Board of Governors of the Federal Reserve System

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.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

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, Cindy Whiddon
Name of the Holding Company Director and Official

Director, Vice President-Secretary/ Treasurer
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.

Cindy Whiddon
Signature of Holding Company Director and Official

9/11/20
Date of Signature

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):

June 30, 2020
Month / Day / Year

None
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

First Baird Bancshares, Inc.
Legal Title of Holding Company

200 Palo Pinto
(Mailing Address of the Holding Company) Street / P.O. Box

Weatherford	Texas	76086
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Ron Hughes	Corporate Administration
Name	Title

817-438-2210
Area Code / Phone Number / Extension

817-886-5031
Area Code / FAX Number

ron.hughes@firstbaird.com
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? .... 0=No 1=Yes **0**

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.

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARY HOLDING COMPANIES

REPORT ITEM 1:

ANNUAL REPORTS TO SHAREHOLDERS

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Additional Information

June 30, 2020 and 2019

Austin Office
3600 N. Capital of Texas Hwy.
Bldg. B, Suite 250
Austin, TX 78746
737.931.8200 Main

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
First Baird Bancshares, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of First Baird Bancshares, Inc. and Subsidiaries which comprise the consolidated balance sheet as of June 30, 2020 and 2019, 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 ("GAAP"); 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 ("GAAS") 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 First Baird Bancshares, Inc. and Subsidiaries as of June 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with GAAP.

Report of Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Whitley Penn LLP

Austin, Texas
October 26, 2020

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheet
June 30, 2020 and 2019
(In thousands of dollars)

ASSETS	2020	2019
Cash and cash equivalents:		
Cash and due from banks	$ 141,243	$ 54,086
Federal funds sold	33,384	6,906
Total cash and cash equivalents	174,627	60,992
Interest bearing time deposits in other banks	8,416	9,902
Investment securities available-for-sale	30,046	7,574
Loans, net	623,847	560,908
Accrued interest receivable	3,649	3,777
Premises and equipment, net	22,319	17,743
Other real estate owned	76	606
Cash surrender value of life insurance	14,025	14,150
Investments in unconsolidated subsidiaries	479	2,728
Other assets	3,430	4,396
Total assets	$ 880,914	$ 682,776

LIABILITIES AND STOCKHOLDERS' EQUITY	2020	2019
Deposits:		
Noninterest bearing	$ 295,726	$ 214,863
Interest bearing	429,494	389,674
Total deposits	725,220	604,537
Junior subordinated debentures	15,464	15,464
FRB advances - PPP loans	76,439	-
Unfunded pension obligation	-	4,639
Other liabilities	1,386	1,251
Total liabilities	818,509	625,891
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 1,000,000 shares authorized, 697,434 shares issued and outstanding at June 30, 2020 and 2019	7	7
Additional paid-in capital	4,941	4,941
Retained earnings	57,213	55,611
Accumulated other comprehensive income (loss)	244	(3,674)
Total stockholders' equity	62,405	56,885
Total liabilities and stockholders' equity	$ 880,914	$ 682,776

See accompanying notes to consolidated financial statements.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statement of Income
For the Years Ended June 30, 2020 and 2019
(In thousands of dollars)

	2020	2019
Interest income:		
Interest and fees on loans	**$ 36,157**	$ 35,258
Investment securities available-for-sale	**356**	231
Other	**938**	867
Total interest income	**37,451**	36,356
Interest expense:		
Deposit accounts	**4,889**	3,692
Other	**743**	912
Total interest expense	**5,632**	4,604
Net interest income	**31,819**	31,752
Provision for loan losses	**1,496**	3,018
Net interest income after provision	**30,323**	28,734
Noninterest income:		
Service charges on deposit accounts	**1,899**	2,350
Other	**2,383**	2,612
Total noninterest income	**4,282**	4,962
Noninterest expense:		
Salary and employee benefits	**17,954**	17,316
Pension settlement expense	**2,365**	-
Occupancy of bank premises	**2,867**	2,751
Equipment	**401**	851
Legal and professional fees	**924**	1,118
Advertising	**839**	682
Regulatory fees	**476**	631
Other	**6,304**	5,730
Total noninterest expense	**32,130**	29,079
Income before income taxes	**2,475**	4,617
Income tax expense	**473**	802
Consolidated net income	**$ 2,002**	$ 3,815

See accompanying notes to consolidated financial statements.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income
For the Years Ended June 30, 2020 and 2019
(In thousands of dollars)

	2020	2019
Consolidated net income	$ 2,002	$ 3,815
Other comprehensive income (loss):		
Unrealized gains (losses) on investment securities available-for-sale, before income taxes	292	101
Unrecognized pension obligation gains (losses) before income taxes	2,300	(1,225)
Reclassification adjustment for net periodic pension losses (gains) included in net income, before income taxes	2,367	(1,162)
Total other comprehensive income (loss), before income taxes	4,959	(2,286)
Income tax expense (benefit) related to items of other comprehensive income	1,041	(480)
Total other comprehensive income (loss), net of tax	3,918	(1,806)
Comprehensive income	$ 5,920	$ 2,009

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity
For the Years Ended June 30, 2020 and 2019
(In thousands of dollars)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at July 1, 2018	$ 7	$ 4,941	$ 52,196	$ (1,868)	$ 55,276
Consolidated net income	-	-	3,815	-	3,815
Change in net unrealized losses on securities available-for-sale, net of tax	-	-	-	80	80
Change in unrecognized pension obligation, net of tax and reclassification of net periodic gains included in net income	-	-	-	(1,886)	(1,886)
Dividends paid	-	-	(400)	-	(400)
Balances at June 30, 2019	**7**	**4,941**	**55,611**	**(3,674)**	**56,885**
Consolidated net income	**-**	**-**	**2,002**	**-**	**2,002**
Change in net unrealized gains on securities available-for-sale, net of tax	**-**	**-**	**-**	**231**	**231**
Change in unrecognized pension obligation, net of tax and reclassification of net periodic expense included in net income	**-**	**-**	**-**	**3,687**	**3,687**
Dividends paid	**-**	**-**	**(400)**	**-**	**(400)**
Balances at June 30, 2020	**$ 7**	**$ 4,941**	**$ 57,213**	**$ 244**	**$ 62,405**

See accompanying notes to consolidated financial statements.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows
For the Years Ended June 30, 2020 and 2019
(In thousands of dollars)

	2020	2019
Cash flows from operating activities:		
Consolidated net income	$ 2,002	$ 3,815
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	1,332	1,207
Provision for loan losses	1,496	3,018
Net loss (gain) related to other real estate owned	21	(122)
Loss (gain) on sales of premises and equipment	47	(38)
Decrease in accrued interest receivable and other assets	2,389	44
Pension plan termination expense	2,367	-
Decrease in accrued interest payable and other liabilities	(2,204)	(238)
Net cash provided by operating activities	7,450	7,686
Cash flows from investing activities:		
Net change in interest bearing time deposits in other banks	1,486	(1,212)
Proceeds from maturities, paydowns, and sales of securities available-for-sale	(633,666)	(553,111)
Purchases of securities available-for-sale	611,436	552,654
Net loans originated	(64,465)	(26,043)
Net additions to bank premises and equipment	(5,397)	(3,259)
Proceeds from sales of other real estate owned	35	708
Proceeds from sales of premises and equipment	34	67
Net cash used in investing activities	(90,537)	(30,196)
Cash flows from financing activities:		
Net increase in deposits	120,683	23,130
Dividends paid	(400)	(400)
Net increase in FHLB advances	-	(5,000)
Increase in FRB advances - PPP loans	76,439	-
Net cash provided by financing activities	196,722	17,730
Net increase (decrease) in cash and cash equivalents	113,635	(4,780)
Cash and cash equivalents at beginning of year	60,992	65,772
Cash and cash equivalents at end of year	$ 174,627	$ 60,992
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 5,671	$ 4,496
Income taxes paid	$ 550	$ -
Supplemental Disclosure of Noncash Investing Activities:		
Net acquisition of other real estate through foreclosure	$ 30	$ 300
Transfer of other real estate to bank premises and equipment	$ 504	$ -

See accompanying notes to consolidated financial statements.

1. Nature of Operations and Significant Accounting Policies

The following is a summary of the significant accounting policies used by First Baird Bancshares, Inc. ("FBBI") and Subsidiaries (together referred to as the "Company") in the preparation of its consolidated financial statements. The accounting policies conform to generally accepted accounting principles and practices generally followed within the banking industry.

Business and Basis of Presentation

The accompanying consolidated financial statements include the accounts of FBBI, and its wholly-owned subsidiaries: First National Bank Baird (dba First Bank Texas) ("FBT") and The First National Bank of Weatherford ("FNBW"). All significant inter-company transactions have been eliminated in consolidation.

The Company provides a full range of banking services to individuals and corporate customers in Texas through its subsidiaries and is subject to competition from other local, regional, and national financial institutions. The Company is also subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The summary of the significant accounting policies of the Company is presented to assist in understanding the Company's consolidated financial statements and are presented below. The consolidated financial statements and notes are the representation of the Company's management, who are responsible for their integrity and objectivity.

Use of Estimates

The accounting and reporting policies of the Company and the methods of applying those policies that materially affect the accompanying consolidated financial statements conform with accounting principles generally accepted in the United States of America ("GAAP") and prevailing banking industry practices. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet dates and revenues and expenses for the periods shown. Actual results could differ from the estimates and assumptions used in the consolidated financial statements including, the allowance for loan losses, the fair values of financial instruments, and the status of contingencies.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses. While management uses available information to recognize losses on loans and other real estate owned, future provisions may be necessary based on changes in local economic conditions. In addition, banking regulators, as an integral part of their examination process, periodically review the Company's allowance for loan and other real estate losses. They may require the Company to record additional provision for losses based on their judgment about information available to them at the time of their examination.

A significant portion of the Company's loans are secured by real estate and related assets located in local markets. Accordingly, the ultimate collectability of this portion of the Company's loan portfolio is susceptible to changes in the local market conditions.

1. Nature of Operations and Significant Accounting Policies – continued

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash, and cash equivalents include cash on hand, amounts due from banks, other short-term investments, and federal fund sold. All highly liquid investments with an initial maturity of less than ninety days are considered to be cash equivalents.

Interest Bearing Time Deposits in Other Banks

Interest bearing time deposits in other banks are carried at cost and generally mature between 90 days to 3 year from purchase date.

Investment Securities Available-for-Sale

Investment securities to be held for indefinite periods of time but not intended to be held to maturity or on a long-term basis are classified as available-for-sale and are recorded at their estimated fair value, adjusted for amortization of premiums and accretion of discounts, with unrealized gains and losses reported as a component of other comprehensive income, net of tax.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans and Allowance for Loan Losses

The Company grants commercial, real estate, agricultural, and consumer loans to customers. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances, adjusted for charge offs, the allowance for loan losses and certain deferred loan origination fees or costs. Interest income is accrued on the unpaid principal balance. Fees associated with originating loans, to the extent they exceed the direct loan origination costs, are generally deferred and recognized over the life of the loan as an adjustment of yield.

Loans are considered impaired 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, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the estimated fair value of collateral if repayment is expected solely from the collateral or estimated future cash flows using the loan's existing rate. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case, interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

1. Nature of Operations and Significant Accounting Policies – continued

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual 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 or charged off are 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonable assured.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits, however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilized its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of three elements, (i) specific valuation allowances established for probable losses on specific loans; (ii) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends; and (iii) unallocated general valuation allowances determined based on general economic conditions and other qualitative risk factors both internal and external to the Company.

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal or a longer term to maturity. To date, these troubled debt restructurings have been such that, after considering economic and business conditions and collection efforts, the collection of interest is doubtful and therefore the loan has been placed on non-accrual. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow. As of June 30, 2020 and 2019, all of the Company's material troubled debt restructured loans are included in the non-accrual totals.

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions both by type of loan and geography.

1. Nature of Operations and Significant Accounting Policies – continued

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. Agricultural loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farm land, cattle, or equipment, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are generally diverse in terms of type and geographic location throughout Texas. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally, real estate loans are owner occupied which further reduces the Company's risk.

The Company utilizes methodical credit standards and analysis to supplement its policies and procedures in underwriting consumer loans. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimizes the Company's risk.

Premises and Equipment

Land is carried at cost. Building and improvements, furniture and equipment are carried at cost, less accumulated depreciation. Accumulated depreciation is computed principally using the straight-line method over the estimated useful lives of the related property.

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 carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in loss on sales and write-downs of other real estate owned.

1. Nature of Operations and Significant Accounting Policies – continued

Income Taxes

FBBI files a consolidated income tax return with its subsidiaries. Federal income tax expense or benefit is allocated on a separate return basis.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Advertising

Advertising expenses consist of the Company's advertising in its local market area. Advertising is expensed as incurred and is included on the accompanying consolidated statement of income.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period except those resulting from transactions with stockholders. In addition to net income, comprehensive income includes the net effect of changes in the fair value of securities available-for-sale and changes in the unrecognized pension obligations.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commercial letters for credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Fair Value of Financial Instruments

GAAP defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries are recorded at cost.

Pension Plan

The Company recognizes all transactions and events affecting the overfunded or underfunded status of its defined benefit postretirement plan in comprehensive income in the year in which those transaction or events occur.

1. Nature of Operations and Significant Accounting Policies – continued

Loss Contingencies

Loss contingencies which include claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount of range of loss can be reasonable estimated.

Reclassification

Certain amounts in prior period financial statements may have been reclassified to conform to current period presentation. These reclassifications are immaterial and have no effect on consolidated net income, total assets or stockholders' equity.

2. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022 and the Company has not yet evaluated the potential effects of adopting ASU 2016-13 on the Company's consolidated results of operations, financial position or cash flows.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients." ASU 2016-12 is intended to address certain specific issues identified by the FASB-IASB Joint Transition Resource Group for Revenue Recognition with respect to ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2016-12 is effective on a retrospective basis for the annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company as of July 01, 2019 adopted ASU 2016-12 and the adoption had no material effect on the Company's consolidated results of operations, financial position or cash flows.

In February 2016, the FASB issued ASU 2016-02 - "Leases" (Topic 842). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the annual periods beginning after December 15, 2021. Early adoption is permitted. The Company has not yet evaluated the impact of the adoption of ASU 2016-02 on the Company's consolidated results of operations, financial position or cash flows.

In January 2016, the FASB issued ASU 2016-01 - "Recognition and Measurement of Financial Assets and Financial Liabilities" (Subtopic 825-10). ASU 2016-01 is intended to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for the annual periods beginning after December 15, 2018. Management has adopted all provisions of ASU 2016-01 as of July 01, 2019 and it did not have a material effect on the Company's consolidated results of operations, financial position or cash flows.

3. Investment Securities Available-for-Sale

Investment securities have been classified in the consolidated balance sheet according to management's intent. The carrying amount of securities and their estimated fair value at June 30, 2020 are as follows (in thousands of dollars):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government Agency obligations	$ 12,003	$ 29	$ -	$ 12,032
Mortgage-backed securities	17,604	302	22	17,884
State and municipal securities	130	-	-	130
	$ 29,737	$ 331	$ 22	$ 30,046

The carrying amount of securities and their estimated fair value at June 30, 2019 are as follows (in thousands of dollars):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government Agency obligations	$ 6,680	$ 16	$ 3	$ 6,693
Mortgage-backed securities	721	4	-	725
State and municipal securities	156	-	-	156
	$ 7,557	$ 20	$ 3	$ 7,574

The company had no securities pledged to secure public fund deposits at June 30, 2020 and 2019, respectively.

During the fiscal years ended June 30, 2020 and 2019, there were no sales of investment securities.

3. Investment Securities Available-for-Sale – continued

The amortized cost and estimated fair value of debt securities (in thousands of dollars) at June 30, 2020 by contractual maturity are shown below. Mortgage-backed securities are presented in total by category due to the fact mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as prepayment risk, are passed on to the certificate holder. The term of a mortgage-backed pass-through security thus approximates the term of the underlying mortgages and can vary significantly due to prepayments.

	Amortized cost	Fair value
Due in one year or less	$ 4,003	$ 4,020
Due in one year to five years	8,130	8,142
Due after five years to ten years	-	-
Due after ten years	-	-
	12,133	12,162
Mortgage-backed securities	17,604	17,884
	$ 29,737	$ 30,046

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2020 were as follows (in thousands of dollars):

	Less than 12 months		12 months or more		Totals	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
At June 30, 2020:						
Mortgage-backed securities	**$ 4,073**	**$ 22**	**$ -**	**$ -**	**$ 4,073**	**$ 22**

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2019 were as follows (in thousands of dollars):

	Less than 12 months		12 months or more		Totals	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
At June 30, 2019:						
U.S. Government Agency obligations	$ -	$ -	$ 2,992	$ 3	$ 2,992	$ 3

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 (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

4. Loans and Allowance for Loan Losses

Loans at June 30, 2020 and 2019 consisted of the following (in thousands of dollars):

	2020	2019
Commercial	**$ 187,945**	$ 121,081
Real estate:		
Residential	**99,686**	95,182
Commercial	**177,934**	160,229
Construction, land development and other land	**80,797**	85,883
Farmland	**35,589**	46,489
Agriculture	**39,481**	44,928
Consumer and other	**12,800**	14,515
	634,232	568,307
Unearned loan fees	**(3,693)**	(1,265)
Allowance for loan losses	**(6,692)**	(6,134)
	$ 623,847	$ 560,908

At June 30, 2020 and 2019, the Company had total commercial real estate loans of approximately $267,094,000 and $292,213,000, respectively. Included in these amounts, the Company had construction, land development and other land loans of approximately $80,797,000 and $85,883,000 and non-owner occupied commercial real estate loans of approximately $91,324,000 and $87,591,000 at June 30, 2020 and 2019, respectively. Commercial loans of $187,945,000 in 2020 included approximately $76,439,000 in loans for the Paycheck Protection Program instituted for small businesses suffering from the economic lockdown caused by the 2020 COVID 19 pandemic. 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-based capital, or total non-owner occupied commercial real estate loans representing 300% or more of the institutions 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.

4. Loans and Allowance for Loan Losses – continued

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At June 30, 2020 and 2019, the majority of the Company's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. The volatility of real estate markets may have an adverse effect on the Company's profitability and asset quality. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Company has loans secured by inventory, accounts receivable, equipment, marketable securities or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

Nonaccrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. As mentioned in Note 1, the accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due.

At June 30, 2020 and 2019, nonaccrual loans and accruing loans past due more than 90 days, segregated by class of loans, were as follows (in thousands of dollars):

	2020		2019	
	Nonaccrual	**Accruing loans past due more than 90 days**	Nonaccrual	Accruing loans past due more than 90 days
Commercial	**$ 2,551**	**$ 279**	$ 3,206	$ -
Real estate:				
Residential	**274**	**1,248**	1,225	29
Commercial	**1,477**	**348**	533	41
Construction, land development and other land	**-**	**-**	-	376
Farmland	**871**	**-**	-	67
Agriculture	**778**	**509**	718	491
Consumer and other	**51**	**-**	27	2
	$ 6,002	**$ 2,384**	$ 5,709	$ 1,006

The amount of interest earned on loans past due greater than 90 days was considered by the Company to not be material to the consolidated financial statements. The interest that would have been earned on non-accrual loans had they performed in accordance with their original contract terms for the year ended June 30, 2020, was approximately $319,000.

4. Loans and Allowance for Loan Losses – continued

An age analysis of past due loans, segregated by class of loans, as of June 30, 2020, were as follows (in thousands of dollars):

	30-89 days	Over 90 days	Total past due	Total Current	Total Loans
Commercial	$ 713	$ 314	$ 1,027	$ 186,918	$ 187,945
Real estate:					
1-4 family residential	1,212	1,389	2,601	97,085	99,686
Commercial	102	1,423	1,525	176,409	177,934
Construction, land development and other land	786	-	786	80,011	80,797
Farmland	261	528	789	34,800	35,589
Agriculture	99	1,183	1,282	38,199	39,481
Consumer and other	118	43	161	12,639	12,800
	$ 3,291	$ 4,880	$ 8,171	$ 626,061	$ 634,232

An age analysis of past due loans, segregated by class of loans, as of June 30, 2019, were as follows (in thousands of dollars):

	30-89 days	Over 90 days	Total past due	Total Current	Total Loans
Commercial	$ 439	$ 136	$ 575	$ 120,506	$ 121,081
Real estate:					
1-4 family residential	2,959	1,060	4,019	91,163	95,182
Commercial	490	472	962	159,267	160,229
Construction, land development and other land	1,181	376	1,557	84,326	85,883
Farmland	42	67	109	46,380	46,489
Agriculture	708	1,199	1,907	43,021	44,928
Consumer and other	206	16	222	14,293	14,515
	$ 6,025	$ 3,326	$ 9,351	$ 558,956	$ 568,307

4. Loans and Allowance for Loan Losses – continued

Impaired Loans

The following table presents impaired loans by class of loans as of June 30, 2020 (in thousands of dollars):

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
Commercial	**$ 4,497**	**$ 4,451**	**$ 46**	**$ 4,497**	**$ 41**	**$ 2,573**
Real estate:						
Residential	**3,521**	**3,521**	**-**	**3,521**	**-**	**3,114**
Commercial	**1,816**	**1,238**	**578**	**1,816**	**50**	**2,806**
Construction, land development and other land	**990**	**990**	**-**	**990**	**-**	**887**
Farmland	**3,465**	**3,198**	**267**	**3,465**	**122**	**2,021**
Agriculture	**2,621**	**2,339**	**245**	**2,584**	**26**	**2,366**
Consumer and other	**100**	**78**	**10**	**88**	**9**	**91**
	$ 17,010	**$ 15,815**	**$ 1,146**	**$ 16,961**	**$ 248**	**$ 13,858**

The following table presents impaired loans by class of loans as of June 30, 2019 (in thousands of dollars):

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
Commercial	$ 650	$ 360	$ 290	$ 650	$ 129	$ 4,222
Real estate:						
Residential	2,708	2,708	-	2,708	-	2,156
Commercial	3,797	3,787	9	3,796	3	2,570
Construction, land development and other land	783	783	-	783	-	392
Farmland	576	576	-	576	-	464
Agriculture	2,203	1,441	708	2,149	87	2,428
Consumer and other	95	68	25	93	17	101
	$ 10,812	$ 9,723	$ 1,032	$ 10,755	$ 236	$ 12,333

No additional funds are committed to be advanced in connection with impaired loans.

Interest payments received on impaired loans are recorded as interest income unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal. During the years ended June 30, 2020 and 2019, the amount of interest income recognized on impaired loans was approximately $1,033,000 and $641,000, respectively.

4. Loans and Allowance for Loan Losses – continued

Troubled Debt Restructuring

During the year ended June 30, 2020, no loans were modified as troubled debt restructuring. The following table presents modifications of loans during the year ended June 30, 2019, which the Company considers to be troubled debt restructured loans, in thousands of dollars:

		Loan modifications		
	Number of loans	Adjusted interest rate	Payment deferral	Combined rate and payment deferral
Commercial	-	$ -	$ -	$ -
Real estate:				
Residential	-	-	-	-
Commercial	1	1,071	-	-
Construction, land development and other land	-	-	-	-
Farmland	-	-	-	-
Consumer	-	-	-	-
Consumer and other	-	-	-	-
	1	$ 1,071	$ -	$ -

During the year ended June 30, 2020, there were no material defaults on loans that had been modified as a troubled debt restructuring during the previous 12 months.

Credit Quality Indicators

The majority of the loan portfolio is comprised of loans to businesses and individuals located within Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at June 30, 2020 and 2019.

Credit Quality Indicators. From a credit risk standpoint, the Company classifies its loans in one of four categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The Company's methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

4. Loans and Allowance for Loan Losses – continued

(i) The Company has several pass credit grades that are assigned to loans based on varying levels of credits, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of supervision.

(ii) Loans classified as special mention are loans that still show sufficient cash flow to service their debt but show a declining financial trend with potential cash flow shortages if trends continue. This category should be treated as a temporary grade. If cash flow deteriorates further to become negative, then a substandard grade should be given. If cash flow trends begin to improve, then an upgrade back to pass would be justified. Nonfinancial reasons for rating a credit as special mention include management problems, pending litigation, an ineffective loan agreement or other material structure weakness.

(iii) A substandard loan has material weakness in the primary repayment source such as insufficient cash flow from operations to service the debt. However, other weaknesses, such as limited paying capacity of the obligor or the collateral pledged, could justify a substandard grade. Substandard loans must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt.

(iv) A loan classified as doubtful has all the weaknesses of a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital and lack the resources necessary to remain an operating entity. Because of high probability of loss, nonaccrual status is required on doubtful loans.

4. Loans and Allowance for Loan Losses – continued

At June 30, 2020, the following summarizes the Company's internal ratings of its loans (in thousands of dollars):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	**$ 183,448**	**$ 1,840**	**$ 2,657**	**$ -**	**$ 187,945**
Real estate:					
Residential	**96,208**	**251**	**3,227**	**-**	**99,686**
Commercial	**176,118**	**115**	**1,701**	**-**	**177,934**
Construction, land development and other land	**79,807**	**190**	**800**	**-**	**80,797**
Farmland	**32,124**	**2,124**	**1,341**	**-**	**35,589**
Agriculture	**36,897**	**992**	**1,592**	**-**	**39,481**
Consumer and other	**12,712**	**5**	**83**	**-**	**12,800**
	$ 617,314	**$ 5,517**	**$ 11,401**	**$ -**	**$ 634,232**

At June 30, 2019, the following summarizes the Company's internal ratings of its loans (in thousands of dollars):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 113,741	$ 3,758	$ 3,582	$ -	$ 121,081
Real estate:					
Residential	90,958	1,516	2,708	-	95,182
Commercial	159,282	182	765	-	160,229
Construction, land development and other land	85,000	-	883	-	85,883
Farmland	44,280	1,659	550	-	46,489
Agriculture	38,901	3,852	2,175	-	44,928
Consumer and other	14,375	47	93	-	14,515
	$ 546,537	$ 11,014	$ 10,756	$ -	$ 568,307

4. Loans and Allowance for Loan Losses – continued

Allowance for Loan Losses

The following table details the activity in the allowance for loan losses by portfolio segment for the year ended June 30, 2020 (in thousands of dollars):

	Beginning balance	Provision for loan loss	Charge-offs	Recoveries	Ending balance	Period end amounts allocated to loans evaluated for impairment: Individually	Collectively
Commercial	**$ 1,969**	**$ 693**	**$ (803)**	**$ 94**	**$ 1,953**	**$ 41**	**$ 1,912**
Real estate:							
Residential	**638**	**206**	**(21)**	**1**	**824**	**-**	**824**
Commercial	**1,469**	**231**	**-**	**15**	**1,715**	**50**	**1,665**
Construction, land development and other land	**873**	**67**	**(8)**	**-**	**932**	**-**	**932**
Farmland	**302**	**180**	**-**	**-**	**482**	**122**	**360**
Agriculture	**634**	**(126)**	**(1)**	**2**	**509**	**26**	**483**
Consumer and other	**249**	**245**	**(298)**	**81**	**277**	**9**	**268**
	$ 6,134	**$ 1,496**	**$ (1,131)**	**$ 193**	**$ 6,692**	**$ 248**	**$ 6,444**

The following table details the activity in the allowance for loan losses by portfolio segment for the year ended June 30, 2019 (in thousands of dollars):

	Beginning balance	Provision for loan loss	Charge-offs	Recoveries	Ending balance	Period end amounts allocated to loans evaluated for impairment: Individually	Collectively
Commercial	$ 1,963	$ 3,141	$ (3,148)	$ 13	$ 1,969	$ 129	$ 1,840
Real estate:							
Residential	706	(68)	-	-	638	-	638
Commercial	1,448	199	(195)	17	1,469	3	1,466
Construction, land development and other land	1,391	(529)	-	11	873	-	873
Farmland	311	49	(70)	12	302	-	302
Agriculture	488	146	(1)	1	634	87	547
Consumer and other	324	80	(276)	121	249	17	232
	$ 6,631	$ 3,018	$ (3,690)	$ 175	$ 6,134	$ 236	$ 5,898

4. Loans and Allowance for Loan Losses – continued

The Company's recorded investment in loans related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology was as follows (in thousands of dollars):

	June 30, 2020		
	Loans evaluated for impairment: Individually	**Collectively**	**Total**
Commercial	**$ 4,497**	**$ 183,448**	**$ 187,945**
Real estate:			
Residential	**3,521**	**96,165**	**99,686**
Commercial	**1,816**	**176,118**	**177,934**
Construction, land development and other land	**990**	**79,807**	**80,797**
Farmland	**3,465**	**32,124**	**35,589**
Agriculture	**2,584**	**36,897**	**39,481**
Consumer and other	**88**	**12,712**	**12,800**
	$ 16,961	**$ 617,271**	**$ 634,232**

	June 30, 2019		
	Loans evaluated for impairment: Individually	Collectively	Total
Commercial	$ 650	$ 120,431	$ 121,081
Real estate:			
Residential	2,708	92,474	95,182
Commercial	3,796	156,433	160,229
Construction, land development and other land	783	85,100	85,883
Farmland	576	45,913	46,489
Agriculture	2,149	42,779	44,928
Consumer and other	93	14,422	14,515
	$ 10,755	$ 557,552	$ 568,307

5. Premises and Equipment

Premises and equipment at June 30, 2020 and 2019 consisted of the following (in thousands of dollars):

	Life	**2020**	2019
Land	-	**$ 6,277**	$ 4,042
Buildings and improvements	5 - 40 years	**20,627**	16,645
Furniture and equipment	3 - 25 years	**7,627**	6,912
Automobiles	3 - 5 years	**412**	412
CIP		**1,462**	2,800
		36,405	30,811
Accumulated depreciation		**(14,086)**	(13,068)
		$ 22,319	$ 17,743

Depreciation expense for the years ended June 30, 2020 and 2019 was approximately $1,247,000 and $1,180,000, respectively. The Company leases a portion of the premises which it occupies to certain tenants under month-to-month and term leases. Rental income totaled approximately $66,000 and $126,000 for the years ended June 30, 2020 and 2019, respectively. Minimum future lease payments to be received on non-cancelable leases at June 30, 2019 were not material to the consolidated financial statements.

6. Deposits

Deposits at June 30, 2020 and 2019 were summarized as follows (in thousands of dollars):

	2020		2019	
	Amount	**Percent**	Amount	Percent
Noninterest bearing demand accounts	**$ 295,726**	**40.8%**	$ 214,863	35.5%
Interest bearing demand accounts	**168,124**	**23.2%**	151,866	25.1%
Savings accounts	**69,736**	**9.6%**	58,005	9.6%
Time deposits, greater than $250,000	**46,260**	**6.4%**	42,174	7.0%
Time deposits, less than $250,000	**145,374**	**20.0%**	137,629	22.8%
	$ 725,220	**100.0%**	$ 604,537	100.0%

6. Deposits – continued

At June 30, 2020, the scheduled maturities of time deposits were as follows (in thousands of dollars):

Year Ending June 30,	Amount
2021	$ 93,587
2022	61,016
2023	18,953
2024	9,482
2025	8,596
Thereafter	-
	$ 191,634

The aggregate amount of demand deposit overdrafts that have been reclassified as loans was approximately $661,000 and $1,853,000 at June 30, 2020 and 2019, respectively.

7. Junior Subordinated Debentures

Junior subordinated debentures of $15,464,000 at June 30, 2020 and 2019 represents amounts payable to Special Purpose Entities ("SPE's") in conjunction with the Company's sponsorship of the SPE's. At June 30, 2020 and 2019, the SPE's have two issuances outstanding, including $15,000,000 in trust preferred securities and $464,000 in common stock (wholly-owned by the Company). Both the junior subordinated debentures and the related trust preferred securities yield annual distribution rates of LIBOR plus 1.80% to 3.60% as of June 30, 2020 and 2019. The debentures are both callable and mature at various dates from December 2031 to May 2037.

The trust preferred securities are tax-advantaged issues that may qualify as Tier 1 Capital for the Company. Distributions on these securities are included as interest expense on other borrowings. The underlying trust is a statutory business trust organized for the sole purposes of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The preferred trust securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust securities issued by the trust. The Company may defer interest payments on the Debentures for up to twenty consecutive quarters.

The Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier 1 Capital for depository institution holding companies such as the Company. However, because the Company had less than $15 billion of consolidated assets as of June 30, 2020 and 2019, the Company will be permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier 1 Capital, but not be able to include any trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital. Further, the Board of Governors of the Federal Reserve System (the "Board") has determined that trust preferred securities are restrictive core capital elements in computing Tier 1 Capital of bank holding companies. The Board has limited restricted core capital elements, as defined, to 25% of core capital elements. Accordingly, the Company is limited on the trust preferred securities which it can include in its Tier I Capital.

8. Other Borrowings

The Company had unused federal funds lines available from commercial banks of approximately $30,236,000 at June 30, 2020 and $36,298,000 at June 30, 2019.

During the spring of the 2020 COVID-19 pandemic, the Company obtained Federal Reserve Bank (FRB) advances, referred to as FRB advances- PPP loans for small businesses suffering from the economic lockdown. These advances have two year terms with an interest rate of 0.35% and varying maturity dates patterned after the maturities of the loans funded with principal and interest due upon maturity in 2022. As of June 30, 2020, total FRB advances- PPP loans outstanding was $76,439,000.

From time to time, the Company obtains Federal Home Loan Bank ("FHLB") advances which represent borrowings with varying rates and maturities of 14 to 28 days. FHLB advances are collateralized by FHLB stock, real estate loans and investment securities. There were no FHLB advances outstanding at June 30, 2020 or June 30, 2019.

As of June 30, 2020, letters of credit in the amount of $36,900,000 were outstanding with expiration dates ranging from December 20, 2020 to November 25, 2022.

9. Income Taxes

The provision for income taxes for the years ended June 30, 2020 and 2019 consisted of the following (in thousands of dollars):

	2020	2019
Current income tax expense	**$ 175**	$ 907
Deferred income tax expense (benefit)	**298**	(105)
Income tax expense	**$ 473**	$ 802

The Company's effective income tax rate is different than what would be expected if the federal statutory rate was applied to income before tax expense primarily because of an excess tax benefit related to nontaxable income from loans, securities and life insurance partially offset by certain nondeductible expenses.

9. Income Taxes – continued

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are included in other liabilities in the accompanying consolidated financial statements. Significant components of the Company's deferred tax assets and liabilities as of June 30, 2020 and 2019 are as follows (in thousands of dollars):

	June 30,	
	2020	2019
Deferred tax assets:		
Allowance for loan losses for book in excess of tax	**$ 1,248**	$ 1,317
Unrecognized pension obligation	**-**	974
Charitable contributions	**94**	83
Other real estate owned	**24**	23
Other	**62**	28
Total deferred tax assets	**1,428**	2,425
Deferred tax liabilities:		
Bank premises and equipment for book in excess of tax	**1,107**	839
Net unrealized appreciation on securities available for sale	**65**	4
FHLB Stock dividends	**42**	35
Total deferred tax liabilities	**1,214**	878
Net deferred tax asset	**$ 214**	$ 1,547

The Company's approximate net deferred tax assets of $214,000 and $1,547,000 at June 30, 2020 and 2019, respectively, are recorded in other assets in the accompanying consolidated balance sheet. Included in other assets in the accompanying consolidated balance sheet are approximately $550,000 and $185,000 of current income tax receivable at June 30, 2020 and 2019, respectively.

GAAP prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of cumulative benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. GAAP also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Management has evaluated the tax positions and has concluded that there are no uncertain tax positions that require disclosure. The Company files income tax returns in the U.S. federal jurisdiction.

10. Employee Benefits

Pension Plan

The Company had a qualified defined benefit pension plan (the "Pension Plan") covering substantially all of its employees. This plan was terminated effective March 31, 2019 and fund balances were fully distributed in the fall of 2019. Benefits were based on years of service and the employee's highest average compensation during any consecutive five years of employment. The contributions to the Pension Plan were intended to provide for benefits attributed to service to date.

The following table presents a reconciliation of beginning and ending balances of the Pension Plan's benefit obligation and the fair value of plan assets as of June 30, 2020 and 2019 (in thousands of dollars):

	2020	2019
Benefit obligation at beginning of year	**$ 20,147**	$ 19,197
Service cost	**-**	-
Interest cost	**-**	725
Actuarial loss	**-**	2,750
Benefits paid	**(17,847)**	(2,615)
Effects of curtailment	**(2,300)**	73
Other	**-**	17
Benefit obligation at end of year	**-**	20,147
Fair value of plan assets at beginning of year	**15,508**	16,835
Actual return on plan assets	**-**	1,163
Benefits paid	**(17,847)**	(2,615)
Settlement expense	**2,367**	
Other	**(28)**	125
Fair value of plan assets at end of year	**-**	15,508
Funded status at end of year	**$ -**	$ (4,639)

10. Employee Benefits – continued

The Company's approximate pension plan liability recorded in the accompanying consolidated balance sheet was $0 and $4,639,000 at June 30, 2020 and 2019, respectively.

At June 30, 2019, the actuarial assumptions used to determine the benefit obligations are as follows:

	2019
Discount rate	3.40%
Expected return on assets	7.50%
Rate of compensation increase	4.00%

The net periodic cost (benefit) for the years ended June 30, 2020 and 2019, the following components (in thousands of dollars):

	2020	2019
Service cost	**$ -**	$ -
Interest cost	**-**	725
Expected return on plan assets	**-**	-
Recognized actuarial net loss	**-**	(1,156)
Net periodic pension benefit	**-**	(431)
Settlement cost	**2,367**	-
Net pension cost (benefit)	**$ 2,367**	$ (431)

For the year ended June 30, 2019, the assumptions used to determine net periodic pension cost are as follows:

	2019
Asset Category:	
Equity securities	0%
Fixed income securities	0%
Cash	100%

10. Employee Benefits – continued

Other Employee Benefit Plans

The Company maintains a noncontributory profit sharing plan and a noncontributory 401(k) Employee Benefit Plan (the "401(k) Plan") covering substantially all employees. Under the 401(k) Plan, the Board of Directors may contribute, at their discretion, certain amounts equal to uniform percentages (as defined) of eligible employee's compensation. The Company made approximately $539,000 in matching contributions to the 401(k) Plan during the year ended June 30, 2020. The Company made approximately $553,000 in matching contributions for the year ended June 30, 2019.

The Company is the beneficiary of whole life insurance policies covering certain key employees. The recorded value of the related policies are approximately $14,025,000 and $14,150,000 at June 30, 2020 and 2019, respectively, and are recorded in cash surrender value of life insurance in the accompanying consolidated balance sheet.

11. Commitments and Contingencies

The Company, from time to time, may be involved in other legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the consolidated financial position or results of operations of the Company.

The Company does not anticipate any material losses as a result of the commitments and contingent liabilities.

12. Financial Instruments Off-Balance Sheet Risk

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

The Company's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At June 30, 2020 and 2019, the amounts of these financial instruments were as follows (in thousands of dollars):

Financial instruments whose contract amounts	**2020**	2019
represent credit risk:		
Commitments to extend credit	**$ 80,183**	$ 66,452
Standby letters of credit	**2,310**	1,994
	$ 82,493	$ 68,446

12. Financial Instruments Off-Balance Sheet Risk – Continued

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty.

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

The risks created by these commitments have been considered by management in the determination of the adequacy of the allowance credit losses off balance sheet. At June 30, 2020 and 2019, the amount of allowance related to unfunded commitments was not considered to be material to the financial statements by management.

13. Significant Group Concentrations of Credit Risk

In addition to concentration risk, in regard to general business activity and loan concentrations aforementioned in Note 1 and Note 4, at June 30, 2020 and 2019, the Company has a concentration of funds in deposit accounts in excess of federally insured limits at various correspondent banks. The nature of the Company's business requires that it maintains amounts at due from banks which, at times may exceed federally insured limits. The Company has not experienced any losses from such accounts.

14. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including borrowings, with its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons. At June 30, 2020 and 2019, the aggregate amount of such loans was approximately $4,960,000 and $5,410,000, respectively During the year ended June 30, 2020, approximately $352,000 of new loans were made and repayments totaled approximately $802,000.

15. Fair Value Disclosures

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

15. Fair Value Disclosures – continued

GAAP also requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset and liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 investments consist primarily of obligations of U.S. government sponsored enterprises and agencies, obligations of state and municipal subdivisions, corporate bonds and mortgage backed securities.

Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

15. Fair Value Disclosures – continued

Financial Assets and Financial Liabilities

Financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis include the following:

Investment Securities Available-for-sale. Investment securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans. Impaired loans are reported at the estimated fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based on observable market data or independent appraisals using Level 3 inputs.

There were no transfers between Level 2 and Level 3 during the years ended June 30, 2020 and 2019.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands of dollars):

	Fair value measurements using			
	Level 1 Inputs	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
At June 30, 2020:				
Investment securities available-for-sale	**$ -**	**$ 30,046**	**$ -**	**$ 30,046**
Impaired loans	**-**	**-**	**16,713**	**16,713**

	Fair value measurements using			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
At June 30, 2019:				
Investment securities available-for-sale	$ -	$ 7,574	$ -	$ 7,574
Impaired loans	-	-	10,519	10,519

Non-Financial Assets and Non-Financial Liabilities

Non-financial assets measured at fair value on a non-recurring basis during the years ended June 30, 2020 and 2019 include certain foreclosed assets which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in current earnings. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Foreclosed assets that were remeasured and recorded at fair value during the years ended June 30, 2020 and 2019 were not material to the consolidated financial statements.

16. Stockholders' Equity and Regulatory Matters

Regulatory Matters

Under banking law, there are legal restrictions limiting the amount of dividends a bank can declare. For national banks, as with First National Bank of Weatherford and First Bank Texas, approval of the Office of the Comptroller of the Currency ("OCC") is normally required if dividends exceed the amounts as computed under a certain formula as determined by regulatory authorities.

Further, the regulatory authorities may prohibit the payment of any dividends if it determines that certain circumstances exist in the Banks, including those relating to the financial condition of the Banks, such that the payment of dividends would be considered an unsafe and unsound practice.

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

Quantitative measures established by regulation to ensure capital adequacy require the Banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of June 30, 2020 and 2019, that the Banks meet all capital adequacy requirements to which they are subject.

16. Stockholders' Equity and Regulatory Matters – continued

To be categorized as "well capitalized" the Banks must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. As of June 30, 2020 and 2019, the Banks' capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since June 30, 2020, that management believes have changed the Banks' category.

A comparison of the Banks' actual capital amounts and ratios as of June 30, 2020 and 2019, are presented in the following table (in thousands of dollars):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
First Bank Texas						
As of June 30, 2020:						
Total capital (to risk weighted assets)	**$ 46,253**	**13.6%**	**≥ $ 27,112**	**≥ 8.0%**	**$ 33,890**	**≥ 10.0%**
Tier 1 capital (to risk weighted assets)	**$ 42,084**	**12.4%**	**≥ $ 20,334**	**≥ 6.0%**	**$ 27,112**	**≥ 8.0%**
Tier 1 capital (to average assets)	**$ 42,084**	**8.8%**	**≥ $ 19,062**	**≥ 4.0%**	**$ 23,827**	**≥ 5.0%**
Common equity tier 1 capital (to risk weighted assets)	**$ 42,084**	**12.4%**	**≥ $ 15,251**	**≥ 4.5%**	**$ 22,029**	**≥ 6.5%**
As of June 30, 2019:						
Total capital (to risk weighted assets)	$ 45,661	13.1%	≥ $ 27,911	≥ 8.0%	$ 34,889	≥ 10.0%
Tier 1 capital (to risk weighted assets)	$ 42,031	12.0%	≥ $ 20,933	≥ 6.0%	$ 27,911	≥ 8.0%
Tier 1 capital (to average assets)	$ 42,031	10.2%	≥ $ 16,440	≥ 4.0%	$ 20,550	≥ 5.0%
Common equity tier 1 capital (to risk weighted assets)	$ 42,031	12.0%	≥ $ 15,700	≥ 4.5%	$ 22,678	≥ 6.5%

16. Stockholders' Equity and Regulatory Matters – continued

	Actual			For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount		Ratio		Amount		Ratio
First National Bank of Weatherford:										
As of June 30, 2020:										
Total capital (to risk weighted assets)	**$ 30,144**	**12.9%**	≥	**$ 18,628**	≥	**8.0%**		**$ 23,285**	≥	**10.0%**
Tier 1 capital (to risk weighted assets)	**$ 27,556**	**11.8%**	≥	**$ 13,971**	≥	**6.0%**		**$ 18,628**	≥	**8.0%**
Tier 1 capital (to average assets)	**$ 27,556**	**8.7%**	≥	**$ 12,660**	≥	**4.0%**		**$ 15,825**	≥	**5.0%**
Common equity tier 1 capital (to risk weighted assets)	**$ 27,556**	**11.8%**	≥	**$ 10,478**	≥	**4.5%**		**$ 15,135**	≥	**6.5%**
As of June 30, 2019:										
Total capital (to risk weighted assets)	$ 28,408	12.9%	≥	$ 17,679	≥	8.0%		$ 22,099	≥	10.0%
Tier 1 capital (to risk weighted assets)	$ 25,845	11.7%	≥	$ 13,259	≥	6.0%		$ 17,679	≥	8.0%
Tier 1 capital (to average assets)	$ 25,845	10.1%	≥	$ 10,195	≥	4.0%		$ 12,743	≥	5.0%
Common equity tier 1 capital (to risk weighted assets)	$ 25,845	11.7%	≥	$ 9,944	≥	4.5%		$ 14,364	≥	6.5%

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1", (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective for us on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019. Based on our initial assessment of the Basel III Capital Rules, we do not believe they will have a material impact on the Company or the Bank. We believe we are in compliance with the capital adequacy requirements under the Basel III Capital Rules for each year since implementation.

17. Subsequent Events

The Company has evaluated all subsequent events for potential recognition and disclosure through October 26, 2020, the date of which the consolidated financial statements were available to be issued.

The 2019 novel coronavirus ("COVID-19") has adversely affected, and may continue to adversely affect, economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates have declined significantly with the 10-year Treasury bond falling below 1.00% on March 3, 2020 for the first time. Such events may adversely affect business and consumer confidence, generally, the Corporation, its customers and their respective processors. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 25 basis points to 1.00% from 1.25%. This rate was further reduced by 25 basis points to 0% from 0.25% on March 16, 2020. These reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Corporation's financial condition and results of operations. Efforts implemented by local and national governments, as well as businesses, including temporary closures, are expected to have adverse impacts on local, national and the global economies. Although the disruption is currently expected to be temporary, there is uncertainty around the duration and the related economic impact. Therefore, while we expect this matter to have an impact on our business, including the loan portfolio, deposit accounts and the related net interest income and provision for loan losses, the impact to our results of operations and financial position cannot be reasonably estimated at this time.

On September 15, 2020, FBT and FNBW approved a plan of merger wherein FBT is to be merged with and into FNBW subject to regulatory approval of a merger application submitted to the Office of the Comptroller of the Currency.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Balance Sheet
June 30, 2020
(In thousands of dollars)

	First Baird Bancshares, Inc.	First Bank Texas	The First National Bank of Weatherford	Eliminations Debit	Eliminations Credit		Consolidated
ASSETS							
Cash and cash equivalents:							
Cash and due from banks	$ 1,354	$ 69,708	$ 71,535	$ -	$ 1,354	(2)	$ 141,243
Federal funds sold	-	33,384	-	-	-		33,384
Total cash and cash equivalents	1,354	103,092	71,535	-	1,354		174,627
Interest bearing time deposits in other banks	-	3,215	5,201	-	-		8,416
Investment securities available-for-sale	-	14,384	15,662	-	-		30,046
Loans, net	4,664	385,422	233,761	-	-		623,847
Accrued interest receivable	5	2,511	1,133	-	-		3,649
Premises and equipment	225	12,293	9,801	-	-		22,319
Other real estate owned	-	46	30	-	-		76
Cash surrender value of life insurance	-	8,750	5,275	-	-		14,025
Investments in unconsolidated subsidiaries	464	15	-	-	-		479
Investments in consolidated subsidiaries	69,883	-	-		69,883	(1)	-
Other assets	1,450	1,976	526	-	522	(5)	3,430
Total assets	$ 78,045	$ 531,704	$ 342,924	$ -	$ 71,759		$ 880,914
LIABILITIES AND STOCKHOLDERS' EQUITY							
Deposits:							
Noninterest bearing	$ -	$ 182,073	$ 115,007	$ 1,354	$ -	(2)	$ 295,726
Interest bearing	-	247,674	181,820	-	-		429,494
Total deposits	-	429,747	296,827	1,354	-		725,220
Junior subordinated debentures	15,464	-	-	-	-		15,464
FRB advances-PPP loans	-	58,354	18,085	-	-		76,439
Other liabilities	176	1,399	332	522	1	(5)	1,386
Total liabilities	15,640	489,500	315,244	1,876	1		818,509
Stockholders' equity:							
Common stock	7	500	500	1,000	-	(1)	7
Additional paid-in capital	4,941	5,545	2,000	7,545	-	(1)	4,941
Retained earnings	57,213	36,039	25,056	61,095	-	(1)	57,213
Accumulated other comprehensive income	244	120	124	244	-	(1)	244
Total stockholders' equity	62,405	42,204	27,680	69,884	-		62,405
Total liabilities and stockholders' equity	$ 78,045	$ 531,704	$ 342,924	$ 71,760	$ 1		$ 880,914

See description of consolidating entries on page 39 and accompanying independent auditors' report on supplementary information.

FIRST BAIRD BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Income Statement
For the Year Ended June 30, 2020
(In thousands of dollars)

	First Baird Bancshares, Inc.	First Bank Texas	The First National Bank of Weatherford	Eliminations Debit	Eliminations Credit	Consolidated
Interest income:						
Interest and fees on loans	$ 113	$ 21,998	$ 14,046	$ -	$ -	$ 36,157
Investment securities available-for-sale	-	153	203	-	-	356
Other	-	464	474	-	-	938
Total interest income	113	22,615	14,723	-	-	37,451
Deposit accounts		2,502	2,387	-	-	4,889
Other	648	79	16	-	-	743
Total interest expense	648	2,581	2,403	-	-	5,632
Net interest (loss) income	(535)	20,034	12,320	-	-	31,819
Provision for loan losses	-	1,196	300	-	-	1,496
Net interest (loss) income after provision for loan losses	(535)	18,838	12,020	-	-	30,323
Noninterest income:						
Service charges on deposit accounts	-	1,297	602	-	-	1,899
Dividend income from subsidiaries	4,750	-	-	4,750 (3)	-	-
Equity in undistributed earnings of subsidiaries	1,763	-	-	1,763 (4)	-	-
Other	49	1,836	498	-	-	2,383
Total noninterest income	6,562	3,133	1,100	6,513	-	4,282
Noninterest expense:						
Salary and employee benefits	3,170	9,872	4,912	-	-	17,954
Pension settlement expense	1,314	992	59			2,365
Occupancy of bank premises	173	1,656	1,038	-	-	2,867
Equipment expense	32	292	77	-	-	401
Legal and professional fees	168	560	196	-	-	924
Advertising expense	-	511	328	-	-	839
Regulatory fees	-	272	204	-	-	476
Other	384	3,730	2,190	-	-	6,304
Total noninterest expense	5,241	17,885	9,004	-	-	32,130
Income before income taxes	786	4,086	4,116	6,513	-	2,475
Income tax (benefit) expense	(1,216)	833	856	-	-	473
Consolidated net income	$ 2,002	$ 3,253	$ 3,260	$ 6,513	$ -	$ 2,002

See description of consolidating entries on page 39 and accompanying independent auditors' report on supplementary information.

1. To eliminate the Company's investment in consolidated subsidiaries account against the stockholders' equity accounts of the subsidiaries.

2. To eliminate inter-company cash and deposits.

3. To eliminate the dividend income from subsidiaries.

4. To eliminate the equity in the earnings from subsidiaries.

5. To eliminate the tax liability from subsidiaries.

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARY HOLDING COMPANIES

REPORT ITEM 2a:

ORGANIZATION CHART

FIRST BAIRD BANCSHARES, INC.
JUNE 30, 2020
ORGANIZATION CHART

First Baird Bancshares, Inc.
(LEI: NONE)
(A Texas Corporation)
Weatherford, TX

OWNS 5,000 COMMON SHARES (100%) OF

First National Bank Baird
DBA First Bank Texas
LEI: 54930072ZER0H6G56O90
(A Texas Corporation)
Baird, TX

OWNS 310 COMMON SHARES (100%) OF

First Baird Statutory Trust II
(LEI: NONE)
(Organized in Delaware)
Wilmington, DE

OWNS 154 COMMON SHARES (100%) OF

First Baird Statutory Trust I
(LEI: NONE)
(Organized in Connecticut)
Hartford, CT

OWNS 5,000 COMMON SHARES (100%) OF

First National Bank of Weatherford
LEI: 5493001LCP9RF6ADEZ78
(A Texas Corporation)
Weatherford, TX

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARY HOLDING COMPANIES

REPORT ITEM 2b:

DOMESTIC BRANCH LISTING

Results: A list of branches for your holding company: FIRST BAIRD BANCSHARES, INC. (1105751) of WEATHERFORD, TX.
The data are as of 06/30/2020. Data reflects information that was received and processed through 07/05/2020.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	75558	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	244 MARKET STREET	BAIRD	TX	79504	CALLAHAN	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	2289742	ABILENE BRANCH	1849 SOUTH 1ST STREET	ABILENE	TX	79602	TAYLOR	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	3351114	BUFFALO GAP BRANCH	4201 BUFFALO GAP RD	ABILENE	TX	79606	TAYLOR	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	4251314	JUDGE ELY BOULEVARD BRANCH	966 NORTH JUDGE ELY BOULEVARD	ABILENE	TX	79601	TAYLOR	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	211954	BEDFORD BRANCH	4201 AIRPORT FREEWAY	BEDFORD	TX	76021	TARRANT	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	1829842	CLYDE BRANCH	INTERSTATE 20 & CHERRY LANE	CLYDE	TX	79510	CALLAHAN	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	4977838	GRAPEVINE BRANCH	301 EAST STATE HIGHWAY 114	GRAPEVINE	TX	76051	TARRANT	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	2374693	HASKELL BRANCH	200 S AVENUE E	HASKELL	TX	79521	HASKELL	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	767769	MUNDAY BRANCH	111 SOUTH MUNDAY AVENUE	MUNDAY	TX	76371	KNOX	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service	2225599	STAMFORD BRANCH	610 COLUMBIA	STAMFORD	TX	79553	JONES	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK BAIRD DBA FIRST BANK TEXAS	75558	
OK		Full Service (Head Office)	614368	FIRST NATIONAL BANK OF WEATHERFORD	220 PALO PINTO	WEATHERFORD	TX	76086	PARKER	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF WEATHERFORD	614368	
OK		Full Service	5085271	HUDSON OAKS BRANCH	2880 FORT WORTH HIGHWAY	HUDSON OAKS	TX	76087	PARKER	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF WEATHERFORD	614368	
OK		Full Service	4534213	SANTA FE BRANCH	1401 SANTA FE DRIVE	WEATHERFORD	TX	76086	PARKER	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF WEATHERFORD	614368	

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARY HOLDING COMPANIES
REPORT ITEM 3:
Securities Holders
June 30, 2020

FIRST BAIRD BANCSHARES, INC.

(1)(a) Name & Address	(1)(b) Country	(1)(c) Number of Shares & Percentage	
Zan Prince Weatherford, Texas	USA	560,705	80.39%
Includes: Estate of Joe E. Sharp- as Executor- 192,444 shares, 27.59% Pop's Family Irrevocable Trust- as Trustee- 300,000 shares, 43.01%			
J. Steven Sharp Amarillo, Texas	USA	57,000	8.17%
Matthew Scott Sharp Colleyville, Texas	USA	50,540	7.25%
TOTAL SHARP FAMILY		668,245	95.81%

(2)(a) Name & Address	(2)(b) Country	(2)(c) Number of Shares & Percentage
NONE		

FIRST BAIRD BANCSHARES, INC.
AND SUBSIDIARY HOLDING COMPANIES
REPORT ITEM 4:
INSIDERS

June 30, 2020

Directors, Officer Principal's Name Address, & Principal Occupation	Organization	Title or Position	% of Shares
Zan Prince	1	A, B, E, I, M	80.39%
Weatherford, TX	2	A, B	0.00%
Insurance and Banking	3	A, B	0.00%
	4	A, B	96.59%
	5	A, E, G, H	0.00%
J Steven Sharp	1	I	8.17%
Amarillo, TX	2	N/A	0.00%
Attorney	3	N/A	0.00%
	4	N/A	0.00%
	5	N/A	0.00%
Cindy Whiddon	1	A, F, G, H	0.00%
Denton, TX	2	N/A	0.00%
Banking	3	N/A	0.00%
	4	N/A	0.00%
	5	N/A	0.00%
Matthew Scott Sharp	1	A,I	7.25%
Colleyville, TX	2	A	0.00%
Banking	3	A	0.00%
	4	A	0.00%
	5	N/A	0.00%

Also Trustee-Street Founder Revocable Trust-owns 100% RegulatoryData,LLC
CEO RegulatoryData, LLC
Same address
RegulatoryData, LLC- owns 100% Sharp Bancsystems,Inc
CEO Sharp Bancsystems, Inc.
Same address
MS Foundation, Inc.- owns 100%
President
Same address

Lin Bearden	1	A	0.00%
Weatherford, TX	2	A	0.00%
Banking	3	A, E D	0.00%
	4	N/A	0.00%
	5	N/A	0.00%
Mike Rhea	1	A	0.00%
Abilene, TX	2	A, E D	0.00%
Banking	3	A	0.00%
	4	N/A	0.00%
	5	N/A	0.00%

LEGEND ON FOLLOWING PAGE

LEGEND

ORGANIZATIONS
1) First Baird Bancshares, Inc.; Bedford, TX
2) First Bank Texas; Baird, TX
3) First National Bank of Weatherford; Weatherford, TX
4) First Security Bank; Beaver, OK
5) First National Insurance Agency

TITLE OR POSITION
A) Director
B) Chairman
C) Vice Chairman
D) CEO
E) President
F) Vice President
G) Secretary
H) Treasurer
I) Principal Shareholder
J) Employee
K) Advisory Director
L) Area President
M) Trustee, Pop's Family Irrevocable Trust