEI) (20-Character LEI Code)
Reporters' Name, Street, and Mailing Address

VBT Financial Corporation

Legal Title of Holding Company

45 N.E. Loop 410, Suite 500
(Mailing Address of the Holding Company) Street / P.O. Box
San Antonio TX 78216
City State Zip Code

Same as mailing address

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:
Phil L. Lesh
Treasurer

Name Title
210-408-5769
Area Code / Phone Number / Extension
N/A

Area Code / FAX Number
phil.lesh@vantage.bank
E-mail Address
N/A

Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? ☐ Yes ☐ No

In accordance with the General Instructions for this report (check only one):

1. a letter justifying this request is being provided along with the report ☐

2. a letter justifying this request has been provided separately ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

13/2019
For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

<table>
<thead>
<tr>
<th>Legal Title of Subsidiary Holding Company</th>
<th>Legal Title of Subsidiary Holding Company</th>
</tr>
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<tbody>
<tr>
<td>(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box</td>
<td>(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box</td>
</tr>
<tr>
<td>City</td>
<td>State</td>
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<tr>
<td>Physical Location (if different from mailing address)</td>
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</table>

12/2012
1: The bank holding company prepares an annual report for its shareholders. The report to shareholders dated April 21, 2020 is included with the FR-Y6 report.

2a: Organizational Chart

```
  100%                                100%
  +-----------------------------------+-----------------------------------+
  |                                  |                                  |
  | VBT Financial Corporation*        | Vantage Bancorp Statutory         |
  | San Antonio, Texas                | Trust I*                           |
  | Incorporated in Texas             | Wilmington, Delaware               |
  |                                  | Incorporated in Delaware           |
  +-----------------------------------+-----------------------------------+
  |                                  |                                  |
  | Vantage Bank Texas                | Vantage Bank Texas                |
  | (549300PG87MHQ7H4CO08)            | (549300PG87MHQ7H4CO08)            |
  | San Antonio, Texas                | San Antonio, Texas                |
  | Incorporated in Texas             | Incorporated in Texas             |
  |                                  |                                  |
  * Does not have a Legal Entity Identifier (LEI) number.  
```
## 2b. Domestic Branch Listing

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<th>Data Action</th>
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<th>Address</th>
<th>City</th>
<th>State</th>
<th>ZIP</th>
<th>County</th>
<th>Country</th>
<th>Uninum</th>
<th>Number</th>
<th>Head Office ID_RSSD</th>
<th>Comments</th>
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See Attached List
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<th>County</th>
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</tbody>
</table>
### Securities Holders

Current Shareholders with ownership, control or holdings of 5% of more with power to vote as of fiscal year ended 12/31/2019

<table>
<thead>
<tr>
<th>(1)(a) Name &amp; Address</th>
<th>(1)(b) Country of Citizenship</th>
<th>(1)(c) Number and Percentage of Each Class of Voting Securities</th>
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<tbody>
<tr>
<td>VANCO Trust #1B</td>
<td>USA</td>
<td>7,102,066.19 16.77% Common Stock</td>
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<tr>
<td>James W. Collins - Trustee McAllen, TX, USA</td>
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<td>VANCO Trust #1A</td>
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<td>6,076,436.22 14.35% Common Stock</td>
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<td>VANCO Trust #1C</td>
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<td>James W. Collins - Trustee McAllen, TX, USA</td>
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<td>VANCO Trust #1D</td>
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<td>VANCO Trust #1E</td>
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<td>6,019,795.72 14.22% Common Stock</td>
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<td>VANCO Trust #3B</td>
<td>USA</td>
<td>1,615,805.50 3.82% Common Stock</td>
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<td>James W. Collins - Trustee McAllen, TX, USA</td>
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<td>1,042,350.89 2.46% Common Stock</td>
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<td>Vannie Cook Trust #5</td>
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<td>337,140.15 0.79% Common Stock</td>
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<td>Mayfair Private Trust for 2017 McCullick Fam Trust</td>
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<td>253,824.51 0.60% Common Stock</td>
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<td>221,877.59 0.52% Common Stock</td>
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<td>Vannie Cook Trust #7</td>
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<td>43,135.84 0.10% Common Stock</td>
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<td>James W. Collins</td>
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<td>8,757.83 0.02% Common Stock</td>
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**Note:** James W. Collins has a total of 42,272,731.92 voting shares which make up 99.84% of the total number of voting shares.
4. Insiders

<table>
<thead>
<tr>
<th>Name &amp; Address</th>
<th>Principal Occupation if other than with Bank Holding Company</th>
<th>(3)(a) Name &amp; Address</th>
<th>Title &amp; Position with Bank Holding Company</th>
<th>(3)(b) Name &amp; Address</th>
<th>Title &amp; Position with Subsidiaries (Include Names)</th>
<th>(3)(c) Name &amp; Address</th>
<th>Title &amp; Position with Other Businesses</th>
<th>(4)(a) Name &amp; Address</th>
<th>Percentage of Voting Shares in Bank Holding Company</th>
<th>(4)(b) Name &amp; Address</th>
<th>Percentage of Voting Shares in Subsidiaries</th>
<th>(4)(c) List names of other companies if 25% or more voting securities are held (List names of companies and percentage of voting securities held)</th>
</tr>
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<tbody>
<tr>
<td>James W. Collins McAllen, Texas, USA</td>
<td>Investor</td>
<td>Director &amp; Chairman of the Board</td>
<td>Director &amp; Chairman of the Board (Vantage Bank Texas)</td>
<td>Attached</td>
<td>99.84%</td>
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<tr>
<td>Rafael G. Garza Fort Worth, Texas, USA</td>
<td>Investment Professional</td>
<td>Director &amp; Vice Chairman</td>
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<td>Managing Director Bravo Equity, LP</td>
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<td>President RGG Capital Partners, LLC</td>
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<td>President Bravo Opportunity, LLC</td>
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<td>Samuel J. Munafò San Antonio, Texas, USA</td>
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<td>Director, President &amp; CEO</td>
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<td>Will Collins San Antonio, Texas, USA</td>
<td>Real Estate Services</td>
<td>Director</td>
<td>Director (Vantage Bank Texas)</td>
<td>General Partner Weslaco-Bridge Avenue Ltd</td>
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<td>Weslaco-Bridge Avenue, Ltd (50%)</td>
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<td>(City, State, Country)</td>
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<td>Director (Vantage Bank Texas)</td>
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<td>Tyler D. Stone, McAllen, Texas, USA</td>
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<td>Director (Vantage Bank Texas)</td>
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### Insiders

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<th>Name &amp; Address</th>
<th>Principal Occupation if other than with Bank Holding Company</th>
<th>Title &amp; Position Title &amp; Position with Bank Holding Company</th>
<th>Title &amp; Position Title &amp; Position with Subsidiaries (Include Names)</th>
<th>Percentage of Voting Shares in Bank Holding Company</th>
<th>Percentage of Voting Shares in Subsidiaries</th>
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<tr>
<td>Rob McClane</td>
<td>Investment Professional</td>
<td>Director</td>
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<td>San Antonio, Texas, USA</td>
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<td>Michael Kiolbassa</td>
<td>Food Manufacturing &amp; Distribution</td>
<td>Director</td>
<td>President &amp; CEO</td>
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<td>Kiolbassa Provision Company, Inc.</td>
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<td>Phil L. Lesh</td>
<td>N/A</td>
<td>Treasurer</td>
<td>EVP &amp; Chief Financial Officer</td>
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<td>Patty Terry</td>
<td>N/A</td>
<td>Secretary &amp; Administrative Officer and Registered Agent</td>
<td>EVP &amp; Chief Administrative/HR Officer</td>
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<td>Entity</td>
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<td>480 Ranch, Ltd.</td>
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<td>495 Commerce Center Partners, Ltd.</td>
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<td>ANG Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Bandera-Lakeshore Properties, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Bandera RGV Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Banprop, L.L.C.</td>
<td>Officer of Manager</td>
<td>92%</td>
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<tr>
<td>Bentsen Expressway Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Bentsen Lakes, LP</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
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<tr>
<td>Border Amusements, Ltd</td>
<td>Officer of GP</td>
<td>67%</td>
<td></td>
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<tr>
<td>Wildcat Royalty Corporation</td>
<td>Officer of Shareholder</td>
<td>49%</td>
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<tr>
<td>Cal-Roy Investors, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Cameron Crossing RGV, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>Carvan Trusts</td>
<td>Trustee</td>
<td>100%</td>
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<tr>
<td>Cash Ilimitado, S. de R.L. de C.V.</td>
<td>None</td>
<td>50%</td>
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<tr>
<td>Cash Presto, SA de CV</td>
<td>None</td>
<td>50%</td>
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<tr>
<td>CCGR, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>Chasem 2, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>C-Inv, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>C-M Ranches, Inc.</td>
<td>Director &amp; Chairman</td>
<td>40%</td>
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<td>CMT-MF, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>CMT-OG, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>CMT-Stock, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Colco Corp.</td>
<td>President</td>
<td>100%</td>
<td></td>
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<tr>
<td>Collins Executive Management Services, LLC</td>
<td>Manager</td>
<td>100%</td>
<td></td>
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<tr>
<td>Collins Family Living Trust</td>
<td>Trustee</td>
<td>50%</td>
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<td>Collins Mineral Trusts</td>
<td>Trustee</td>
<td>50%</td>
<td></td>
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<tr>
<td>Collins Oklahoma Minerals</td>
<td>Manager</td>
<td>50%</td>
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<td>Conway Partners, Ltd.</td>
<td>Officer of GP</td>
<td>50%</td>
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<td>Cook Memorial Trusts</td>
<td>Director of Trustee</td>
<td>100%</td>
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<tr>
<td>Cook Valley Motors, Ltd.</td>
<td>Officer of GP</td>
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<tr>
<td>Copizza, S. de R.L. de C.V.</td>
<td>None</td>
<td>50%</td>
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<td>CZ Print McAllen, Ltd.</td>
<td>Officer of GP</td>
<td>79%</td>
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<tr>
<td>CR Properties, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Entity</td>
<td>Position Held By Mr. Collins</td>
<td>Ownership</td>
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<tr>
<td>CS Auto FI Svc Reinsurance Company</td>
<td>LP</td>
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<td>CS Auto Real Property, Ltd.</td>
<td>Officer of Partner</td>
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<tr>
<td>CS Auto, Ltd.</td>
<td>Officer of Partner</td>
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<tr>
<td>CS Automart, Ltd.</td>
<td>Officer of Partner</td>
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<td>CTA Value Equity, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>CVN Investors, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>DDSRES, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Dessarrollo Inmobiliario Rio Grande, SA de CV</td>
<td>None</td>
<td>50%</td>
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<tr>
<td>Dickinson Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Donna 493 Joint Venture</td>
<td>Officer of Partner</td>
<td>50%</td>
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<tr>
<td>Duvon-McColl Properties, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Duvon-Tamarack Properties, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>EA Title Investors, Ltd.</td>
<td>Officer of GP</td>
<td>89%</td>
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<tr>
<td>Edwards Abstract and Title, LLC</td>
<td>None</td>
<td>69%</td>
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<tr>
<td>Expressway-McColl, Ltd.</td>
<td>Officer of Partner</td>
<td>75%</td>
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<td>Expwy 29th Properties, Ltd.</td>
<td>Officer of GP</td>
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<td>Expwy-1015 Partners, Ltd.</td>
<td>Officer of GP</td>
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<tr>
<td>Expwy-Fresno Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>GWVR, Ltd.</td>
<td>Officer of GP</td>
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<tr>
<td>Harlingen 1208 Expwy Partners, Ltd.</td>
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<td>Harlingen 5102 Expwy Partners, Ltd.</td>
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<td>HGN Loop 499, Ltd.</td>
<td>Officer of GP</td>
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<td>HIC Texas I LLC</td>
<td>Officer of Member</td>
<td>94%</td>
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<td>HIC Texas II LLC</td>
<td>Officer of Member</td>
<td>96%</td>
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<td>Hidalgo and Cameron Counties Data, LLC</td>
<td>None</td>
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<tr>
<td>Hidalgo and Cameron Co's Tax Info &amp; Delivery, LLC</td>
<td>None</td>
<td>68%</td>
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<tr>
<td>Hwy 90 Castroville Partners, Ltd.</td>
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<tr>
<td>INB Properties II Paseo, Ltd.</td>
<td>Officer of GP</td>
<td>57%</td>
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<tr>
<td>Jackson-Houston East SANB, Ltd.</td>
<td>Officer of Partner</td>
<td>75%</td>
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<tr>
<td>Jackson-Houston East, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Jackson-Houston West, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>JBWW Management Co.</td>
<td>Director</td>
<td>25%</td>
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<tr>
<td>JBWW, Ltd.</td>
<td>Director of GP</td>
<td>25%</td>
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<tr>
<td>JBWW-MGCS, Ltd.</td>
<td>Director of GP</td>
<td>25%</td>
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<td>JBWW-MGV, Ltd.</td>
<td>Director of GP</td>
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<td>JBWW-MGVB, Ltd.</td>
<td>Director of GP</td>
<td>25%</td>
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<td>JBWW-MGVH, Ltd.</td>
<td>Director of GP</td>
<td>25%</td>
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<tr>
<td>JCKC, LLC</td>
<td>Member</td>
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<tr>
<td>JH/JC, LLC</td>
<td>None</td>
<td>68%</td>
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<tr>
<td>JWCCV, Ltd.</td>
<td>Manager of GP</td>
<td>100%</td>
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<tr>
<td>K &amp; C Properties</td>
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<tr>
<td>Kelsey Ranch Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>KVTC Trusts</td>
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<tr>
<td>La Reserva Phase I, Ltd.</td>
<td>Officer of GP</td>
<td>71%</td>
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<tr>
<td>Las Islas Management, LP</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>Las Tiendas Plaza Partnership, Ltd.</td>
<td>Officer of GP</td>
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<tr>
<td>Entity</td>
<td>Position Held By Mr. Collins</td>
<td>Ownership</td>
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<tr>
<td>LOCO Management Co., LLC</td>
<td>None</td>
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<td>LTC Properties, Ltd.</td>
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<tr>
<td>MAEDC-Briarstone, LLC</td>
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<tr>
<td>MAEDC-Stonegate LLC</td>
<td>Officer of Member</td>
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<tr>
<td>Mayfair Properties, LLC</td>
<td>President</td>
<td>100%</td>
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<tr>
<td>Mayfair Private Trust Company</td>
<td>Director</td>
<td>100%</td>
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<tr>
<td>MCA Govwhiz, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>MCA Geek Investors III, Ltd.</td>
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<tr>
<td>MCA Helius, Ltd.</td>
<td>Officer of GP</td>
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<tr>
<td>McAllen Altamira, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>McAllen Aspen Restaurant Investors Ltd</td>
<td>Officer of GP</td>
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<tr>
<td>McAllen Commerce Financial, Ltd.</td>
<td>Officer of GP</td>
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<tr>
<td>McAllen CoPizza Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>McAllen Lubys Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>McAllen Potranco, Ltd.</td>
<td>Officer of GP</td>
<td>99%</td>
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<tr>
<td>McAllen Quail Creek Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>McAllen Retirement Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>McAllen Sherwood Forest, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>McColl-Fern, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>McColl-Houston Properties, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>McColl-Nolana, Ltd.</td>
<td>Officer of GP</td>
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<tr>
<td>McColl-Vermont IV, Ltd.</td>
<td>Officer of GP</td>
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<td>McColl-Vermont, Ltd.</td>
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<td>McCook Properties, Ltd.</td>
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<td>100%</td>
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<tr>
<td>MFO-GP, LLC</td>
<td>Officer</td>
<td>100%</td>
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<tr>
<td>MG-Christi, Ltd.</td>
<td>Officer of LP</td>
<td>69%</td>
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<td>Mission 495 Conway, Ltd.</td>
<td>Officer of GP</td>
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<td>MRR Services Company, LLC</td>
<td>Officer</td>
<td>100%</td>
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<td>MRR-GP, LLC</td>
<td>Officer</td>
<td>100%</td>
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<tr>
<td>MTZ-OG, Inc.</td>
<td>Officer</td>
<td>100%</td>
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<tr>
<td>MTZ-OG, Ltd.</td>
<td>Officer</td>
<td>100%</td>
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<td>Montana Land and Exploration, Inc.</td>
<td>Officer</td>
<td>100%</td>
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<td>North Las Islas, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>Northcross, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<tr>
<td>OB Partners, LLC</td>
<td>Officer of Member</td>
<td>100%</td>
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<td>Palau Pacific Energy Inc.</td>
<td>Director</td>
<td>75%</td>
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<td>Palau Pacific Energy, Ltd. (fka C-General 1, Ltd)</td>
<td>Officer of GP</td>
<td>72%</td>
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<td>Pecan Office Properties, Ltd.</td>
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<td>Ponderosa Retail 2, Ltd.</td>
<td>Officer of Partner</td>
<td>75%</td>
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<td>Ponderosa Retail, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>Presta Tax Loans, LP</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>PSREA, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>PSREH, Ltd.</td>
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<tr>
<td>PSRGV, Ltd.</td>
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<td>Quail Creek Crossing, Ltd.</td>
<td>None</td>
<td>50%</td>
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<td>R &amp; H Pizza Properties, Ltd.</td>
<td>Manager of GP</td>
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<tr>
<td>Retail Amusements, Ltd.</td>
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<td>Retail Mexico Investors, Ltd.</td>
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<td>RGC Starr Plaza, Ltd.</td>
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<td>RGV Hill Country Title Investors, LLC</td>
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<td>RGV Nexlube, Ltd.</td>
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<td>RGV Next Capital, Ltd.</td>
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<td>RGV Techstars, Ltd.</td>
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<td>Ridge-Sharyland Partners I, LP</td>
<td>Officer of GP</td>
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<td>Ridge-Sharyland Partners VI, LP</td>
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<tr>
<td>Rio Mortgage Co.</td>
<td>CEO</td>
<td>100%</td>
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<tr>
<td>Rioco Corp.</td>
<td>CEO</td>
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<td>Rioco Partners, Ltd.</td>
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<td>Riocom 2, Ltd.</td>
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<td>Rioco Real Estate Services, LLC</td>
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<td>RM Manhattan, LLC</td>
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<td>Rosenberg Business Park, Ltd.</td>
<td>Officer of Partner</td>
<td>93%</td>
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<td>RYF, Ltd.</td>
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<td>S. 10th Street Investors, Ltd.</td>
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<td>94%</td>
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<td>S. 10th-2nd Partners, Ltd.</td>
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<td>SA Dove Creek, Ltd.</td>
<td>Partner</td>
<td>50%</td>
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<tr>
<td>SA Dove Creek Highlands, Ltd.</td>
<td>Partner</td>
<td>50%</td>
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<td>SA Dove Creek Oaks, Ltd.</td>
<td>Partner</td>
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<tr>
<td>SA Dove Creek Ranch, Ltd.</td>
<td>Partner</td>
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<td>SA Miers, Ltd.</td>
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<td>100%</td>
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<td>San Felipe Outfitters, LP</td>
<td>Officer of GP</td>
<td>100%</td>
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<td>San Felipe Ranch, LP</td>
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<td>100%</td>
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<td>Savannah Studio Partnership, Ltd.</td>
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<td>Shary-Expressway II, Ltd.</td>
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<td>Shary-Expressway South, Ltd.</td>
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<td>Sherwood Forest, LLC</td>
<td>None</td>
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<td>Shops at 29, Ltd.</td>
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<td>SLT McAllen Properties, LLC</td>
<td>None</td>
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<td>SLT Mission Properties, LLC</td>
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<td>SMRP, Ltd.</td>
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<td>Southeast Las Islas Ranch, LP</td>
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<td>ST Real Estate Investors, LLC</td>
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<td>SWB Partners, Ltd.</td>
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<td>Tequesta, Ltd.</td>
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<td>The 2007 Kathleen Collins Trust</td>
<td>Director of Trustee</td>
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<tr>
<td>The 2008 Caroline C. Badouh Trust</td>
<td>Director of Trustee</td>
<td>100%</td>
<td></td>
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<tr>
<td>The 2008 Courtney C. Collins Trust</td>
<td>Director of Trustee</td>
<td>100%</td>
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<tr>
<td>The 2008 James W. Collins Jr. Trust</td>
<td>Director of Trustee</td>
<td>100%</td>
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<tr>
<td>Entity</td>
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<tr>
<td>The 2008 Jennifer Collins Stone Trust</td>
<td>Director of Trustee</td>
<td>100%</td>
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<tr>
<td>The 2008 Vannie C. Collins Trust</td>
<td>Director of Trustee</td>
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<tr>
<td>The 2011 Mischa L. Collins Trust</td>
<td>Director of Trustee</td>
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<tr>
<td>The 2011 Sierra K. Collins Trust</td>
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<td>The 2012 Grayson M. Stone Trust</td>
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<tr>
<td>The 2013 Edward Badouh IV Trust</td>
<td>Director of Trustee</td>
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<td>The 2013 Georgia C. Stone Trust</td>
<td>Director of Trustee</td>
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<tr>
<td>The 2015 Carolyn Kennedy Tuttle Trust</td>
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<td>The 2015 Cavalli Ash Collins Trust</td>
<td>Director of Trustee</td>
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<td>The 2015 Sarita James Badouh Trust</td>
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<td>The 2017 Eloise Cook Stone Trust</td>
<td>Director of Trustee</td>
<td>100%</td>
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<td>The 2017 Vivian Claire Collins Trust</td>
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<td>The 2018 Barrett Thomas Tuttle Trust</td>
<td>Director of Trustee</td>
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<td>The 2018 Carolina Frances Badouh Trust</td>
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<td>The 2019 Vannie Cook Collins, Jr. Trust</td>
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<td>The 2019 Avrey Adeline Tuttle Trust</td>
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<tr>
<td>The Caroline M. Collins Family Trust (2010)</td>
<td>Director of Trustee</td>
<td>100%</td>
<td></td>
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<tr>
<td>The Courtney C. Collins Family Trust (2010)</td>
<td>Director of Trustee</td>
<td>100%</td>
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<tr>
<td>The James W. Collins, Jr. Family Trust (2010)</td>
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<td>100%</td>
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<td>The Jennifer Collins Stone Family Trust (2010)</td>
<td>Director of Trustee</td>
<td>100%</td>
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<tr>
<td>The Vannie C. Collins Family Trust (2010)</td>
<td>Director of Trustee</td>
<td>100%</td>
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<tr>
<td>TMM Trust No. 3</td>
<td>Director of Trustee</td>
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<tr>
<td>Trenton Investors, Ltd.</td>
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<td>United Texas Credit Reinsurance, Ltd.</td>
<td>Officer &amp; Shareholder</td>
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<td>Valley Auto Motor Sales, Ltd.</td>
<td>Officer of Partner</td>
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<td>Valley Geek Investors, Ltd.</td>
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<td>Valley Waste Partners, Ltd.</td>
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<td>Vanco MF No. 1A-1E, Ltd.</td>
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<td>Vanco Trust No. 1A</td>
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<td>Vanco Trust No. 1B</td>
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<td>Vanco Trust No. 1C</td>
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<td>Vanco-Stock, Ltd.</td>
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<td>Vantage Property Partners, Ltd.</td>
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<td>Vannie Cook Trusts</td>
<td>Trustee</td>
<td>100%</td>
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<tr>
<td>Entity</td>
<td>Position Held By Mr. Collins</td>
<td>Ownership</td>
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<tr>
<td>Vannie Cook Trust No. 1</td>
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<tr>
<td>Vannie Cook One Third Share Trust No. 1</td>
<td>Director of Trustee</td>
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<td>Vannie Cook Lolo GST Tax Exempt Share Trust No.1</td>
<td>Director of Trustee</td>
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<td>Vannie Cook Lolo GST Tax Non-Exempt Share Trust No.1</td>
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<td>Vannie Cook Trust No. 2</td>
<td>Director of Trustee</td>
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<td>Director of Trustee</td>
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<td>Director of Trustee</td>
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<td>Vannie Cook Lolo GST Tax Non-Exempt Share Trust No.2</td>
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<td>Vannie Cook Tommy GST Tax Exempt Share Trust No.2</td>
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<td>Vannie Cook Tommy GST Tax Non-Exempt Share Trust No.2</td>
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<td>Vannie Cook Trust No. 5</td>
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<td>Vannie Cook One Third Share Trust No.5</td>
<td>Director of Trustee</td>
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<tr>
<td>Vannie Cook Lolo GST Tax Exempt Share Trust No.5</td>
<td>Director of Trustee</td>
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<td>Vannie Cook Lolo GST Tax Non-Exempt Share Trust No.5</td>
<td>Director of Trustee</td>
<td>100%</td>
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<tr>
<td>Vannie Cook Tommy GST Tax Exempt Share Trust No.5</td>
<td>Director of Trustee</td>
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<tr>
<td>Vannie Cook Tommy GST Tax Non-Exempt Share Trust No.5</td>
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<td>Vannie Cook Trust No. 6</td>
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<td>Vannie Cook Lolo GST Tax Exempt Share Trust No.6</td>
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</tr>
<tr>
<td>Vannie Cook Lolo GST Tax Non-Exempt Share Trust No.6</td>
<td>Director of Trustee</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vannie Cook Trust No. 7</td>
<td>Trustee</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vannie Cook One Third Share Trust No. 7</td>
<td>Director of Trustee</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vannie Cook Lolo GST Tax Exempt Share Trust No.7</td>
<td>Director of Trustee</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vannie Cook Lolo GST Tax Non-Exempt Share Trust No.7</td>
<td>Director of Trustee</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VBT Financial Corporation</td>
<td>Director of Trustee</td>
<td>99%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT-General, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT-MF, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT-OG, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT-Stock No 1, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT-Stock No 2, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT-Stock No 5, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT-Stock No 6, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT-Stock No 7, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VCT7-OG, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vortech Oilfield Services, LP</td>
<td>Officer of Partner</td>
<td>51%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ware Expwy Partners, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weingarten 1815 S. 10th Street JV</td>
<td>Officer of Partner</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weingarten Las Tiendas JV</td>
<td>Officer of Partner</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weingarten Nolana JV</td>
<td>Officer of Partner</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weingarten Shary Crossing JV</td>
<td>Officer of Partner</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weingarten Shary North JV</td>
<td>Officer of Partner</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weingarten Shary South JV</td>
<td>Officer of Partner</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weingarten Tenth-Jackson West, JV</td>
<td>Officer of Partner</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weingarten-Northcross JV</td>
<td>Officer of Partner</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Windmeadows Investors, Ltd.</td>
<td>Officer of GP</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The foregoing list of entities was prepared from available records and is believed to be a complete list of entities in which James W. Collins has interest. Any additions or changes will be made promptly upon discovery of any discrepancies.*
VBT Financial Corporation, Inc. and Subsidiary

Consolidated Financial Report
December 31, 2019 and 2018
| Contents |
|-------------------------------|--------|
| Independent auditor’s report  | 1      |
| Financial statements          |        |
| Consolidated balance sheets   | 3      |
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| Consolidated statements of comprehensive income | 5 |
| Consolidated statements of changes in stockholders’ equity | 6 |
| Consolidated statements of cash flows | 7 |
| Notes to consolidated financial statements | 8-34 |
Independent Auditor's Report

To the Board of Directors and Stockholders
of VBT Financial Corporation, Inc.

Report on the Consolidated financial statements

We have audited the accompanying consolidated financial statements of VBT Financial Corporation, Inc. and subsidiary (collectively the “Company”) which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated financial statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VBT Financial Corporation, Inc and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.
Report on Internal Control over Financial Reporting

We also have audited in accordance with auditing standards generally accepted in the United States of America, the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 21, 2020 expressed an unmodified opinion.

Payne & Smith, LLC

April 21, 2020
VBT Financial Corporation, Inc. and Subsidiary

Consolidated Balance Sheets
December 31, 2019 and 2018
(Dollars in Thousands, Except Share Data)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and due from banks</td>
<td>$256,489</td>
<td>$172,429</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td>122,014</td>
<td>135,697</td>
</tr>
<tr>
<td>Securities to be held to maturity</td>
<td>1,223</td>
<td>1,328</td>
</tr>
<tr>
<td>Equity securities</td>
<td>578</td>
<td>-</td>
</tr>
<tr>
<td>Restricted investment securities</td>
<td>16,551</td>
<td>9,134</td>
</tr>
<tr>
<td>Loans held for sale</td>
<td>1,633</td>
<td>2,792</td>
</tr>
<tr>
<td>Loans held for investment, net of allowance for loan losses and deferred loan fees of $18,966 and $11,257, respectively</td>
<td>1,641,036</td>
<td>1,460,665</td>
</tr>
<tr>
<td>Bank premises and equipment, net</td>
<td>42,436</td>
<td>43,042</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>5,194</td>
<td>4,888</td>
</tr>
<tr>
<td>Goodwill</td>
<td>3,454</td>
<td>3,454</td>
</tr>
<tr>
<td>Core deposit intangible</td>
<td>9,173</td>
<td>10,920</td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>2,922</td>
<td>1,171</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>-</td>
<td>1,782</td>
</tr>
<tr>
<td>Cash surrender value of life insurance</td>
<td>65,440</td>
<td>63,762</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>5,649</td>
<td>4,708</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$2,173,792</td>
<td>$1,915,772</td>
</tr>
</tbody>
</table>

|                           |             |             |
| **Liabilities and Stockholders' Equity** |             |             |
| Liabilities:              |             |             |
| Deposits:                 |             |             |
| Noninterest-bearing       | $681,110    | $618,533    |
| Interest-bearing          | 1,019,368   | 1,011,507   |
| **Total deposits**        | 1,700,478   | 1,630,040   |
| Junior subordinated debenture | 3,093       | 3,093       |
| Short term advances and borrowings | 180,000     | -           |
| Deferred tax liability    | 1,614       | -           |
| Accrued interest payable and other liabilities | 9,469     | 10,337      |
| **Total liabilities**     | 1,894,654   | 1,643,470   |

Commitments and contingencies (Notes 7, 10, 11, 12, 14 and 15)

Stockholders' equity:
Common stock—$0.01 par value; 75,000,000 shares authorized, 42,340,000 shares issued and outstanding | 423 | 423 |
Surplus | 84,418 | 84,983 |
Additional paid-in capital | 208,623 | 208,623 |
Stock notes receivable | - | (62) |
Accumulated deficit | (14,145) | (19,056) |
Accumulated other comprehensive loss | (181) | (2,609) |
**Total stockholders' equity** | 279,138 | 272,302 |

**Total liabilities and stockholders' equity** | $2,173,792 | $1,915,772 |

See notes to consolidated financial statements.
VBT Financial Corporation, Inc. and Subsidiary

Consolidated Statements of Income
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans—including fees</td>
<td>$87,867</td>
<td>$86,465</td>
</tr>
<tr>
<td>Securities</td>
<td>2,972</td>
<td>3,298</td>
</tr>
<tr>
<td>Other interest income</td>
<td>5,310</td>
<td>3,675</td>
</tr>
<tr>
<td><strong>Total interest income</strong></td>
<td><strong>96,149</strong></td>
<td><strong>93,438</strong></td>
</tr>
<tr>
<td>Interest expense:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>13,335</td>
<td>7,597</td>
</tr>
<tr>
<td>Other</td>
<td>372</td>
<td>273</td>
</tr>
<tr>
<td><strong>Total interest expense</strong></td>
<td><strong>13,707</strong></td>
<td><strong>7,870</strong></td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td><strong>82,442</strong></td>
<td><strong>85,568</strong></td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>5,932</td>
<td>13,055</td>
</tr>
<tr>
<td><strong>Net interest income after provision for loan losses</strong></td>
<td><strong>76,510</strong></td>
<td><strong>72,513</strong></td>
</tr>
<tr>
<td>Noninterest income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service charges and fees</td>
<td>4,579</td>
<td>4,750</td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>2,595</td>
<td>2,413</td>
</tr>
<tr>
<td>Bank owned life insurance</td>
<td>1,678</td>
<td>1,649</td>
</tr>
<tr>
<td>Other</td>
<td>7,051</td>
<td>5,759</td>
</tr>
<tr>
<td><strong>Total noninterest income</strong></td>
<td><strong>15,903</strong></td>
<td><strong>14,571</strong></td>
</tr>
<tr>
<td>Noninterest expense:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>38,282</td>
<td>38,406</td>
</tr>
<tr>
<td>Data processing</td>
<td>2,840</td>
<td>2,787</td>
</tr>
<tr>
<td>Advertising and marketing</td>
<td>594</td>
<td>1,235</td>
</tr>
<tr>
<td>Occupancy and equipment expenses</td>
<td>9,354</td>
<td>8,959</td>
</tr>
<tr>
<td>Professional fees</td>
<td>2,384</td>
<td>3,087</td>
</tr>
<tr>
<td>Core deposit intangible amortization</td>
<td>1,747</td>
<td>1,747</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>8,471</td>
<td>7,369</td>
</tr>
<tr>
<td><strong>Total noninterest expense</strong></td>
<td><strong>63,672</strong></td>
<td><strong>63,590</strong></td>
</tr>
<tr>
<td><strong>Income before income tax expense</strong></td>
<td><strong>28,741</strong></td>
<td><strong>23,494</strong></td>
</tr>
<tr>
<td>Income tax expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,830</td>
<td>4,957</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>22,911</strong></td>
<td><strong>18,537</strong></td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
VBT Financial Corporation, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$22,911</td>
<td>$18,537</td>
</tr>
</tbody>
</table>

Other items of comprehensive income:

<table>
<thead>
<tr>
<th>Item</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment for net (gain) loss on sale of investment securities</td>
<td>(51)</td>
<td>(65)</td>
</tr>
<tr>
<td>Unrealized holding gain (loss) on securities available for sale</td>
<td>3,125</td>
<td>(3,368)</td>
</tr>
<tr>
<td><strong>Total other items of comprehensive income</strong></td>
<td>3,074</td>
<td>(3,433)</td>
</tr>
</tbody>
</table>

Comprehensive income before income tax expense (benefit)

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,985</td>
<td>15,104</td>
</tr>
</tbody>
</table>

Income tax expense (benefit) related to other items of comprehensive income:

<table>
<thead>
<tr>
<th>Item</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment for net gain (loss) on sale of investment securities</td>
<td>(11)</td>
<td>(14)</td>
</tr>
<tr>
<td>Unrealized holding gain (loss) on securities available for sale</td>
<td>657</td>
<td>(707)</td>
</tr>
<tr>
<td><strong>Total income tax expense (benefit) related to other items of comprehensive income</strong></td>
<td>646</td>
<td>(721)</td>
</tr>
</tbody>
</table>

Comprehensive income

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25,339</td>
<td>$15,825</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
VBT Financial Corporation, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders’ Equity
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Preferred Stock</th>
<th>Additional Stock Notes</th>
<th>Treasury Stock</th>
<th>Accumulated Other Comprehensive Loss</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 31, 2017</td>
<td>$ 1,301</td>
<td>$ 7</td>
<td>$ 83,690</td>
<td>$ 208,623</td>
<td>$ (106)</td>
<td>$ 264,944</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Change in other comprehensive income, net of tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital injection</td>
<td>-</td>
<td>-</td>
<td>14,941</td>
<td>-</td>
<td>-</td>
<td>14,941</td>
</tr>
<tr>
<td>Redemption of minority shares and warrants and related merger adjustment</td>
<td>-</td>
<td>-</td>
<td>(13,578)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(9,000)</td>
<td>(9,000)</td>
</tr>
<tr>
<td>Cancellation of treasury stock</td>
<td>-</td>
<td>-</td>
<td>(81)</td>
<td>-</td>
<td>81</td>
<td>-</td>
</tr>
<tr>
<td>Redemption of preferred stock</td>
<td>-</td>
<td>(7)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(7)</td>
</tr>
<tr>
<td>Recoveries on purchased notes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>44</td>
<td>-</td>
</tr>
<tr>
<td>Balance at December 31, 2018</td>
<td>423</td>
<td>-</td>
<td>84,983</td>
<td>208,623</td>
<td>(62)</td>
<td>272,302</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>22,911</td>
<td>22,911</td>
</tr>
<tr>
<td>Change in other comprehensive income, net of tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,428</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(18,000)</td>
<td>(18,000)</td>
</tr>
<tr>
<td>Payment to buy out minority stockholder</td>
<td>-</td>
<td>-</td>
<td>(503)</td>
<td>-</td>
<td>-</td>
<td>(503)</td>
</tr>
<tr>
<td>Extinquishment of purchased notes</td>
<td>-</td>
<td>-</td>
<td>(62)</td>
<td>-</td>
<td>62</td>
<td>-</td>
</tr>
<tr>
<td>Balance at December 31, 2019</td>
<td>$ 423</td>
<td>$ -</td>
<td>$ 84,418</td>
<td>$ 208,623</td>
<td>$ -</td>
<td>$ 279,138</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
## Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018  
(Dollars in Thousands)

### Cash flows from operating activities:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 22,911</td>
<td>$ 18,537</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income tax expense</td>
<td>2,750</td>
<td>1,500</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,070</td>
<td>2,225</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>5,932</td>
<td>13,055</td>
</tr>
<tr>
<td>Net amortization of investment securities</td>
<td>1,679</td>
<td>2,107</td>
</tr>
<tr>
<td>Amortization of core deposit intangible</td>
<td>1,747</td>
<td>1,747</td>
</tr>
<tr>
<td>Income on cash surrender value life insurance</td>
<td>(1,678)</td>
<td>(1,649)</td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>Net gain on sales of securities</td>
<td>(51)</td>
<td>(65)</td>
</tr>
<tr>
<td>Net gain on equity securities</td>
<td>(578)</td>
<td>-</td>
</tr>
<tr>
<td>Net loss on sales and disposals of fixed assets</td>
<td>2</td>
<td>300</td>
</tr>
<tr>
<td>Net gain on sales of loans</td>
<td>(1,099)</td>
<td>(465)</td>
</tr>
<tr>
<td>Net loss (gain) on other real estate owned</td>
<td>190</td>
<td>(26)</td>
</tr>
<tr>
<td>Write-down of other real estate owned</td>
<td>-</td>
<td>441</td>
</tr>
<tr>
<td>Net change in loans held for sale</td>
<td>2,258</td>
<td>(1,399)</td>
</tr>
<tr>
<td>Net change in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued interest receivable and prepaid expenses and other assets</td>
<td>(1,788)</td>
<td>2,697</td>
</tr>
<tr>
<td>Accrued interest payable and other liabilities</td>
<td>(868)</td>
<td>2,780</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$34,477</td>
<td>$41,796</td>
</tr>
</tbody>
</table>

### Cash flows from investing activities:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sales, maturities and paydowns of investment securities—available for sale</td>
<td>$1,036,697</td>
<td>$795,157</td>
</tr>
<tr>
<td>Purchases of investment securities—available for sale</td>
<td>(1,021,588)</td>
<td>(764,548)</td>
</tr>
<tr>
<td>Proceeds from maturities of investment securities—held to maturity</td>
<td>105</td>
<td>103</td>
</tr>
<tr>
<td>Net change in restricted investment securities</td>
<td>(7,417)</td>
<td>(238)</td>
</tr>
<tr>
<td>Net change in loans held for investment</td>
<td>(191,021)</td>
<td>(41,265)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(1,925)</td>
<td>(3,198)</td>
</tr>
<tr>
<td>Proceeds from sales of bank premises and equipment and other assets</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Proceeds from sales of other real estate owned</td>
<td>2,039</td>
<td>1,969</td>
</tr>
<tr>
<td>Recoveries on loans previously charged off</td>
<td>738</td>
<td>258</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(182,352)</td>
<td>(11,761)</td>
</tr>
</tbody>
</table>

### Cash flows from financing activities:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net change in deposits</td>
<td>$70,438</td>
<td>(8,590)</td>
</tr>
<tr>
<td>Net change in advances from FHLB</td>
<td>180,000</td>
<td>-</td>
</tr>
<tr>
<td>Redemption of preferred stock</td>
<td>-</td>
<td>(7)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(18,000)</td>
<td>(9,000)</td>
</tr>
<tr>
<td>Capital injection</td>
<td>-</td>
<td>14,941</td>
</tr>
<tr>
<td>Payment to buy out minority stockholder</td>
<td>(503)</td>
<td>(14,456)</td>
</tr>
<tr>
<td>Recoveries on purchased notes</td>
<td>-</td>
<td>44</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>$231,935</td>
<td>(17,068)</td>
</tr>
</tbody>
</table>

### Net increase in cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>$84,060</td>
<td>12,967</td>
</tr>
</tbody>
</table>

### Cash and cash equivalents at beginning of year:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents at beginning of year</strong></td>
<td>$172,429</td>
<td>159,462</td>
</tr>
</tbody>
</table>

### Cash and cash equivalents at end of year:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$256,489</td>
<td>$172,429</td>
</tr>
</tbody>
</table>

### Schedules of other cash flow information:

**Interest paid**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest paid</strong></td>
<td>$13,279</td>
<td>$7,642</td>
</tr>
</tbody>
</table>

**Transfer of loans to other real estate owned**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transfer of loans to other real estate owned</strong></td>
<td>$3,980</td>
<td>$926</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
Note 1. Summary of Significant Accounting Policies

Consolidation: The accompanying consolidated financial statements include the accounts of VBT Financial Corporation, Inc. (VBT), and its wholly owned subsidiary, Vantage Bank Texas (the Bank) (collectively, the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations: The Company provides a variety of financial services to individuals and commercial businesses through its offices in San Antonio, El Paso, Laredo, McAllen/Brownsville and surrounding south Texas cities. Additionally, in March 2019, the Company opened a loan production office in Fort Worth, Texas, that was converted to a full-service branch in July 2019. Its primary deposit products are demand deposit accounts, savings accounts and term certificate accounts, and its primary lending products are commercial, real estate and consumer loans.

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

New and recently issued accounting standards: Accounting Standards Update (ASU) No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities—In January 2016, the Financial Accounting Standards Board (FASB) issued this ASU which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments and applies to all entities that hold financial assets or owe financial liabilities. Among other provisions, it significantly changes the accounting for equity securities and for liabilities accounted for under a fair value option. This ASU was effective for the Company beginning in 2019 and the Company’s adoption of this ASU had no material effect on its financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The amended standard is effective for the Company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is evaluating the impact of this new guidance on its consolidated financial statements.
Note 1.  Summary of Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The Company is evaluating the impact on adopting this new guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The ASU will be effective for the Company beginning in 2023 and the Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The ASU will be effective for the Company beginning in 2020 and is not expected to have a material impact on its consolidated financial statements.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and interest-bearing deposits in banks. The Company maintains cash in deposit accounts that, at times, may exceed federally insured limits. The Company monitors these relationships on a quarterly basis in compliance with regulatory guidelines. The Company has not experienced any losses in such accounts.

Securities: Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2019 and 2018, the Company had no securities classified as trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors, including, but not limited to, (1) the length of time and the extent to which the fair value has been less than the amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.
Note 1. Summary of Significant Accounting Policies (Continued)

Restricted investment securities: Restricted investment securities include Federal Home Loan Bank (FHLB) stock, Federal Reserve Bank stock and The Independent Bankers Bank stock, which are carried at cost on the consolidated balance sheets. These equity securities are restricted, in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other marketable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. No impairment has been recorded on these securities.

Equity securities: Upon the Company’s adoption of ASU No. 2016-01, equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in noninterest income. During the year ended December 31, 2019, the Company recognized a gain of approximately $578 thousand related to fair value changes in equity securities which is included in other noninterest income.

Loans held for sale: The Company originates mortgage loans both for sale and for investment purposes. The designation of mortgage loans is made by management at the time of origination. Mortgage loans designated as held for sale are stated at the lower of aggregate cost, net of discounts or premiums, or estimated fair market value. Market value is based on the contract prices at which the mortgage loans will be sold or, if the loans are not committed for sale, the current market price. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

Gain or loss on the sale of mortgage loans held for sale is generally determined by the difference between the carrying amounts of the related loans sold and the net proceeds thereof. Since the Company does not retain servicing on the sold loans, proceeds from loans typically include a service release premium.

Loans: The Company grants real estate, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout North Texas, South Texas and surrounding areas. The ability of the Company’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal, adjusted for any charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

A loan is considered delinquent when principal and/or interest amounts are not current, in accordance with the contractual loan agreement.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Consumer loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.
Note 1. Summary of Significant Accounting Policies (Continued)

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

Loans are fully or partially charged down to the fair value of the collateral securing the loan when management determines the loan to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy, or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower’s financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Bank measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for loan losses: The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management’s best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company’s methodology for the allowance for loan losses includes allowance allocations calculated in accordance with the ASC, Receivables, and ASC, Contingencies. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions.

The Company’s process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations and loan quality trends. Loan quality trends include nonaccrual, past-due and classified loans; and current period loan charge-offs and recoveries. The determination also includes qualitative aspects, such as changes in local, regional or national economies or markets and other factors. Such qualitative factors are highly judgmental and require constant refinement. The Company has an internal loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.
Note 1.  Summary of Significant Accounting Policies (Continued)

The Company’s allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with the ASC, based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with the ASC, based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

Bank premises and equipment: Land is carried at cost. Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives range from three to 39 years.

Long-lived assets: Long-lived assets, including bank premises and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows from operations of the asset are less than the carrying value of the asset. The cash flows used for this analysis are those directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds its fair value.

Goodwill: Goodwill represents the excess of costs over the tangible fair value of assets of an acquired business. Goodwill acquired in a purchase combination and determined to have an indefinite useful life is not amortized, but instead, is tested for impairment at least annually. For the years ended December 31, 2019 and 2018, the Company performed a qualitative assessment and determined no impairment of goodwill had occurred. Any future impairment will be recorded as noninterest expense in the period of assessment.

Core deposit intangible: The core deposit intangible, the portion of an acquisition purchase price which represents value assigned to the existing deposit base in an acquisition in 2017, has a finite life and is being amortized over the estimated life of eight years. Amortization expense for the years ended December 31, 2019 and 2018, totaled $1.7 million for each of the years presented.

Other real estate owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value, less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other operating expenses.

Cash surrender value of life insurance: Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for changes in contract value. The adjustment to contract value increases or decreases the carrying value of the policies and is recorded as income or expense in the consolidated statements of income.

Derivative financial instruments: The Company’s cash flows are exposed to foreign currency risk from transactions denominated in foreign currencies, primarily the Mexican Peso. The Company utilizes forward exchange contracts to mitigate risk of volatility resulting from fluctuating foreign exchange rates. The maximum length of time that the forward exchange contracts hedges its exposure to the variability in future cash flows associated with foreign currency risk is 72 hours. As of December 31, 2019 and 2018, the Bank did not have any outstanding contracts. These contracts, if applicable, are derivatives and do not qualify for hedge accounting; accordingly, they would have been marked to market currently in earnings.
Note 1. Summary of Significant Accounting Policies (Continued)

Foreign currency translation: Gains and losses resulting from transactions denominated in currencies other than the functional currency are recorded in the consolidated statements of income. Foreign exchange revenue attributable to foreign currency hedging on the statements of income approximated $2.6 million and $2.4 million for the years ended December 31, 2019 and 2018, respectively. This results from the Company’s daily settlement of most of its foreign currency denominated transactions.

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

Revenue recognition: On January 1, 2019, the Company adopted the provisions of ASU No. 2014-09, Revenue from Contracts with Customers (collectively, Topic 606) under the modified retrospective method. The implementation of the new standard did not have a material impact on the recognition of revenue, therefore a cumulative effect adjustment to opening retained earnings was not required. Results for reporting periods after January 1, 2019 are presented under Topic 606.

The ASU (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. The majority of the Company’s revenue comes from interest income on loans that are outside the scope of this ASU. The Company’s revenue streams that fall within the scope of the ASU are presented in noninterest income on the consolidated statement of income and are recognized as revenue as the Company satisfies its performance obligation to the customer. Services within the scope of the FASB Accounting Standards Codification (ASC) Topic 606 include service charges and fees on deposit accounts; payment system fees, including interchange, surcharge, and merchant fees on ATM and debit card transactions; and gain on sale of certain assets. The adoption of this accounting standard had no material effect on the revenue streams within the scope of the ASU; therefore, a cumulative effect adjustment was not required.

In general, for revenue not associated with financial instruments, guarantees and lease contracts, the Company applies the following steps in accordance with ASU Topic 606 when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligation, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when a performance obligation is satisfied. The Company’s contracts with customers are generally short term in nature, due within one year or less or cancellable by the Company or the customer upon a short notice period. Many of the services the Company performs for its customers are ongoing and either party may cancel at any time. The fees for these contracts are dependent upon various underlying factors, such as customer deposit balances, and as such may be considered variable. The Company’s performance obligations for these services are satisfied as the services are rendered and payment is collected. Other contracts with customers are for services provided at a point in time, and fees are recognized at the time such services are rendered. The Company had no material unsatisfied performance obligations as of December 31, 2019.

Topic 606 does not apply to interest income which is the Company’s primary source of revenue. Topic 606 is applicable to certain noninterest sources such as deposit related service charges and fees, payment system fees, and gain on sale of certain assets.
Note 1.  Summary of Significant Accounting Policies (Continued)

Service charges and fees on deposit accounts: At the time a deposit agreement (contract) is put into place by a customer and the Company, the types of service charges and fees, as well as the amount of the charges and fees, are disclosed to the customer. The Company currently recognizes deposit service charges and fees as income over the period of time in which the services are provided to the customer. No change to the accounting policy is required.

Payment system fees: Revenues, including interchange, surcharge, and merchant fees are recognized as they are incurred for each transaction when the payment card is used by the customer or an ATM or debit card transaction takes place. The Company is an agent to the performance obligations related to network costs associated with debit card transactions. Therefore, the Company reported debit fee income from such transactions, net of related debit fee expenses, as a component of noninterest income on the 2019 consolidated statement of income. In 2018, such network costs were reported as a component of noninterest expense.

Advertising costs: Advertising costs are expensed as incurred.

Income taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

The Company accounts for uncertainty in income taxes in accordance with the provisions of ASC Topic 740, Accounting for Uncertainty in Income Taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

The Company is subject to Texas gross margin tax.

As more fully disclosed in the subsequent event at Note 17, the Company's stockholders made an election with the Internal Revenue Services for the entity to be taxed as a Subchapter S entity effective January 1, 2020.

Off-balance sheet credit-related financial instruments: In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.
Note 1. Summary of Significant Accounting Policies (Continued)

Comprehensive income: Accounting principles generally require recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Subsequent events: The Company has evaluated subsequent events through April 21, 2020, the date the consolidated financial statements were available to be issued. See discussions of subsequent events at Note 17 to these consolidated financial statements.

Reclassification: Certain reclassifications have been made in the prior-year consolidated financial statements to conform to the current-year presentation. These reclassifications had no effect on previously reported stockholders’ equity or net income.

Note 2. Buyout of Minority Shareholders and Merger

Effective April 2018, the Company entered into an agreement to purchase all shares not held by the majority stockholder and his related entities at a price of $0.67 per share. The Company had also previously awarded common shares to certain officers and employees of the Company pursuant to its Stock Incentive Plan. As part of the minority shareholders buyout, the Stock Incentive Plan was terminated and those common shares fully vested and were canceled and converted into the right to receive $0.67 per share. Similarly, each minority stockholder who was a holder of an unexercised warrant granted by the Company had the right to exercise the minority warrant and receive a cash payment equal to $0.15 per minority warrant, representing the difference between the per share consideration of $0.67 per share and the exercise price of the minority warrant of $0.52 per share. The total amount paid for the minority shares and minority warrants was $14.9 million and this amount was injected into the Company by the majority stockholder and his related entities.

Effective November 20, 2018 the Company acquired all the outstanding stock of Inter National Bank (an entity under common control). Inter National Bank was then merged into Vantage Bank Texas. The merger was undertaken to further expand the geographical markets served by the Company. The merger was treated as a reorganization due to the combination involving related parties. The Company and the acquired institution were affiliates through common ownership and, as such, the assets and liabilities transferred in the combination were accounted for at historical cost in a manner similar to the pooling-of-interests method. As a result of this accounting treatment, the income and expenses of the acquired institution are treated as if the combination occurred at the beginning of the year and no goodwill is recorded as a result of the merger.

As a result of the merger, the Company acquired $1.4 billion in assets, including $142.7 million in cash and cash equivalents, $1.0 billion in loans, $90.3 million in investments, $63.5 million of bank owned life insurance and $11.1 million of core deposit intangibles that were recorded on the books of Inter National Bank prior to this merger. Liabilities assumed primarily included deposits of $1.1 billion.
Note 3. Fair Value Measurements

The Company follows the provisions of the ASC Topic 820, Fair Value Measurements and Disclosures. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The ASC also establishes a framework for measuring fair value using a hierarchy system and requires disclosures of fair value measurements. The hierarchy is intended to maximize use of observable inputs and minimize the use of unobservable inputs and includes three levels based upon the valuation techniques used. The three levels are as follows.

**Level 1:** Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

**Level 2:** Observable inputs, other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets or other observable inputs that can be corroborated by observable market data.

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

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs during the years ended December 31, 2019 and 2018.

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth on the following page.

**Securities available for sale:** Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively-traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, state and municipal securities, corporate debt securities and certain derivatives. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.
Note 3. Fair Value Measurements (Continued)

The following table summarizes assets measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2019 and 2018, segregated by level within the fair value measurement hierarchy (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>$</td>
<td>$ 4,350</td>
<td>$</td>
<td>$ 4,350</td>
</tr>
<tr>
<td>SBA loan pools</td>
<td>-</td>
<td>38,482</td>
<td>-</td>
<td>38,482</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>-</td>
<td>79,182</td>
<td>-</td>
<td>79,182</td>
</tr>
<tr>
<td>Equity securities</td>
<td>578</td>
<td>-</td>
<td>-</td>
<td>578</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 578</td>
<td>$ 122,014</td>
<td>$ -</td>
<td>$ 122,592</td>
</tr>
</tbody>
</table>

Fair Value Measurement at December 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>$</td>
<td>$ 3,187</td>
<td>$</td>
<td>$ 3,187</td>
</tr>
<tr>
<td>SBA loan pools</td>
<td>-</td>
<td>49,466</td>
<td>-</td>
<td>49,466</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>-</td>
<td>83,044</td>
<td>-</td>
<td>83,044</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ -</td>
<td>$ 135,697</td>
<td>$ -</td>
<td>$ 135,697</td>
</tr>
</tbody>
</table>

There are no liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018.

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

**Impaired loans**: The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with ASC Topic 310. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral, less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral is determined based on appraisals or other valuations, with further adjustments made to the appraised values due to various factors, including the age of the appraisal and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting other loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

**Other real estate owned**: Other real estate owned, upon initial recognition, is measured and reported at fair value less estimated costs of disposal through a charge-off to the allowance for loan losses based on the fair value of the other real estate acquired, establishing a new cost basis. The fair value of collateral is determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting real estate loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.
VBT Financial Corporation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The following tables summarize assets as of December 31, 2019 and 2018, that are measured at fair value by class on a nonrecurring basis (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2019</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impaired loans</td>
<td>$ -</td>
<td>$ -</td>
<td>$12,295</td>
<td>$12,295</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>-</td>
<td>-</td>
<td>2,922</td>
<td>2,922</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impaired loans</td>
<td>$ -</td>
<td>$ -</td>
<td>$10,286</td>
<td>$10,286</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>-</td>
<td>-</td>
<td>1,171</td>
<td>1,171</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 4. Restrictions on Cash and Amounts Due From Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2019 and 2018, these reserve balances totaled $4.1 million and $10.2 million, respectively.

Note 5. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses as of December 31, 2019 and 2018, were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Gross Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Approximate Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities available for sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>$4,313</td>
<td>$44</td>
<td>$7</td>
<td>$4,350</td>
</tr>
<tr>
<td>SBA loan pools</td>
<td>39,125</td>
<td>10</td>
<td>653</td>
<td>38,482</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>78,805</td>
<td>535</td>
<td>158</td>
<td>79,182</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>122,243</strong></td>
<td><strong>589</strong></td>
<td><strong>818</strong></td>
<td><strong>122,014</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Securities available for sale:</th>
<th>Gross Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Approximate Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and municipal securities</td>
<td>$3,196</td>
<td>$1</td>
<td>$10</td>
<td>$3,187</td>
</tr>
<tr>
<td>SBA loan pools</td>
<td>50,241</td>
<td>14</td>
<td>789</td>
<td>49,466</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>85,563</td>
<td>2</td>
<td>2,521</td>
<td>83,044</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>139,000</strong></td>
<td><strong>17</strong></td>
<td><strong>3,320</strong></td>
<td><strong>135,697</strong></td>
</tr>
</tbody>
</table>
Note 5. Investment Securities (Continued)

### Fair Value as of December 31, 2019

<table>
<thead>
<tr>
<th>Securities to be held to maturity:</th>
<th>Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Approximate Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and municipal securities</td>
<td>$1,122</td>
<td>$77</td>
<td>-</td>
<td>$1,199</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>101</td>
<td>12</td>
<td>-</td>
<td>113</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,223</strong></td>
<td><strong>89</strong></td>
<td>-</td>
<td><strong>$1,312</strong></td>
</tr>
</tbody>
</table>

### Fair Value as of December 31, 2018

<table>
<thead>
<tr>
<th>Securities to be held to maturity:</th>
<th>Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Approximate Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and municipal securities</td>
<td>$1,226</td>
<td>$41</td>
<td>5</td>
<td>$1,262</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>102</td>
<td>10</td>
<td>-</td>
<td>112</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,328</strong></td>
<td><strong>51</strong></td>
<td>5</td>
<td><strong>$1,374</strong></td>
</tr>
</tbody>
</table>

Investment securities carried at approximately $3.2 million and $25.3 million at December 31, 2019 and 2018, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities by contractual maturity at December 31, 2019, were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Securities available for sale:</th>
<th>Amortized Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>$1,185</td>
<td>$1,188</td>
</tr>
<tr>
<td>After one year through five years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>After five years through ten years</td>
<td>1,464</td>
<td>1,505</td>
</tr>
<tr>
<td>Over ten years</td>
<td>1,664</td>
<td>1,657</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,313</strong></td>
<td><strong>4,350</strong></td>
</tr>
</tbody>
</table>

| SBA loan pools                  | 39,125         | 38,482     |
| Mortgage-backed securities      | 78,805         | 79,182     |
| **Total**                      | **122,243**    | **122,014**|

<table>
<thead>
<tr>
<th>Securities held to maturity:</th>
<th>Amortized Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>$112</td>
<td>$112</td>
</tr>
<tr>
<td>After one year through five years</td>
<td>498</td>
<td>522</td>
</tr>
<tr>
<td>After five years through ten years</td>
<td>319</td>
<td>351</td>
</tr>
<tr>
<td>Over ten years</td>
<td>294</td>
<td>327</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,223</strong></td>
<td><strong>$1,312</strong></td>
</tr>
</tbody>
</table>
Note 5. Investment Securities (Continued)

For the years ended December 31, 2019 and 2018, proceeds from sales of securities available for sale amounted to $10.3 million and $12.6 million, respectively. Gross realized gains amounted to $56 thousand and $65 thousand, respectively. For the years ended December 31, 2019 and 2018, gross realized losses amounted to $5 thousand and $0, respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Date</th>
<th>Less Than 12 Months</th>
<th>12 Months or More</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Fair</td>
<td>Gross Unrealized</td>
<td>Gross Fair</td>
<td>Gross Unrealized</td>
</tr>
<tr>
<td>Value</td>
<td>Losses</td>
<td>Fair Value</td>
<td>Losses</td>
</tr>
<tr>
<td>Securities available for sale:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>$1,657</td>
<td>$7</td>
<td>$1,657</td>
</tr>
<tr>
<td>SBA loan pools</td>
<td>122</td>
<td>1</td>
<td>36,781</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>15,299</td>
<td>83</td>
<td>15,763</td>
</tr>
<tr>
<td>Total</td>
<td>$17,078</td>
<td>$91</td>
<td>$52,544</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Less Than 12 Months</th>
<th>12 Months or More</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Fair</td>
<td>Gross Unrealized</td>
<td>Gross Fair</td>
<td>Gross Unrealized</td>
</tr>
<tr>
<td>Value</td>
<td>Losses</td>
<td>Fair Value</td>
<td>Losses</td>
</tr>
<tr>
<td>Securities available for sale:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>$759</td>
<td>$3</td>
<td>$942</td>
</tr>
<tr>
<td>SBA loan pools</td>
<td>29,552</td>
<td>478</td>
<td>16,973</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>7,799</td>
<td>130</td>
<td>74,920</td>
</tr>
<tr>
<td>Total</td>
<td>$38,110</td>
<td>$611</td>
<td>$92,835</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Less Than 12 Months</th>
<th>12 Months or More</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Fair</td>
<td>Gross Unrealized</td>
<td>Gross Fair</td>
<td>Gross Unrealized</td>
</tr>
<tr>
<td>Value</td>
<td>Losses</td>
<td>Fair Value</td>
<td>Losses</td>
</tr>
<tr>
<td>Securities held to maturity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Less Than 12 Months</th>
<th>12 Months or More</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Fair</td>
<td>Gross Unrealized</td>
<td>Gross Fair</td>
<td>Gross Unrealized</td>
</tr>
<tr>
<td>Value</td>
<td>Losses</td>
<td>Fair Value</td>
<td>Losses</td>
</tr>
<tr>
<td>Securities held to maturity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>$ -</td>
<td>$ -</td>
<td>$360</td>
</tr>
</tbody>
</table>
Note 5. Investment Securities (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery. Declines in the fair value of held-to-maturity and available-for-sale securities below their amortized cost basis that are deemed to be other than temporary are carried at fair value. Any portion of a decline in value associated with credit loss is recognized in earnings as realized losses.

At December 31, 2019, there are 41 securities with unrealized losses (87 in 2018). The Company believes the unrealized loss position in securities is temporary, as the Company intends to hold these securities until maturity, at which time the investments are expected to pay face value. In addition, the Company does not believe there to be any deterioration in the credit quality of the securities that would indicate other-than-temporary impairment, but rather, the unrealized losses are consistent with changes in market interest rates over the past year and are considered temporary.

As of December 31, 2019 and 2018, the Company did not have any securities with other-than-temporary impairment.

Note 6. Loans and Allowance for Loan Losses

The components of loans in the consolidated balance sheets were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
<td>2018</td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$1,268,018</td>
<td>$1,061,628</td>
</tr>
<tr>
<td>Residential</td>
<td>119,810</td>
<td>214,539</td>
</tr>
<tr>
<td>Commercial</td>
<td>258,113</td>
<td>174,604</td>
</tr>
<tr>
<td>Consumer</td>
<td>9,653</td>
<td>13,082</td>
</tr>
<tr>
<td>Other</td>
<td>4,408</td>
<td>8,069</td>
</tr>
<tr>
<td></td>
<td>1,660,002</td>
<td>1,471,922</td>
</tr>
<tr>
<td>Less net deferred loan fees</td>
<td>3,094</td>
<td>1,638</td>
</tr>
<tr>
<td>Less allowance for loan losses</td>
<td>15,872</td>
<td>9,619</td>
</tr>
<tr>
<td></td>
<td>$1,641,036</td>
<td>$1,460,665</td>
</tr>
</tbody>
</table>

During the years ended December 31, 2019 and 2018, the Company purchased loan participations from other banks with a total commitment of $60.0 million and $77.0 million, respectively, and with $39.2 million and $47.4 million available to be drawn as of December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, the Company sold gross loan participations to other banks and a financial services firm totaling $9.5 million and $14.9 million, respectively.
Note 6. Loans and Allowance for Loan Losses (Continued)
The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. The Company’s extension of credit is governed by the individual loan policies that were established to control the quality of the Company’s loans. These policies and procedures are reviewed and approved by the Board of Directors on a regular basis. Specific loan terms vary as to interest rate, repayment and collateral requirements based on the type of loan requested and the creditworthiness of the prospective borrower. Credit risk tends to be geographically concentrated in that a majority of the loan customers are located in the markets serviced by the Company.

At December 31, 2019 and 2018, the Bank had total commercial real estate loans of $1.3 billion and $1.1 billion, respectively. Included in the amount, the Bank had construction, land development and other land loans representing 71% of total capital at December 31, 2019 (82% in 2018). The Bank had nonowner occupied commercial real estate loans representing 336% of total capital at December 31, 2019 (309% in 2018). Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program (CRE). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk-weighted assets, or total non-owner occupied commercial real estate loans representing 300% or more of the institution's total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

Commercial real estate loans: The Company’s goal is to create and maintain a high-quality portfolio of commercial real estate loans with customers who meet the quality and relationship profitability objectives of the Company. Commercial real estate loans are subject to underwriting standards and are made primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. These loans are analyzed using projected cash flows, and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market, such as geographic location and property type.

Residential real estate loans: The Company originates loans secured by 1-4 family residential property that is located in its market areas. The underwriting process consists of a credit analysis, employment history and an analysis of the secured real estate property. The repayment and collectability of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography and risk criteria.
Note 6. Loans and Allowance for Loan Losses (Continued)

Commercial loans: Commercial operating and term loans are originated in the Company’s primary service area. These loans are made to individuals, partnerships, corporations, limited liability partnerships and limited liability companies for the purpose of assisting in the development of a business enterprise. Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers. The cash flow of borrowers may not perform as forecasted, and collateral securing the loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Consumer loans: The Company originates direct consumer loans, including vehicle loans and other personal loans, using criteria established by the Company’s credit policy. Each loan type has separate specified factors upon which credit decisions are based. These factors include credit history, repayment ability of the borrower based on current personal income and collateral type and value. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower’s income.

As part of its on-going monitoring of the credit quality of the Company’s loan portfolio, management utilizes an internal classification system as a means of reporting problem and potential problem loans and assigns risk grades to loans as follows.

Pass (Grades 1-5): Loans to borrowers with acceptable credit quality and risk.

Special Mention (Grade 6): Loans to borrowers whose credit quality may have deteriorated since origination and are at risk of further decline unless measures are taken to correct the situation.

Substandard (Grades 7-8): Loans to borrowers with well-defined credit quality weaknesses, which make payment default or principal exposure possible, but not yet certain. Such loans are individually evaluated for a specific valuation allowance.

Doubtful (Grade 9): Loans to borrowers in which payment default or principal exposure is probable. Such loans are individually evaluated for a specific valuation allowance.

Loss (Grade 10): Loans in this classification are considered uncollectible and cannot be justified as a viable asset of the Company.
Note 6. Loans and Allowance for Loan Losses (Continued)

At December 31, 2019 and 2018, the Company’s loan portfolio risk grades by loan segment were as follows (dollars in thousands):

### December 31, 2019

<table>
<thead>
<tr>
<th>Segment</th>
<th>Pass</th>
<th>Special Mention</th>
<th>Substandard</th>
<th>Doubtful/Loss</th>
<th>Total Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$1,225,949</td>
<td>$28,479</td>
<td>$13,590</td>
<td>-</td>
<td>$1,268,018</td>
</tr>
<tr>
<td>Residential</td>
<td>117,743</td>
<td>2,067</td>
<td>-</td>
<td>-</td>
<td>119,810</td>
</tr>
<tr>
<td>Commercial</td>
<td>256,774</td>
<td>173</td>
<td>1,166</td>
<td>-</td>
<td>258,113</td>
</tr>
<tr>
<td>Consumer</td>
<td>9,653</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,653</td>
</tr>
<tr>
<td>Other</td>
<td>4,408</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,408</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,614,527</td>
<td>$28,652</td>
<td>$16,823</td>
<td>-</td>
<td>$1,660,002</td>
</tr>
</tbody>
</table>

### December 31, 2018

<table>
<thead>
<tr>
<th>Segment</th>
<th>Pass</th>
<th>Special Mention</th>
<th>Substandard</th>
<th>Doubtful/Loss</th>
<th>Total Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$1,044,491</td>
<td>$6,404</td>
<td>$10,733</td>
<td>-</td>
<td>$1,061,628</td>
</tr>
<tr>
<td>Residential</td>
<td>212,792</td>
<td>52</td>
<td>1,695</td>
<td>-</td>
<td>214,539</td>
</tr>
<tr>
<td>Commercial</td>
<td>174,327</td>
<td>229</td>
<td>48</td>
<td>-</td>
<td>174,604</td>
</tr>
<tr>
<td>Consumer</td>
<td>13,082</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,082</td>
</tr>
<tr>
<td>Other</td>
<td>8,069</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,069</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,452,761</td>
<td>$6,685</td>
<td>$12,476</td>
<td>-</td>
<td>$1,471,922</td>
</tr>
</tbody>
</table>

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2019 and 2018, was as follows (dollars in thousands):

### December 31, 2019

<table>
<thead>
<tr>
<th>Segment</th>
<th>30-89 Days Past Due</th>
<th>90 or More Past Due</th>
<th>Total Past-Due Loans</th>
<th>Accruing Loans 90 Days Past Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>$2,746</td>
<td>$8,569</td>
<td>$11,315</td>
<td>$1,256,703</td>
</tr>
<tr>
<td>Residential</td>
<td>5,977</td>
<td>2,654</td>
<td>8,631</td>
<td>111,179</td>
</tr>
<tr>
<td>Commercial</td>
<td>510</td>
<td>646</td>
<td>1,156</td>
<td>256,957</td>
</tr>
<tr>
<td>Consumer</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>9,649</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,408</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$9,236</td>
<td>$11,870</td>
<td>$21,106</td>
<td>$1,638,896</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segment</th>
<th>30-89 Days Past Due</th>
<th>90 or More Past Due</th>
<th>Total Past-Due Loans</th>
<th>Accruing Loans 90 Days Past Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>$2,746</td>
<td>$8,569</td>
<td>$11,315</td>
<td>$1,256,703</td>
</tr>
<tr>
<td>Residential</td>
<td>5,977</td>
<td>2,654</td>
<td>8,631</td>
<td>111,179</td>
</tr>
<tr>
<td>Commercial</td>
<td>510</td>
<td>646</td>
<td>1,156</td>
<td>256,957</td>
</tr>
<tr>
<td>Consumer</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>9,649</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,408</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$9,236</td>
<td>$11,870</td>
<td>$21,106</td>
<td>$1,638,896</td>
</tr>
</tbody>
</table>
Note 6. Loans and Allowance for Loan Losses (Continued)

<table>
<thead>
<tr>
<th>Loans 30-89 Days</th>
<th>Loans 90 or More Days</th>
<th>Total Past-Due Loans</th>
<th>Current Loans</th>
<th>Total Loans</th>
<th>Accruing Loans 90 Days or More</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$9,050</td>
<td>$390</td>
<td>$9,440</td>
<td>$1,052,188</td>
<td>$1,061,628</td>
</tr>
<tr>
<td>Residential</td>
<td>5,823</td>
<td>1,692</td>
<td>7,515</td>
<td>207,024</td>
<td>214,639</td>
</tr>
<tr>
<td>Commercial</td>
<td>1,195</td>
<td>-</td>
<td>1,195</td>
<td>173,409</td>
<td>174,604</td>
</tr>
<tr>
<td>Consumer</td>
<td>38</td>
<td>-</td>
<td>38</td>
<td>13,044</td>
<td>13,082</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>-</td>
<td>5</td>
<td>8,064</td>
<td>8,069</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$16,111</strong></td>
<td><strong>$2,082</strong></td>
<td><strong>$18,193</strong></td>
<td><strong>$1,453,729</strong></td>
<td><strong>$1,471,922</strong></td>
</tr>
</tbody>
</table>

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2019 and 2018, is as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Recorded Investment With No Allowance</th>
<th>Recorded Investment With Allowance</th>
<th>Total Recorded Investment and Unpaid Balance</th>
<th>Related Allowance</th>
<th>Average Recorded Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$2,588</td>
<td>$10,634</td>
<td>$13,222</td>
<td>$2,217</td>
</tr>
<tr>
<td>Residential</td>
<td>373</td>
<td>-</td>
<td>373</td>
<td>-</td>
</tr>
<tr>
<td>Commercial</td>
<td>287</td>
<td>851</td>
<td>1,138</td>
<td>221</td>
</tr>
<tr>
<td>Consumer</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,248</strong></td>
<td><strong>$11,485</strong></td>
<td><strong>$14,733</strong></td>
<td><strong>$2,438</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recorded Investment With No Allowance</th>
<th>Recorded Investment With Allowance</th>
<th>Total Recorded Investment and Unpaid Balance</th>
<th>Related Allowance</th>
<th>Average Recorded Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$2,320</td>
<td>$8,074</td>
<td>$10,394</td>
<td>$500</td>
</tr>
<tr>
<td>Residential</td>
<td>335</td>
<td>58</td>
<td>393</td>
<td>1</td>
</tr>
<tr>
<td>Commercial</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,655</strong></td>
<td><strong>$8,132</strong></td>
<td><strong>$10,787</strong></td>
<td><strong>$501</strong></td>
</tr>
</tbody>
</table>
Note 6. Loans and Allowance for Loan Losses (Continued)

At December 31, 2019 and 2018, the total unpaid principal balance on impaired loans was approximately $15.3 million and $11.1 million, respectively.

During the years ended December 31, 2019 and 2018, the Company did not recognize any significant interest income on impaired and nonaccrual loans.

At December 31, 2019, there were no loans that had been modified in a troubled debt restructuring. At December 31, 2018, the Company's loan portfolio included one commercial real estate loan with a balance of $1.5 million that had been modified in a troubled debt restructuring. Such modifications generally allow the borrower concessions that delay the payment of principal and interest beyond contractual requirements, but not the forgiveness of either principal or interest. The Company evaluated any possible impairment loss on this loan consistent with its accounting for impaired loans and any such loss would be recognized through a charge-off to the allowance for loan loss account. During the year ended December 31, 2019, this loan was foreclosed on and transferred to other real estate owned.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2019 and 2018, were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Year Ended December 31, 2019</th>
<th>Commercial Real Estate</th>
<th>Residential Real Estate</th>
<th>Commercial</th>
<th>Consumer</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$6,033</td>
<td>$567</td>
<td>$2,887</td>
<td>$132</td>
<td>-</td>
<td>$9,619</td>
</tr>
<tr>
<td>Provision (credit) for loan losses</td>
<td>6,410</td>
<td>162</td>
<td>(925)</td>
<td>(47)</td>
<td>332</td>
<td>5,932</td>
</tr>
<tr>
<td>Charge-offs</td>
<td>(1)</td>
<td>(174)</td>
<td>(1)</td>
<td>(3)</td>
<td>(238)</td>
<td>(417)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>172</td>
<td>175</td>
<td>309</td>
<td>8</td>
<td>74</td>
<td>738</td>
</tr>
<tr>
<td>Net (charge-offs) recoveries</td>
<td>171</td>
<td>1</td>
<td>308</td>
<td>5</td>
<td>(164)</td>
<td>321</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$12,614</td>
<td>$730</td>
<td>$2,270</td>
<td>$90</td>
<td>168</td>
<td>$15,872</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocation:</th>
<th>Commercial Real Estate</th>
<th>Residential Real Estate</th>
<th>Commercial</th>
<th>Consumer</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individually evaluated for impairment</td>
<td>$2,217</td>
<td>-</td>
<td>$221</td>
<td>-</td>
<td>-</td>
<td>$2,438</td>
</tr>
<tr>
<td>Collectively evaluated for impairment</td>
<td>10,397</td>
<td>730</td>
<td>2,049</td>
<td>90</td>
<td>168</td>
<td>13,434</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Ended December 31, 2018</th>
<th>Commercial Real Estate</th>
<th>Residential Real Estate</th>
<th>Commercial</th>
<th>Consumer</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$4,721</td>
<td>$857</td>
<td>$1,511</td>
<td>$274</td>
<td>6</td>
<td>$7,369</td>
</tr>
<tr>
<td>Provision (credit) for loan losses</td>
<td>1,304</td>
<td>(314)</td>
<td>12,136</td>
<td>(65)</td>
<td>(6)</td>
<td>13,055</td>
</tr>
<tr>
<td>Charge-offs</td>
<td>-</td>
<td>(29)</td>
<td>(10,887)</td>
<td>(147)</td>
<td>-</td>
<td>(11,063)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>8</td>
<td>53</td>
<td>127</td>
<td>70</td>
<td>-</td>
<td>258</td>
</tr>
<tr>
<td>Net (charge-offs) recoveries</td>
<td>8</td>
<td>24</td>
<td>(10,760)</td>
<td>(77)</td>
<td>-</td>
<td>(10,805)</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$6,033</td>
<td>$567</td>
<td>$2,887</td>
<td>$132</td>
<td>-</td>
<td>$9,619</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocation:</th>
<th>Commercial Real Estate</th>
<th>Residential Real Estate</th>
<th>Commercial</th>
<th>Consumer</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individually evaluated for impairment</td>
<td>$500</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$501</td>
</tr>
<tr>
<td>Collectively evaluated for impairment</td>
<td>5,533</td>
<td>566</td>
<td>2,887</td>
<td>132</td>
<td>-</td>
<td>9,118</td>
</tr>
</tbody>
</table>
Note 6. Loans and Allowance for Loan Losses (Continued)

The Company’s recorded investment in loans as of December 31, 2019 and 2018, related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company’s impairment methodology was as follows:

<table>
<thead>
<tr>
<th>Portfolio Segment</th>
<th>December 31, 2019</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans individually evaluated for impairment</td>
<td>$13,222, 373, 1,138, -</td>
<td>$14,733</td>
</tr>
<tr>
<td>Loans collectively evaluated for impairment</td>
<td>$1,254,796, 119,437, 256,975, 9,653, 4,408</td>
<td>$1,645,269</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$1,268,018, 119,810, 258,113, 9,653, 4,408</td>
<td>$1,660,002</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Portfolio Segment</th>
<th>December 31, 2018</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans individually evaluated for impairment</td>
<td>$10,394, 393, -</td>
<td>$10,787</td>
</tr>
<tr>
<td>Loans collectively evaluated for impairment</td>
<td>$1,051,234, 214,146, 174,604, 13,082, 8,069</td>
<td>$1,461,135</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$1,061,628, 214,539, 174,604, 13,082, 8,069</td>
<td>$1,471,922</td>
</tr>
</tbody>
</table>

Note 7. Bank Premises and Equipment

Components of Bank premises and equipment included in the consolidated balance sheets were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Component</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$12,533</td>
<td>$12,533</td>
</tr>
<tr>
<td>Building</td>
<td>27,489</td>
<td>27,362</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>121</td>
<td>81</td>
</tr>
<tr>
<td>Equipment and furniture</td>
<td>12,482</td>
<td>9,143</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>991</td>
<td>2,574</td>
</tr>
<tr>
<td></td>
<td>53,616</td>
<td>51,693</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>11,180</td>
<td>8,651</td>
</tr>
<tr>
<td></td>
<td>$42,436</td>
<td>$43,042</td>
</tr>
</tbody>
</table>

Depreciation expense for the years ended December 31, 2019 and 2018, totaled $2.6 million and $2.2 million, respectively.

The Company leases several of its branches and its corporate office under noncancelable operating leases with terms ending between 2020 and 2030. During 2015, the Company entered into Lease Termination, Release and Guaranty agreements (Agreements) for two other closed branches with terms ending in 2018 and 2024. These Agreements required the Company to pay rent difference payments and certain other payments, which are being amortized over the remaining life of the lease and included in the rental commitment amounts shown in the table below. The Company also guarantees payment of the lease amounts by the new tenants.
Note 7.  Bank Premises and Equipment (Continued)
Rental expense is recognized using the straight-line method. Rental expense for the years ended December 31, 2019 and 2018, totaled $1.8 million and $2.0 million, respectively.

The future minimum rental commitments of agreements under these leases are as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Years ending December 31:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$ 1,623</td>
</tr>
<tr>
<td>2021</td>
<td>1,378</td>
</tr>
<tr>
<td>2022</td>
<td>1,336</td>
</tr>
<tr>
<td>2023</td>
<td>1,370</td>
</tr>
<tr>
<td>2024</td>
<td>1,316</td>
</tr>
<tr>
<td>Thereafter</td>
<td>6,045</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 13,068</strong></td>
</tr>
</tbody>
</table>

Note 8.  Deposits
A summary of deposits included in the consolidated balance sheets is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Demand</td>
<td>$ 681,110</td>
</tr>
<tr>
<td>NOW</td>
<td>179,363</td>
</tr>
<tr>
<td>Money market</td>
<td>285,511</td>
</tr>
<tr>
<td>Savings</td>
<td>49,070</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>505,424</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,700,478</td>
</tr>
</tbody>
</table>

The aggregate amount of certificates of deposit (CDs) in denominations that meet or exceed $250 thousand totaled $315.6 million at December 31, 2019 ($304.1 million in 2018).

At December 31, 2019, the scheduled maturities of CDs were as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Years ending December 31:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$ 400,142</td>
</tr>
<tr>
<td>2021</td>
<td>97,808</td>
</tr>
<tr>
<td>2022</td>
<td>3,875</td>
</tr>
<tr>
<td>2023</td>
<td>1,535</td>
</tr>
<tr>
<td>2024</td>
<td>2,064</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 505,424</strong></td>
</tr>
</tbody>
</table>
Note 9. Employee Benefit Plans

At December 31, 2018, as a result of the merger discussed in Note 2, the Company has two 401(k) retirement plans for the benefit of its employees. Substantially all employees of the Company are eligible to participate in these contributory retirement plans, and participants may contribute up to a specified percent of their compensation, as stated in the plan documents, subject to Internal Revenue Service limitations. The Company makes matching contributions based on a specified percentage of the participant's compensation contributed to the plans, as stated in the plan documents. Additionally, the Company may make discretionary contributions to the plans at the discretion of the Board of Directors. For the years ended December 31, 2019 and 2018, expenses attributable to the plan were $1.1 million and $887 thousand, respectively. Effective July 2019, the Company consolidated its plans into one plan.

Note 10. Borrowed Funds

The Company has federal funds lines of credit totaling $65.0 million with Frost Bank, The Independent Bankers’ Bank and Texas Capital Bank, N.A. Funds must be repaid the next business day unless renewed by the Company. Interest is payable daily based on the daily rate agreed upon at the time an advance is made. The lines of credit are available for one year and are renewable each year. There were no amounts outstanding on these lines of credit as of December 31, 2019 and 2018.

The Company also has an available line of credit and letters of credit with the FHLB secured by a blanket lien on certain commercial loans and mortgage loans, all FHLB stock and certain investment securities owned by the Company. The agreement provides for a maximum borrowing capacity of $634.6 million. At December 31, 2019, the Company had $180 million in FHLB borrowings comprised of two fixed rate advances in the amounts of $105 million and $75 million, with interest rates of 1.57% and 1.35%, respectively. The two advances matured in January 2020. There were no outstanding advances as of December 31, 2018.

At December 31, 2019 the Company had $180 million ($145 million in 2018) in undisbursed advance commitments (letters of credit) with the FHLB expiring between 2020 and 2023. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. At December 31, 2019 there were no disbursements against the advance commitments.

Note 11. Junior Subordinated Debenture

In April 2007, the Company formed Vantage Bancorp Statutory Trust I (the Trust) with capital of $93 thousand. The Trust issued $3.0 million in Floating Rate Capital Securities (Trust Preferred Securities) to private market investors. The Trust Preferred Securities accrue interest quarterly at a floating rate equal to the three-month London Interbank Offered Rate plus 1.85%, with no interest rate ceiling (3.74% and 4.64% at December 31, 2019 and 2018, respectively). The Trust Preferred Securities mature and are due and payable on June 15, 2037. The Company issued Trust Preferred Securities as a method of increasing regulatory capital.

In connection with this transaction, the Company issued a Floating Rate Junior Subordinated Deferrable Interest Debenture (Debenture) to the Trust for $3.1 million, with interest and maturity terms identical to the Trust Preferred Securities. The Trust is not consolidated in the accompanying consolidated financial statements. Instead, the investment in the Trust is shown in prepaid expenses and other assets and the Debenture in junior subordinated debenture on the consolidated balance sheets. Interest expense on the Debenture is reported in other interest expense on the consolidated statements of income. During December 31, 2019 and 2018, interest expense on the Debenture approximated $135 thousand and $125 thousand, respectively.
Note 12. Note Purchase Agreements

The Company executed note purchase agreements with a third-party bank related to borrowings between the third-party bank and various stockholders for the purchase of Company stock. These note purchase agreements allowed the third-party bank to request payment of the outstanding principal balance, plus any unpaid accrued interest, from the Company in the event of default by the respective stockholder.

As a result of previously purchased notes and recoveries on purchased notes, total stockholders’ equity was reduced and reflected as stock notes receivable on the consolidated balance sheets. The stock notes receivable were extinguished during 2019. At December 31, 2018, the outstanding principal balance on the stock notes receivable approximated $62 thousand.

Note 13. Federal Income Taxes

Federal income tax expense consisted of the following (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Years Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Currently paid or payable</td>
<td>$ 3,080</td>
</tr>
<tr>
<td>Deferred federal income tax expense</td>
<td>2,750</td>
</tr>
<tr>
<td></td>
<td>$ 5,830</td>
</tr>
</tbody>
</table>

Federal income tax expense differs from the amount which would be provided by applying the statutory federal income tax rates as indicated in the following analysis (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Years Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Computed at the expected statutory rate of 21%</td>
<td>$ 6,036</td>
</tr>
<tr>
<td>Effect of tax-exempt income</td>
<td>(21)</td>
</tr>
<tr>
<td>Other income, net of nondeductible expenses</td>
<td>(167)</td>
</tr>
<tr>
<td>Other</td>
<td>(18)</td>
</tr>
<tr>
<td></td>
<td>$ 5,830</td>
</tr>
</tbody>
</table>
Note 13. Federal Income Taxes (Continued)

The tax effects of temporary differences that give rise to the significant portions of deferred tax assets and deferred tax liabilities are presented below (dollars in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Deferred tax assets related to:</td>
<td></td>
</tr>
<tr>
<td>Net operating loss and credit carryovers</td>
<td>$</td>
</tr>
<tr>
<td>Allowance for loan and credit losses</td>
<td>3,551</td>
</tr>
<tr>
<td>Nonaccrual loan interest</td>
<td>147</td>
</tr>
<tr>
<td>Other real estate owned</td>
<td>4</td>
</tr>
<tr>
<td>Loan discount</td>
<td>789</td>
</tr>
<tr>
<td>Goodwill</td>
<td>75</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td>48</td>
</tr>
<tr>
<td>Other</td>
<td>31</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>4,645</td>
</tr>
<tr>
<td>Valuation allowance</td>
<td>-</td>
</tr>
<tr>
<td>Total deferred tax asset (liability)</td>
<td>$ (1,614)</td>
</tr>
</tbody>
</table>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of projections for future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, and no valuation allowance is needed at December 31, 2019 and 2018.

The Company files a United States federal income tax return, as well as a state return in Texas. With few exceptions, the Company is no longer subject to United States federal or Texas state tax examinations by tax authorities for years before 2016. As more fully disclosed in the subsequent event at Note 17, the Company's stockholders made an election with the Internal Revenue Service for the entity to be taxed as a Subchapter S entity effective January 1, 2020.
Note 14. Off-Balance Sheet Activities

Credit-related financial instruments: The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Company’s exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following financial instruments, whose contract amounts represent credit risk, were outstanding (dollars in thousands):

<table>
<thead>
<tr>
<th>Contract Amount</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Unfunded commitments under lines of credit</td>
<td>$442,583</td>
</tr>
<tr>
<td>Standby letters of credit</td>
<td>10,614</td>
</tr>
</tbody>
</table>

Unfunded commitments under lines of credit include revolving credit lines, straight credit lines and interim construction loans, which are commitments for possible future extensions of credit to existing customers. These lines of credit may not be drawn upon to the total extent to which the Company is committed.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Company’s credit evaluation of the customer. Collateral held varies, but may include cash; securities; accounts receivable; inventory; property, plant and equipment; and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.

Note 15. Legal Contingencies

The Company is party to litigation arising in the normal course of business. Management, after consultation with legal counsel, believes the liabilities, if any, arising from such litigation and claims, will not be material to the Company’s financial position.

Note 16. Related-Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates. The aggregate total commitment of these loans to related parties at December 31, 2019, totaled $33.1 million ($34.4 million in 2018), with outstanding balances totaling $27.2 million ($26.8 million in 2018). In management’s opinion, these loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with nonrelated parties.
Note 16. Related-Party Transactions (Continued)

During 2019 and 2018, amounts paid by the Company to a director for consulting services totaled approximately $990 thousand and $389 thousand, respectively.

Deposits held by the Bank from related parties totaled $120.1 million at December 31, 2019 ($115.6 million in 2018).

As of December 31, 2019, approximately 7.1% of the Bank’s total deposits were held for a principal stockholder and the stockholder’s related entities (6.6% in 2018).

During the year ended December 31, 2019, the Company paid rental expense of approximately $864 thousand to a related party (approximately $815 thousand in 2018).

Note 17. Subsequent Events

In March 2020, the Company, with the consent of its stockholders, made an election with the Internal Revenue Service to be taxed as a Subchapter S entity beginning on January 1, 2020. Accordingly, the Company will eliminate the deferred tax liability of approximately $1.6 million as of that date, record an estimated built-in gain tax liability in the amount of $458 thousand and does not expect to accrue federal income tax expense for the year ending December 31, 2020, as such taxes will be paid by the Company’s stockholders based on their proportionate shares of ownership.

In April 2020, recent events related to the spread of the coronavirus (COVID-19) pandemic continue to significantly and adversely impact the global and domestic financial markets. As a result of this health crisis, many countries, including the United States, are experiencing a significant slowdown in economic activity. The extent to which the COVID-19 crisis impacts the Company’s trade area and related operations will depend on future developments, which are highly uncertain and cannot be predicted as of the date of this report. Accordingly, if the COVID-19 crisis continues for a prolonged period, there is a reasonable possibility the Company could experience a material adverse effect on its future operations.

Note 18. Capital and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about component classification, risk weighting and other factors.

The Basel III capital rules became effective for the Bank on January 1, 2015, subject to a four-year phase-in period. Qualitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios of Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital to Risk-Weighted-Assets, and of Tier 1 Capital to Average Assets. Basel III capital rules also introduced capital conservation buffers in excess of those minimums for Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital to Risk-Weighted-Assets. The capital conservation buffer is required so that the Bank can avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees. The capital conservation buffer was also phased in over the four-year period and was 2.5% for 2019 and 1.875% for 2018. The minimum amounts and ratios, including the required conservation buffer, are included in the tables below.
Note 18. Capital and Regulatory Matters (Continued)

Management believes, as of December 31, 2019 and 2018, that the Bank met all capital adequacy requirements to which it is subject. As of December 31, 2019 and 2018, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The Bank’s actual capital amounts and ratios as of December 31, 2019 and 2018, are also presented in the following tables (dollars in thousands):

<table>
<thead>
<tr>
<th>Date</th>
<th>Actual</th>
<th>Minimum Required</th>
<th>Minimum Required to be</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ratio</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### December 31, 2019

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 Capital to Risk-Weighted Assets</td>
<td>$268,668</td>
<td>14.10%</td>
<td>$133,364</td>
<td>7.0%</td>
<td>$123,838</td>
<td>6.5%</td>
</tr>
<tr>
<td>Tier 1 Capital to Risk-Weighted Assets</td>
<td>$268,668</td>
<td>14.10%</td>
<td>$161,942</td>
<td>8.5%</td>
<td>$152,416</td>
<td>8.0%</td>
</tr>
<tr>
<td>Total Capital to Risk-Weighted Assets</td>
<td>$285,577</td>
<td>14.99%</td>
<td>$200,046</td>
<td>10.5%</td>
<td>$190,520</td>
<td>10.0%</td>
</tr>
<tr>
<td>Tier 1 Capital to Average Assets</td>
<td>$268,668</td>
<td>13.25%</td>
<td>$81,107</td>
<td>4.0%</td>
<td>$101,384</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

### December 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 Capital to Risk-Weighted Assets</td>
<td>$259,435</td>
<td>16.32%</td>
<td>$101,323</td>
<td>6.375%</td>
<td>$103,310</td>
<td>6.5%</td>
</tr>
<tr>
<td>Tier 1 Capital to Risk-Weighted Assets</td>
<td>$259,435</td>
<td>16.32%</td>
<td>$125,164</td>
<td>7.875%</td>
<td>$127,151</td>
<td>8.0%</td>
</tr>
<tr>
<td>Total Capital to Risk-Weighted Assets</td>
<td>$269,954</td>
<td>16.98%</td>
<td>$156,951</td>
<td>9.875%</td>
<td>$158,938</td>
<td>10.0%</td>
</tr>
<tr>
<td>Tier 1 Capital to Average Assets</td>
<td>$259,435</td>
<td>13.59%</td>
<td>$76,370</td>
<td>4.000%</td>
<td>$95,462</td>
<td>5.0%</td>
</tr>
</tbody>
</table>
Independent Auditor’s Report  

on the Effectiveness of the Institution’s Internal Control over Financial Reporting

To the Board of Directors and Stockholders  
of VBT Financial Corporation, Inc. and Subsidiary

Report on Internal Controls over Financial Reporting

We have audited the internal control over financial reporting of VBT Financial Corporation, Inc. and Subsidiary (Company), including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9SP), as of December 31, 2019 based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management’s Responsibility for Internal Control over Financial Reporting

The Company’s management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management’s Responsibilities, Compliance with Designated Laws and Regulations, and Management’s Assessment of Internal Controls over Financial Reporting.

Auditor’s Responsibility

Our responsibility is to express an opinion on the institution’s internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor’s judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

An institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company’s internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9SP). An institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the institution are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the institution's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
Opinion

In our opinion, VBT Financial Corporation, Inc. and Subsidiary maintained effective internal control over financial reporting, in all material respects, based on criteria established in the Internal Control-Integrated Framework issued by COSO.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of VBT Financial Corporation, Inc. and Subsidiary as of December 31, 2019 and our report dated April 21, 2020 expressed an unmodified opinion on those consolidated financial statements.

Payne & Smith, LLC

April 21, 2020
April 21, 2020

To the Federal Deposit Insurance Corporation, the
Texas Department of banking, and the
Federal Reserve Bank

This management report regarding the statement of management’s responsibilities; management’s assessment of compliance with designated laws and regulations; and management’s assessment of internal control over financial reporting of VBT Financial Corporation, Inc. and Subsidiary (collectively, the “Company”) subject to the annual audit and reporting requirements of Section 36 of the Federal Deposit Insurance Act and its implementing regulation, 12 CFR Part 363 (Part 363 Annual Reporting requirements) includes the following subsidiary institutions:

- VBT Financial Corporation, Inc.
- Vantage Bank Texas

Statement of Management's Responsibilities

The management of the Company is responsible for preparing the Company’s annual consolidated financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income (Call Report), and with the Consolidated Financial Statements for Bank Holding Companies (FR Y-9SP), and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Company has assessed its compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the year ended December 31, 2019. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the year ended December 31, 2019.

Management's Assessment of Internal Control Over Financial Reporting

The Company’s internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., instructions for the Consolidated Reports of Condition and Income (Call Report) and Consolidated Financial Statements for Bank Holding Companies (FR Y-9SP) instructions. The Company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.
Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income (Call Report) and Consolidated Financial Statements for Bank Holding Companies (FR Y-9SP), as of December 31, 2019, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control - Integrated Framework. Based upon its assessment, management has concluded that, as of December 31, 2019, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income (Call Report) and Consolidated Financial Statements for Bank Holding Companies (FR Y-9SP), is effective based on the criteria established in the Internal Control - Integrated Framework.

The Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income (Call Report) and Consolidated Financial Statements for Bank Holding Companies (FR Y-9SP), as of December 31, 2019, has been audited by Payne & Smith, LLC, an independent public accounting firm, as stated in their report dated April 21, 2020.

Jeff Connott: CEO

Phil Lesh: Chief Financial Officer

Claudia Gonzalez: Controller