REVISED 7/23/21 - Organization Chart

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, James F. Brown, Jr.
Name of the Holding Company Director and Official

CEO and Director
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.

James F. Brown, Jr.
James F. Brown, Jr. (Jul 23, 2021 11:15 CDT)
Signature of Holding Company Director and Official

Jul 23, 2021
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):
December 31, 2020
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Texas Gulf Bancshares, Inc.
Legal Title of Holding Company

203 This Way
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Lake Jackson	TX	77566

1626 South Voss, Houston, TX 77057
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Deborah K. Wintjen	CFO

979/258/7277
Area Code / Phone Number / Extension

N/A
Area Code / FAX Number

dwintjen@texasgulfbank.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."

For Use By Tiered Holding Companies

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

Not applicable
Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

Y-6

12/31/2020

REPORT ITEM 1

ANNUAL REPORT

TEXAS GULF BANCSHARES, INC.

INDEPENDENT AUDITOR'S REPORT AND

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Dear Shareholders

As I begin writing my Annual Letter to Shareholders, I predictably reflect on the past year and how it compared to our past experiences and performance. Not surprising, Covid-19 (Covid) came to the forefront of my thoughts. Although you might judge I gave too much attention to Covid, the true focus is meant to draw attention to the commitment of our employees who delivered financial products and services to our customers and this organization during the past year. Early in January 2020, we began to hear news reports from the World Health Organization (WHO) pertaining to a mysterious Coronavirus-Related Pneumonia in Wuhan, China. There were daily reports pertaining to this new virus and how the World could be facing a pandemic if the virus was not contained. Our Team began to review our Pandemic Policy, a policy approved several years earlier but not previously placed into action. We began deliberating possible scenarios and agreed on an action plan that would enable the continuous operation of Texas Gulf Bank amid Covid. Our world appeared to be changing daily as new cases of Covid in the United States were being announced. By the end of the first month of the new year, the WHO had declared a Global Health Emergency. February is typically when our auditors complete their review of our Annual Audit, preparations begin for our Annual Shareholder meeting, and our team of professionals are actively executing strategies for the new year. While we were doing just that, we were additionally listening to what was occurring across our Country and the World as it related to Covid. As February progressed, Covid cases were rising and for the first time in Texas, there were discussions about certain non-essential businesses being forced to close their doors for a period of time to help curb the spread of Covid. We continued to plan for our Annual Meeting but had put safeguards in place should we be unable to meet in person. On March 11th, one week prior to our scheduled Shareholder meeting, the WHO declared Covid-19 a Pandemic. Our planning paid off as it pertained to our Annual Meeting as the Harris County Judge, along with the Houston Mayor, put restrictions in place to prevent us from meeting at our specified location. Our Annual Meeting, after some last-minute maneuverings, was held on March 18th at our City Centre location with modest fanfare after a record setting 2019 year. The reality of a Pandemic was upon us and a team of people consisting of Karen Gillenwaters, Mary Henson, Rich Jochetz, Debbie Wintjen and myself began meeting daily to insure we had appropriate systems in place to combat the challenges of Covid. We implemented safety measures in our lobbies and work areas with the goal of maintaining a safe working area for our employees and a safe transaction area for our clients. As March drew to a close, the United States Congress and the President approved the CARES Act. Information began trickling into banks describing this new financial support program and how it would work. Both existing and non-customers were contacting our staff seeking access to this much needed money under the Paycheck Protection Program (PPP). Led by our new Chief Credit Officer Doug Look, our dedicated credit analysts, lenders, assistants, lending operations, front-line staff and many others proudly delivered 457 loans totaling $65 million to businesses in our market areas. Based on data collected from those businesses, over 5,700 employees' jobs were saved during the early stages of this Pandemic through our funding of PPP loans. I am proud to report our entire team has done a remarkable job in delivering financial products and services throughout the year to our clients as well as the new relationships we gained along the way.

The banking industry was challenged during 2020 in ways most of us have never experienced. After reading our Annual Report, I trust you will be pleased with the performance of Texas Gulf Bank in the course of the challenges we confronted.

Total Assets ended the year at $665.9 million, up slightly over 2019 year-end amount of $663.3 million. The Loan Portfolio, net of the allowance for possible credit losses, increased to $450 million, in part enhanced by PPP loans, compared to 2019 year-end of $413 million. Investment Securities, consisting of United States Agency securities, Municipal bonds and Mortgage-Backed securities, ended the year at $190 million, down slightly from the 2019 year ending balance. Total Deposits at year-end were $575 million, down from the previous year-end amount of $590 million. Shareholder's equity, including unrealized gains or losses in our bond portfolio, ended the year at $78.7 million, up from year-end 2019 equity of $69.3 million.

Shifting to the Income Statement, our Net Income was $9.6 million compared to $9 million a year earlier. Total Interest Income, comprised primarily from loans and investments, was $26.2 million in 2020 compared to $27.9 million in 2019. With Interest rates remaining at historically low levels, our Total Interest Expense was $2.2 million in 2020, a material decrease from 2019 amount of

$4.4 million. The Allowance for Possible Credit Losses expense for 2020 was $462 thousand compared to $564 thousand in 2019. Non-Interest Income, all income earned other than Interest Income, remained largely the same for 2020 at $3.7 million. Non-Interest Expense, all expenses other than Interest Expense, remained the same as the prior year and totaled $17.7 million. I encourage each of you to read more about our latest record-setting year in the remainder of this Annual Report, where you will find detailed financial information and disclosures related to Texas Gulf Bancshares, Inc.

As the content of this letter transitions from the past to the future, I am certain each of you will agree we are eager for the time when Covid will not have the impact on our daily lives that it has today. In addition to adapting the operations of Texas Gulf Bank to the current operating environment, we remain committed to our strategic goals associated with deposits, loans, equity capital, operational efficiency, profits, and an obligation to provide our customers with quality services and competitive products. Each of the goals listed above are independently important to the long-term success of the Bank. Each of the goals also have a common thread among them tied to technology. We have assembled a quality team of individuals and vendors who are committed to providing us with a secure operating network as well as a focus on advancing our financial technology which supports our products and delivery systems. At the Corporate level, although we suspended the Stock Repurchase Program for 2020 due to the Pandemic, we remain committed to providing such a path to liquidity for our Shareholders and plan to continue a repurchase plan for 2021 barring another major disruption. We remain committed to successfully executing our strategic goals designed around the ultimate objective of providing suitable financial returns to our Shareholders while remaining independent.

What has been accomplished in the past, as well as what will be accomplished in the future, could not be attained without the contributions from our Shareholders, Customers, Employees and Directors. Thank you for your continued support.

Sincerely,

James F. Brown, Jr.

Chief Executive Officer

C O N T E N T S

BKD
CPAs & Advisors

2700 Post Oak Boulevard, Suite 1500 | Houston, TX 77056-5829
713.499.4600 | Fax 713.499.4699 | bkd.com

Independent Auditor's Report

Board of Directors and Shareholders
Texas Gulf Bancshares, Inc.
Lake Jackson, Texas

We have audited the accompanying consolidated financial statements of Texas Gulf Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Gulf Bancshares, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Houston, Texas
February 23, 2021

TEXAS GULF BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

ASSETS	2020	2019
Cash and noninterest-bearing due from banks	$ 6,539,185	$ 8,220,730
Interest-bearing deposits in financial institutions	3,528,699	34,986,745
Total cash and cash equivalents	10,067,884	43,207,475
Securities available for sale	189,925,654	190,855,014
Loans, net of unearned fees and unearned discount	455,132,072	417,786,620
Less allowance for credit losses	(5,136,633)	(4,855,618)
Loans, net	449,995,439	412,931,002
Premises and equipment, net	9,608,951	9,846,852
Other real estate owned	211,250	237,500
Accrued interest receivable	3,198,443	2,822,100
Federal Home Loan Bank stock	636,500	1,267,000
Federal Reserve Bank stock	375,450	375,450
Goodwill, net	892,700	892,700
Prepaid expenses and other assets	1,011,802	886,538
Total Assets	$ 665,924,073	$ 663,321,631
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 200,990,179	$ 174,893,369
Interest-bearing	373,798,567	414,997,210
Total Deposits	574,788,746	589,890,579
Federal Home Loan Bank advances	9,000,000	-
Distributions payable	972,334	1,386,131
Accrued interest payable	48,269	117,762
Other liabilities	2,391,580	2,562,420
Total Liabilities	587,200,929	593,956,892
Shareholders' Equity		
Common stock, $5 par value, 1,000,000 shares authorized, 755,724 and 744,224 shares issued and 498,633 and 495,047 shares outstanding at December 31 2020 and 2019 respectively.	3,778,620	3,721,120
Treasury stock, at cost, 257,091 shares and 249,177 shares at December 31, 2020 and 2019 respectively	(23,519,350)	(22,081,930)
Other capital components - Notes receivable	(3,754,586)	(3,012,014)
Capital surplus	17,188,059	15,893,027
Retained earnings	78,825,633	72,668,044
Accumulated other comprehensive income	6,204,768	2,176,492
Total Shareholders' Equity	78,723,144	69,364,739
Total Liabilities and Shareholders' Equity	$ 665,924,073	$ 663,321,631

See accompanying notes to consolidated financial statements.

TEXAS GULF BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 22,393,363	$ 23,722,399
Securities available for sale	3,674,539	3,737,904
Federal funds sold and other investments	141,565	439,037
Total interest income	26,209,467	27,899,340
INTEREST EXPENSE		
Deposits	2,153,136	4,291,760
Other borrowed funds	25,906	82,380
Total interest expense	2,179,042	4,374,140
NET INTEREST INCOME	24,030,425	23,525,200
PROVISION FOR CREDIT LOSSES	462,061	564,197
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	23,568,364	22,961,003
NONINTEREST INCOME		
Service charges	643,353	749,631
Gain on sale of securities	8,318	8,291
Wealth management fees	1,719,294	1,787,818
Gain on sale of loans	577,160	427,962
Other	819,776	748,734
Total noninterest income	3,767,901	3,722,436
NONINTEREST EXPENSE		
Salaries and employee benefits	11,473,743	11,158,546
Occupancy, net	1,682,066	1,600,165
Professional fees	1,262,025	1,399,553
Data processing	1,079,326	1,086,924
Equipment	938,499	1,052,965
Marketing	91,208	125,199
Communication	157,182	170,574
Director and committee fees	216,200	197,150
Postage and delivery	144,538	144,045
Other	668,460	740,487
Total noninterest expense	17,713,247	17,675,608
CONSOLIDATED NET INCOME	$ 9,623,018	$ 9,007,831

See accompanying notes to consolidated financial statements.

TEXAS GULF BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Consolidated net income	$ 9,623,018	$ 9,007,831
Net unrealized gain on securities available for sale	4,036,594	4,729,176
Reclassification adjustment, net gains included in income	(8,318)	(8,291)
Other comprehensive income	4,028,276	4,720,885
Total comprehensive income	$ 13,651,294	$ 13,728,716

See accompanying notes to consolidated financial statements.

TEXAS GULF BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock	Treasury Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Other Equity Components (Notes Receivable)	Total
Balance, January 1, 2019	$ 3,686,120	$ (14,610,066)	$ 15,031,780	$ 66,959,068	$ (2,544,393)	$ (3,028,005)	$ 65,494,504
Stock options exercised (7,000 shares)	35,000	-	700,000	-	-	(385,000)	350,000
Interest income other equity components	-	-	98,403	-	-	991	99,394
Stock secured loan activity	-	-	-	-	-	400,000	400,000
Treasury stock purchases (41,339 shares)	-	(7,471,864)	-	-	-	-	(7,471,864)
Stock-based compensation expense	-	-	62,844	-	-	-	62,844
Consolidated net income	-	-	-	9,007,831	-	-	9,007,831
Other comprehensive income	-	-	-	-	4,720,885	-	4,720,885
Distributions declared ($6.39 per share)	-	-	-	(3,298,855)	-	-	(3,298,855)
Balance, December 31, 2019	3,721,120	(22,081,930)	15,893,027	72,668,044	2,176,492	(3,012,014)	69,364,739
Stock options exercised (11,500 shares)	57,500	-	1,228,750	-	-	(1,286,250)	-
Interest income other equity components	-	-	53,142	-	-	13,140	66,282
Stock secured loan activity	-	-	-	-	-	530,538	530,538
Treasury stock purchases (7,914 shares)	-	(1,437,420)	-	-	-	-	(1,437,420)
Stock-based compensation expense	-	-	13,140	-	-	-	13,140
Consolidated net income	-	-	-	9,623,018	-	-	9,623,018
Other comprehensive income	-	-	-	-	4,028,276	-	4,028,276
Distributions declared ($6.96 per share)	-	-	-	(3,465,429)	-	-	(3,465,429)
Balance, December 31, 2020	$ 3,778,620	$ (23,519,350)	$ 17,188,059	$ 78,825,633	$ 6,204,768	$ (3,754,586)	$ 78,723,144

See accompanying notes to consolidated financial statements.

TEXAS GULF BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	$ 9,623,018	$ 9,007,831
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Provision for credit losses	462,061	564,197
Depreciation and amortization	847,587	921,825
Loss on disposal of fixed assets	1,317	14,693
Gain on sale of other assets	(986)	(14,846)
Net realized gain on securities available for sale	(8,318)	(8,291)
Gain on sale of loans	(577,160)	(427,962)
Stock-based compensation expense	13,140	62,844
Amortization and accretion of premiums and discounts on investment securities, net	1,417,595	1,355,763
Write down on foreclosed assets	26,250	78,750
Change in operating assets and liabilities:		
Accrued interest receivable, prepaid expenses and other assets	(435,325)	504,752
Accrued interest payable and other liabilities	(240,333)	775,652
Total adjustments	1,505,828	3,827,377
Net cash provided by operating activities	11,128,846	12,835,208
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, paydowns, and calls of securities available for sale	133,685,402	138,194,046
Purchases of securities available for sale	(130,137,043)	(141,378,338)
Sale of Federal Home Loan Bank Stock	630,500	547,400
Purchases of premises and equipment	(636,290)	(346,558)
Proceeds from sale of premises and equipment	25,287	-
Net increase in loans	(36,969,338)	(24,988,422)
Proceeds from sale of foreclosed assets, net	20,986	-
Proceeds from sale of repossessed assets	-	18,908
Net cash used in investing activities	(33,380,496)	(27,952,964)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock option exercises	-	350,000
Proceeds from notes receivable payments	530,538	400,000
Net increase (decrease) in noninterest-bearing deposits	26,096,810	(9,338,848)
Net (decrease) increase in interest-bearing deposits	(41,198,643)	81,576,149
Federal Home Loan Bank advances	9,000,000	(13,500,000)
Purchase of treasury stock	(1,437,420)	(7,471,864)
Distributions paid	(3,879,226)	(2,521,518)
Net cash (used in) provided by financing activities	(10,887,941)	49,493,919
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(33,139,591)	34,376,163
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,207,475	8,831,312
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,067,884	$ 43,207,475

See accompanying notes to consolidated financial statements.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations – Texas Gulf Bancshares, Inc. (the Company) through its wholly owned subsidiary, Texas Gulf Bank, N.A. (the Bank), operates nine branches and is primarily engaged in the business of accepting retail deposits, funding commercial, real estate and consumer installment loans primarily in the Brazoria, Galveston and Harris County areas in Texas. The Company's primary sources of revenue are from investing funds received from depositors and from providing loans and financial services to customers. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Presentation - The accompanying consolidated financial statements include the Company and the Bank. All material intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company and the Bank are in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry.

Trust Assets - Assets held by the Company's trust department, other than cash resulting from trust assets held on deposit at the Bank, are not assets of the Company and are therefore not included in the consolidated balance sheets.

Subsequent Events - The Company has evaluated subsequent events for potential recognition and/or disclosure through February 23, 2021, the date these consolidated financial statements were available to be issued. No subsequent events occurred which require adjustment or disclosure to the consolidated financial statements at December 31, 2020.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and securities estimated fair values.

Cash Flow Reporting - Cash and cash equivalents include cash, interest-bearing and noninterest-bearing deposits with other financial institutions that have an initial maturity of 90 days or less, and federal funds sold. Cash flows are reported net for loans, deposits and short-term borrowings. Additional cash flow information follows:

	2020	2019
Cash paid during the year for interest	$ 2,248,535	$ 4,373,851
Distributions declared and not paid	$ 972,334	$ 1,386,131
Notes receivable for stock option exercises	$ 1,286,250	$ 385,000
Accrued interest on stock option notes receivable	$ 5,839	$ 18,979

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Securities Available for Sale – Debt securities available for sale are accounted for on a trade date basis. Premiums and discounts are amortized and accreted to operations using the level-yield method of accounting, adjusted for prepayments as applicable. Interest earned on these assets is included in interest income. The specific identification method of accounting is used to compute gains or losses on the sales of these assets.

Debt securities available for sale are carried at fair value. Unrealized gains and losses are excluded from earnings and reported as other comprehensive income or loss and as a separate component of shareholders' equity until realized. Securities within the available for sale portfolio may be used as part of management's asset/liability strategy and may be sold in response to changes in liquidity, interest risk, prepayment risk or other similar economic factors.

Investment securities classified as available for sale are generally evaluated for other-than-temporary impairment (OTTI). In determining OTTI, 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 the 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. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether the Company intends to sell the security or will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the consolidated balance sheet dates. If the Company does not intend to sell the security and it is not likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income or loss. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

Restricted Stock - Banks that are members of the Federal Home Loan Bank (FHLB) are required to maintain a stock investment in the FHLB calculated as a percentage of aggregate outstanding mortgages, outstanding FHLB advances, and other financial instruments. FHLB stock is capital stock that is bought from and sold to the FHLB at $100 par value. Both stock and cash dividends may be received on FHLB stock and are recorded when received as dividend income.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Banks that are members of the Federal Reserve System are required to subscribe to Federal Reserve Bank (FRB) stock in specific ratios to the Bank's equity. Although the par value of the stock is $100 per share, member banks pay only $50 per share at the time of purchase with an understanding that the other half of the subscription amount is subject to call at any time. The stock does not provide the owner with control or financial interest in the FRB, is not transferrable, and cannot be used as collateral. Dividends are received in the form of cash and are recorded as dividend income when received.

Investments in stock of the FHLB and FRB are restricted investments with limited marketability and are stated at cost as management believes the par value is ultimately recoverable.

Loans - Loans are stated at unpaid principal balances, less the allowance for credit losses, net deferred loan fees and unearned discount. Interest on loans is recognized by using the simple interest method.

Government Guaranteed Loans - The Company originates loans that are partially guaranteed by the U.S. Small Business Administration (SBA) and as is customary with these loans, the Company will often sell the guaranteed portion of these loans as market conditions and pricing allow for a gain to be recorded on the sale. Loan sales are recorded when control over the transferred asset has been surrendered. Control over the transferred portion is deemed to be surrendered when the assets have been removed from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

In calculating the gain on the sale of SBA loans, the Company's investment in the loan is allocated among the unguaranteed portion of the loan, the servicing amount retained, and the guaranteed portion of the loan sold, based on the relative fair market value of each portion. The gain on the sold portion of the loan is recognized based on the difference between the sale proceeds and the allocated investment.

Loan Servicing - Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. Under the servicing assets and liabilities account guidance, servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company has elected to initially measure the servicing rights for commercial mortgage loans using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Servicing fee income is recorded for fees earned from servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of the loan servicing rights is netted against loan servicing fee income.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables may change from quarter to quarter as market conditions and projected interest rates change and may have an adverse impact on the value of the servicing rights and may result in a reduction to noninterest income.

<u>Nonrefundable Fees and Costs Associated with Lending Activities</u> - Loan origination and commitment fees received are recorded net of direct costs as estimated by management and are deferred and amortized as a yield adjustment over the lives of the related loans using either the straight-line method or the interest yield method. Management does not deem the effect of deferring origination fees net of estimated direct costs to be materially different from deferring origination fees and direct origination costs for all loans and amortizing those fees and costs separately over the life of the loans. Amortization of net deferred loan fees is discontinued when a loan is placed on nonaccrual status.

<u>Nonperforming Loans</u> - Included in the nonperforming category are loans which have been categorized by management as impaired because of delinquency status or because collection of interest is doubtful, and loans which have been restructured to provide a below market reduction in the interest rate or a more than insignificant deferral of interest or principal payments.

When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on nonaccrual status, unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan and the probability that the Company will collect all principal and interest amounts outstanding.

When a loan is placed on nonaccrual status, interest accrued and uncollected during the current year prior to the judgment of uncollectability, is charged to operations unless the loan is well secured with collateral values sufficient to ensure collection of both principal and interest. Generally, any payments received on nonaccrual loans are applied first to outstanding loan amounts, reducing the Company's recorded investment in the loan, and next to the recovery of charged-off loan amounts. Any excess is treated as recovery of lost interest. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Interest income received on impaired loans is either applied against principal or realized as interest income, according to management's judgment as to the collectability of principal.

<u>Troubled Debt Restructurings</u> - The Company will classify a loan as a troubled debt restructuring if both of the following conditions are met: (i) the borrower is experiencing financial difficulties and (ii) the borrower has been granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Interest is generally accrued on such loans in accordance with the new terms.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Loan discounts – Premiums on loans sold are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Allowance for Credit Losses - The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to income. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Concentrations of Risk - The Company's investments are subject to various levels of risk associated with economic and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Company's investments. In determining fair value of these investments, management obtains information, which is considered reliable, from third parties to value its investments. Due to the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks could materially impact the amounts reflected herein.

The Company originates loans, commitments, and letters of credit primarily to customers in the Company's market areas which include southern Brazoria County, Galveston County, and Harris County. Generally, such customers are depositors of the Company. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. The concentrations of credit by loan segment are set forth in Note D. It is the Company's policy to not extend credit to any single borrower or group of related borrowers in excess of the Company's legal lending limit.

Interest Rate Risk - The Company is principally engaged in providing short-term commercial loans with interest rates that fluctuate with various market indices and intermediate-term, fixed rate real estate loans. These loans are primarily funded through short-term demand deposits and longer-term certificates of deposit with fixed rates. Deposits that are not utilized to fund loans are invested in securities that meet the Company's investment quality guidelines. Unrealized investment gains and losses resulting from changing market interest rates are reflected in other comprehensive income or loss. From time to time, the Company may manage its interest rate risk on long term fixed rate loans through the matched funding services offered by the FHLB.

A portion of the Company's investments that are available for sale have contractual maturity dates through the year 2045, bear fixed rates of interest and are collateralized by residential mortgages. Repayment of principal on these bonds is primarily dependent on the cash flows from payments made on the underlying mortgage collateral to the bond issuer and, therefore, the likelihood of prepayment is impacted by the current national economic environment. Reduced prepayments extend the Company's original anticipated holding period and thus increases interest rate risk over time, should market rates increase.

Premises and Equipment - Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. Land is carried at cost. Leasehold improvements are amortized on a straight-line basis over the periods of the lease or the estimated useful life of the related asset, whichever is shorter. Buildings are depreciated over a period not to exceed forty years. Depending upon the type of furniture and equipment, the depreciation period will range from three to ten years. Gains and losses on dispositions are included in other income or other expense.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Other Real Estate Owned - Real estate acquired by foreclosure is held for sale and is initially recorded at the fair value of the property less any selling costs, establishing a new cost basis. Outstanding loan balances are reduced to reflect this value through charges to the allowance for credit losses. Subsequent to foreclosure, real estate is carried at the lower of its new cost basis or fair value, less estimated costs to sell. Subsequent adjustments to reflect declines in value below the recorded amounts are recognized and are charged to income in the period such determinations are assessed. Required developmental costs associated with foreclosed property under construction are capitalized and considered in determining the fair value of the property. Operating expenses of properties, related income, and gains and losses on the disposition of other real estate owned are included in other noninterest income or expense.

Prepaid Expenses - Prepaid expenses are amortized into noninterest expense over the estimated useful life of the expenditure.

Income Taxes - The Company has elected Subchapter S Corporation status in accordance with the Internal Revenue Code, and as a result, in lieu of corporate income taxes, the shareholders of the Company are taxed on their proportionate share of the Company's taxable income.

Tax penalties and interest, if any, would be accrued as incurred and would be classified as income tax expense in the consolidated statements of income.

The Company is subject to Texas Margin Tax. Texas Margin Tax expense amounted to $30,000 and $20,000 for the years ended December 31, 2020 and 2019, respectively.

Goodwill - Goodwill amounting to $892,700 at December 31, 2020 and 2019 represents the net fair value of consideration given in excess of the fair value of the net assets of a bank acquired in 1996. Goodwill is tested for impairment annually and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying value may be impaired. At December 31, 2020 and 2019, management has determined that goodwill, net of amortization accumulated during prior years, as reflected in the Company's consolidated financial statements, was not impaired.

Treasury Stock - The Company has repurchased shares of its authorized and issued common stock which is now held in treasury pending use for general corporate purposes or retirement. At December 31, 2020 and 2019, the Company held 257,091 and 249,177 treasury shares respectively which are reflected as a component of shareholders' equity on the accompanying consolidated balance sheets.

Accounting for Stock-Based Compensation – Stock-based compensation is recognized as compensation cost in the consolidated income statements based on the grant fair value on the date of the grant.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Fair Value Measurements - U.S. GAAP establishes a framework for measuring fair value 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 entity's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

The Company has not elected to account for any financial assets or liabilities as trading instruments for which changes in market value would be recorded in the Company's consolidated statements of income.

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

If a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset does not meet the conditions for sale treatment, or if a transfer of a portion of an entire financial interest does not meet the definition of a participating interest, the Company accounts for the transfer as a secured borrowing with pledge of collateral and continues to report the transferred financial assets in its financial statements with no change in their measurement.

At December 31, 2020 and 2019, all the Company's loan participations sold met the conditions to be treated as a sale.

Revenue Recognition – Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the Company's contracts to provide goods or services to customers. The core principle requires the Company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of the company's revenue generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, letters of credit and investment securities, as these activities are subject to other U.S. GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our statements of income as components of non-interest income, are as follows:

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

*Service charges on deposit accounts – these represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue and time-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

*Wealth management fees – this represents monthly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management services include custody of assets, investment management, escrow services, trust services and similar fiduciary activities. The contracts with customers outline the duties of the Company and fee schedule. The duties are considered a singular performance obligation as the Company is performing the services over the term/duration of agreement. Revenue is recognized each month for prior month services.

<u>Revisions</u> – An immaterial revision has been made to the 2020 notes to consolidated financial statements for nonaccrual interest income. The revision does not have a significant impact on the financial statement disclosures.

NOTE B CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are maintained with major financial institutions in the United States. Accounts with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Company periodically evaluates the stability of the financial institutions with which it has deposits. The Company has interest bearing cash deposits in correspondent financial institutions in excess of the amount insured by the FDIC in the approximate amount of $2,121,000 at December 31, 2020.

The Bank, as a member of the Federal Reserve System, has been required to maintain reserves for facilitating the implementation of monetary policy. These reserves were maintained in the form of balances held at the Federal Reserve Bank or by vault cash. The Federal Reserve Board set all reserve requirement ratios for transaction accounts to 0 percent in March 2020, thus the Bank had no reserve requirements at December 31, 2020.

NOTE C SECURITIES AVAILABLE FOR SALE

Securities have been classified according to management's intent. The amortized cost and estimated fair values of debt securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2020				
U.S. Government Agency:				
Debt Securities	$ 25,887,922	$ 821,173	$ -	$ 26,709,095
Mortgage-backed Securities-Residential	14,447,648	771,923	-	15,219,571
Mortgage-backed Securities-Commercial	973,293	40,726	-	1,014,019
Collateralized Mortgage Obligations	4,496,188	119,859	-	4,616,047
State and Political Subdivisions	135,115,835	4,439,252	(23,491)	139,531,596
Corporate Bonds	2,800,000	38,441	(3,115)	2,835,326
	$183,720,886	$ 6,231,374	$ (26,606)	$189,925,654
2019				
U.S. Government Agency:				
Debt Securities	$ 37,303,703	$ 285,096	$ (27,607)	$ 37,561,192
Mortgage-backed Securities-Residential	19,516,945	275,739	(52,209)	19,740,475
Mortgage-backed Securities-Commercial	996,361	-	(3,543)	992,818
Collateralized Mortgage Obligations	6,031,457	23,682	(38,556)	6,016,583
State and Political Subdivisions	124,830,056	1,797,785	(83,895)	126,543,946
	$188,678,522	$ 2,382,302	$ (205,810)	$190,855,014

The amortized cost and estimated fair value of debt securities at December 31, 2020, by contractual maturities, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities generally will receive both principal and interest payments monthly.

Amounts Maturing In:	Amortized Cost	Estimated Fair Value
1 year or less	$ 22,930,116	$ 23,104,281
1 year through 5 years	90,752,837	93,772,531
After 5 years through 10 years	60,912,422	63,824,431
After 10 years	9,125,511	9,224,411
	$ 183,720,886	$ 189,925,654

NOTE C SECURITIES AVAILABLE FOR SALE (CONTINUED)

Available for sale securities with carrying amounts of approximately $82,856,000 and $65,010,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. $60,000,000 in US Treasury Bills were sold in 2020 as part of a purchase-sell investment strategy for franchise tax purposes. No available for sale securities were sold in 2019. The Company had gross realized gains of $9,078 and gross realized losses of $760 on calls and sales of securities for the year ended December 31, 2020. The Company had gross realized gains of $8,291 and gross realized losses of $0 on sales of securities at December 31, 2019. The gain for 2019 was attributed to two securities that were called prior to maturity date by the issuer.

The Company had 7 and 60 securities in an unrealized loss position at December 31, 2020 and 2019, respectively. Of these securities, 0 and 29 securities were in an unrealized loss position for greater than twelve months at December 31, 2020 and 2019, respectively.

Information pertaining to debt securities with gross unrealized losses at December 31, 2020 and 2019 aggregated by investment category is as follows:

	Less Than Twelve Months		Twelve Months Or Longer	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
2020				
State and Political Subdivisions	$ 23,491	$ 2,780,743	$ -	$ -
Coporate Bonds	3,115	796,885	-	-
	$ 26,606	$ 3,577,628	$ -	$ -
2019				
U.S. Government Agency:				
Debt Securities	$ 7,854	$ 2,892,017	$ 19,753	$ 4,479,108
Mortgage-Backed Securities-Residential	10,181	2,504,004	42,028	2,272,238
Mortgage-Backed Securities-Commercial	3,543	992,818	-	-
Collateralized Mortgage Obligations	28,109	2,360,572	10,447	813,331
State and Political Subdivisions	50,054	9,413,957	33,841	6,992,690
	$ 99,741	$ 18,163,368	$ 106,069	$ 14,557,367

Management does not have the intent to sell any of the securities classified as available for sale that are in an unrealized loss position and believes that it is more likely than not that the Company will not have to sell any of these securities before a recovery of cost. The unrealized losses are attributable primarily to changes in market interest rates relative to those available when the securities were acquired. The fair value of these securities is expected to recover as the securities reach their maturity or re-pricing date, or if changes in market rates for such investments decline. Management does not believe that any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2020 and 2019, management believes the impairments for securities in an unrealized loss position are temporary and no impairment loss has been realized in the Company's consolidated statements of income for the years then ended.

NOTE C SECURITIES AVAILABLE FOR SALE (CONTINUED)

States and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by changes in interest rates and illiquidity. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020 or 2019.

NOTE D LOANS

Loans by portfolio segment at December 31, 2020 and 2019 are summarized as follows:

	2020	2019
Real estate	$ 343,274,759	$ 336,717,456
Commercial and industrial	98,903,081	67,568,863
Agricultural	1,414,683	1,714,280
Consumer	3,915,959	4,729,167
Other	9,035,615	7,871,990
	456,544,097	418,601,756
Less unearned discount	(370,167)	(306,991)
Less deferred loan fees, net	(1,041,858)	(508,145)
Less allowance for credit losses	(5,136,633)	(4,855,618)
	$ 449,995,439	$ 412,931,002

In the normal course of business, the Company purchases participations in loans originated by other financial institutions and sells participations in loans originated by the Company. Total loan participations purchased and sold at December 31, 2020 and 2019, by portfolio segment, are summarized as follows:

	Total Participations Purchased	Total Participations Sold
2020		
Real estate	$ 10,344,944	$ 10,641,536
Commercial and industrial	-	4,435,719
	$ 10,344,944	$ 15,077,255
2019		
Real estate	$ 8,158,696	$ 9,651,018
Commercial and industrial	-	371,745
	$ 8,158,696	$ 10,022,763

NOTE D LOANS (CONTINUED)

Loan Portfolio Segments and Loan Classes

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. The Company's loans are segmented by type and diversification of the loan portfolio as a means of managing the risks associated with fluctuations in economic conditions. In order to manage the diversification of the portfolio, the Company sub-segments loans into classes. The real estate loan segment is sub-segmented into classes that primarily include commercial real estate mortgage loans, construction and development loans, farmland loans, 1-4 family residential loans, and multi-family residential loans. The Company sub-segments consumer loans into classes that primarily include automobile loans, and other consumer loans including revolving credit plans. Management has not identified any significant sub-segments, or classes, for the other loan segments identified in the table above. Information and risk management practices specific to the Company's loan segments and classes follows.

Real Estate - The Company makes mortgage (commercial real estate) loans which are primarily viewed as cash flow loans and secondarily as loans secured by real estate. The properties securing the Company's commercial real estate loans can be owner occupied or nonowner occupied. Concentrations within the various types of commercial properties are monitored by management to assess the risks in the portfolio. The repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property and securing the loan. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. The Company seeks to minimize these risks in a variety of ways in connection with underwriting these loans including giving careful consideration to the property's operating history, future operating projections, current and projected occupancy, location and the physical condition of the property.

Construction and development loans are generally nonowner occupied and are subject to certain risks attributable to the fact that loan funds are advanced over the construction phase and the project is of uncertain value prior to its completion. Construction loans are generally based upon estimates of costs and value associated with the completed project with repayment dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay the loan. The Company has under-writing and funding procedures designed to address what it believes to be the risks associated with such loans; however, no assurance can be given the procedures will prevent losses resulting from the risks described above.

Farmland loans are extended to borrowers to finance the purchased land and make improvements thereon.

NOTE D LOANS (CONTINUED)

The Company's real estate lending activities also include the origination of 1-4 family residential and multi-family residential loans. The terms of these loans typically range from five to thirty years and are secured by the properties financed. The Company generally requires the borrowers to maintain mortgage title insurance and hazard insurance. The Company has elected to keep all 1-4 family residential loans for its own portfolio rather than selling such loans into the secondary market. By doing so, the Company is able to realize a higher yield on these loans; however, in addition to the risk of nonpayment, the Company also incurs interest rate risk by holding these longer-term loans.

Commercial and Industrial - The Company's commercial and industrial loans represent credit extended to small to medium sized businesses generally for the purpose of providing working capital and equipment purchase financing. Commercial and industrial loans often are dependent on the profitable operations of the borrower. These credits are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may also incorporate a personal guarantee. Some shorter-term loans may be extended on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The cash flows of borrowers may not be as expected and the collateral securing these loans may fluctuate, increasing the risk associated with this loan segment. As a result of the additional complexities, variables, and risks, commercial loans typically require more thorough underwriting and servicing than other types of loans.

Included in Commercial Loans are Paycheck Protection Program Loans. The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, passed by Congress and signed into law by President Donald Trump on March 27, 2020, in response to the economic fallout of the COVID-19 pandemic in the United States, included a Small Business Administration (SBA) Paycheck Protection Program (PPP) which would lend up to $10 million to small businesses with fewer than 500 employees. The program was designed to prevent layoffs and business closures while workers had to stay home during the outbreak. Companies with 500 employees or fewer that maintain their payroll during the pandemic could receive up to 8 weeks of cash-flow assistance. If employers maintain payroll, the portion of the loans used for covered payroll costs, interest on mortgage obligations, rent, and utilities would be forgiven. The Company made 457 PPP loans totaling $65 million during the year ended December 31, 2020. The Company had a balance of $49 million in PPP loans at December 31, 2020 as loans started the process of being forgiven and repaid by the SBA in accordance with the program terms. We expect most of the remaining loans to be forgiven and repaid during the first half of 2021. The loans do not have a material impact on the Allowance for Credit Losses calculation.

Agricultural - The Company provides crop production and farm equipment loans to local area farmers. The Company evaluates these borrowers primarily based on their historical profitability, level of experience in their particular agricultural industry, overall financial capacity and the availability of secondary collateral, including crop insurance, to withstand economic and natural variations common to the industry.

NOTE D LOANS (CONTINUED)

Consumer - The Company's consumer loans include automobile loans, and other consumer loans to include home improvement loans, home equity loans, personal loans (collateralized and uncollateralized) and deposit account collateralized loans. The terms of these loans typically range from one to ten years and vary based on the nature of collateral and size of the loan. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as deemed appropriate by management.

Other - Other loans consist of loans to municipalities, non-depository finance companies and loans for other various business and investment purposes.

Loans Guaranteed by the United States Small Business Administration

The Company participates in the United States Small Business Administration (SBA) loan program.

At December 31, 2020 and 2019, the Company originated loans under the SBA chapter 7(a) and 504 programs which allow for federal guarantees of 75% to 90% of principal and accrued interest. When advantageous, the Company will sell the guaranteed portions of these loans with servicing retained. During the years ended December 31, 2020 and 2019, the Company sold the guaranteed portions of SBA loans amounting to $5,349,262 and $4,276,037 respectively. The majority of the nonguaranteed portion of these loans are reported as commercial real estate or commercial and industrial loans. At December 31, 2020 and 2019, SBA loan balances are as follows:

	2020	2019
Sold and serviced	$ 16,461,906	$ 14,238,311
Nonguaranteed portion retained	$ 5,489,228	$ 4,749,567

At December 31, 2020 and 2019, the balance of loan servicing rights related to SBA loans sold, which is included in prepaid expenses and other assets in the Company's consolidated balance sheets, are as follows:

	2020	2019
Balance at beginning of year	$ 273,795	$ 228,915
Increase from loan sales	156,300	114,050
Amortization charges	(92,967)	(69,170)
Balance at end of year	$ 337,129	$ 273,795

Management considers impairment of the servicing asset on an annual basis and at December 31, 2020 and 2019 determined fair market value approximates carrying value.

NOTE D LOANS (CONTINUED)

For the years ended December 31, 2020 and 2019, the Company recorded activity related to SBA loans in the consolidated statements of income as follows:

	2020	2019
Gain on sale of SBA loans	$ 577,160	$ 427,962
Servicing income on SBA loans	$ 85,944	$ 75,294
Other SBA loan income	$ -	$ 375
Commissions and fees paid related to SBA loans	$ 10,198	$ 11,181

Past Due and Nonaccrual Loans

The following is an aging analysis of loans past due, segregated by loan class, as of December 31, 2020 and 2019.

	Current & Accruing	30 - 89 Days Past Due & Accruing	90 Days or more Past Due & Accruing	Non Accrual Loans	Total Loans
2020					
Commercial real estate	$ 166,498,877	$ -	$ -	$ 2,445,352	$ 168,944,229
Construction and development	44,026,483	-	-	3,665,562	47,692,045
Farmland	7,702,372	-	-	-	7,702,372
1-4 family residential	117,070,601	575,598	-	63,684	117,709,884
Multi-family residential	1,226,229	-	-	-	1,226,229
Commercial and industrial	98,874,236	28,845	-	-	98,903,081
Agriculture	1,414,683	-	-	-	1,414,683
Consumer - automobile	438,022	-	-	-	438,022
Consumer - other	3,477,937	-	-	-	3,477,937
Other loans	9,035,615	-	-	-	9,035,615
Total	$ 449,765,056	$ 604,443	$ -	$ 6,174,598	$ 456,544,097

	Current & Accruing	30 - 89 Days Past Due & Accruing	90 Days or more Past Due & Accruing	Non Accrual Loans	Total Loans
2019					
Commercial real estate	$ 141,071,040	$ -	$ -	$ 85,558	$ 141,156,598
Construction and development	58,530,846	-	-	-	58,530,846
Farmland	10,909,959	-	-	-	10,909,959
1-4 family residential	124,720,376	-	-	85,717	124,806,093
Multi-family residential	1,313,960	-	-	-	1,313,960
Commercial and industrial	67,459,694	-	-	109,169	67,568,863
Agriculture	1,714,280	-	-	-	1,714,280
Consumer - automobile	586,682	-	-	-	586,682
Consumer - other	4,142,485	-	-	-	4,142,485
Other loans	7,871,990	-	-	-	7,871,990
Total	$ 418,321,312	$ -	$ -	$ 280,444	$ 418,601,756

NOTE D LOANS (CONTINUED)

Accrued and unpaid interest income on nonaccrual loans was reversed when the loans were placed on nonaccrual for the years ended December 31, 2020 and 2019. Interest income that would have been earned under the original terms of nonaccrual loans was $200,259 and $1,076 for the years ended December 31, 2020 and 2019, respectively.

Troubled Debt Restructurings

The following table presents loans modified under troubled debt restructuring, segregated by loan class, during the years ended December 31, 2020 and December 31, 2019:

2020	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	1	46,235	46,235
		$ 46,235	$ 46,235
2019			
Commercial real estate	1	$ 354,422	$ 354,422
Commercial and industrial	2	84,667	84,667
		$ 439,088	$ 439,088

During the year ended December 31, 2020 the Company modified one loan. One loan was classified as Troubled Debt Restructuring (TDR) to allow the borrower time to downsize overhead and/or liquidate other assets to reduce debt. The modification allowed three payments to be deferred until the end of the note. The Company did not grant principal or rate reductions on the restructured loans. There is $46,235 in specific reserves related to the restructured loan. This modification did not have a material impact on the Company's determination of the allowance for credit losses. There were three loans modified under TDR during the year ended December 31, 2019 due to cash flow issues. The Company did not grant principal or rate reductions on the restructured loans. There was $59,114 in specific reserves related to the three restructured loans.

NOTE E ALLOWANCE FOR CREDIT LOSSES

For purposes of determining the allowance for credit losses, the Company considers the loans in its portfolio by segment and risk grade. Each segment requires significant judgment to determine the estimation method that fits the credit risk characteristics of that portfolio segment. To facilitate the assessment of risk, management reviews reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. The Company utilizes an external loan review group to review the credit risk assigned to loans on a periodic basis and the results are presented to management for review.

NOTE E ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

An analysis of activity in the allowance for credit losses by portfolio segment at December 31, 2020 and 2019 follows:

	Balance, beginning of year	Provisions	Charge-offs	Recoveries	Balance, end of year
2020					
Real estate	$3,699,112	$ 189,889	$ (86,069)	$ -	$ 3,802,932
Commercial and industrial	950,974	229,536	(88,604)	660	1,092,566
Agricultural	120,005	(25,872)	-	4,079	98,212
Consumer	32,790	21,199	(15,210)	4,098	42,877
Other	52,737	47,309	-	-	100,046
Totals	$4,855,618	$ 462,061	$ (189,883)	$ 8,837	$ 5,136,633

	Balance, beginning of year	Provisions	Charge-offs	Recoveries	Balance, end of year
2019					
Real estate	$3,806,345	$ (107,233)	$ -	$ -	$ 3,699,112
Commercial and industrial	350,050	598,614	-	2,310	950,974
Agricultural	30,850	97,567	(37,412)	29,000	120,005
Consumer	54,764	(7,175)	(19,707)	4,908	32,790
Other	70,313	(17,576)	-	-	52,737
Totals	$4,312,322	$ 564,197	$ (57,119)	$36,218	$ 4,855,618

The allocation in the table above is based on dollar amount of loans in each segment rather than an analysis of specific loans or groups of loans. The allocation is not necessarily indicative of the segments in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

Risk Grading

As part of the on-going monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for credit losses management assigns and tracks loan grades to be used as credit quality indicators. The following is a general description of the loan grades used as of December 31, 2020 and 2019.

Grades 1-5 - This category of assets are considered *"pass"* which indicates prudent underwriting and a normal amount of risk. The range of risk within these credits can vary from little to no risk with cash securing a credit, to a level of risk that requires a strong secondary source of repayment on the debt and are structured with predetermined and formal repayment programs. Pass credits with a higher level of risk may be to borrowers that are highly leveraged, less well capitalized or in an industry or economic area that is known to carry a higher level of risk, volatility, or susceptibility to weaknesses in the economy.

NOTE E ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Grade 6 - Assets in the category contain more than the normal amount of risk and are referred to as *"other assets especially mentioned"*, or OAEM, in accordance with regulatory guidelines. These assets possess clearly identifiable temporary weaknesses or trends that, if not corrected or revised, will result in a condition that exposes the Company to higher level of risk of loss.

Grade 7 - Assets in this category are *"substandard"* in accordance with regulatory guidelines and of unsatisfactory credit quality with well defined weaknesses or weaknesses that jeopardize the liquidation of the debt. Generally, assets in this category are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Typically, these credits are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Often, the assets in this category will have a valuation allowance representative of management's estimated loss that is probable to be incurred.

Grade 8 - Assets in this category are considered *"doubtful"* in accordance with regulatory guidelines, are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Generally, these credits will have a valuation allowance based upon management's best estimate of the losses probable to occur in the liquidation of the debt.

Grade 9 - Assets in this category are considered *"loss"* in accordance with regulatory guidelines and are considered uncollectible and of such little value as to question their continued existence as assets on the Company's consolidated financial statements. Such assets are to be charged off or charged down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. This category does not intend to imply that the debt, or some portion of it will never be paid, nor does it in any way imply that the debt will be forgiven.

NOTE E ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table presents risk grades and classified loans by loan class at December 31, 2020 and 2019. Pass loans include risk grades 1 through 5. Classified loans include risk grades 6, 7, 8, and 9. The Company had no loans classified grade 9 at December 31, 2020 and 2019.

	Pass	Grade 6	Grade 7	Grade 8	Total Loans
2020					
Commercial real estate	$156,736,370	$ -	$ 12,207,859	$ -	$ 168,944,229
Construction and development	44,026,483	-	3,665,562	-	47,692,045
Farmland	7,702,372	-	-	-	7,702,372
1-4 family residential	116,420,463	803,751	485,670	-	117,709,884
Multi-family residential	1,226,229	-	-	-	1,226,229
Commercial and industrial	97,996,163	517,562	389,356	-	98,903,081
Agriculture	1,414,683	-	-	-	1,414,683
Consumer - automobile	438,022	-	-	-	438,022
Consumer - other	3,424,921	53,016	-	-	3,477,937
Other loans	9,035,615	-	-	-	9,035,615
Total	$438,421,321	$ 1,374,329	$ 16,748,447	$ -	$ 456,544,097

	Pass	Grade 6	Grade 7	Grade 8	Total Loans
2019					
Commercial real estate	$132,919,087	$ -	$ 8,237,511	$ -	$ 141,156,598
Construction and development	53,898,900	-	4,631,946	-	58,530,846
Farmland	10,909,959	-	-	-	10,909,959
1-4 family residential	121,448,739	2,006,551	1,350,803	-	124,806,093
Multi-family residential	1,313,960	-	-	-	1,313,960
Commercial and industrial	65,099,066	1,284,114	1,185,683	-	67,568,863
Agriculture	1,714,280	-	-	-	1,714,280
Consumer - automobile	586,682	-	-	-	586,682
Consumer - other	4,142,485	-	-	-	4,142,485
Other loans	7,871,990	-	-	-	7,871,990
Total	$399,905,148	$ 3,290,665	$ 15,405,943	$ -	$ 418,601,756

The Company evaluates the loan risk grading system definitions and allowance for credit loss methodology on an ongoing basis. No significant changes were made to either during 2020 or 2019.

NOTE E ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Evaluation of Impairment

The following table includes the recorded investment and unpaid principal balances for impaired loans, segregated by loan class, with the associated allowance amount, if applicable, as of December 31, 2020 and 2019. The recorded investment for impaired loans includes the outstanding principal ledger balance, net of any amounts charged-off, accrued interest, and net deferred loan fees, if any. The unpaid principal balance for impaired loans represents the outstanding principal balance under the original terms of the loan.

At December 31, 2020 and 2019, seven loans totaling $6,594,485 and nine loans totaling $719,532, respectively, were individually evaluated for impairment. The Company's remaining portfolio was collectively evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Related Allowance
2020			
Commercial real estate	$ 6,455,721	$ 6,768,146	$ 21,573
1-4 family residential	63,684	63,866	-
Commercial and industrial	$ 75,080	75,150	75,080
Total Impaired Loans	$ 6,594,485	$ 6,907,162	$ 96,653
2019			
Commercial real estate	$ 439,979	$ 440,120	$ 5,579
1-4 family residential	85,717	105,195	3,559
Commercial and industrial	193,836	194,356	156,426
Total Impaired Loans	$ 719,532	$ 739,671	$ 165,564

For the years ended December 31, 2020 and 2019, the Company's average impaired loans were $5,341,307 and $6,005,353 respectively. The Company has no commitment to loan additional funds to borrowers whose loans have been classified as impaired.

NOTE F PREMISES AND EQUIPMENT

Premises and equipment consist of the following at December 31, 2020 and 2019:

	2020	2019
Land	$ 2,647,898	$ 2,647,898
Buildings and leasehold improvements	13,905,207	13,526,805
Furniture, fixtures and equipment	4,414,129	4,549,521
Construction in progress	113,203	50,765
	21,080,437	20,774,989
Less accumulated depreciation and amortization	(11,471,486)	(10,928,137)
	$ 9,608,951	$ 9,846,852

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was approximately $848,000 and $922,000, respectively.

NOTE G OTHER REAL ESTATE OWNED

An analysis of activity in other real estate owned for the years ended December 31, 2020 and 2019 follows:

	2020	2019
Balance at beginning of the year	$ 237,500	$ 316,250
Foreclosures	20,000	-
Gain on sales, net	986	-
Writedowns	(26,250)	(78,750)
Sales	(20,986)	-
Balance at end of the year	$ 211,250	$ 237,500

NOTE H ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following at December 31, 2020 and 2019:

	2020	2019
Loans	$ 1,668,259	$ 1,243,557
Investments and other	1,530,184	1,578,543
	$ 3,198,443	$ 2,822,100

NOTE I DEPOSITS

The aggregate amount of time deposits of greater than $250,000 at December 31, 2020 and 2019 was approximately $25,510,000 and $40,440,000 respectively.

At December 31, 2020, the scheduled maturities of all time deposits were as follows:

2021	$ 52,829,227
2022	7,966,450
2023	3,504,711
2024	3,246,466
2025	4,748,576
	$ 72,295,430

At December 31, 2020 and 2019, the Company had $19,761,864 and $52,470,909 in reciprocal account registry deposits, respectively. These deposits are associated with customers of the Company. There are no major concentrations of deposits. Deposit accounts that were overdrawn at December 31, 2020 and 2019 totaled $41,267 and $37,863, respectively, and these balances are included in other loans.

NOTE J BORROWINGS AND AVAILABLE LINES OF CREDIT

Federal Home Loan Bank Advances

The Company had available borrowings at December 31, 2020 and 2019 through the Federal Home Loan Bank of approximately $170,000,000 and $197,000,000, respectively, which are secured by a blanket lien on certain real estate and commercial loans. At December 31, 2020 the Company had borrowings of $9,000,000 that were outstanding on this credit facility. The borrowings were at an interest rate of .15% with interest and principal due at maturity, January 4, 2021. At December 31, 2019, the Company had no outstanding borrowings on this credit facility.

Available Lines of Credit

At December 31, 2020 and 2019, the Company had available Fed Funds lines of credit at correspondent banks of $20,000,000 and $20,000,000 respectively.

NOTE K COMMITMENTS AND CONTINGENT LIABILITIES

Unfunded Loan Commitments

In the normal course of business, the Company enters various transactions, which in accordance with U.S. GAAP, are not included in its consolidated balance sheets. The Company through its Bank subsidiary enters into these transactions to meet the financing needs of its customers.

NOTE K COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

These financial instruments include commitments to extend credit for loans in process, commercial lines of credit, revolving credit lines, overdraft protection lines, and standby letters of credit at both fixed and variable rates of interest. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement the Company has in particular classes of financial instruments. 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 notional amount of those instruments. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

The following is a summary of the various financial instruments whose contract amounts represent credit risk at December 31, 2020 and 2019:

	2020	2019
Commitments to extend credit	$ 69,367,671	$ 73,820,032
Standby letters of credit	$ 2,034,299	$ 2,094,844

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. Commitments are extended at both fixed and variable rates of interest. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements.

The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

NOTE K COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Lease Commitments

Pursuant to the terms of noncancelable lease agreements pertaining to banking premises, future minimum rent commitments under various operating leases are as follows at December 31, 2020:

2021	$ 473,056
2022	415,736
2023	335,488
2024	335,488
2025	195,701
	$ 1,755,469

The Company entered into a noncancelable lease agreement related to a new branch location in Houston in December 2014. The lease commencement date was May 1, 2015 with a termination date of July 31, 2025. The related lease commitments are included in the above calculation of future minimum lease commitments. The Company received rent abatement and records rent expense on the straight line basis over the full term of the lease. The resulting deferred rent payable of $237,723 and $279,574 is included in Other Liabilities at December 31, 2020 and 2019, respectively.

The Company entered into a noncancelable lease agreement to expand their rented space in Houston in 2017. The lease commencement date was June 1, 2017 with a termination date of July 31, 2020 with the option to extend the expansion term to be coterminous with the existing lease agreement and termination date of July 31, 2025. The Company received rent abatement and records rent expense on the straight line basis over the full term of the lease. The resulting deferred rent payable of $0 and $2,773 is included in Other Liabilities at December 31, 2020 and 2019, respectively. The Company entered into a second noncancelable lease agreement to expand their rented space in 2019. The second expansion lease commencement date was August 1, 2019 with a termination date of July 31, 2020 with the option to extend the expansion term to be coterminous with the existing lease agreement and termination date of July 31, 2025. The Company received rent abatement and records rent expense on the straight line basis over the full term of the lease. The resulting deferred rent payable of $0 and $2,691 is included in Other Liabilities at December 31, 2020 and 2019, respectively. On February 26, 2020, the Company exercised its option to extend the first and second expansion lease agreements.

Rent expense was approximately $495,000 and $423,000 for 2020 and 2019, respectively, which is net of rent income of approximately $35,000 for 2020 and 2019.

Legal Matters

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the financial position of the Company.

NOTE L RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has and expects to continue to conduct routine banking business with related parties, including its executive officers, directors, shareholders, and their affiliates in which they directly or indirectly have 5% or more beneficial ownership.

Loans - In the ordinary course of business, the Company has and expects to continue to have transactions, including borrowings, with its related parties. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the Company. Loans to such borrowers are summarized as follows:

	2020	2019
Balance at beginning of year	$ 4,544,679	$ 4,812,723
New loans	2,615,401	546,010
Repayments	(1,437,488)	(814,054)
Balance at end of year	$ 5,722,592	$ 4,544,679

Unfunded Commitments - The Company has approximately $159,000 and $604,000 of unfunded commitments to its executive officers, directors, principal shareholders of the Company, and their affiliates, at December 31, 2020 and 2019, respectively.

Deposits - At December 31, 2020 and 2019, deposits from related parties total approximately $10,438,000 and $12,559,000, respectively.

NOTE M TEXAS GULF BANCSHARES, INC. 2009 PHANTOM STOCK RIGHTS PLAN

During 2009, the Company adopted a Phantom Stock Rights Plan covering certain Bank employees. The value of each right is defined under the Plan as the Award Value and is determined by the Board of Directors to be the fair market value of each share of the Company's common stock at the time of the award. The rights generally vest over a five to seven-year period.

During 2016, The Company adopted an Amended and Restated Phantom Stock Rights Plan covering Bank employees. The purpose of the Plan was to provide additional shares for the Company to issue and amend to allow the participants the ability to exercise rights without termination of employment. The value of each right is defined under the Plan as the Award Value and is determined by the Board of Directors to be the fair market value of each share of the Company's common stock at the time of the award. The rights generally vest over a five to seven-year period.

At December 31, 2020 and 2019, the Company had rights for 19,800 and 20,100 shares outstanding, respectively, with intrinsic values ranging from $ 0.87 to $71.87 per share at December 31, 2020 and from $10.63 to $81.63 per share at December 31, 2019. At December 31, 2020 and 2019, the liability for future payments recorded is $742,140 and $700,124, respectively.

NOTE N STOCK OPTION PLANS

In February 2008, the Board of Directors approved an employee incentive stock option plan (the 2008 Plan). Under the 2008 Plan, options for 62,367 shares have been granted to purchase common stock at prices ranging from $85.00 to $137.50 which were determined by the plan administrators to be 100% of the fair market value of the stock at the grant date. Generally, the options vest ratably over a five-year or ten-year period beginning at the grant date. The options expire ten years from the grant date. At December 31, 2020, 3,000 options remain outstanding and exercisable under the 2008 Plan. At December 31, 2019, 12,500 options were outstanding and 11,500 were exercisable under the 2008 Plan.

During 2013, the shareholders of the Company approved an additional incentive stock option plan (the 2013 Plan), under which, 20,000 shares of common stock may be awarded as stock options. Under the 2013 plan, options for 4,000 shares have been granted to purchase common stock at prices ranging from $140.00 to $150.00 which was determined by the plan administrators to be 100% of the fair market value of the stock at the grant date. Generally, the options vest ratably over a five-year or ten-year period beginning at the grant date. The options expire ten years from the grant date. At December 31, 2020, there are no options outstanding under the 2013 Plan. At December 31, 2019, 2,000 options were outstanding and 2,000 were exercisable under the 2013 Plan.

In December 2017, the Board of Directors approved a loan program with the primary purpose of providing funds to certain stock option holders to exercise options plus pay estimated taxes due from the transaction. The loans mature in nine years with interest only payments every three months at an interest rate based on the Applicable Federal Rates (AFR), mid-term rates at 120% on loan issuance date (.70%-3.23%). In May of 2020, the Board of Directors approved to modify all outstanding loan interest rates to the current interest rate of .70%. There were two loans totaling $1,286,250 for the exercise of options and one loan for $81,750 for estimated taxes that were issued during 2020. There was one loan issued for $385,000 for the exercise of options during 2019. Cash received in exercise of share options during the years ended December 31, 2020 and 2019 was $0 and $350,000, respectively. Cash received to repay loans for the exercise of options during the years ended December 31, 2020 and 2019 was $531,000 and $400,000, respectively. Cash received to repay loans for estimated taxes during the years ended December 31, 2020 and 2019 was $887,000 and $0, respectively.

NOTE N STOCK OPTION PLANS (CONTINUED)

Below is a table that sets forth pertinent information regarding Company stock options for the years ended December 31, 2020 and 2019.

	2020		2019	
	# Shares of Underlying Options	Weighted Average Exercise Prices	# Shares of Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of year	14,500	$ 117.16	21,500	$ 113.20
Granted	-	$ -	-	$ -
Exercised	(11,500)	$ 111.85	(7,000)	$ 105.00
Forfeited	-	$ -	-	$ -
Outstanding at end of year	3,000	$ 137.50	14,500	$ 117.16
Exercisable at end of the year	3,000	$ 137.50	13,500	$ 118.43
Unvested at end of the year	-	$ -	1,000	$ 100.00

The following table summarizes information about stock options outstanding at December 31, 2020:

	Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Intrinsic Value per Option	Weighted Average Remaining Contractual Life	Number Outstanding	Weighted Average Exercise Prices	Intrinsic Value per Option
$ 137.50	3,000	$ 34.37	1.85	3,000	$ 137.50	$ 34.37
	3,000		1.85	3,000		

The total intrinsic value at grant date for all options outstanding at December 31, 2020 is $103,110 in which all is attributable to vested options. There were 11,500 options exercised during 2020 with a weighted average grant date fair value of $19.40 using the Black-Scholes option pricing model. There were 7,000 options exercised during 2019 with a weighted average grant date fair value of $13.60 using the Black-Scholes option pricing model.

NOTE N STOCK OPTION PLANS (CONTINUED)

A summary of changes in unvested options for the years ended December 31, 2020 and 2019 is as follows:

	2020		2019	
	Number of Shares Underlying Options	Weighted Average Grant Date Fair Value	Number of Shares Underlying Options	Weighted Average Grant Date Fair Value
Unvested outstanding, beginning of year	1,000	$ 13.14	2,621	$ 19.21
Granted	-	$ -	-	$ -
Forfeited	-	$ -	-	$ -
Vested	(1,000)	$ 13.14	(1,621)	$ 22.96
Unvested outstanding, end of year	-	$ -	1,000	$ 13.14

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. There were no options granted in 2020 or 2019.

For options granted on or after January 1, 2006, compensation costs are recognized in the consolidated statements of income based on their fair values on the date of the grant. For the years ended December 31, 2020 and 2019, compensation expense of $13,140 and $62,844 respectively, was recorded. As of December 31, 2020, all compensation expense has been recognized related to the stock-based compensation arrangements. The impact of forfeitures of stock-based awards on compensation expense is recognized as forfeitures occur.

NOTE O RETIREMENT BENEFITS

The Company has a contributory employee savings plan covering substantially all employees. Participants in the plan may contribute up to the maximum allowed by the Internal Revenue Service. The Company matches 50% of participants' deductions up to 6% of their salary. At the discretion of the Board of Directors, the Company may contribute an additional percentage of each participant's salary to the plan. Total Company contributions to the plan, including the discretionary profit sharing portion, were approximately $529,000 and $505,000 for the years ended December 31, 2020 and 2019, respectively. These amounts are included in salaries and employee benefits for each of the respective periods.

NOTE P REGULATORY MATTERS

Regulatory Capital

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

NOTE P REGULATORY MATTERS (continued)

The federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio (CBLR) framework, for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule was effective on January 1, 2020 and allows qualifying community banking organizations to calculate a leverage ratio to measure capital adequacy. Banking organizations that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a tier 1 leverage ratio of greater than 9 percent, are considered qualifying community banking organizations and are eligible to opt into the CBLR framework. Banks opting into the CBLR framework will not be required to calculate or report risk-based capital. The Bank adopted the new CBLR framework as of March 31, 2020.

A qualifying institution with a leverage ratio that exceeds 9 percent and opts into the CBLR framework shall be considered to have met (i) the generally applicable risk-based and leverage capital requirements in the agencies' capital rules, (ii) the capital ratio requirements to be considered well-capitalized under the agencies' prompt corrective action (PCA) framework, and (iii) any other applicable capital or leverage requirements. If a CBLR banking organization fails to satisfy one of the qualifying criteria but has a leverage ratio of greater than 8 percent, the banking organization can continue to apply the CBLR framework and be considered, "well capitalized" for a grace period of up to two quarters. The tier 1 leverage ratio was 10.7% and 10.0% for the years ended December 31, 2020 and 2019, respectively.

Effective November 9, 2020, the regulators adopted, as final, the revisions to the CBLR framework made under two interim final rules issued in the Federal Register on April 23, 2020. The final rule adopted these interim final rules with no changes. Under the final rule, the CBLR will remain 8 percent through calendar year 2020, will be 8.5 percent through calendar year 2021, and will be 9 percent thereafter. The final rule maintains the two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1 percentage point below the applicable CBLR requirement.

Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Company's consolidated financial statements. Management believes, as of December 31, 2020, that the Company and the Bank meet all the capital adequacy requirements to which they are subject.

Dividend Restrictions

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of distributions to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years.

NOTE P REGULATORY MATTERS (continued)

Basel III

The Dodd-Frank Act requires the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks. In July 2013, the federal banking agencies published new capital rules referred to herein as the Basel III capital rules which revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets. The Basel III capital rules apply to all bank holding companies with $1.0 billion or more in consolidated assets and all banks regardless of size. The Basel III capital rules became effective as applied to us on January 1, 2015 with a phase-in period for the new capital conservation buffer of 2.50% through January 1, 2019.

In 2019, quantitative measures established by regulatory reporting standards to ensure capital adequacy required the Company to maintain minimum amounts and ratios of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and Tier 1 capital (as defined) to average assets (as defined). The capital requirements in the table below exclude the capital conservation buffer (2.50% at December 31, 2019) required to avoid limitations on capital distributions including dividend payments and certain discretionary bonus payments to executive officers. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2019						
Total Capital to Risk-Weighted Assets	$71,361,000	15.3%	$ 37,337,000	8.0%	$ 46,672,000	10.0%
Tier I Capital to Risk-Weighted Assets	$66,506,000	14.3%	$ 28,003,000	6.0%	$ 37,337,000	8.0%
Common Equity Tier 1 Capital Ratio	$66,506,000	14.3%	$ 21,002,000	4.5%	$ 30,337,000	6.5%
Leverage Ratio	$66,506,000	10.0%	$ 26,509,000	4.0%	$ 33,136,000	5.0%

NOTE Q FAIR VALUE DISCLOSURES

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilized valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability.

Fair Value Hierarchy

U.S. GAAP specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are observable or unobservable. These inputs are summarized in the three broad levels listed below.

NOTE Q FAIR VALUE DISCLOSURES (continued)

Level 1 - Level 1 inputs are based upon unadjusted quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 - Level 2 inputs are based upon other significant observable inputs (including quoted prices in active or inactive markets for similar assets and liabilities), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of a financial instrument.

Level 3 - Level 3 inputs are based upon unobservable inputs reflecting management's assumptions that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Level 3 measurements are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

During the years ended December 31, 2020 and 2019, there were no transfers of financial assets or liabilities within the fair value hierarchy.

Financial Instruments Recorded at Fair Value

Recurring - The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2020 and 2019 (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
2020				
Securities available for sale	$ -	$ 189,926	$ -	$ 189,926
2019				
Securities available for sale	$ -	$ 190,855	$ -	$ 190,855

When quoted market prices are available in an active market, securities available for sale are classified within Level 1 of the valuation hierarchy. Other securities classified as available for sale are reported at fair value using 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 prepayment speeds, credit information, and the bonds' terms and conditions, among other factors.

Nonrecurring – Following is a description of the Company's valuation methodologies used for other financial instruments measured at fair value on a nonrecurring basis:

NOTE Q FAIR VALUE DISCLOSURES (continued)

Collateral Dependent Impaired Loans

While the overall portfolio is not carried at fair value, adjustments are recorded on certain loans to reflect partial write-downs that are based on the value of the underlying collateral. In determining the value of real estate collateral, the company relies on external appraisals and assessment of property values by its internal staff. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. Because many of these inputs are not observable, the measurements are classified as Level 3. There were no collateral dependent loans with specific allocated losses at December 31, 2020. The fair value of collateral dependent loans with specific allocated losses was approximately $109,000 at December 31, 2019.

Other Real Estate Owned

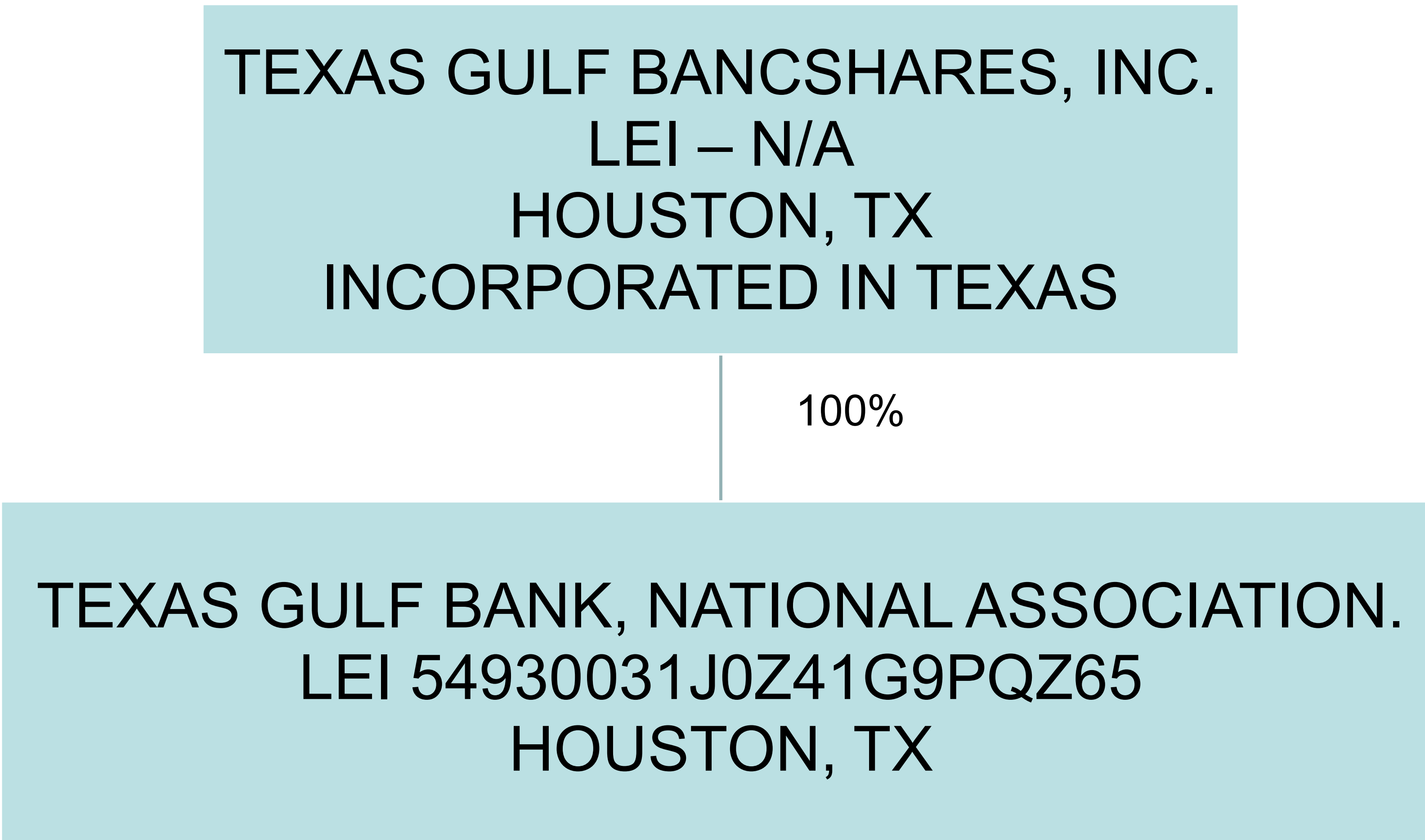
Other real estate owned is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of other real estate owned is based on appraisals or evaluations. Appraisals of other real estate owned are obtained when the real estate is acquired and subsequently as deemed necessary. Appraisals are reviewed for accuracy and consistency. Appraisers are selected from the list of approved appraisers maintained by management. As necessary, the appraisal value may be reduced by comparability adjustments and estimated costs to sell. These measurements are classified as Level 3. There were $211,250 and $237,500 in other real estate owned marked to fair value in 2020 and 2019 respectively.

NOTE R STOCK REPURCHASES

The Board of Directors did not approve a Stock Repurchase Plan for 2020. Other treasury stock purchases during the year ended December 31, 2020 totaled $1,437,420.

In May 2019, a Stock Repurchase Plan was approved by the Board of Directors. The plan's purpose was to provide liquidity to shareholders, reduce expense of managing a larger shareholder base, enhance shareholder value and make an efficient use of excess capital. The plan authorized the repurchase of $5.0 million of shares at the fair market value of $181.63 based on a Bank Stock evaluation dated April 22, 2019, with the option to increase the size of the tender, if the offer was oversubscribed. In September, the Board of Directors approved the purchase of 35,315 shares for a total repurchase of $6,414,263. Other treasury stock purchases during the year totaled $1,057,601.

REPORT ITEM 2a. ORGANIZATION CHART



Report Item 2b: Domestic Branch Listing

Results: A list of branches for your depository institution: TEXAS GULF BANK, NATIONAL ASSOCIATION (ID_RSSD: 514655).
This depository institution is held by TEXAS GULF BANCSHARES, INC. (1101726) of HOUSTON, TX.
The data are as of 12/31/2020. Data reflects information that was received and processed through 01/05/2021.

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)	514655	TEXAS GULF BANK, NATIONAL ASSOCIATION	1626 SOUTH VOSS ROAD	HOUSTON	TX	77057	HARRIS	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	
OK		Full Service	426459	ANGLETON BRANCH	1717 NORTH VELASCO STREET	ANGLETON	TX	77515	BRAZORIA	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	
OK		Full Service	760359	CLUTE BRANCH	1030 DIXIE DRIVE	CLUTE	TX	77531	BRAZORIA	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	
OK		Full Service	813956	BRAZOSPORT BRANCH	1400 BRAZOSPORT BLVD.	FREEPORT	TX	77541	BRAZORIA	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	
OK		Full Service	4217598	FRIENDSWOOD BRANCH	1100B SOUTH FRIENDSWOOD DRIVE	FRIENDSWOOD	TX	77546	GALVESTON	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	
OK		Full Service	4897767	CITYCENTRE	900 TOWN & COUNTRY LN, SUITE 100	HOUSTON	TX	77024	HARRIS	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	
OK		Full Service	2987123	LAKE JACKSON BRANCH	203 THIS WAY ST	LAKE JACKSON	TX	77566	BRAZORIA	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	
OK		Full Service	3313998	WEST COLUMBIA BRANCH	109 EAST BRAZOS AVENUE	WEST COLUMBIA	TX	77486	BRAZORIA	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	
OK		Full Service	4486161	WEST U BRANCH	5600 KIRBY DRIVE, SUITE S-1	WEST UNIVERSITY PLACE	TX	77005	HARRIS	UNITED STATES	Not Required	Not Required	TEXAS GULF BANK, NATIONAL ASSOCIATION	514655	

Form FR Y-6
Texas Gulf Bancshares, Inc
Houston, TX
Fiscal Year Ending December 31, 2020
Revised to carry out decimal place in percentage

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020 498,633

(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Common Stock #	%
Sarah B. Hrdy Davis, CA USA (1) (2) (3)	USA	110,601	22.18%
Nicholas Hrdy Winters, CA USA (3)	USA	224	0.04%
Joan Blaffer Johnson Houston, TX USA (1) (4) (5)	USA	63,870	12.81%
Wirt Blaffer Houston, TX USA (5)	USA	2,290	0.46%
Camilla R. Blaffer Houston, TX USA (1) (6) (7)	USA	22,360	4.48%
H. Walker Royall Dallas, TX USA (7) (7a)	USA	30,113	6.04%
John Royall Houston, TX USA (7) (7b)	USA	30,313	6.08%
Catherine B. Taylor Dallas, TX USA (1) (8) (9)	USA	96,266	19.31%
Katherine Taylor Chicago, IL USA (9)	USA	4,251	0.85%
Christie Taylor Agency Dallas, TX USA (9)	USA	2,684	0.54%
	Total	362,972	72.79%

Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2020

(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
	NONE	

(1) Sarah Hrdy; Joan Blaffer Johnson; Camilla R. Blaffer; and Catherine B. Taylor are sisters.

(2) Includes:
85,975 shares (17.24%) held in Hrdy Descendants Trust -Sarah B. Hrdy is the Settlor and Mr. Hrdy & J.P. Morgan Trust Company are Trustees
8,248 shares (1.65%) Bur Oak Investments LLC of which Sarah Hrdy Trust B assets is sole member for sole benefit of Sarah B. Hrdy
16,378 shares (3.28%) held by Sarah B. Hrdy Trust A which Sarah is beneficiary

(3) Sarah B. Hrdy is Mother of Nicholas Hrdy

(4) Includes:
13,814 shares (2.77%) held in Joan H. Blaffer, Trust A of which Joan is beneficiary
50,056 shares (10.04%) held in name of KSW Partners Trust, Grantor Trust, Wirt Blaffer is Trustee for benefit of Joan's three children

(5) Joan Blaffer Johnson is the Mother of Wirt Blaffer

(6) Includes:
8,552 shares (1.72%) held in Camilla B. Royall Trust B of which Camilla is the beneficiary
13,808 shares (2.77%) held in Camilla B. Royall Trust A of which Camilla is the beneficiary

(7) Camilla R. Blaffer is the mother of John Royall (JBR) and Walker Royall (HWR)

(7a) Includes: 30,113 held in HWR 2019 Trust (purch. 1/2 Assets from Camilla Mallard Trust (Mother)) H. Walker Royall is Co-Trustee and beneficiary

(7b) Includes:
200 Shares held by John Royall
30,113 Shares held in JBR 2019 Trust (purch. 1/2 assets from Camilla Mallard Trust - Mother) John Royall is beneficiary

(8) Includes:
62,900 shares (12.61%) held in Catherine Taylor 2016 Irrevocable TGB Trust Grantor Trust for benefit of children and grandchildren.
8,852 shares (1.78%) held in Catherine Taylor 2016 Mirror Trust B of which Catherine is the beneficiary.
21,762 shares (4.36%) held in Catherine Taylor Mirror Trust A of which Catherine is the beneficiary.
2,752 shares (.55%) held in Catherine Taylor individually

(9) Catherine Taylor is the Mother of Katherine Taylor and Christi Taylor

TEXAS GULF BANCSHARES, INC.

REPORT ITEM # 4. -REVISED

DIRECTOR'S/OFFICER'S/PRINCIPAL'S NAME ADDRESS AND PRINCIPAL OCCUPATION (1) (2)	ORGANIZATION (3) (a) (b) (c) ***	TITLE OR POSITION WITH: (3) (a) (b) (c)	NO OF SHARES OF VOTING SHARES	PERCENTAGE (4) (a) (b) (c) OF VOTING SHARES
CAMILLA BLAFFER HOUSTON, TX USA INVESTOR	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) None	(a) Principal Shareholder /Advisory Director (b) N/A (c) N/A	22,360	4.48% (b) N/A (c) N/A
WIRT BLAFFER HOUSTON, TX USA CONSULTANT	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) Howard Wharf, LP	(a) Principal Shareholder/Chairman/Director (b) Director (c) Manager/GP	2,290	0.46% (b) N/A (c) 42%
JAMES F. BROWN, JR. LAKE JACKSON, TX USA BANKER	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) None	(a) CEO/Director (b) CEO/Director (c) N/A	15,910	3.19% (b) N/A (c) N/A
NICHOLAS HRDY WINTERS, CA USA INVESTOR	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) None	(a) Principal Shareholder/Vice-Chairman/Director (b) N/A (c) N/A	224	0.04% (b) N/A (c) N/A
SARAH B. HRDY WINTERS, CA USA INVESTOR	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) SBH Limited	(a) Principal Shareholder/Advisory Director (b) N/A (c) Owner	110,601	22.18% (b) N/A 100%
RICHARD W. JOCHETZ HOUSTON, TX USA BANKER	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) None	(a) President/Director (b) President/Director (c) N/A	10,391	2.08% (b) N/A (c) N/A
JOAN B. JOHNSON HOUSTON TX USA INVESTOR	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) None	(a) Principal Shareholder (b) N/A (c) N/A	63,870	12.81% (b) N/A (c) N/A
S.T. MCKNIGHT LAKE JACKSON, TX USA CONSULTANT	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) STMCK L.L.C.	(a) Director (b) Director (c) Owner/President	2,750	0.55% (b) N/A (c) 100%
H WALKER ROYALL DALLAS, TX USA INVESTOR	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) None	(a) Principal Shareholder (b) N/A (c) N/A	30,113	6.04% (b) N/A (c) N/A
JOHN B. ROYALL HOUSTON, TX USA INVESTOR	(a) Texas Gulf Bancshares, Inc. (b) Texas Gulf Bank, N.A. (c) None	(a) Principal Shareholder/Director (b) N/A (c) N/A	30,313	6.08% (b) N/A (c) N/A

TEXAS GULF BANCSHARES, INC.

REPORT ITEM # 4.

DIRECTOR'S/OFFICER'S/PRINCIPAL'S NAME ADDRESS AND PRINCIPAL OCCUPATION (1) (2)	ORGANIZATION (3) (a) (b) (c) ***	TITLE OR POSITION WITH: (3) (a) (b) (c)	NO OF SHARES OF VOTING SHARES	PERCENTAGE (4) (a) (b) (c) OF VOTING SHARES
CATHERINE B. TAYLOR	(a) Texas Gulf Bancshares, Inc.	(a) Principal Shareholder/Director	96,266	19.31%
DALLAS, TX				
USA	(b) Texas Gulf Bank, N.A.	(b) N/A		(b) N/A
INVESTOR	(c) 1 - Catherine Taylor 2016 Revocable Family Trust	(c) 1 Shareholder Grantor/Trustee		(c) 1 100%
	(c) 2 - Turkey Trot Management, Inc	(c) 2 President/Secretary		(c) 2 100%
	(c) 3 - Turkey Trot/Midway Alabama LP	(c) 3 General Partner		(c) 3 100%
	(c) 4 - Trinka Investments LP	(c) 4 General Partner		(c) 4 50%
	(c) 5 - Catherine B. Taylor Trust B	(c) 5 Trustee		(c) 5 100%
KATHERINE TAYLOR	(a) Texas Gulf Bancshares, Inc.	(a) Principal Shareholder	4,251	0.85%
Chicago, IL				
USA	(b) Texas Gulf Bank, N.A.	(b) N/A		(b) N/A
INVESTOR	(c) None	(c) N/A		(c) N/A
CHRISTIE TAYLOR AGENCY	(a) Texas Gulf Bancshares, Inc.	(a) Principal Shareholder	2,684	0.54%
DALLAS, TX				
USA	(b) Texas Gulf Bank, N.A.	(b) N/A		(b) N/A
INVESTOR	(c) None	(c) N/A		(c) N/A
DEBORAH K WINTJEN	(a) Texas Gulf Bancshares, Inc.	(a) Secretary, Treasurer	450	0.09%
CLUTE, TX				
USA	(b) Texas Gulf Bank, N.A.	(b) Chief Financial Officer		(b) N/A
BANKER	(c) None	(c) N/A		(c) N/A

*** a=Texas Gulf Bancshares, Inc.
b= Texas Gulf Bank
c= Other Businesses

12/31/2020 TEXAS GULF BANCSHARES, Shares Outstanding **498,633**