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, Gabriel Guerra
Name of the Holding Company Director and Official

President
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/22/2021
Date of Signature

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

Kleberg and Company Bankers, Inc.
Legal Title of Holding Company

100 E Kleberg Ave
(Mailing Address of the Holding Company) Street / P.O. Box

Kingsville	TX	78363
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Travis Nelson	EVP/CFO-KBNA
Name	Title

361-595-2965
Area Code / Phone Number / Extension

361-593-0864
Area Code / FAX Number

travis.nelson@klebergbank.com
E-mail Address

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

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.

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **1**

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 .... [x]
2. a letter justifying this request has been provided separately ... [ ]

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

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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

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Public Volume

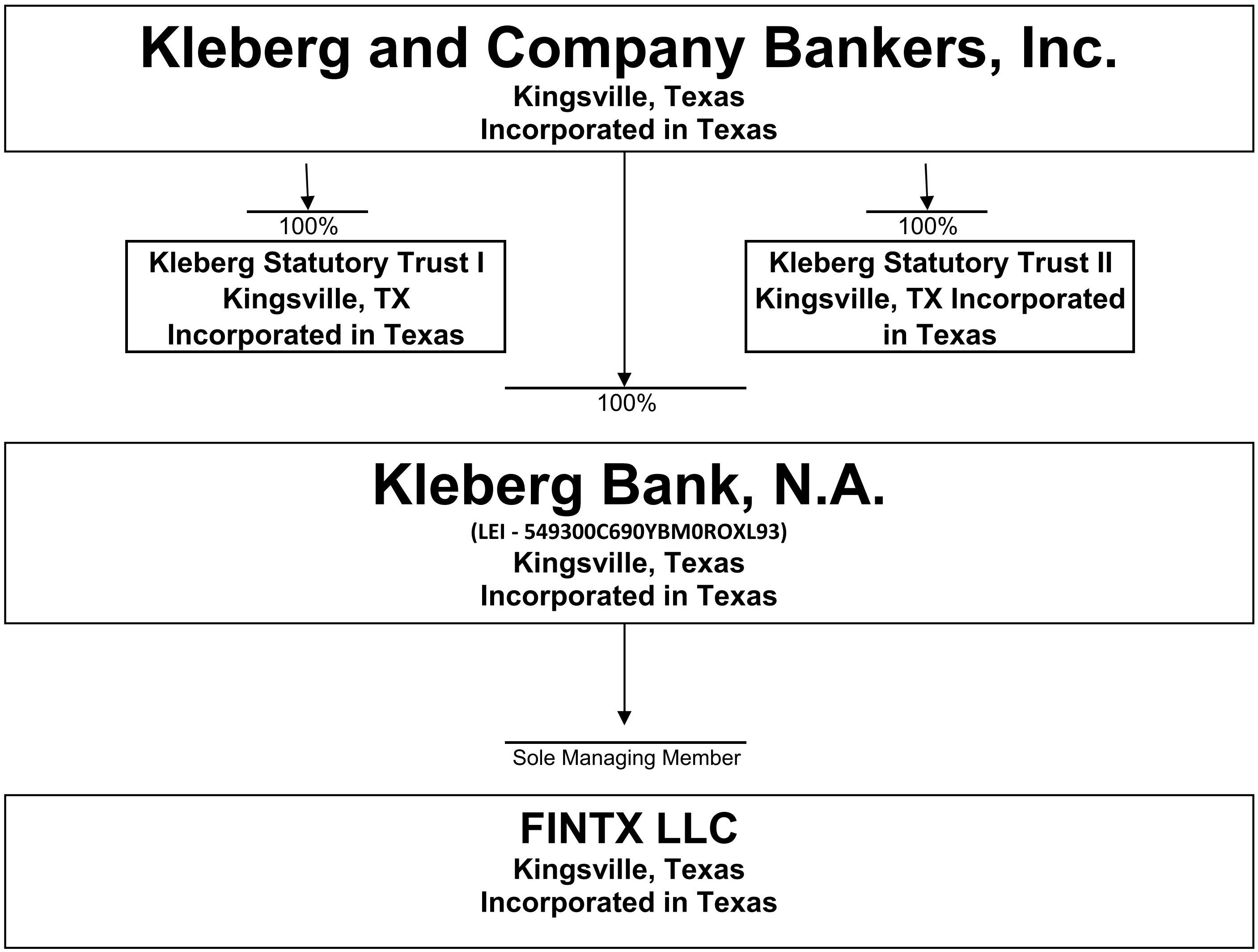
Report Item 1

Kleberg and Company Bankers, Inc.
Kingsville, Texas
Fiscal Year Ending December 31, 2020

1a. The BHC is not required to prepare form 10K with the SEC.

1. The BHC does prepare an annual report for its shareholders, please see enclosures.

Report Item 2a: Organization Chart



No other entities have LEIs
Report Item 2b: Domestic branch listing provide to the Federal Reserve Bank.

Kleberg and Company Bankers, Inc. and Subsidiaries

Consolidated Financial Report and
Other Financial Information
December 31, 2020

Contents

Independent Auditor's Report

Board of Directors and Stockholders
Kleberg and Company Bankers, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Kleberg and Company Bankers, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the 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 the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kleberg and Company Bankers, Inc. and Subsidiaries 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.

RSM US LLP

San Antonio, Texas
March 16, 2021

Kleberg and Company Bankers, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2020 and 2019
(Dollars in Thousands, Except Share Data)

		2020		2019
Assets				
Cash and due from banks	$	43,020	$	39,809
Cash and cash equivalents		43,020		39,809
Interest-bearing deposits in banks		538		10,489
Securities available for sale		166,270		117,844
Restricted investment securities		3,510		3,468
Loans held for sale		2,147		835
Loans, net of allowance for loan losses of $4,554 ($4,479 in 2019)		368,198		340,700
Bank premises and equipment, net		27,604		28,248
Accrued interest receivable		2,190		1,963
Goodwill		18,034		18,034
Cash surrender value of life insurance		10,854		9,858
Other assets		2,352		2,654
Total assets	$	644,717	$	573,902
Liabilities and Stockholders' Equity				
Liabilities:				
Deposits:				
Noninterest-bearing	$	147,359	$	130,175
Interest-bearing		398,667		344,106
Total deposits		546,026		474,281
Other borrowed funds		9,930		13,186
Federal Home Loan Bank borrowings		7,500		12,500
Long-term debt		7,857		9,286
Junior subordinated debentures		13,919		13,919
Accrued interest payable		229		351
Other liabilities		7,355		5,219
Total liabilities		592,816		528,742
Commitments and contingencies (Notes 6, 10, 11, 12, 13 and 14)				
Stockholders' equity:				
Common stock, $1 par value; 215,000 shares authorized; 110,229 shares issued; 50,247 shares outstanding		110		110
Surplus		8,425		8,425
Retained earnings		60,253		56,474
Accumulated other comprehensive income (loss)		2,274		(688)
Common stock in Treasury—59,982 shares at cost		(19,161)		(19,161)
Total stockholders' equity		51,901		45,160
Total liabilities and stockholders' equity	$	644,717	$	573,902

See notes to consolidated financial statements.

Kleberg and Company Bankers, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2020 and 2019
(Dollars in Thousands, Except Share Data)

	2020	2019
Interest income:		
Loans—including fees	**$ 18,134**	$ 17,897
Investment securities	**2,934**	2,817
Interest-bearing deposits in banks	**137**	330
Other	**47**	48
Total interest income	**21,252**	21,092
Interest expense:		
Deposits	**1,585**	1,884
Long-term debt and other borrowed funds	**448**	1,009
Junior subordinated debentures	**584**	590
Total interest expense	**2,617**	3,483
Net interest income	**18,635**	17,609
Provision for loan losses	**940**	710
Net interest income after provision for loan losses	**17,695**	16,899
Noninterest income:		
Service charges and fees	**3,641**	3,655
Mortgage fees	**667**	842
Other	**1,208**	1,158
Total noninterest income	**5,516**	5,655
Noninterest expense:		
Salaries and employee benefits	**10,652**	10,005
Occupancy and equipment expenses	**2,442**	2,322
Other operating expenses	**5,333**	5,317
Total noninterest expense	**18,427**	17,644
Net income	**$ 4,784**	$ 4,910
Basic income per share of common stock	**$ 95.21**	$ 97.72
Average common shares outstanding	**50,247**	50,247

See notes to consolidated financial statements.

Kleberg and Company Bankers, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Net income	**$ 4,784**	$ 4,910
Other items of comprehensive income:		
Adjustment for net gain on sale of investment securities	**(5)**	(30)
Change in fair value of derivative used for cash flow hedge	**(1,299)**	(1,300)
Change in fair value of securities available for sale	**4,266**	3,338
Total other items of comprehensive income	**2,962**	2,008
Comprehensive income	**$ 7,746**	$ 6,918

See notes to consolidated financial statements.

Kleberg and Company Bankers, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total
Balance at December 31, 2018	$ 110	$ 8,425	$ 53,650	$ (2,696)	$ (19,161)	$ 40,328
Net income—year ended December 31, 2019	-	-	4,910	-	-	4,910
Change in other comprehensive income	-	-	-	2,008	-	2,008
Cash dividends declared	-	-	(2,086)	-	-	(2,086)
Balance at December 31, 2019	110	8,425	56,474	(688)	(19,161)	45,160
Net income—year ended December 31, 2020	-	-	4,784	-	-	4,784
Change in other comprehensive income	-	-	-	2,962	-	2,962
Cash dividends declared	-	-	(1,005)	-	-	(1,005)
Balance at December 31, 2020	**$ 110**	**$ 8,425**	**$ 60,253**	**$ 2,274**	**$ (19,161)**	**$ 51,901**

See notes to consolidated financial statements.

Kleberg and Company Bankers, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Cash flows from operating activities:		
Net income	**$ 4,784**	$ 4,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,075**	1,919
Net realized gain on sales of investment securities	**(5)**	(30)
Net realized loss on sales of bank premises and equipment	**-**	7
Net amortization/accretion of investment securities premium/discount	**1,378**	853
Provision for loan losses	**940**	710
Decrease (Increase) in cash surrender value of life insurance	**(248)**	(262)
Net change in:		
Loans held for sale	**(1,312)**	1,213
Accrued interest receivable	**(227)**	(175)
Other assets	**302**	537
Accrued interest payable and other liabilities	**715**	71
Net cash provided by operating activities	**8,402**	9,753
Cash flows from investing activities:		
Net change in:		
Interest-bearing deposits in banks	**9,951**	(9,612)
Loans	**(28,718)**	(4,746)
Proceeds from sales of investment securities	**4,406**	3,644
Proceeds from sale of bank premises and equipment	**-**	13
Proceeds from paydowns, calls, and maturities of investment securities	**28,639**	16,057
Purchases of investment securities	**(78,626)**	(24,973)
Purchase of bank-owned life insurance policy	**(1,100)**	-
Proceeds from payout of life insurance policy	**352**	-
Recoveries of loans previously charged off	**280**	230
Capital expenditures	**(1,430)**	(3,911)
Net cash used in investing activities	**(66,246)**	(23,298)
Cash flows from financing activities:		
Net change in:		
Deposits	**71,745**	35,289
Other borrowed funds	**(3,256)**	6,105
Federal Home Loan Bank borrowings	**(5,000)**	(2,500)
Repayment of long-term debt	**(1,429)**	(714)
Cash dividends paid on common stock	**(1,005)**	(2,086)
Net cash provided by financing activities	**61,055**	36,094
Net increase in cash and cash equivalents	**3,211**	22,549
Cash and cash equivalents at beginning of year	**39,809**	17,260
Cash and cash equivalents at end of year	**$ 43,020**	$ 39,809
Schedules of other cash flow information:		
Interest paid	**$ 2,739**	$ 3,407
Transfer of property to other real etate owned	**$ -**	$ 416

Note 1. Summary of Significant Accounting Policies

Consolidation: The consolidated financial statements for the year ended December 31, 2020 include the accounts of Kleberg and Company Bankers, Inc. (the Parent Company) and the accounts of its wholly-owned subsidiary, Kleberg Bank, N.A. (the Bank), and the accounts of the Bank's wholly-owned subsidiary FINTX, LLC, referred to collectively as the Company. FINTX, LLC was formed in April 2020 to develop proprietary software.

The consolidated financial statements for the year ended December 31, 2019 included the accounts of the Parent Company, and the accounts of its wholly-owned subsidiaries, the Bank and Kleberg Insurance Group (KIG). KIG was dissolved in July 2020 and its assets were distributed to the Parent Company.

All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations: The Company provides a variety of financial services to individuals and small businesses through its offices in Kingsville and Corpus Christi, Texas. Its primary deposit products are interest-bearing and noninterest-bearing checking and term certificate accounts, and its primary lending products are consumer, mortgage and small business loans.

Use of 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of securities available for sale.

New and recently issued accounting standards: In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. This ASU was effective for the Company beginning in 2020 and did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective for the Company in fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance on the consolidated financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact on adopting this new guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350); Simplifying the Test for Goodwill Impairment.* The ASU simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The ASU will be effective for the Company beginning in 2023 and the Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Significant group concentrations of credit risk: Most of the Company's activities are with customers located within South Texas. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations in any one industry or customer.

Risks and Uncertainties: The situation surrounding the COVID-19 global health pandemic, which was declared in March 2020, remains uncertain and has driven the implementation of significant, government-imposed measures to prevent or reduce its spread, including travel restrictions, testing regimes, closing of borders, "stay at home" orders and business closures. The Company continues to adapt to the changing dynamics of the COVID-19 pandemic's impact on its customers and employees. The ultimate extent of the impact to the Company's business and financial condition will depend on future developments, including duration of the pandemic and distribution of vaccines, which are highly uncertain and cannot be predicted. The Company is continuing to monitor the pandemic, its economic impact and related risks. Primary areas of potential future impact to the Company may include further decreases in interest and fee income, increased provision for loan losses and deterioration in loan credit quality.

Interest-bearing deposits in banks: Interest-bearing deposits in banks are carried at cost.

Securities: Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2020 and 2019, the Company had no securities classified as trading securities and no securities classified as held-to-maturity.

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Loans held for sale: Certain mortgage loans are originated for sale in the secondary market. These loans are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. No unrealized losses were recognized during 2020 and 2019.

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

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. Commercial and residential real estate loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral. The collectability of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on cash flow, collateral, geography and risk criteria.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets, and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers.

Consumer loans are originated after evaluation of the credit history and repayment ability of the borrower based on current personal income. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower's income.

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

Loan origination fees are capitalized and certain direct origination costs are deferred and recognized as an adjustment of the related loan yield using the interest method.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Bank-owned life insurance: The Company owns life insurance policies on certain officers and carries the investment at the policies' cash surrender value. The Company pays the premiums, owns the cash value and is the primary beneficiary on the policies.

Bank premises and equipment: Land is carried at cost. Bank premises and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are recognized on straight-line and accelerated methods over the estimated useful lives of the assets.

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

Goodwill: Goodwill is the excess of the purchase price over the fair value of identifiable net assets in business combinations accounted for as purchases. Under ASC Topic 350, goodwill is not amortized, but instead is analyzed for impairment at least annually. For the years ended December 31, 2020 and 2019, the Company determined that no impairment of goodwill has occurred.

Foreclosed assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other operating expenses. For the years ended December 31, 2020 and 2019, there were no foreclosed assets included in other assets on the consolidated balance sheets.

Note 1. Summary of Significant Accounting Policies (Continued)

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 Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income taxes: The Company, with the consent of its stockholders, has elected under the Internal Revenue Code to be taxed as an S corporation. The stockholders of an S corporation are taxed on their proportionate share of the entity's taxable income. Therefore, no provision or liability for federal income taxes has been included in the consolidated financial statements. Certain specific deductions and credits flow through the Company to its stockholders.

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

The Company is subject to the Texas gross margin tax.

Derivative financial instrument—interest rate swap agreements: The Company utilizes an interest rate risk management strategy that uses interest rate swap agreements to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. These swap agreements are derivative instruments and generally convert a portion of the Company's variable rate liabilities to a fixed rate (cash flow hedge).

Derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The gain or loss on the effective portion of the hedge (i.e., change in fair value) is initially reported as a component of accumulated other comprehensive income. The remaining gain or loss, if any, is recognized currently in earnings. Amounts in accumulated other comprehensive income are reclassified into net income in the same period in which the hedged transaction affects earnings.

Off-balance-sheet credit-related financial instruments: In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, unfunded commitments under lines of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold. The Company maintains cash in deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Note 1. Summary of Significant Accounting Policies (Continued)

Earnings per share: Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. For the years ended December 31, 2020 and 2019, the Company had no dilutive potential common shares; therefore, diluted income per share does not differ from basic income per share.

Revenue recognition: Interest income and expense are recognized on the accrual method based on the respective outstanding balance. Other revenue is recognized at the time the service is rendered or transactions occur.

In general, for revenue not associated with financial instruments, guarantees and lease contracts, the Company applies the following steps in accordance with ASC 606 when recognizing revenue from contracts with customers: (i) identify the contract; (ii) identify the performance obligation; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognize revenue when a performance obligation is satisfied. The Company's contracts with customers are generally short term in nature, due within one year or less or cancellable by the Company or the customer upon a short notice period. Performance obligations for the customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. For performance obligations satisfied over time, the Company primarily uses the output method, directly measuring the value of the products/services transferred to the customer to determine when the performance obligations have been satisfied. The Company typically receives payments from customers and revenue concurrent with the satisfaction of its performance obligation.

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

Advertising: Advertising costs are expensed as incurred.

Reclassification: Certain reclassifications have been made in the prior-year consolidated financial statements to conform to current-year presentation. There is no effect on previously reported net income or retained earnings.

Subsequent events: The Company has evaluated subsequent events that occurred after December 31, 2020, through March 16, 2021, the date the consolidated financial statements were available to be issued.

Note 2. Fair Value Measurements

The Company follows the provisions of the ASC, Fair Value Measurements and Disclosures. The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a class basis rather than a major category basis for assets and liabilities; and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Note 2. Fair Value Measurements (Continued)

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels:

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

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

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

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans, other real estate owned and loans held for sale.

Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

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

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

Loans held for sale: Loans held for sale are originated for sale in the secondary market. These loans are reported at fair value using Level 2 inputs and are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. These loans are held for relatively short periods of time and, as a result, changes in instrument-specific credit risk are not a significant component of the change in fair value.

Note 2. Fair Value Measurements (Continued)

Derivative financial instrument: The Company has elected to use the hypothetical derivative method to value the interest rate swaps, using observable Level 2 market expectations.

The following tables summarize assets and liabilities measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2020 and 2019, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Fair Value Measurement at December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
United States government agency securities	$ 20,627	$ -	$ 20,627	$ -
State and municipal securities	43,492	-	43,492	-
Mortgage-backed securities (government guaranteed)	102,151	-	102,151	-
Loans held for sale	2,147	-	2,147	-
Liabilities:				
Derivative financial instrument	2,218	-	2,218	-

	Fair Value Measurement at December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets:				
United States government agency securities	$ 13,104	$ -	$ 13,104	$ -
State and municipal securities	23,432	-	23,432	-
Mortgage-backed securities (government guaranteed)	81,308	-	81,308	-
Loans held for sale	835	-	835	-
Liabilities:				
Derivative financial instrument	920	-	920	-

Note 2. Fair Value Measurements (Continued)

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

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

The following table summarizes assets as of December 31, 2020 and 2019 which are measured at fair value on a nonrecurring basis (dollars in thousands):

	Fair Value Measurement at December 31, 2020			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 2,154	$ -	$ -	$ 2,154

	Fair Value Measurement at December 31, 2019			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 2,344	$ -	$ -	$ 2,344

Note 3. Restrictions on Cash and Amounts Due From Banks

Effective on March 26, 2020, the Board of Governors of the Federal Reserve System reduced the reserve requirement to 0%. This action eliminated reserve requirements for all depository institutions. Prior to this decision, depository institutions were required by law to maintain reserves against their transaction deposits. At December 31, 2019, the required reserve balance was $6.1 million.

Note 4. Investment Securities

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

	Securities Available for Sale at December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
United States government agency securities	$ 19,940	$ 758	$ 71	$ 20,627
State and municipal securities	41,947	1,546	1	$ 43,492
Mortgage-backed securities (government guaranteed)	99,891	2,397	137	102,151
	$ 161,778	$ 4,701	$ 209	$ 166,270

	Securities Available for Sale at December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
United States government agency securities	$ 12,962	$ 149	$ 7	$ 13,104
State and municipal securities	23,272	185	25	23,432
Mortgage-backed securities (government guaranteed)	81,379	394	465	81,308
	$ 117,613	$ 728	$ 497	$ 117,844

At December 31, 2020, the Company had investment securities, carried at approximately $58.2 million ($64.9 million at December 31, 2019), pledged to secure public funds and for other purposes required or permitted by law.

For the year ended December 31, 2020, proceeds from sales of securities available for sale totaled $4.4 million ($3.6 million in 2019). Gross realized gains and gross realized losses totaled $30 thousand and $25 thousand, respectively ($54 thousand and $24 thousand in 2019).

Note 4. Investment Securities (Continued)

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2020, were as follows (dollars in thousands):

	Amortized Cost	Fair Value
Securities available for sale:		
One year or less	$ 1,815	$ 1,837
After one year through five years	16,937	17,541
After five years through 10 years	10,960	11,203
Over 10 years	32,175	33,538
	61,887	64,119
Mortgage-backed securities	99,891	102,151
	$ 161,778	$ 166,270

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, are as follows (dollars in thousands):

	Securities Available for Sale at December 31, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government agency securities	$ 4,030	$ 71	$ -	$ -	$ 4,030	$ 71
State and municipal securities	1,209	1	-	-	1,209	1
Mortgage-backed securities (government guaranteed)	17,402	130	284	7	17,686	137
	$ 22,641	$ 202	$ 284	$ 7	$ 22,925	$ 209

	Securities Available for Sale at December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government agency securities	$ 4,375	$ 7	$ -	$ -	$ 4,375	$ 7
State and municipal securities	3,799	22	1,012	3	4,811	25
Mortgage-backed securities (government guaranteed)	20,068	140	23,475	325	43,543	465
	$ 28,242	$ 169	$ 24,487	$ 328	$ 52,729	$ 497

Note 4. Investment Securities (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery. Declines in the fair value of available-for-sale securities below their amortized cost basis that are deemed to be other than temporary are carried at fair value. Any portion of a decline in fair value associated with credit loss is recognized in earnings as a realized loss. As of December 31, 2020 and 2019, the Company did not have any securities with other-than-temporary impairment.

As of December 31, 2020, there were 16 securities with current unrealized losses (52 securities in 2019). Based upon an evaluation of the available evidence, including recent changes in market rates and credit rating information, management believes the decline in fair value of these debt securities is temporary. In addition, the Company does not have the intent to sell these debt securities prior to their anticipate recovery.

Note 5. Loans and Allowance for Loan Losses

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

	December 31	
	2020	2019
Real estate:		
Commercial	$ 118,317	$ 110,040
Residential	75,545	65,898
Construction	27,262	30,128
Commercial	79,658	55,040
Consumer and other	71,970	84,073
	372,752	345,179
Allowance for loan losses	(4,554)	(4,479)
	$ 368,198	$ 340,700

Included in other loans are overdraft accounts of $228 thousand and $369 thousand at December 31, 2020 and 2019, respectively.

During the years ended December 31, 2020 and 2019, the Company did not purchase loans from or sell loans to other nonrelated banks.

The Coronavirus Aid, Relief and Economic Security (CARES) Act created funding for the Small Business Administration's (SBA) loan program providing forgiveness of up to the full principal amount of qualifying loans guaranteed under a new program called the Paycheck Protection Program (PPP). The intent of the PPP is to provide loans to small businesses in order to keep their employees on the payroll and make certain other eligible payments. Loans granted under the PPP are guaranteed by the SBA and are fully forgivable if used for qualifying expenses, such as payroll, rent, and utilities. If the loans are not forgiven, they must be repaid over a term not to exceed five years. Under the PPP, through December 31, 2020, the Company funded $37.8 million in loans to more than 387 borrowers and deferred approximately $1.5 million of SBA processing fees that will be recognized as interest income over the term of the loans. As of December 31, 2020, $23.3 million of principal remained outstanding on these PPP loans.

Note 5. Loans and Allowance for Loan Losses (Continued)

As part of its on-going monitoring of the credit quality of the Company's loan portfolio, management assigns risk grades to loans as follows:

Pass: Pass loans are loans to borrowers with acceptable credit quality and risk.

Other assets especially mentioned (OAEM): OAEM loans are loans to borrowers whose credit quality may have deteriorated since origination and are at risk of further decline unless measures are taken to correct the situation.

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

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

At December 31, 2020 and 2019, the Company's loan portfolio risk grades by loan segment were as follows (dollars in thousands):

	December 31, 2020				
	Pass	OAEM	Substandard	Doubtful	Total Loans
Real estate:					
Commercial	$ 104,929	$ 7,685	$ 5,703	$ -	$ 118,317
Residential	74,395	410	740	-	75,545
Construction	21,872	4,783	607	-	27,262
Commercial	78,712	698	248	-	79,658
Consumer and other	70,853	55	1,062	-	71,970
	$ 350,761	$ 13,631	$ 8,360	$ -	$ 372,752

	December 31, 2019				
	Pass	OAEM	Substandard	Doubtful	Total Loans
Real estate:					
Commercial	$ 106,290	$ 2,468	$ 1,282	$ -	$ 110,040
Residential	64,886	492	520	-	65,898
Construction	29,218	-	910	-	30,128
Commercial	49,299	2,007	3,734	-	55,040
Consumer and other	83,194	100	779	-	84,073
	$ 332,887	$ 5,067	$ 7,225	$ -	$ 345,179

Note 5. Loans and Allowance for Loan Losses (Continued)

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2020 and 2019, was as follows (dollars in thousands):

	December 31, 2020					
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate:						
Commercial	$ 131	$ 178	$ 309	$ 118,008	$ 118,317	$ 128
Residential	490	-	490	75,055	75,545	-
Construction	20	-	20	27,242	27,262	-
Commercial	171	-	171	79,487	79,658	-
Consumer and other	770	94	864	71,106	71,970	-
	$ 1,582	$ 272	$ 1,854	$ 370,898	$ 372,752	$ 128

	December 31, 2019					
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate:						
Commercial	$ 194	$ -	$ 194	$ 109,846	$ 110,040	$ -
Residential	176	132	308	65,590	65,898	-
Construction	741	910	1,651	28,477	30,128	-
Commercial	85	50	135	54,905	55,040	-
Consumer and other	1,635	156	1,791	82,282	84,073	-
	$ 2,831	$ 1,248	$ 4,079	$ 341,100	$ 345,179	$ -

Note 5. Loans and Allowance for Loan Losses (Continued)

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2020 and 2019, is as follows (dollars in thousands):

	December 31, 2020				
	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
Real estate:					
Commercial	$ 488	$ -	$ 488	$ -	$ 424
Residential	554	-	554	-	385
Construction	-	-	-	-	456
Commercial	93	-	93	-	233
Consumer and other	1,019	-	1,019	-	911
	$ 2,154	$ -	$ 2,154	$ -	$ 2,409

	December 31, 2019				
	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
Real estate:					
Commercial	$ 360	$ -	$ 360	$ -	$ 338
Residential	216	-	216	-	228
Construction	-	911	911	111	936
Commercial	165	208	373	208	337
Consumer and other	803	-	803	-	609
	$ 1,544	$ 1,119	$ 2,663	$ 319	$ 2,448

During the years ended December 31, 2020 and 2019, the Company did not recognize any significant interest income on impaired and nonaccrual loans.

Note 5. Loans and Allowance for Loan Losses (Continued)

Impaired loans also include loans modified in a troubled debt restructuring. Such modifications generally allow the borrower concessions that delay the payment of principal and interest beyond contractual requirements, but not the forgiveness of either principal or interest. The Company has evaluated any possible impairment loss on these loans consistent with its accounting for impaired loans and, any such loss, would be recognized through a charge-off to the allowance for loan loss account.

The following is a summary of the Company's modified loans classified as troubled debt restructuring during 2020 and 2019 (dollars in thousands):

	December 31, 2020		
	Number of Loans	Outstanding Recorded Investment Before Specific Allowance	Outstanding Recorded Investment After Specific Allowance
Real estate:			
Commercial	3	$ 438	$ 438
Residential	-	-	-
Construction	-	-	-
Commercial	1	66	66
Consumer and other	10	188	186
	14	$ 692	$ 690

	December 31, 2019		
	Number of Loans	Outstanding Recorded Investment Before Specific Allowance	Outstanding Recorded Investment After Specific Allowance
Real estate:			
Commercial	1	$ 319	$ 319
Residential	1	132	132
Construction	1	911	800
Commercial	5	354	146
Consumer and other	4	36	36
	12	$ 1,752	$ 1,433

As of December 31, 2020, no loans that had been modified within the previous year defaulted in the current year.

In the first quarter of 2020, the Company elected to apply the guidance issued by Congress in the CARES Act, as well as by the U.S. banking agencies stating that certain concessions granted to borrowers that are current on existing loans, either individually or as part of a program for creditworthy borrowers who are experiencing short-term financial or operational problems as a result of COVID-19, generally would not be considered troubled debt restructurings (TDRs). Additionally, these loans generally would not be considered nonaccrual status unless collectability concerns exist despite the modification provided. For loans remaining on accrual status, the Company elected to continue recognizing interest income during the modification periods.

Note 5. Loans and Allowance for Loan Losses (Continued)

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2020 and 2019, were as follows (dollars in thousands):

	Year Ended December 31, 2020					
	Commercial Real Estate	Residential Real Estate	Construction Real Estate	Commercial	Consumer and other	Total
Balance at beginning of year	$ 1,100	$ 694	$ 403	$ 884	$ 1,398	$ 4,479
Provision (credit) for loan losses	192	173	42	82	451	940
Charge-offs	-	(8)	(123)	(206)	(808)	(1,145)
Recoveries	-	7	11	32	230	280
Net (charge-offs) recoveries	-	(1)	(112)	(174)	(578)	(865)
Balance at end of year	$ 1,292	$ 866	$ 333	$ 792	$ 1,271	$ 4,554
Allocation:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,292	866	333	792	1,271	4,554

	Year Ended December 31, 2019					
	Commercial Real Estate	Residential Real Estate	Construction Real Estate	Commercial	Consumer and other	Total
Balance at beginning of year	$ 1,031	$ 779	$ 263	$ 744	$ 1,509	$ 4,326
Provision (credit) for loan losses	69	(92)	140	193	400	710
Charge-offs	(3)	(1)	-	(62)	(721)	(787)
Recoveries	3	8	-	9	210	230
Net (charge-offs) recoveries	-	7	-	(53)	(511)	(557)
Balance at end of year	$ 1,100	$ 694	$ 403	$ 884	$ 1,398	$ 4,479
Allocation:						
Individually evaluated for impairment	$ -	$ -	$ 111	$ 208	$ -	$ 319
Collectively evaluated for impairment	1,100	694	292	676	1,398	4,160

During the year ended December 31, 2020, the Company did not implement any significant changes to its allowance for loan loss methodology.

Note 5. Loans and Allowance for Loan Losses (Continued)

The Company's recorded investment in loans as of December 31, 2020 and 2019, related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows (dollars in thousands):

	Year Ended December 31, 2020					
	Commercial Real Estate	Residential Real Estate	Construction Real Estate	Commercial	Consumer and other	Total
Loans individually evaluated for impairment	$ 488	$ 554	$ -	$ 93	$ 1,019	$ 2,154
Loans collectively evaluated for impairment	117,829	74,991	27,262	79,565	70,951	370,598
Ending balance	$ 118,317	$ 75,545	$ 27,262	$ 79,658	$ 71,970	$ 372,752

	Year Ended December 31, 2019					
	Commercial Real Estate	Residential Real Estate	Construction Real Estate	Commercial	Consumer and other	Total
Loans individually evaluated for impairment	$ 360	$ 216	$ 911	$ 373	$ 803	$ 2,663
Loans collectively evaluated for impairment	109,680	65,682	29,217	54,667	83,270	342,516
Ending balance	$ 110,040	$ 65,898	$ 30,128	$ 55,040	$ 84,073	$ 345,179

Note 6. Bank Premises and Equipment

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

	December 31	
	2020	2019
Land	$ 3,074	$ 3,074
Buildings and leasehold improvements	28,999	28,610
Equipment and furniture	5,578	5,442
Automobiles	414	403
Fixed assets in progress	55	365
	38,120	37,894
Less accumulated depreciation and amortization	10,516	9,646
	$ 27,604	$ 28,248

Depreciation and amortization expense for the years ended December 31, 2020 and 2019, totaled $2.1 million and $1.9 million, respectively.

Note 6. Bank Premises and Equipment (Continued)

The Company has several operating leases for branches and for equipment that terminate in 2021 through 2023.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2020, pertaining to bank premises, future rent commitments under the operating leases are as follows (dollars in thousands):

Years ending December 31:		
2021	$	20
2022		17
2023		11
2024		-
2025		-
	$	48

Each lease contains an option to extend for at least one consecutive term. The costs of such rentals are not included above. Rent expense for the year ended December 31, 2020 totaled $20 thousand ($115 thousand for the year ended December 31, 2019).

Note 7. Derivative Financial Instruments

The Company maintains an interest-rate risk-management strategy that uses interest rate swap derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility. The Company's specific goal is to lower (where possible) the cost of its junior subordinated debentures.

In 2017, the Company entered into two receive-variable based on LIBOR/pay-fixed interest rate swap agreements related to LIBOR-based borrowings on its junior subordinated debentures. These swaps are utilized to manage interest rate exposures over the period of the interest rate swaps and are designated as highly effective cash flow hedges. The swap agreements expire in June 2032 and have effectively fixed the interest rates at 4.24% and 4.09%. The notional amounts are $9.0 million and $4.5 million.

The effective portion of the gain or loss on these interest rate swaps is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affect earnings. Gains and losses on the interest rate swaps representing either hedge ineffectiveness or excluded from the assessment of hedge effectiveness are recognized in current earnings. As of December 31, 2020, none of the deferred net gains on the interest rate swaps accumulated in other comprehensive income are expected to be reclassified to earnings during the next 12 months.

Note 7. Derivative Financial Instruments (Continued)

Effect of the interest rate swaps in cash flow hedging relationships on the consolidated balance sheets as of December 31, 2020 and 2019, is as follows (dollars in thousands):

		Fair Value as of December 31	
	Balance Sheet Location	2020	2019
Asset derivative-interest rate contract	Other Assets	$ -	$ -
Liability derivative-interest rate contract	Other Liabilities	2,218	920
Effective portion of gain (loss)	Other Comprehensive Income	(1,299)	(1,300)

For the year ended December 31, 2020, there was no portion of the loss reclassified from accumulated other comprehensive income into income, and there was no portion of the loss that was considered ineffective of excluded from the assessment of hedge effectiveness.

Note 8. Deposits

A summary of deposits included in the consolidated balance sheets is as follows (dollars in thousands):

	December 31,	
	2020	2019
Demand	$ 313,044	$ 281,194
Money market	111,132	70,601
Savings	43,190	40,318
Time deposits	78,660	82,168
	$ 546,026	$ 474,281

The aggregate amount of certificates of deposit (CDs) in denominations greater than or equal to $250 thousand was approximately $50.5 million at December 31, 2020 ($51.7 million in 2019).

At December 31, 2020, the scheduled maturities of CDs are as follows (dollars in thousands):

Years ending December 31:	
2021	$ 64,194
2022	6,387
2023	4,944
2024	2,034
2025	1,101
	$ 78,660

Note 9. Other Borrowed Funds

Other borrowed funds consist of securities sold under agreements to repurchase and generally mature within one year. The Company has pledged securities against these funds and may be required to provide additional collateral based on the fair value of the underlying securities.

Note 10. Federal Home Loan Bank Borrowings

During 2013, the Company executed fixed-rate fixed-term borrowings with the FHLB of Dallas. Advances are received pursuant to a collateral pledge and security agreements giving FHLB a lien in certain of the Company's loans, including mortgage loans (as defined); all FHLB stock, and all deposit accounts of the Company held at FHLB. The collateral has a carrying value of approximately $125.7 million at December 31, 2020 ($131.4 million as of December 31, 2019).

At December 31, 2020, FHLB borrowings totaled $7.5 million, with a daily interest rate of 1.24% and maturity in 2034. At December 31, 2019, FHLB borrowings totaled $12.5 million, with daily interest rates of 1.75% and 1.24% and maturity dates of 2020 and 2034.

At December 31, 2020, the Company had $60 million ($43 million in 2019) in undisbursed advance commitments (letters of credit) with the FHLB expiring between March and May 2021. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. At December 31, 2020, there were no disbursements against the advance commitments.

Note 11. Long-Term Debt

During 2017, the Company entered into a new promissory note with an unrelated bank for the purpose of funding treasury stock purchases in 2017. The note bears interest at the Wall Street Journal prime rate (3.25% at December 31, 2020) and is secured by all outstanding shares of common stock of the Bank. Starting in 2019, the promissory note required quarterly payments of approximately $358 thousand plus interest and is scheduled to mature May 2026. As part of the debt agreement, the Company is required to comply with certain financial covenants primarily relating to the Bank. The balance as of December 31, 2020 totaled $7.9 million ($9.3 million as of December 31, 2019). Aggregate maturities on long-term debt at December 31, 2020, in thousands, are due in future years as follows:

Years ending December 31:		
2021	$	1,429
2022		1,429
2023		1,429
2024		1,429
2025		1,429
Thereafter		712
	$	7,857

Note 12. Junior Subordinated Debt

On September 13, 2006, the Company established the Kleberg Statutory Trust I (the Trust I) with capital of $140 thousand. The Trust issued $4.5 million in pooled Trust Preferred Securities to outside investors. The Trust Preferred Securities bear interest at a floating rate based on the three-month LIBOR plus 1.6%. The Trust Preferred Securities mature and are payable on December 15, 2036.

On December 14, 2006, the Company established the Kleberg Statutory Trust II (the Trust II) with capital of $279 thousand. The Trust II issued $9.0 million in pooled Trust Preferred Securities to outside investors. The Trust Preferred Securities bear interest at 6.65% fixed rate until December 2016 and then a floating rate based on the three-month LIBOR plus 1.75%. The Trust Preferred Securities mature and are payable on December 15, 2036.

The Company issued the Trust Preferred Securities as a method of increasing regulatory capital for an acquisition. Trust Preferred Securities are includable in regulatory capital, with certain limitations.

In connection with the transactions, the Company issued Floating Rate Junior Subordinated Deferrable Interest Debentures (the Debentures) to the Trust I for $4.6 million and Trust II for $9.3 million with interest and maturity terms identical to the Trust Preferred Securities. In accordance with the ASC, the Trusts are not consolidated in the accompanying consolidated financial statements. Instead, the investment in the Trusts is shown in other assets and the debentures in junior subordinated debentures on the consolidated balance sheets. Interest expense on the debentures is reported in the consolidated statements of income.

The Company entered into a guarantee agreement to pay the investors in the Trust Preferred Securities.

Note 13. Legal Contingencies

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

Note 14. Off-Balance-Sheet Activities

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

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

Note 14. Off-Balance-Sheet Activities (Continued)

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

	Contract Amount	
	December 31	
	2020	2019
Unfunded commitments under lines of credit	$ 52,914	$ 73,811
Commercial and standby letters of credit	300	300

Unfunded commitments under lines of credit include commitments to extend credit on term loans, revolving lines of credit, advancing lines of credit and interim construction loans. These commitments may not be drawn to the total extent to which the Company is committed.

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

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

Note 15. Related-Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. The aggregate of loans to related parties at December 31, 2020, totaled $1.2 million, of which $156 thousand is unfunded ($50 thousand as of December 31, 2019, of which $6 thousand is unfunded).

Deposits from related parties held by the Bank at December 31, 2020, totaled $7.3 million ($6.6 million as of December 31, 2019).

Note 16. Federal Income Taxes

Taxable income is reported on the federal tax returns of the Company's stockholders. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

The Company files a United States federal income tax return, as well as a state return in Texas. With few exceptions, the Company is no longer subject to United States federal or Texas state tax examinations by tax authorities for years before 2017.

Note 17. Employee Benefits

At December 31, 2020 and 2019, the Company has an incentive compensation plan, an executive supplemental income plan, a 401(k) plan and a salary continuation plan. Total expense recognized by the Company relating to such benefit plans totaled $1.1 million and $1.1 million for the years ended December 31, 2020 and 2019, respectively.

Incentive compensation plan: Officers and employees of the Bank participate in a discretionary bonus plan. Bonus amounts expected to be paid are based on the performance of the Bank and on the performance of the respective officer or employee. These amounts have been recorded as an expense in the consolidated statements of income.

Executive supplemental income plan: The executive supplemental income plan is a nonqualified deferred compensation plan for designated officers. Upon the participant's retirement, death or disability, the amount of benefits, as defined by the plan document, will be paid to the participant or the beneficiary. The present value of benefits expected to be provided is expensed over the remaining estimated years of service of the participant. Vesting occurs at the retirement age of 65 or upon the participant's death.

The plan is funded by the Company through annual deposits with insurance companies to provide a tax-deferred investment for future benefit payments, along with life and disability insurance coverage for the participants. The Company had deposit contracts with insurance companies totaling $1.3 million as of December 31, 2020 ($1.3 million as of December 31, 2019). An accrued benefit liability of $206 thousand is included in other liabilities as of December 31, 2020 ($190 thousand as of December 31, 2019).

401(k) plan: Under the Company's 401(k) plan, adopted in September 1998, participants are permitted to contribute the maximum allowed by law to the plan, which is matched by the Company 100% up to 6% of the participant's compensation for the year. All participant contributions are 100% vested at all times. The Company's matching contributions vest 25% with each year of service beginning the second year of service. Total employer contributions amounted to $363 thousand for 2020 ($325 thousand for 2019).

Salary continuation plan: The Company has a nonqualified deferred compensation plan for three designated officers. Upon the designated officers' disability, retirement or death, the amount of benefits, as defined by the continuation plan document, will be paid out to the participant or the beneficiary. The present value of benefits expected to be provided is expensed over the remaining estimated years of service of the participants. Each designated officer vests over varying years.
The salary continuation plan is funded by the Company through the Bank's purchase of life insurance policies to provide a tax-deferred investment for future benefit payments, along with life insurance coverage for the participants. The designated officer is the insured person under the policy, and the Bank is the owner and beneficiary. The Company had policies with insurance companies with cash surrender values totaling $8.5 million and $8.6 million in 2020 and 2019, respectively. An accrued benefit liability of $2.5 million is included in other liabilities as of December 31, 2020 ($2.6 million in 2019).

Note 18. Restrictions of Dividends

The Bank, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. As of December 31, 2020 and 2019, the Bank could declare dividends of $7.1 million and $5.6 million without the approval of the Comptroller of the Currency.

Note 19. Capital and Regulatory Matters

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

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

Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject. As of December 31, 2020, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

Note 19. Capital and Regulatory Matters (Continued)

The following tables present actual and required capital ratios as of December 31, 2020 and 2019, for the Bank under the Basel III capital rules. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

	December 31, 2020 (Dollars in Thousands)					
	Actual		For Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity Tier 1 capital to risk-weighted assets	$ 52,198	13.7%	$ 26,718	7.0%	$ 24,810	6.5%
Tier 1 capital to risk-weighted assets	$ 52,198	13.7%	$ 32,443	8.5%	$ 30,535	8.0%
Total capital to risk-weighted assets	$ 56,752	14.9%	$ 40,077	10.5%	$ 38,169	10.0%
Tier 1 capital to average assets	$ 52,198	8.3%	$ 25,065	4.0%	$ 31,332	5.0%

	December 31, 2019 (Dollars in Thousands)					
	Actual		For Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity Tier 1 capital to risk-weighted assets	$ 49,615	13.1%	$ 26,496	7.0%	$ 24,604	6.5%
Tier 1 capital to risk-weighted assets	$ 49,615	13.1%	$ 32,174	8.5%	$ 30,282	8.0%
Total capital to risk-weighted assets	$ 54,094	14.3%	$ 39,744	10.5%	$ 37,852	10.0%
Tier 1 capital to average assets	$ 49,615	9.2%	$ 21,663	4.0%	$ 27,079	5.0%

Results: A list of branches for your depository institution: KLEBERG BANK, N.A. (ID_RSSD: 556459).
This depository institution is held by KLEBERG AND COMPANY BANKERS, INC. (1104325) of KINGSVILLE, 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)	556459	KLEBERG BANK, N.A.	100 EAST KLEBERG AVENUE	KINGSVILLE	TX	78363	KLEBERG	UNITED STATES	Not Required	Not Required	KLEBERG BANK, N.A.	556459	
OK		Full Service	2129259	AIRLINE BRANCH	2037 AIRLINE RD	CORPUS CHRISTI	TX	78412	NUECES	UNITED STATES	Not Required	Not Required	KLEBERG BANK, N.A.	556459	
OK		Full Service	5377396	CROSSTOWN BRANCH	3945 CROSSTOWN SH #286	CORPUS CHRISTI	TX	78416	NUECES	UNITED STATES	Not Required	Not Required	KLEBERG BANK, N.A.	556459	
OK		Full Service	4986157	SOUTH STAPLES BRANCH	5350 S STAPLES	CORPUS CHRISTI	TX	78411	NUECES	UNITED STATES	Not Required	Not Required	KLEBERG BANK, N.A.	556459	

Public Volume

Report Item 3: Shareholders
(1)(a) (1)(b) (1)(c) (2)(a) (2)(b) (2)(c)

Current Shareholder with Ownership, control or holdings of 5% or more with power to vote as of 12-31-20

1b. The BHC does prepare an annual report for its shareholders, please see Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	
Alexander Family			
John D. Alexander, Jr San Antonio, Texas, USA	USA	Data may be found in confidential volume	
Dorothy Alexander Matz San Antonio, Texas, USA	USA	Data may be found in confidential volume	
Henrietta K Alexander San Antonio, Texas, USA	USA	Data may be found in confidential volume	
John D. Alexander, IIII San Antonio, Texas, USA	USA	Data may be found in confidential volume	
Cadell L. Alexander San Antonio, Texas, USA	USA	Data may be found in confidential volume	
The Helen K Groves Irrevocable Trust Trustee: Helen K Groves San Antonio, Texas, USA	USA	5,057	10.06%
Armstrong Family			
Stewart Armstrong San Antonio, TX, USA	USA	17,865	35.55%
Catharine C Whittenburg Testamentary Trust for C.C.W. Armstrong Trustees: C.C. Whittenburg Armstrong Amarillo, TX, USA	USA	Data may be found in confidential volume	
Catharine Coble Armstrong Jorgensen Houston, TX, USA	USA	Data may be found in confidential volume	
Charles M. Armstrong IV Kingsville, TX, USA	USA	Data may be found in confidential volume	
Henrietta L. Armstrong Kingsville, TX, USA	USA	Data may be found in confidential volume	
John Nicholas Jitkoff Kingsville, TX, USA	USA	Data may be found in confidential volume	

Shareholders not listed in (3)(1)(a) through 3 (1)(C) that had ownership, control or Holdings of 5% or more with power to vote during the fiscal year ending 12-31-20

(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
N/A		

Attachment C

Report Item 3: Shareholders
(1)(a) (1)(b) (1)(c) (2)(a) (2)(b) (2)(c)

Current Shareholder with Ownership, control or holdings of 5% or more with power to vote as of 12-31-20			Shareholders not listed in (3)(1)(a) through 3 (1)(C) that had ownership, control or Holdings of 5% or more with power to vote during the fiscal year ending 12-31-20		
1b. The BHC does prepare an annual report for its shareholders, please see 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
Tatiana A. Jitkoff Kingsville, TX, USA	USA	Data may be found in confidential volume			
Jorgensen 2011 Descendants Trust Agreement Trustee: Mia A. Brous Dallas, TX, USA	USA	Data may be found in confidential volume			
John A Larkin, III San Antonio, TX, USA	USA	Data may be found in confidential volume			
Louise Larkin Cutler Revocable Trust Trustee: Louise Larkin Cutler Camden, SC, USA	USA	Data may be found in confidential volume			
Jean L. Dobson Revocable Trust 1-22-2008 Trustee: Jean L. Dobson Atlanta, GA, USA	USA	Data may be found in confidential volume			
Peter A. Larkin, Jr. Charlotte, NC, USA	USA	Data may be found in confidential volume			
Clement Family					
Harrison C. Carrington San Antonio, TX, USA	USA	Data may be found in confidential volume			
Adrian R. Carrington San Antonio, TX, USA	USA	Data may be found in confidential volume			
James Higbee Clement, Jr. Dallas, TX, USA	USA	Data may be found in confidential volume			
Martin W. Clement, Ii Kingsville, TX, USA	USA	Data may be found in confidential volume			
Martin W. Clement, Iii Kingsville, TX, USA	USA	Data may be found in confidential volume			
Capera B. Clement Dallas, TX, USA	USA	Data may be found in confidential volume			
Gregory S. Clement Dallas, TX, USA	USA	Data may be found in confidential volume			
James H. Clement, Iii Dallas, TX, USA	USA	Data may be found in confidential volume			

Report Item 3: Shareholders
(1)(a) (1)(b) (1)(c) (2)(a) (2)(b) (2)(c)

Current Shareholder with Ownership, control or holdings of 5% or more with power to vote as of 12-31-20			Shareholders not listed in (3)(1)(a) through 3 (1)(C) that had ownership, control or Holdings of 5% or more with power to vote during the fiscal year ending 12-31-20		
1b. The BHC does prepare an annual report for its shareholders, please see 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
Leslie Clement Family Trust Kingsville, TX, USA	USA	Data may be found in confidential volume			
Perry C. Finger San Antonio, TX, USA	USA	Data may be found in confidential volume			
Henrietta P. C. Hildebrand Trust 2007 San Antonio, TX, USA	USA	Data may be found in confidential volume			
Ida Louise Larkin Steen Gaunt Houston, TX, USA	USA	Data may be found in confidential volume			
James H. C. Steen Houston, TX, USA	USA	Data may be found in confidential volume			
John T. Steen, Iii Houston, TX, USA	USA	Data may be found in confidential volume			
Ida Clement Steen San Antonio, TX, USA	USA	Data may be found in confidential volume			

Public Volume

Item #4 Insiders

(1) Name, City, State, Country	(2) Principal Occupation, if not Bank Holding Company	(3.a)Title and Position with Bank Holding Company	(3.b) Title and Position with Direct/Indirect Subsidiaries	(3.c) Title & Position with Other Businesses (include names of other business)	(4.a) Percentage of voting securities - Bank Holding Company	(4.b) Percentage of voting securities - Direct / Indirect Subsidiaries	(4.c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List name of companies and percentage of voting securities held)
John D. Alexander, Jr San Antonio, TX USA	Investor	Director Principal Securities Holder	Director, Kleberg Bank, N.A. Director, Kleberg Insurance Group	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Dorothy Alexander Matz San Antonio, TX USA	Horse Breeder	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Henrietta K Alexander San Antonio, Texas USA	Rancher	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
John D. Alexander, III San Antonio, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Cadell L. Alexander San Antonio, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Helen K Groves San Antonio, TX USA	Rancher	Principal Securities Holder	N/A	Data may be found in confidential volume	10.06%	0.00%	Data may be found in confidential volume
Stewart Armstrong San Antonio, TX USA	Investor	Chairman Principal Securities Holder	Chairman, Kleberg Bank, N.A. Chairman, Kleberg Insurance Group	Data may be found in confidential volume	35.55%	0.00%	Data may be found in confidential volume
C.C. Whittenburg Armstrong Amarillo, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Catharine Coble Armstrong Jorgensen Houston, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Charles M. Armstrong IV Kingsville, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Henrietta L. Armstrong Kingsville, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
John Nicholas Jitkoff Kingsville, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Tatiana A. Jitkoff Kingsville, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Mia A. Brous Dallas, TX USA	Interior Designer	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
John A Larkin, III San Antonio, TX USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Louise Larkin Cutler Camden, SC USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Jean L. Dobson Atlanta, GA USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Peter A. Larkin, Jr. Charlotte, NC USA	Investor	Principal Securities Holder	N/A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume
Gabe Guerra Kingsville, TX USA	Banker	President Director	President / CEO, Kleberg Bank, N.A Director, Kleberg Bank, N.A	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume

Public Volume

Item #4 Insiders

(1) Name, City, State, Country	(2) Principal Occupation, if not Bank Holding Company	(3.a)Title and Position with Bank Holding Company	(3.b) Title and Position with Direct/Indirect Subsidiaries	(3.c) Title & Position with Other Businesses (include names of other business)	(4.a) Percentage of voting securities - Bank Holding Company	(4.b) Percentage of voting securities - Direct / Indirect Subsidiaries	(4.c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List name of companies and percentage of voting securities held)
John B Womack Kingsville, TX USA	Banker	Secretary	CXO/Mkt. President - Kleberg Bank, N.A.	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume	Data may be found in confidential volume