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, Mindy Hopper
Name of the Holding Company Director and Official

Treasurer/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.

M Justy Hopper
Signature of Holding Company Director and Official

3/30/21
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [X] 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

Goldthwaite Bancshares, Inc.
Legal Title of Holding Company

1017 Parker Street
(Mailing Address of the Holding Company) Street / P.O. Box

Goldthwaite	TX	76844
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Mindy Hopper	Treasurer
Name	Title

325-648-2216
Area Code / Phone Number / Extension

325-648-2773
Area Code / FAX Number

mhopper@mcbanktx.com
E-mail Address

mcbanktx.com
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."

Form FR Y-6

GOLDTHWAITE BANCSHARES, INC.

Goldthwaite, Texas
Fiscal Year Ending December 31, 2020

Report Item

1: a. The BHC is not required to file form 10(k) with the SEC.
   b. The BHC does prepare an annual report for its shareholders.
   The Audited Financial Statements are included with this report.

2. Organizational Chart

GOLDTHWAITE BANCSHARES, INC.
Goldthwaite, Texas
Incorporated in Texas

Direct ownership of 75,000 shares (100%)
of MCBank

MCBank
Goldthwaite, Texas
Incorporated in Texas

Direct ownership of 1,000 shares (100%)
of MCB CRE, Inc.

MCB CRE, Inc.
Goldthwaite, Texas
Incorporated in Texas

None of these entities have a LEI number.

Results: A list of branches for your depository institution: MCBANK (ID_RSSD: 522753).
This depository institution is held by GOLDTHWAITE BANCSHARES, INC. (1103999) of GOLDTHWAITE, 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)	522753	MCBANK	1017 PARKER STREET	GOLDTHWAITE	TX	76844	MILLS	UNITED STATES	Not Required	Not Required	MCBANK	522753	
Close	4/3/2020	Full Service	2030010	BROWNWOOD BRANCH	3101 AUSTIN AVENUE	BROWNWOOD	TX	76801	BROWN	UNITED STATES	Not Required	Not Required	MCBANK	522753	
OK		Full Service	2322425	EARLY BRANCH	411 EARLY BLVD.	EARLY	TX	76802	BROWN	UNITED STATES	Not Required	Not Required	MCBANK	522753	
OK		Full Service	3387243	HAMILTON BRANCH	1005 EAST MAIN ST	HAMILTON	TX	76531-1500	HAMILTON	UNITED STATES	Not Required	Not Required	MCBANK	522753	
OK		Full Service	183051	HICO BRANCH	135 N. PECAN	HICO	TX	76457	HAMILTON	UNITED STATES	Not Required	Not Required	MCBANK	522753	

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Goldthwaite Bancshares, Inc.
Goldthwaite, TX
Fiscal Year Ending 12/31/2020

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 MM/DD/YYYY			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 MM/DD/YYYY (but not at fiscal year-end)		
(1)(a) Name & Address (City, State, Country)	**(1)(b)** Country of Citizenship or Incorporation	**(1)(c)** Number and Percentage of Each Class of Voting Securities	**(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
Good Living Trust and Martha C. Good Heritage Trust M. Carolyn Good, Ttee Los Ranchos, NM USA	USA	31,756 19.71%	**NONE**		
Tom Cody Graves (includes Tom C. Graves Heritage Trust) Goldthwaite, TX USA	USA	21,266 13.20%			
Cynthia Alyse Good Arlington, MA USA	USA	3,258 2.02%			
2005 Natalie G. Good Trust Cynthia A. Good, Ttee Arlington, MA USA	USA	819 0.51%			
Robert G. Good Corrales, NM USA	USA	4,077 2.53%			
Calvin J. Good Corrales, NM USA	USA	75 0.05%			
Hannah G. Good Corrales, NM USA	USA	75 0.05%			
Robert A. Good Arlington, MA USA	USA	75 0.05%			
Natalie G. Good Arlington, MA USA	USA	75 0.05%			
Cody C. Graves Heritage Trust Cody C. Graves, Ttee Goldthwaite, TX USA	USA	6,648 4.13%			
Debra Graves Bridges Heritage Trust Debra Bridges, Ttee Goldhwaite, TX USA	USA	6,648 4.13%			
Lisa Graves Thompson Heritage Trust Lisa Thompson, Ttee Lorena, TX USA	USA	6,648 4.13%			
	Total - Graves Family	**81,420** **50.56%**			
C. T. Head Goldthwaite, TX USA	USA	19,500 12.11%			
S. Kathi Campbell Goldthwaite, TX USA	USA	10,800 6.70%			

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Goldthwaite Bancshares, Inc.
Goldthwaite, TX
Fiscal Year Ending 12/31/2020

Report Item 4: Insiders

(1) Name & Address (City, State, Country)	(2) Principal Occupation, if other than with holding company	(3)(a) Title/Position with holding company	(3)(b) Title/Position with Subsidiaries (including subsidiary name)	(3)(c) Title/Position with Other Businesses (including business name)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name)	(4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25%
Dr. Tom Cody Graves Goldthwaite, TX USA	Dentist	Chairman/Director/ Principal Shareholder	MCBank Chairman/Director MCB CRE, Inc. Director	Graves and Graves, Inc. President	13.20%	MCBank None MCB CRE, Inc. None	50.00%
Robert Hemsath Goldthwaite, TX USA	Bank Officer	President/Director	MCBank CEO/Director MCB CRE, Inc. President/Director	None	None	MCBank None MCB CRE, Inc. None	N/A
C. T. Head Goldthwaite, TX USA	Retired Bank Officer	Director/ Principal Shareholder	MCBank Director MCB CRE, Inc. None	None	12.11%	MCBank None MCB CRE, Inc. None	N/A
Melinda Hopper Priddy, TX USA	Bank Officer	Treasurer/Director	MCBank EVP/Cashier/ Director MCB CRE, Inc. Treasurer/Director	None	None	MCBank None MCB CRE, Inc. None	N/A
Dr. Cody Graves Goldthwaite, TX USA	Dentist	Director/Principal Shareholder	MCBank Director MCB CRE, Inc. Director	Graves and Graves, Inc. Secretary	4.13%	MCBank None MCB CRE, Inc. None	50.00%
Dr. Melanie Bartek Goldthwaite, TX USA	Optomitrist	Director	MCBank Director MCB CRE, Inc. None	None	None	MCBank None MCB CRE, Inc. None	N/A
Milton McGee Henderson, TX USA	Bank Consultant	Director	MCBank Director MCB CRE, Inc. None	None	None	MCBank None MCB CRE, Inc. None	N/A

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Goldthwaite Bancshares, Inc.
Goldthwaite, TX
Fiscal Year Ending 12/31/2020

Report Item 4: Insiders

(1) Name & Address (City, State, Country)	(2) Principal Occupation, if other than with holding company	(3)(a) Title/Position with holding company	(3)(b) Title/Position with Subsidiaries (including subsidiary name)	(3)(c) Title/Position with Other Businesses (including business name)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name)	(4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25%
Steven Bridges Goldthwaite, TX USA	Newspaper Owner	Director	MCBank Director MCB CRE, Inc. None	Goldthwaite Eagle Newspaper Owner	None	MCBank None MCB CRE, Inc. None	100.00%
Bill Blackwell Goldthwaite, TX USA	Rancher	Director	MCBank Director MCB CRE, Inc. None	None	0.09%	MCBank None MCB CRE, Inc. None	N/A
Kevin Shahan San Saba, TX USA	CPA	Director	MCBank Director MCB CRE, Inc. None	Kevin Shahan, CPA Owner	None	MCBank None MCB CRE, Inc. None	100.00%
Bobby Rountree Goldthwaite, TX USA	Retired City Manager	Director	MCBank Director MCB CRE, Inc. None	None	None	MCBank None MCB CRE, Inc. None	N/A
Martha Carolyn Good Los Ranchos, NM USA	Trustee - Retired Musician	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	19.71%	MCBank None MCB CRE, Inc. None	N/A
Cynthia Alyse Good Arlington, MA USA	Minister	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	2.53%	MCBank None MCB CRE, Inc. None	N/A
Robert G. Good Corrales, NM USA	Dentist	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	2.53%	MCBank None MCB CRE, Inc. None	N/A
Calvin J. Good Corrales, NM USA	College Student	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	0.05%	MCBank None MCB CRE, Inc. None	N/A
Hannah G. Good Corrales, NM USA	College Student	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	0.05%	MCBank None MCB CRE, Inc. None	N/A
Robert A. Good Arlington, MA USA	College Student	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	0.05%	MCBank None MCB CRE, Inc. None	N/A

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Goldthwaite Bancshares, Inc.
Goldthwaite, TX
Fiscal Year Ending 12/31/2020

Report Item 4: Insiders

(1) Name & Address (City, State, Country)	(2) Principal Occupation, if other than with holding company	(3)(a) Title/Position with holding company	(3)(b) Title/Position with Subsidiaries (including subsidiary name)	(3)(c) Title/Position with Other Businesses (including business name)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name)	(4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25%
Natalie G. Good Arlington, MA USA	College Student	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	0.05%	MCBank None MCB CRE, Inc. None	N/A
Debra Graves Bridges Goldthwaite, TX USA	Trustee - Teacher	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	4.13%	MCBank None MCB CRE, Inc. None	N/A
Lisa Graves Thompson Lorena, TX USA	Trustee - Physical Therapist	Principal Shareholder	MCBank None MCB CRE, Inc. None	None	4.13%	MCBank None MCB CRE, Inc. None	N/A

GOLDTHWAITE BANCSHARES, INC.
AND SUBSIDIARIES
GOLDTHWAITE, TEXAS

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS
AND
AUDITED CONSOLIDATED BANK ONLY
FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

C O N T E N T S

Stovall Grandey & Allen LLP

500 W. 7th Street
Suite 900
Fort Worth, Texas
76102-4702

Phone 817-632-2500
Fax 817-632-2598

www.sga-cpas.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of Goldthwaite Bancshares, Inc.
Goldthwaite, Texas

We have audited the accompanying consolidated financial statements of Goldthwaite Bancshares, Inc. and Subsidiaries, which comprise the balance sheets as of December 31, 2020 and 2019, and the related 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. We have also audited the accompanying consolidated balance sheets of MCBank and Subsidiary (Consolidated Bank Only) as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, changes in shareholder's equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of 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 financial statements referred to on the previous page present fairly, in all material respects, the financial position of Goldthwaite Bancshares, Inc. and Subsidiaries and MCBank and Subsidiary (Consolidated Bank Only) as of December 31, 2020 and 2019 and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other financial information on pages 46-48 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP
Fort Worth, Texas
March 16, 2021

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 2	$ 6,657,690	$ 8,066,791
Interest-bearing deposits in other financial institutions maturing in less than three months	39,355,132	6,575,309
Total cash and cash equivalents	46,012,822	14,642,100
Investment securities - Note 3	189,280,450	161,059,660
Other investments, at cost - Note 1	613,400	324,700
Loans, net of deferred loan fees and costs and allowance for loan losses - Note 4	121,047,821	133,695,656
Premises and equipment, net of accumulated depreciation - Note 5	4,346,242	3,577,719
Foreclosed and repossessed assets	25,802	45,467
Accrued interest receivable	1,890,809	1,815,193
Goodwill - Note 6	2,156,980	2,156,980
Other intangible assets, net - Note 6	-	41,721
Corporate-owned life insurance - Note 7	8,070,372	7,785,462
Other assets	877,350	678,536
Total Assets	$ 374,322,048	$ 325,823,194
LIABILITIES		
Deposits - Note 8	$ 319,007,712	$ 288,921,979
Other liabilities:		
Dividends payable	1,642,925	512,321
FHLB borrowings - Note 10	3,000,000	-
Note payable - Note 9	189,906	205,317
Subordinated debt - Note 11	8,350,000	-
Accrued interest payable	48,276	76,850
Accrued expenses and other liabilities	791,851	550,674
Total other liabilities	14,022,958	1,345,162
Total Liabilities	333,030,670	290,267,141
Commitments and contingencies - Notes 10, 13, 14, 16 and 17		
SHAREHOLDERS' EQUITY		
Common stock - non-voting, par value - $25 a share: Authorized and issued - 17,312 shares	432,800	432,800
Common stock, par value $.05 a share: Authorized - 1,000,000 shares Issued - 173,120 shares	8,656	8,656
Capital surplus	918,936	898,094
Retained earnings	37,742,532	34,985,775
Accumulated other comprehensive income	4,979,130	1,970,275
	44,082,054	38,295,600
Less common stock - voting, held in treasury, 12,041 shares at cost as of December 31, 2020 and 2019	(2,524,222)	(2,524,222)
Less common stock - non-voting, held in treasury, 1,788 and 1,630 shares at cost as of December 31, 2020 and 2019, respectively	(266,454)	(215,325)
Total Shareholders' Equity	41,291,378	35,556,053
Total Liabilities and Shareholders' Equity	$ 374,322,048	$ 325,823,194

The accompanying notes are an integral part of these financial statements.

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

	2020	2019
Interest income		
Interest and fees on loans	$ 8,486,357	$ 8,482,689
Interest on investment securities:		
Taxable	2,158,700	2,117,439
Exempt from federal income taxes	1,670,004	1,436,502
	3,828,704	3,553,941
Interest on federal funds sold and interest-bearing deposits with financial institutions	143,353	325,991
Total interest income	12,458,414	12,362,621
Interest expense		
On deposits	639,216	871,987
On borrowed funds	309,632	21,249
Total interest expense	948,848	893,236
Net interest income	11,509,566	11,469,385
Provision for loan losses - Note 4	602,546	656,697
Net interest income after provision for loan losses	10,907,020	10,812,688
Non-interest income		
Service charges on deposit accounts	1,133,368	1,399,998
Net gain on sales of investment securities (includes $575,561 and ($518,925) of accumulated other comprehensive income (loss) reclassifications for unrealized gains/losses on available-for-sale securities for 2020 and 2019, respectively)	1,900,218	43,274
Net gain on sales of other real estate	4,826	-
Net earnings on corporate-owned life insurance - Note 7	174,238	144,850
Other	1,006,284	869,886
Total non-interest income	4,218,934	2,458,008
Non-interest expense		
Salaries and employee benefits	5,263,482	5,211,087
Occupancy and furniture and equipment expense	1,091,375	1,018,142
Other	3,550,688	3,465,028
Total non-interest expense	9,905,545	9,694,257
Net Income	$ 5,220,409	$ 3,576,439

The accompanying notes are an integral part of these financial statements.

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

	2020	2019
Net Income	$ 5,220,409	$ 3,576,439
Other Comprehensive Income		
Securities available-for-sale:		
Change in net unrealized gain/loss during the year	3,584,416	3,192,094
Reclassification adjustment for net realized gains/losses on sales during the year	(575,561)	518,925
Other comprehensive income	3,008,855	3,711,019
Comprehensive Income	$ 8,229,264	$ 7,287,458

The accompanying notes are an integral part of these financial statements.

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

	Common Stock Non-Voting	Common Stock Voting	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2019	$ 432,800	$ 8,656	$ 852,216	$ 32,831,404	$ (1,740,744)	$ (2,733,631)	$ 29,650,701
Purchases of treasury stock						(26,916)	(26,916)
Sales of treasury stock			45,878			21,000	66,878
Comprehensive income for the year ended December 31, 2019				3,576,439	3,711,019		7,287,458
Cash dividends - $8.05 a share				(1,422,068)			(1,422,068)
Balance at December 31, 2019	432,800	8,656	898,094	34,985,775	1,970,275	(2,739,547)	35,556,053
Purchases of treasury stock						(60,129)	(60,129)
Sales of treasury stock			20,842			9,000	29,842
Comprehensive income for the year ended December 31, 2020				5,220,409	3,008,855		8,229,264
Cash dividends - $13.94 a share				(2,463,652)			(2,463,652)
Balance at December 31, 2020	$ 432,800	$ 8,656	$ 918,936	$ 37,742,532	$ 4,979,130	$ (2,790,676)	$ 41,291,378

The accompanying notes are an integral part of these financial statements.

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,220,409	$ 3,576,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	354,182	317,392
Provision for loan losses	602,546	656,697
Net premium amortization on investment securities	1,504,315	1,269,699
Stock dividends	(4,400)	(5,700)
Net gain on sales of investment securities	(1,900,218)	(43,274)
Net gain on sales of other real estate	(4,826)	-
Writedown on other real estate	-	2,500
Amortization of core deposit intangibles	41,721	62,550
Net earnings on corporate-owned life insurance	(174,238)	(144,850)
(Increase) decrease in accrued income and other assets	(138,845)	52,707
Increase in accrued expenses and other liabilities	212,603	148,464
Total adjustments	492,840	2,316,185
Net Cash Provided by Operating Activities	5,713,249	5,892,624
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(161,877,987)	(112,673,523)
Maturities and calls of investment securities:		
Available-for-sale	67,670,000	65,580,000
Principal payments on investment securities:		
Available-for-sale	20,618,983	14,248,569
Proceeds from sales of investment securities:		
Available-for-sale	48,772,972	23,703,018
Purchases of FHLB stock	(284,300)	-
Net (increase) decrease in loans	11,744,799	(4,115,633)
Purchases of premises and equipment	(1,122,705)	(230,216)
Proceeds from sales of other real estate	203,347	-
Premiums paid on corporate-owned life insurance	(124,623)	-
Net Cash Used by Investing Activities	$ (14,399,514)	$ (13,487,785)

The accompanying notes are an integral part of these financial statements.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 30,108,258	$ 14,735,827
Net decrease in certificates of deposit	(22,525)	(10,341,115)
Net increase in FHLB borrowings	3,000,000	-
Principal payments on notes payable	(15,411)	(689,548)
Proceeds from issuance of subordinated debt	8,350,000	-
Purchases of treasury stock	(60,129)	(26,916)
Proceeds from sales of treasury stock	29,842	66,878
Dividends paid	(1,333,048)	(1,200,533)
Net Cash Provided by Financing Activities	40,056,987	2,544,593
Net increase (decrease) in cash and cash equivalents	31,370,722	(5,050,568)
Cash and cash equivalents at beginning of year	14,642,100	19,692,668
Cash and cash equivalents at end of year	$ 46,012,822	$ 14,642,100
Supplemental Schedule of Operating and Investing Activities:		
Interest paid	$ 977,422	$ 899,734
Other real estate acquired through loan foreclosure	178,856	47,967

MCBANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(CONSOLIDATED BANK ONLY)
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 2	$ 6,657,690	$ 8,066,791
Interest-bearing deposits in financial institutions maturing in less than three months	39,211,882	6,432,685
Total cash and cash equivalents	45,869,572	14,499,476
Investment securities - Note 3	189,280,450	161,059,660
Other investments, at cost - Note 1	613,400	324,700
Loans, net of deferred loan fees and costs and allowance for loan losses - Note 4	121,047,821	133,695,656
Premises and equipment, net of accumulated depreciation - Note 5	4,346,242	3,577,719
Foreclosed and repossessed assets	25,802	45,467
Accrued interest receivable	1,890,809	1,815,193
Goodwill - Note 6	2,156,980	2,156,980
Other intangible assets, net - Note 6	-	41,721
Corporate-owned life insurance	7,399,187	7,174,642
Other assets	877,350	678,536
Total Assets	$ 373,507,613	$ 325,069,750
LIABILITIES		
Deposits	$ 319,336,425	$ 289,066,560
Other liabilities:		
Dividends payable	1,642,925	512,321
FHLB borrowings - Note 10	3,000,000	-
Note payable - Note 9	189,906	205,317
Accrued interest payable	48,276	76,850
Accrued expenses and other liabilities	791,851	550,674
Total other liabilities	5,672,958	1,345,162
Total Liabilities	325,009,383	290,411,722
Commitments and contingencies - Notes 10, 13, 14, 16 and 17		
SHAREHOLDER'S EQUITY - Notes 18 and 19		
Common stock, par value $20 a share:		
Authorized, issued and outstanding - 75,000 shares	1,500,000	1,500,000
Capital surplus	21,634,526	13,784,526
Retained earnings	20,384,574	17,403,227
Accumulated other comprehensive income	4,979,130	1,970,275
Total Shareholder's Equity	48,498,230	34,658,028
Total Liabilities and Shareholder's Equity	$ 373,507,613	$ 325,069,750

The accompanying notes are an integral part of these financial statements.

MCBANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(CONSOLIDATED BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest income		
Interest and fees on loans	$ 8,486,357	$ 8,482,689
Interest on investment securities:		
Taxable	2,158,700	2,117,439
Exempt from federal income taxes	1,670,004	1,436,502
	3,828,704	3,553,941
Interest on federal funds sold and interest-bearing deposits with financial institutions	142,727	322,838
Total interest income	12,457,788	12,359,468
Interest expense		
On deposits	639,216	871,987
On borrowed funds	46,810	17,916
Total interest expense	686,026	889,903
Net interest income	11,771,762	11,469,565
Provision for loan losses - Note 4	602,546	656,697
Net interest income after provision for loan losses	11,169,216	10,812,868
Non-interest income		
Service charges on deposit accounts	1,133,368	1,399,998
Net gain on sales of investment securities (includes $575,561 and ($518,925) of accumulated other comprehensive income (loss) reclassifications for unrealized gains/losses on available-for-sale securities for 2020 and 2019, respectively)	1,900,218	43,274
Net gain on sales of other real estate	4,826	-
Earnings on corporate-owned life insurance	164,548	167,297
Other	1,006,284	869,886
Total non-interest income	4,209,244	2,480,455
Non-interest expense		
Salaries and employee benefits	5,263,482	5,211,087
Occupancy and furniture and equipment expense	1,091,375	1,018,142
Other	3,315,782	3,456,223
Total non-interest expense	9,670,639	9,685,452
Net Income	$ 5,707,821	$ 3,607,871

The accompanying notes are an integral part of these financial statatements.

MCBANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(CONSOLIDATED BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net Income	$ 5,707,821	$ 3,607,871
Other Comprehensive Income		
Securities available-for-sale:		
Change in net unrealized gain/loss during the year	3,584,416	3,192,094
Reclassification adjustment for net realized gains/losses on sales during the year	(575,561)	518,925
Other comprehensive income	3,008,855	3,711,019
Comprehensive Income	$ 8,716,676	$ 7,318,890

The accompanying notes are an integral part of these financial statatements.

MCBANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(CONSOLIDATED BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019	$ 1,500,000	$ 13,784,526	$ 15,902,098	$ (1,740,744)	$ 29,445,880
Comprehensive income for the year ended December 31, 2019			3,607,871	3,711,019	7,318,890
Cash dividends - $28.09 a share			(2,106,742)		(2,106,742)
Balance at December 31, 2019	1,500,000	13,784,526	17,403,227	1,970,275	34,658,028
Capital injection from parent company		7,850,000			7,850,000
Comprehensive income for the year ended December 31, 2020			5,707,821	3,008,855	8,716,676
Cash dividends - $36.35 a share			(2,726,474)		(2,726,474)
Balance at December 31, 2020	$ 1,500,000	$ 21,634,526	$ 20,384,574	$ 4,979,130	$ 48,498,230

The accompanying notes are an integral part of these financial statements.

MCBANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONSOLIDATED BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,707,821	$ 3,607,871
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	354,182	317,392
Provision for loan losses	602,546	656,697
Net premium amortization on investment securities	1,504,315	1,269,699
Stock dividends	(4,400)	(5,700)
Net gain on sales of investment securities	(1,900,218)	(43,274)
Net gain on sales of other real estate	(4,826)	-
Writedown on other real estate	-	2,500
Amortization of core deposit intangibles	41,721	62,550
Earnings on corporate-owned life insurance	(164,548)	(167,297)
(Increase) decrease in accrued income and other assets	(148,536)	44,697
Increase in accrued expenses and other liabilities	212,603	154,806
Total adjustments	492,839	2,292,070
Net Cash Provided by Operating Activities	6,200,660	5,899,941
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(161,877,987)	(112,673,523)
Maturities and calls of investment securities:		
Available-for-sale	67,670,000	65,580,000
Principal payments on investment securities:		
Available-for-sale	20,618,983	14,248,569
Proceeds from the sales of investment securities:		
Available-for-sale	48,772,972	23,703,018
Purchases of FHLB stock	(284,300)	-
Net (increase) decrease in loans	11,744,799	(4,115,633)
Purchases of premises and equipment	(1,122,705)	(230,216)
Proceeds from sales of other real estate	203,347	-
Premiums paid on corporate-owned life insurance	(64,257)	-
Net Cash Used by Investing Activities	$ (14,339,148)	$ (13,487,785)

The accompanying notes are an integral part of these financial statements.

MCBANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
(CONSOLIDATED BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 30,292,390	$ 14,774,993
Net decrease in certificates of deposit	(22,525)	(10,341,116)
Net increase in FHLB borrowings	3,000,000	-
Principal payments on note payable	(15,411)	(14,548)
Capital injection from parent company	7,850,000	-
Dividends paid	(1,595,870)	(1,885,206)
Net Cash Provided by Financing Activities	39,508,584	2,534,123
Net increase (decrease) in cash and cash equivalents	31,370,096	(5,053,721)
Cash and cash equivalents at beginning of year	14,499,476	19,553,197
Cash and cash equivalents at end of year	$ 45,869,572	$ 14,499,476
Supplemental Schedule of Operating and Investing Activities:		
Interest paid	$ 714,600	$ 890,059
Other real estate acquired through loan foreclosure	178,856	47,967

Note 1 Summary of Significant Accounting Policies

The accounting and reporting policies of Goldthwaite Bancshares, Inc. and Subsidiaries are in accordance with accounting principles generally accepted in the United States of America. A summary of the more significant policies follows:

Nature of Operations

Goldthwaite Bancshares, Inc. (Bancshares) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, MCBank (Bank). During 2019, the Bank's name was changed from Mills County State Bank to MCBank. The Bank has four full service branch locations in Goldthwaite, Early, Hico and Hamilton, Texas. In early 2020, the branch location in Brownwood, Texas was closed. In addition to the branch locations, the Bank also has a Loan Production Office (LPO) located in Lampasas, Texas. The Bank generates commercial (including agricultural), mortgage and consumer loans and receives deposits from customers located primarily in Mills County, Texas and the surrounding areas. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the Texas State Banking Department and the Federal Deposit Insurance Corporation. During 2020, MCB CRE, Inc. was formed to operate as a wholly-owned subsidiary of the Bank. The purpose of this subsidiary is to originate and hold commercial real estate debt outside of the Bank's assessment area.

Principles of Consolidation and Recording of Investment in Subsidiary

The consolidated financial statements of Goldthwaite Bancshares, Inc. and Subsidiaries include its accounts and those of its wholly-owned subsidiary, MCBank and MCBank's wholly-owned subsidiary, MCB CRE, Inc.

Goldthwaite Bancshares, Inc. accounts for its continuing investment in its subsidiary under the "equity method" of accounting in Company Only statements. In the consolidated statements, all significant intercompany accounts and transactions have been eliminated.

Estimates

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

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

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

Note 1 Summary of Significant Accounting Policies, continued

Estimates, continued

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

Cash and Cash Equivalents

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in cash and amounts due from depository institutions, interest-bearing deposits maturing in three months or less and federal funds sold.

Investment Securities

The Corporation accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under the provisions of the FASB authoritative guidance, debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

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

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other than temporary result in writedowns of the individual securities to their fair value. The related writedowns are included in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Other Investments

At December 31, 2020 and 2019, the Corporation had $543,400 and $254,700, respectively, included in other investments in the balance sheets that represents stock in the Federal Home Loan Bank (FHLB). A minimum investment in FHLB stock is required to be a member of the FHLB. This stock is classified as a restricted investment security, carried at cost and evaluated annually for impairment. During 2020 and 2019, no impairment loss was recorded.

Note 1 Summary of Significant Accounting Policies, continued

Other Investments, continued

At December 31, 2020 and 2019, the Corporation had $70,000 included in other investments in the balance sheets that represents equity stock in the Independent Bankers Financial Corporation (IBFC). Equity securities not using the equity method are carried at estimated fair value based on information provided by a third party pricing service with changes in fair value and realized gains or losses reported in non-interest income. If the fair value is not readily determinable, the equity security is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. The Corporation's shares in IBFC do not have a readily determinable fair value; therefore, these investments are carried at cost and evaluated annually for impairment. During 2020 and 2019, no impairment loss was recorded.

Loans

Loans are stated at the principal amount outstanding less net deferred loan fees and costs and the allowance for loan losses. Interest income on loans is recognized based upon the principal amounts outstanding. Loan origination fees and other direct costs are deferred and amortized as a yield adjustment over the lives of the related loans using a method that approximates the interest method. The accrual of interest on a loan is discontinued when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. Interest previously earned, but uncollected on such loans, is reversed from income. All payments collected on such loans are applied to reduce the principal balance. Interest is not recorded as income until the principal is paid in full or until such time as the loan is returned to an accrual status. Past due status is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is comprised of amounts charged against income in the form of the provision for loan losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses.

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

Note 1 Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line and accelerated methods based upon the estimated useful lives of the assets.

Maintenance and repairs are charged to operating expenses. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. Depreciable assets sold or retired are removed from the asset and related accumulated depreciation accounts and any gain or loss is reflected in the income and expense accounts.

Other Real Estate

Other real estate is foreclosed property held pending disposition and is valued at fair value less estimated selling costs when acquired, establishing a new cost basis. At foreclosure, if the fair value of the real estate acquired less estimated selling costs is less than the Corporation's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate are accounted for according to authoritative guidance issued by the FASB.

Transfers of Financial Assets

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

Note 1 Summary of Significant Accounting Policies, continued

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Corporation has adopted authoritative guidance issued by the FASB which eliminates amortization of goodwill associated with business combinations completed after September 30, 2001. Goodwill is periodically assessed for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. The Corporation bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. See Note 6 – Goodwill and Other Intangible Assets for additional information.

Intangibles and Other Long-Lived Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The Corporation's intangible assets relate to core deposits. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets with indefinite useful lives are not amortized until their lives are determined to be definite. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. See Note 6 – Goodwill and Other Intangible Assets for additional information.

Reserve for Unfunded Commitments

The Corporation has established a reserve for possible losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in accrued expenses and other liabilities in the accompanying balance sheets. At December 31, 2020 and 2019, this reserve totaled $30,000.

Federal Income Taxes

The Corporation has elected to be taxed as a Subchapter "S" Corporation under Internal Revenue Service Code Section 1362. In lieu of corporate income taxes, the shareholders of a Subchapter S Corporation are taxed on their proportionate share of the Corporation's taxable income.

The Corporation joins with its subsidiary, MCBank and MCBank's subsidiary, MCB CRE, Inc., in filing federal income tax returns.

The Companies maintain their records for financial reporting purposes on the accrual basis of accounting. The Companies maintain their records for tax purposes on the cash basis of accounting.

Note 1 Summary of Significant Accounting Policies, continued

Federal Income Taxes, continued

In accordance with authoritative guidance issued by the FASB, the Corporation performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the financial statements. No uncertain tax positions were identified. The December 31, 2017 through December 31, 2020 tax years remain subject to examination by the Internal Revenue Service. The Corporation does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the financial statements. The Corporation records incurred penalties and interest in other non-interest expense. There were no penalties or interest assessed by taxing authorities during 2020 or 2019.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of $153,663 and $168,421 were expensed during 2020 and 2019, respectively.

Comprehensive Income

The Corporation has adopted authoritative guidance issued by the FASB which establishes standards for reporting and display of comprehensive income and its components. These standards require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investment securities, are reported as a separate component in shareholders' equity. These items, along with net income, are components of comprehensive income. The Corporation reports comprehensive income in the statement of comprehensive income.

Reclassifications

Certain accounts have been reclassified in the financial statements of 2019 to conform to the 2020 presentation.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Corporation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Corporation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued. The Corporation has evaluated subsequent events from December 31, 2020 through March 16, 2021, the date the financial statements were available to be issued. Refer to Note 21 for information on subsequent events identified.

Note 1 Summary of Significant Accounting Policies, continued

Accounting Standards Adopted in 2020 and 2019

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, to replace a wide range of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue from contracts with customers. The guidance is codified at FASB ASC 606. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Corporation's revenue is composed of net interest income and non-interest income. The scope of the guidance explicitly excludes net interest income, as well as many other revenues for financial assets and liabilities including loans, leases, securities and derivatives. Accordingly, the majority of the Corporation's revenues were not affected. Adoption of ASU No. 2014-09, which was effective for the Corporation on January 1, 2019, did not have a material impact on the Corporation's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The guidance also changes certain disclosure requirements and other aspects of current accounting principles. Adoption of ASU No. 2016-01, which was effective for the Corporation on January 1, 2019, did not have a material impact on the Corporation's financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This amendment provides guidance on eight specific cash flow issues, including the following which may affect the Corporation: (1) debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities and (2) proceeds from the settlement of insurance claims and proceeds from the settlement of bank-owned life insurance policies should be classified as cash flows from investing activities. Cash payments for premiums on bank-owned life insurance may be classified as cash flows for investing or operating activities. The amendments in this update are effective for entities other than public business entities for fiscal years beginning after December 15, 2018. Adoption of ASU No. 2016-15, which was effective for the Corporation on January 1, 2019, did not have a significant impact on the Corporation's financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For entities other than public business entities, the amendments are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments of this update are applied on a modified retrospective basis through a cumulative effect adjustment directly to retained earnings as of the beginning of the period of adoption. Adoption of ASU No. 2017-08, which was effective for the Corporation on January 1, 2020, did not have a significant impact on the Corporation's financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. The standard is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Adoption of ASU No. 2018-13, which was effective for the Corporation on January 1, 2020, did not have a significant impact on the Corporation's financial statements.

Note 1 Summary of Significant Accounting Policies, continued

Accounting Standards Pending Adoption

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update were originally effective for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021; however, in July 2020, the FASB voted to delay the effective date of this accounting standard for one year due to the unprecedented challenges of the COVID-19 pandemic. Therefore, the amendments of this update are now effective for fiscal years beginning after December 15, 2021 and interim periods within those fiscal years beginning after December 15, 2022. Implementation of this standard is not expected to have a significant impact on the Corporation’s financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This amendment simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments in this update should be applied on a prospective basis. For non-public business entities, the amendments are effective for fiscal years beginning after December 15, 2021. Implementation of this standard is not expected to have a significant impact on the Corporation’s financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better quantify their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio.

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For non-public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Corporation believes the amendments in this update will have an impact on the Corporation’s financial statements and is working to evaluate the significance of that impact.

Note 2 Restrictions on Cash and Due From Banks

During 2020, the Federal Reserve Board announced that the reserve requirement ratios would be reduced to zero percent effective March 26, 2020. This action eliminated the reserve requirements for all depository institutions. Prior to March 26, 2020, the Corporation was required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2019 was approximately $4,991,000.

Note 3 Investment Securities

The amortized cost and fair value of investment securities at December 31, 2020 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
Obligations of states and political subdivisions	$126,026,749	$ 3,707,119	$ (28,389)	$129,705,479
U.S. Government agency mortgage-backed securities	45,418,352	1,158,150	(17,849)	46,558,653
Corporate bonds	12,856,219	177,613	(17,514)	13,016,318
Total available-for-sale	$184,301,320	$ 5,042,882	$ (63,752)	$189,280,450

The balance sheet as of December 31, 2020 reflects the fair value of available-for-sale securities in the amount of $189,280,450. A net unrealized gain of $4,979,130 is included in the available-for-sale investment securities balance. The net unrealized gain is included in shareholders' equity.

Note 3 Investment Securities, continued

The amortized cost and fair value of investment securities at December 31, 2019 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
Obligations of states and political subdivisions	$ 72,507,768	$ 1,612,560	$ (88,576)	$ 74,031,752
U.S. Government agency mortgage-backed securities	85,532,151	838,322	(393,832)	85,976,641
Corporate bonds	1,015,990	1,801	-	1,017,791
Other	33,476	-	-	33,476
Total available-for-sale	$159,089,385	$ 2,452,683	$ (482,408)	$161,059,660

The balance sheet as of December 31, 2019 reflects the fair value of available-for-sale securities in the amount of $161,059,660. A net unrealized gain of $1,970,275 is included in the available-for-sale investment securities balance. The net unrealized gain is included in shareholders' equity.

The amortized cost and fair value of investments securities at December 31, 2020, by contractual maturity, 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 are shown separately, since they are not due at a single maturity date.

	Available-for-Sale	
	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 1,205,880	$ 1,210,323
After one year through five years	16,015,917	16,565,185
After five years through ten years	65,890,483	67,463,015
After ten years	55,770,688	57,483,274
	138,882,968	142,721,797
U.S. Government agency mortgage-backed securities	45,418,352	46,558,653
Totals	$184,301,320	$189,280,450

Securities with carrying amounts of approximately $35,358,000 and $38,295,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Note 3 Investment Securities, continued

At December 31, 2020 and 2019, there were sales proceeds totaling $48,772,972 and $23,703,018 received from sales of investment securities which resulted in gross realized gains of $1,985,250 and $135,563 and gross realized losses of $85,032 and $92,289, respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2020:						
Federal agencies	$ 3,466,420	$ (17,435)	$ 758,031	$ (414)	$ 4,224,451	$ (17,849)
State and municipal governments	3,633,428	(28,389)	-	-	3,633,428	(28,389)
Corporate bonds	6,841,115	(17,514)	-	-	6,841,115	(17,514)
Totals	$ 13,940,963	$ (63,338)	$ 758,031	$ (414)	$ 14,698,994	$ (63,752)
December 31, 2019:						
Federal agencies	$ 34,610,432	$ (351,198)	$ 4,596,345	$ (42,634)	$ 39,206,777	$ (393,832)
State and municipal governments	8,767,554	(80,270)	1,788,586	(8,306)	10,556,140	(88,576)
Totals	$ 43,377,986	$ (431,468)	$ 6,384,931	$ (50,940)	$ 49,762,917	$ (482,408)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2020, the 17 debt securities with unrealized losses have depreciated less than 1% from the Corporation's amortized cost basis. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 4 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2020 and 2019 is as follows:

	2020	2019
Commercial, agricultural and industrial loans	$ 26,112,377	$ 27,403,597
Real estate (RE) loans:		
Construction, land and land development	35,883,950	42,407,428
Residential 1-4 family	35,629,710	41,468,647
Commercial RE	16,825,819	14,669,963
Consumer and other loans	8,926,752	9,574,407
Overdrafts	103,365	129,401
	123,481,973	135,653,443
Add (less): Net deferred loan (fees) cost	(106,629)	15,005
Less: Allowance for loan losses	(2,327,523)	(1,972,792)
Loans, Net	$ 121,047,821	$ 133,695,656

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law which introduced the Paycheck Protection Program (PPP). The goal of this program was to prevent job loss and failure of small businesses as a result of the COVID-19 pandemic. If the borrower met certain criteria, PPP loans were eligible for forgiveness under the SBA's loan forgiveness program. During 2020, the Bank originated PPP loans for 214 borrowers totaling $11,380,792. The loan amounts ranged from $800 to $992,500. As of December 31, 2020, there were 56 outstanding PPP loans with balances totaling $2,836,143 included in Commercial, Agricultural and Industrial loans shown above.

Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2020 are summarized as follows:

	Commercial, Agricultural and Industrial	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2020 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 453,363	$ 731,011	$ 548,822	$ 118,014	$ 121,582	$ -	$ 1,972,792
Provisions, charged (credited) to income	278,443	(142,866)	114,499	171,917	36,894	143,659	602,546
	731,806	588,145	663,321	289,931	158,476	143,659	2,575,338
Loans charged-off	(243,199)	-	(105,939)	-	(96,426)	-	(445,564)
Recoveries of loans previously charged-off	61,857	-	51,042	1,600	83,250	-	197,749
Net (charge-offs) recoveries	(181,342)	-	(54,897)	1,600	(13,176)	-	(247,815)
Balance, end of year	$ 550,464	$ 588,145	$ 608,424	$ 291,531	$ 145,300	$ 143,659	$ 2,327,523
Ending balance: Individually evaluated for impairment	$ 3,589	$ 671	$ 10,591	$ -	$ 172	$ -	$ 15,023
Ending balance: Collectively evaluated for impairment	546,875	587,474	597,833	291,531	145,128	143,659	2,312,500
Balance, end of year	$ 550,464	$ 588,145	$ 608,424	$ 291,531	$ 145,300	$ 143,659	$ 2,327,523
Loans:							
Ending balance: Individually evaluated for impairment	$ 618,658	$ 2,285,154	$ 1,113,923	$ 75,367	$ 27,322		$ 4,120,424
Ending balance: Collectively evaluated for impairment	25,493,719	33,598,796	34,515,787	16,750,452	9,002,795		119,361,549
Ending balance total loans	$ 26,112,377	$ 35,883,950	$ 35,629,710	$ 16,825,819	$ 9,030,117		$ 123,481,973

Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2019 are summarized as follows:

	Commercial, Agricultural and Industrial	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2019 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 349,608	$ 668,872	$ 449,106	$ 129,183	$ 161,480	$ -	$ 1,758,249
Provisions, charged (credited) to income	479,514	62,139	89,883	(12,369)	37,530	-	656,697
	829,122	731,011	538,989	116,814	199,010	-	2,414,946
Loans charged-off	(464,082)	-	(2,299)	-	(157,444)	-	(623,825)
Recoveries of loans previously charged-off	88,323	-	12,132	1,200	80,016	-	181,671
Net (charge-offs) recoveries	(375,759)	-	9,833	1,200	(77,428)	-	(442,154)
Balance, end of year	$ 453,363	$ 731,011	$ 548,822	$ 118,014	$ 121,582	$ -	$ 1,972,792
Ending balance: Individually evaluated for impairment	$ 6,830	$ 258,675	$ 142,831	$ 7,465	$ 1,939	$ -	$ 417,740
Ending balance: Collectively evaluated for impairment	446,533	472,336	405,991	110,549	119,643	-	1,555,052
Balance, end of year	$ 453,363	$ 731,011	$ 548,822	$ 118,014	$ 121,582	$ -	$ 1,972,792
Loans:							
Ending balance: Individually evaluated for impairment	$ 91,068	$ 3,449,005	$ 1,467,212	$ 94,575	$ 7,045		$ 5,108,905
Ending balance: Collectively evaluated for impairment	27,312,529	38,958,423	40,001,435	14,575,388	9,696,763		130,544,538
Ending balance total loans	$ 27,403,597	$ 42,407,428	$ 41,468,647	$ 14,669,963	$ 9,703,808		$ 135,653,443

Note 4 Loans and Allowance for Loan Losses, continued

Federal regulations require that the Corporation periodically evaluate the risks inherent in its loan portfolio. In addition, the Corporation's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for loan losses, thereby reducing that reserve. The Corporation also classifies some loans as "Watch" or "Other Assets Especially Mentioned" ("OAEM"). Loans classified as "Watch" are performing assets and classified as pass credits but have elements of risk that require more monitoring than other performing loans. Loans classified as "OAEM" are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Loans by credit quality risk rating at December 31, 2020 and 2019 are as follows:

	Pass	Other Assets Especially Mentioned	Substandard	Doubtful	Total
December 31, 2020:					
Commercial, agricultural and industrial loans	$ 24,723,502	$ 626,117	$ 762,758	$ -	$ 26,112,377
Real estate (RE) loans:					
Construction, land and land development	33,394,715	125,261	2,363,974	-	35,883,950
Residential 1-4 family	33,277,600	338,815	2,013,295	-	35,629,710
Commercial RE	16,519,990	138,898	166,931	-	16,825,819
Consumer and other loans	8,944,789	42,762	42,566	-	9,030,117
Subtotal	$ 116,860,596	$ 1,271,853	$ 5,349,524	$ -	123,481,973
Less: Net deferred loan fees					(106,629)
Total loans					$ 123,375,344
December 31, 2019:					
Commercial, agricultural and industrial loans	$ 25,558,246	$ 1,322,034	$ 523,317	$ -	$ 27,403,597
Real estate (RE) loans:					
Construction, land and land development	38,443,010	339,380	3,625,038	-	42,407,428
Residential 1-4 family	38,917,220	209,720	2,341,707	-	41,468,647
Commercial RE	14,460,584	58,499	150,880	-	14,669,963
Consumer and other loans	9,604,684	22,339	76,785	-	9,703,808
Subtotal	$ 126,983,744	$ 1,951,972	$ 6,717,727	$ -	135,653,443
Add: Net deferred loan costs					15,005
Total loans					$ 135,668,448

Note 4 Loans and Allowance for Loan Losses, continued

An analysis of nonaccrual loans by category at December 31, 2020 and 2019 is as follows:

	2020	2019
Commercial, agricultural and industrial loans	$ 614,292	$ 91,068
Real estate (RE) loans:		
Construction, land and land development	2,246,835	3,449,005
Residential 1-4 family	964,604	1,410,038
Commercial RE	75,367	94,575
Consumer and other loans	19,039	4,569
Total nonaccrual loans	$ 3,920,137	$ 5,049,255

At December 31, 2020 and 2019, a summary of information pertaining to impaired loans is as follows:

	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2020							
Commercial, agricultural and industrial loans	$ 827,301	$ 600,000	$ 18,658	$ 618,658	$ 3,589	$ 345,534	$ 249
Real estate (RE) loans:							
Construction, land and land development	2,779,532	2,246,835	38,319	2,285,154	671	2,847,920	1,467
Residential 1-4 family	1,343,879	931,641	182,282	1,113,923	10,591	1,199,427	6,544
Commercial RE	121,824	75,367	-	75,367	-	84,971	-
Consumer and other loans	28,756	19,039	8,283	27,322	172	13,042	1,121
Total	$ 5,101,292	$ 3,872,882	$ 247,542	$ 4,120,424	$ 15,023	$ 4,490,894	$ 9,381
December 31, 2019							
Commercial, agricultural and industrial loans	$ 94,754	$ -	$ 91,068	$ 91,068	$ 6,830	$ 527,526	$ -
Real estate (RE) loans:							
Construction, land and land development	3,814,064	-	3,449,005	3,449,005	258,675	3,535,904	-
Residential 1-4 family	1,700,708	-	1,467,212	1,467,212	142,831	1,198,715	1,053
Commercial RE	138,904	-	94,575	94,575	7,465	514,237	-
Consumer and other loans	7,623	-	7,045	7,045	1,939	16,637	72
Total	$ 5,756,053	$ -	$ 5,108,905	$ 5,108,905	$ 417,740	$ 5,793,019	$ 1,125

The Corporation has no commitments to loan additional funds to borrowers whose loans are impaired.

Note 4 Loans and Allowance for Loan Losses, continued

Troubled Debt Restructurings

The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has 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. Troubled debt restructurings during 2020 are set forth as follows:

	Number of Contracts	Balance at Restructuring Date	Balance at December 31, 2020
Commercial, agricultural and industrial loans	1	$ 5,379	$ 4,366
Real estate (RE) loans:			
Construction, land and land development	1	38,318	38,318
Residential 1-4 family	1	149,319	149,319
Consumer and other loans	2	11,819	8,283
Total troubled debt restructurings	5	$ 204,835	$ 200,286

Concessions granted on these loans included restructuring payments to match the borrower's cash flow. At December 31, 2020, all loans restructured during 2020 were paying in accordance with the restructured terms with the exception of one consumer loan totaling $5,248 which was past due 30-89 days. At December 31, 2020, there were two loans that were restructured prior to 2020 with outstanding balances totaling $1,970,368. Both of these loans were on nonaccrual at December 31, 2020 and consisted of two construction, land and development loans.

Troubled debt restructurings during 2019 are set forth as follows:

	Number of Contracts	Balance at Restructuring Date	Balance at December 31, 2019
Consumer and other loans	1	$ 2,601	$ 2,476
Total troubled debt restructurings	1	$ 2,601	$ 2,476

Concessions granted on this loan included restructuring payments to match the borrower's cash flow. At December 31, 2019, the loan that was restructured during 2019 was paying in accordance with the restructured terms. At December 31, 2019, there were four loans that were restructured prior to 2019 with outstanding balances totaling $3,640,503. All four of these loans were on nonaccrual at December 31, 2019 and consisted of one commercial loan totaling $3,869, two construction, land and development loans totaling $3,249,772 and one residential 1-4 family loan totaling $386,862.

At December 31, 2020, there were three loans totaling $70,520 which were modified under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the CARES Act.

Note 4 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2020:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More and Still Accruing
Commercial agricultural and industrial loans	$ 26,527	$ -	$ 26,527	$ 26,085,850	$ 26,112,377	$ -
Real estate (RE) loans:						
Construction, land and land development	92,597	156,003	248,600	35,635,350	35,883,950	-
Residential 1-4 family	329,024	272,595	601,619	35,028,091	35,629,710	-
Commercial RE	-	-	-	16,825,819	16,825,819	-
Consumer and other loans	85,673	-	85,673	8,944,444	9,030,117	
Less: Net deferred loan fees	-	-	-	-	(106,629)	-
Total	$ 533,821	$ 428,598	$ 962,419	$ 122,519,554	$123,375,344	$ -

The following table illustrates an age analysis of past due loans as of December 31, 2019:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More and Still Accruing
Commercial agricultural and industrial loans	$ 37,658	$ 8,247	$ 45,905	$ 27,357,692	$ 27,403,597	$ -
Real estate (RE) loans:						
Construction, land and land development	182,176	133,878	316,054	42,091,374	42,407,428	-
Residential 1-4 family	460,893	-	460,893	41,007,754	41,468,647	-
Commercial RE	-	-	-	14,669,963	14,669,963	-
Consumer and other loans	108,201	-	108,201	9,595,607	9,703,808	
Add: Net deferred loan costs	-	-	-	-	15,005	-
Total	$ 788,928	$ 142,125	$ 931,053	$ 134,722,390	$135,668,448	$ -

At December 31, 2020, there were three residential 1-4 family loans in process of foreclosure totaling $155,722. At December 31, 2019, there were no residential 1-4 family loans in process of foreclosure.

Note 5 Premises and Equipment

The investment in premises and equipment stated at cost at December 31, 2020 and 2019 is as follows:

	2020	2019
Land	$ 378,965	$ 378,965
Buildings and improvements	5,776,179	4,889,720
Furniture and equipment	3,289,175	3,052,929
	9,444,319	8,321,614
Less accumulated depreciation and amortization	(5,098,077)	(4,743,895)
Premises and equipment, net	$ 4,346,242	$ 3,577,719

Depreciation on premises and equipment charged to expense totaled $354,182 and $317,392 for the years ended December 31, 2020 and 2019, respectively.

Early in 2020, the Bank closed its Brownwood branch facility. The Corporation is actively trying to sell this property. As of December 31, 2020, the net carrying amount of this property was $224,550.

Note 6 Goodwill and Other Intangible Assets

On September 13, 2013, the Corporation acquired First National Bancshares of Hico. A premium of $2,594,852 was paid by the Corporation, of which $437,872 was identified as core deposit intangibles. The remaining $2,156,980 was recorded as goodwill. In accordance with authoritative guidance issued by the FASB, the goodwill will not be amortized and is evaluated for impairment annually. No impairment loss was recorded in 2020 or 2019. The core deposit intangibles are being amortized using a straight line method over their estimated useful life of seven years. Accumulated amortization at December 31, 2020 and 2019 was $437,872 and $396,151, respectively. Amortization expense on the core deposit intangibles was $41,721 and $62,550 in 2020 and 2019, respectively. As of December 31, 2020, the core deposit intangibles were fully amortized.

Note 7 Corporate-Owned Life Insurance

In previous years, the Corporation purchased life insurance policies on selected key officers, directors and principal shareholders. The Corporation is the beneficiary of these policies. The carrying amount of corporate-owned life insurance totaled $8,070,372 and $7,785,462 at December 31, 2020 and 2019, respectively. Net earnings on corporate-owned life insurance totaling $174,238 and $144,850 were recorded through non-interest income during 2020 and 2019, respectively. During 2020, additional premiums totaling $124,623 were paid on these policies. During 2019, no additional premiums were paid on these policies.

Note 8 Deposits

The carrying amount of deposits at December 31, 2020 and 2019 are as follows:

	2020	2019
Demand	$ 120,526,769	$ 103,189,481
Interest-bearing transaction accounts	97,120,385	92,204,420
Savings	49,696,365	41,841,360
Certificates of deposit up to $250,000	44,212,324	46,923,151
Certificates of deposit over $250,000	7,451,869	4,763,567
Total deposits	$ 319,007,712	$ 288,921,979

At December 31, 2020 and 2019, there were certificates of deposit of $250,000 and more which totaled $8,451,869 and $5,263,567, respectively.

Maturities of certificates of deposit for each of the next five years are:

2021	$ 42,848,453
2022	4,157,905
2023	2,524,154
2024	1,623,251
2025	510,430
Total	$ 51,664,193

Note 9 Note Payable

In December 2014, the Corporation purchased the property that houses its Hamilton branch location which had previously been leased. As part of the purchase negotiations, the seller financed $270,000 of the purchase price. This note has a term of 15 years and an interest rate of 6.00%. Monthly principal and interest payments totaling $2,278 were due beginning January 31, 2015. The balance on this note was $189,906 and $205,317 at December 31, 2020 and 2019, respectively.

Note 9 Note Payable, continued

Principal payments due on the note payable for the next five years and in the aggregate thereafter is:

2021	$	16,315
2022		17,321
2023		18,389
2024		19,524
2025		20,728
Thereafter		97,629
Total	$	189,906

Note 10 Lines of Credit

The Corporation has established a $10,000,000 unsecured line of credit for overnight purchase of federal funds. The line may be cancelled without any prior notification. There were no outstanding balances on this line at December 31, 2020 and 2019.

In addition to this line of credit, the Corporation has a line of credit with the Federal Home Loan Bank. At December 31, 2020, the Corporation had approximately $50,998,000 available for additional borrowings under this line of credit. This line of credit is collateralized by a blanket pledge of certain loans with a carrying amount of approximately $114,453,000 at December 31, 2020.

At December 31, 2020, there were outstanding borrowings on this line of credit totaling $3,000,000. The outstanding balance consists of three separate advances for $1,000,000 at interest rates ranging from 0.757% to 1.261%. Repayments of $1,000,000 are due on these advances in 2021, 2022 and 2023. There were no outstanding borrowings on this line of credit at December 31, 2019.

Note 11 Subordinated Debt

On June 25, 2020, the Corporation issued subordinated debt totaling $8,350,000 with a maturity date of June 30, 2030. The initial interest rate is 6.125% through June 30, 2025 when the interest rate changes to a variable rate based on LIBOR plus 575.9 basis points which is adjustable on a quarterly basis after that date. Interest payments are due on June 30 and December 30 during the fixed rate period. During the variable rate period, interest payments are due on a quarterly basis on March 30, June 30, September 30 and December 30. Redemption can occur on or after the fifth anniversary date with no prepayment penalty.

This debt is subordinated and junior in right of payment to the claims of creditors (other than creditors of existing or future subordinated debt) of the Corporation, including obligations of the issuer to its general and secured creditors and is unsecured. It is ineligible as collateral for any extension of credit by the issuer or any of its subsidiaries.

Certain directors, officers and/or shareholders participated in this subordinated debt issuance. The amount of subordinated debt issued to these related parties totaled $1,050,000. Interest payments were paid and expensed in the amount of $262,822 during 2020. Included in this amount was $33,049 that was paid to related parties. Refer to Note 12 for additional information regarding related party transactions.

No principal payments are due on the subordinated debt during the next five years.

Note 12 Related Party Transactions

During 2020 and 2019, the Corporation had transactions made in the ordinary course of business with certain of its officers, directors and principal shareholders. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

A summary of these approximate transactions for 2020 and 2019 follows:

	Balance Beginning of Year	Additions	Amounts Collected	Balance End of Year
For year ended:				
December 31, 2020	$ 869,000	$ 61,000	$ (290,000)	$ 640,000
December 31, 2019	$ 596,000	$ 578,000	$ (305,000)	$ 869,000

There were unfunded commitments totaling approximately $66,000 and $144,000 included in the loan amounts shown above as of December 31, 2020 and 2019, respectively.

The Corporation held deposits of approximately $3,409,000 and $3,587,000 for related parties at December 31, 2020 and 2019, respectively.

During 2020, the Corporation issued subordinated debt certificates to certain related parties totaling $1,050,000. Refer to Note 11 for additional information regarding the subordinated debt issued to related parties.

Note 13 Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Corporation has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

Financial instruments whose contract amount represents credit risk were approximately as follows:

	2020	2019
Commitments to extend credit	$ 21,412,000	$ 18,459,000
Standby letters of credit	107,000	182,000

Note 13 Financial Instruments with Off-Balance-Sheet Risk, continued

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

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

The Corporation has not been required to perform on any financial guarantees during the past two years. The Corporation has not incurred any losses on its commitments in either 2020 or 2019.

Note 14 Commitments and Contingent Liabilities

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Corporation.

The Corporation leases the facilities for its Loan Production Office located in Lampasas, Texas. The original lease agreement was dated August 1, 2018 and expired July 31, 2019. This lease agreement has two one-year renewal options. During 2019, the first renewal option was exercised which extended the lease term to July 31, 2020. During 2020, the second renewal option was exercised which extended to lease term to July 31, 2021. The current monthly lease payment is $1,050 per month. Total lease expense recorded by the Corporation during 2020 and 2019 was $12,100 and $12,600, respectively, and is included in occupancy and furniture and equipment expense.

Note 15 Employee Benefit Plans

The Corporation has a non-contributory profit-sharing retirement plan which covers substantially all employees. Contributions to this plan are determined annually by the Corporation's Board of Directors. Contributions were $125,000 and $75,000 for the years ended December 31, 2020 and 2019, respectively.

Effective January 1, 1999, the Corporation adopted a defined contribution 401(k) plan that covers substantially all employees. Contributions under this plan are discretionary and determined annually by the Board of Directors. During 2020 and 2019, the Corporation matched 100% of the first 3% employee contribution and 50% of the next 2% employee contribution. The charge to operations under this plan was $116,818 and $114,646 for the years ended December 31, 2020 and 2019, respectively.

Note 15 Employee Benefit Plans, continued

During 2016, the Corporation adopted a deferred salary continuation plan and a deferred cash incentive plan which were set up for selected officers. At December 31, 2020 and 2019, accruals totaled $578,856 and $374,147, respectively, for these plans and are included in accrued expenses and other liabilities on the balance sheets. The related expense totaled $204,709 and $124,735 for 2020 and 2019, respectively, and is included in salaries and employee benefits.

Note 16 Compensated Absences

Employees of the Corporation are entitled to paid vacation, paid sick days and other personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The Corporation's policy is to recognize the costs of compensated absences when actually paid to employees.

Note 17 Concentrations of Credit Risk

The Corporation maintains its cash accounts with several correspondent banks. Generally, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. At December 31, 2020 and 2019, the Corporation had deposits in other financial institutions totaling approximately $34,157,000 and $2,949,000, respectively, which exceeded the FDIC insurance limits. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

The Corporation grants agribusiness, commercial and real estate loans to customers within Mills County, Texas and the surrounding area. A substantial portion of its debtors' ability to honor their contracts is dependent upon the agribusiness and real estate economic sectors in that geographic area. Concentrations of credit by loan type are set forth in Note 4.

Note 18 Restrictions on Dividends

In the ordinary course of business, the Corporation is dependent upon dividends from MCBank to provide funds for the payment of dividends 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 MCBank to fall below specified minimum levels.

Note 19 Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject.

In addition to these requirements, banking organizations must maintain a 2.50% capital conservation buffer consisting of common Tier 1 equity, subject to a transition schedule with a full phase-in by 2019. Effective January 1, 2019, the Bank was required to establish a capital conservation buffer of 2.50%, increasing the minimum required total risk-based capital, Tier 1 risk-based and common equity Tier 1 capital to risk-weighted assets it must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

As of December 31, 2020, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum common equity risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table on the following page. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale, goodwill and other intangible assets.

Note 19 Regulatory Capital, continued

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 43,703	23.34%	$ 14,981	8.00%	$ 18,727	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 41,362	22.09%	$ 11,236	6.00%	$ 14,981	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 41,362	22.09%	$ 8,427	4.50%	$ 12,172	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 41,362	11.51%	$ 14,326	4.00%	$ 17,970	5.00%
As of December 31, 2019:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 32,492	19.79%	$ 13,399	8.00%	$ 16,749	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 30,489	18.57%	$ 10,049	6.00%	$ 13,399	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 30,489	18.57%	$ 7,537	4.50%	$ 10,887	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 30,489	9.60%	$ 12,566	4.00%	$ 15,708	5.00%

Note 20 Fair Value Measurements

The Corporation has adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

Note 20 Fair Value Measurements, continued

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

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

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

- ***Level 2 Inputs:*** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- ***Level 3 Inputs:*** Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Note 20 Fair Value Measurements, continued

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Other Real Estate: Other real estate represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

Note 20 Fair Value Measurements, continued

At December 31, 2020 and 2019 there were no financial liabilities measured at fair value on a recurring basis. The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2020:				
Available-for-Sale				
Obligations of states and political subdivisions	$ -	$ 129,705,479	$ -	$ 129,705,479
U.S. Government agency mortgage-backed securities	-	46,558,653	-	46,558,653
Corporate bonds	-	13,016,318	-	13,016,318
Totals	$ -	$ 189,280,450	$ -	$ 189,280,450
December 31, 2019:				
Available-for-Sale				
Obligations of states and political subdivisions	$ -	$ 74,031,752	$ -	$ 74,031,752
U.S. Government agency mortgage-backed securities	-	85,976,641	-	85,976,641
Corporate bonds	-	1,017,791	-	1,017,791
Other	-	33,476	-	33,476
Totals	$ -	$ 161,059,660	$ -	$ 161,059,660

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Note 20 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2020:				
Impaired loans	$ -	$ 4,120,424	$ -	$ 4,120,424
Less specific valuation allowance for possible loan losses	-	(15,023)	-	(15,023)
Impaired loans, net	$ -	$ 4,105,401	$ -	$ 4,105,401
December 31, 2019:				
Impaired loans	$ -	$ 5,108,905	$ -	$ 5,108,905
Less specific valuation allowance for possible loan losses	-	(417,740)	-	(417,740)
Impaired loans, net	$ -	$ 4,691,165	$ -	$ 4,691,165

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate, which subsequent to their initial recognition, were remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2020 and 2019, the Corporation held other real estate totaling $25,802 and $45,467, respectively.

The following table presents foreclosed assets that were remeasured and reported at fair value:

	2020	2019
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ 240,587	$ 47,967
Charge-offs recognized in the allowance for loan losses	(61,731)	-
Fair Value	$ 178,856	$ 47,967
Foreclosed assets remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ 25,802	$ 47,967
Writedowns included in other non-interest expense	-	(2,500)
Fair Value	$ 25,802	$ 45,467

Note 20 Fair Value Measurements, continued

Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Corporation's provision for loan losses. Regulatory guidelines require the Corporation to re-evaluate the fair value of other real estate owned on at least an annual basis.

Note 21 Subsequent Events

As of March 15, 2021, the Bank has originated 567 loans totaling $10,034,332 to borrowers under the additional Paycheck Protection Program (PPP) that was include in the Consolidated Appropriations Act, 2021, which was signed into law on December 27, 2020.

OTHER FINANCIAL INFORMATION

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2020

	GOLDTHWAITE BANCSHARES INC.	MCBANK AND SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	$ 328,713	$ 6,657,690	$ (328,713)	$ 6,657,690
Interest-bearing deposits in other financial institutions maturing in less than three months	143,250	39,211,882	-	39,355,132
Total cash and cash equivalents	471,963	45,869,572	(328,713)	46,012,822
Investment securities	-	189,280,450	-	189,280,450
Other investments, at cost	-	613,400	-	613,400
Investment in subsidiary, at equity in net assets	48,498,230	-	(48,498,230)	-
Loans, net of deferred loan fees and costs and allowance for loans losses	-	121,047,821	-	121,047,821
Premises and equipment, net of accumulated depreciation	-	4,346,242	-	4,346,242
Foreclosed and repossessed assets	-	25,802	-	25,802
Accrued interest receivable	-	1,890,809	-	1,890,809
Dividends receivable	1,642,925	-	(1,642,925)	-
Goodwill	-	2,156,980	-	2,156,980
Corporate-owned life insurance	671,185	7,399,187	-	8,070,372
Other assets	-	877,350	-	877,350
Total Assets	$ 51,284,303	$ 373,507,613	$ (50,469,868)	$ 374,322,048
LIABILITIES				
Deposits	$ -	$ 319,336,425	$ (328,713)	$ 319,007,712
Other liabilities:				
Dividends payable	1,642,925	1,642,925	(1,642,925)	1,642,925
FHLB borrowings	-	3,000,000	-	3,000,000
Notes payable	-	189,906	-	189,906
Subordinated debt	8,350,000	-	-	8,350,000
Accrued interest payable	-	48,276	-	48,276
Accrued expenses and other liabilities	-	791,851	-	791,851
Total other liabilities	9,992,925	5,672,958	(1,642,925)	14,022,958
Total Liabilities	9,992,925	325,009,383	(1,971,638)	333,030,670
SHAREHOLDERS' EQUITY				
Common stock - non-voting, par value - $25 a share: Authorized and issued - 17,312 shares	432,800	-	-	432,800
Common stock, par value $.05 a share: Authorized - 1,000,000 shares Issued - 173,120 shares	8,656	1,500,000	(1,500,000)	8,656
Capital surplus	918,936	21,634,526	(21,634,526)	918,936
Retained earnings	37,742,532	20,384,574	(20,384,574)	37,742,532
Accumulated other comprehensive income	4,979,130	4,979,130	(4,979,130)	4,979,130
	44,082,054	48,498,230	(48,498,230)	44,082,054
Less common stock - voting held in treasury, 12,041 shares, at cost	(2,524,222)	-	-	(2,524,222)
Less common stock - non-voting held in treasury, 1,788 shares, at cost	(266,454)	-	-	(266,454)
Total Shareholders' Equity	41,291,378	48,498,230	(48,498,230)	41,291,378
Total Liabilities and Shareholders' Equity	$ 51,284,303	$ 373,507,613	$ (50,469,868)	$ 374,322,048

See Independent Auditor's Report.

GOLDTHWAITE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	GOLDTHWAITE BANCSHARES INC.	MCBANK AND SUBSIDIARY	ELIMINATIONS	CONSOLIDATED
Interest income				
Interest and fees on loans	$ -	$ 8,486,357	$ -	$ 8,486,357
Interest on investment securities:				
Taxable	-	2,158,700	-	2,158,700
Exempt from federal income taxes	-	1,670,004	-	1,670,004
	-	3,828,704	-	3,828,704
Interest on federal funds sold and interest-bearing deposits with financial institutions	626	142,727	-	143,353
Total interest income	626	12,457,788	-	12,458,414
Interest expense				
On deposits	-	639,216	-	639,216
On borrowed funds	262,822	46,810	-	309,632
Total interest expense	262,822	686,026	-	948,848
Net interest income (expense)	(262,196)	11,771,762	-	11,509,566
Provision for loan losses	-	602,546	-	602,546
Net interest income (expense) after provision for loan losses	(262,196)	11,169,216	-	10,907,020
Non-interest income				
Service charges on deposit accounts	-	1,133,368	-	1,133,368
Net gain on sales of investment securities	-	1,900,218	-	1,900,218
Net gain on sales of other real estate	-	4,826	-	4,826
Earnings on corporate-owned life insurance	9,690	164,548	-	174,238
Dividend income from subsidiary	2,726,474	-	(2,726,474)	-
Equity in undistributed income of subsidiary	2,981,347	-	(2,981,347)	-
Other	-	1,006,284	-	1,006,284
Total non-interest income	5,717,511	4,209,244	(5,707,821)	4,218,934
Non-interest expense				
Salaries and employee benefits	-	5,263,482	-	5,263,482
Occupancy and furniture and equipment expense	-	1,091,375	-	1,091,375
Other	234,906	3,315,782	-	3,550,688
Total non-interest expense	234,906	9,670,639	-	9,905,545
Net Income	$ 5,220,409	$ 5,707,821	$ (5,707,821)	$ 5,220,409

See Independent Auditor's Report.

MCBANK AND SUBSIDIARY
NON-INTEREST EXPENSE
(CONSOLIDATED BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Salaries and employee benefits:		
Salaries	$ 4,067,877	$ 4,089,114
Payroll taxes	170,520	301,150
Insurance	578,558	506,442
Deferred compensation plans	204,709	124,735
Contributions to employee benefit plans	241,818	189,646
Totals	5,263,482	5,211,087
Occupancy and furniture and equipment expense:		
Utilities	71,328	75,591
Janitorial service and supplies	37,906	35,469
Taxes - ad valorem	84,777	85,418
Repairs, maintenance and rental	503,810	468,939
Insurance	39,372	35,333
Depreciation	354,182	317,392
Totals	1,091,375	1,018,142
Other:		
Directors' fees	336,250	253,050
Advertising and public relations	249,329	330,972
Stationery and supplies	150,964	233,966
Postage	57,200	59,931
Telephone	98,189	67,670
Taxes - franchise	6,819	11,529
Contributions	8,000	8,000
FDIC assessment	43,583	56,312
Travel and conventions	29,237	73,679
Legal and professional expense	504,940	547,719
Dues, memberships and subscriptions	51,810	71,520
Miscellaneous	381,687	361,993
Bank club expenses	71,339	79,260
Other real estate expenses	9,543	2,990
Examination fees	41,923	40,538
Insurance	48,042	31,890
Employee education	17,504	31,763
Data processing fees	889,508	876,883
Bank card expense	44,798	44,073
Loan and repossession expense	41,145	14,620
Service charge - banks	46,801	19,840
Internet banking expense	41,736	58,652
Amortization of core deposit intangibles	41,721	62,550
ATM card expense	103,714	116,823
Totals	3,315,782	3,456,223
Total Non-Interest Expense	$ 9,670,639	$ 9,685,452

See Independent Auditor's Report.