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, C. Michael Scott
Name of the Holding Company Director and Official

Vice President/Director
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

05/25/2021
Date of Signature

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

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2020
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

First San Benito Bancshares Corporation
Legal Title of Holding Company

P.O. Box 2030
(Mailing Address of the Holding Company) Street / P.O. Box

San Benito	TX	78586
City	State	Zip Code

1151 W Highway 77, San Benito, TX 78586
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Carlos Muniz	Treasurer
Name	Title

956/276-5623
Area Code / Phone Number / Extension

956/399-0212
Area Code / FAX Number

cmuniz@fcbtx.com
E-mail Address

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

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

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

1. a letter justifying this request is being provided along with the report ..... ☐
2. a letter justifying this request has been provided separately ... ☐

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

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

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)

First San Benito Bancshares Corporation
San Benito, Texas
Fiscal Year Ending December 31, 2020

Report Item

2a. Organizational chart

FIRST SAN BENITO BANCSHARES CORPORATION
San Benito, Texas
Incorporated in Texas
LEI: N/A

100%

FIRST COMMUNITY BANK
San Benito, Texas
Incorporated in Texas
LEI: N/A

100%

FIRST SAN BENITO
STATUTORY TRUST I
Hartford, Connecticut
Incorporated in Connecticut
LEI: N/A

Form FR Y-6

First San Benito Bancshares Corporation
San Benito, Texas
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2020		
(1)(a) Name & Address (City, State, Country)	**(1)(b)** Country of Citizenship or Incorporation	**(1)(c)** Number and Percentage of Each Class of Voting Securities	**(2)(a)** Name & Address (City, State, Country)	**(2)(b)** Country of Citizenship or Incorporation	**(2)(c)** Number and Percentage of Each Class of Voting Securities
Simmons, Leonard P. (San Benito, TX, USA)	USA	173,770 9.20% Common Stock	None		
Simmons, MD Cecil R. (San Benito, TX, USA)	USA	263,335 13.94% Common Stock			
Boswell, Anita (Harlingen, TX, USA)	USA	125,929 6.67% Common Stock			
Simmons Family Total (1)		**563,034 29.80% Total Common Stock**			
Frank Russell (San Benito, TX, USA)	USA	100,000 5.29% Common Stock			

(1) Anita Boswell is the daughter of Cecil R. Simmons, MD.

Form FR Y-6

First San Benito Bancshares Corporation
San Benito, Texas
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	**Principal Occupation if other than with Bank Holding Company**	**Title & Position with Bank Holding Company**	**Title & Position with Subsidiaries (include names of subsidiaries)**	**Title & Position with Other Businesses (include names of other businesses)**	**Percentage of Voting Securities in Bank Holding Company**	**Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)**	**List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)**
Anita Boswell (Harlingen, TX, USA)	N/A	Secretary/ Director	EVP & CAO (First Community Bank)	N/A	6.67%	N/A	None
Dr. Francisco Loya (Harlingen, TX, USA)	Physician	Director	None	Owner	2.38%	N/A	
				Oracion Health, LLC			Oracion Health, LLC (100%)
Frank Russell (San Benito, TX, USA)	Farming/Real Estate Investments	Director	None	Owner	5.29%	N/A	
				281 South			281 South (97.50%)
				One Percent Mgt			One Percent Mgt (90%)
				Russell Plantation Gin, Inc.			Russell Plantation Gin, Inc. (25%)
				J & F Russell			J & F Russell (25%)
				RP II Farming			RP II Farming (25%)
				RP II Sugar			RP II Sugar (25%)
				RGV Adventure			RGV Adventure (50%)
				Las Cipras			Las Cipras (24.5%)
				RUSC, LLC			RUSC, LLC (25%)
				RP Limited Partnership			RP Limited Partnership (25%)
Michael Scott (Raymondville, TX, USA)	N/A	Vice President/ Director	President & CEO (First Community Bank)	President/Partner	3.15%	N/A	
				La Avioneta LLC			La Avioneta LLC (50%)
Cecil R. Simmons, (San Benito, TX, USA)	Retired Physician	Director	None	N/A	13.94%	N/A	None
Leonard Simmons (San Benito, TX, USA)	Farming	President/ Director	None	VP/Owner	9.20%	N/A	
				801 Farms, Inc.			801 Farms, Inc.(50%)
				Simmons Oak Farms			Simmons Oak Farms(35%)
				Simmons Family Partnership			Simmons Family Partnership (25%)
Joaquin Lopez (Edinburg, TX, USA)	N/A	N/A	SVP & COO (First Community Bank)	N/A	0.16%	N/A	None
Carlos Muniz (Harlingen, TX, USA)	N/A	Treasurer	SVP & CFO (First Community Bank)	N/A	0.23%	N/A	None
Phil Teinert (Harlingen, TX, USA)	N/A	N/A	SVP & CLO (First Community Bank)	N/A	1.03%	N/A	None
Luis Muzquiz (Brownsville, TX, USA)	Manufacturing	Director	None	Owner	1.39%	N/A	
				Muzquiz and Muzquiz LLC			Muzquiz and Muzquiz LLC 50%
				United Commodities LLC			United Commodities LLC 50%
Ricardo Leal (Harlingen, TX, USA)	N/A	N/A	SVP (First Community Bank)	N/A	0.92%	N/A	None
Brandon Ede (Harlingen, TX, USA)	N/A	N/A	SVP & IT Mgr (First Community Bank)	N/A	0.24%	N/A	None

Results: A list of branches for your holding company: **FIRST SAN BENITO BANCSHARES CORPORATION (1107009) of SAN BENITO, 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)	334264	FIRST COMMUNITY BANK	1151 W HWY 77	SAN BENITO	TX	78586-4376	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	3932698	BROWNSVILLE BRANCH	470 EAST MORRISON ROAD	BROWNSVILLE	TX	78526	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	3540253	HARLINGEN BRANCH	806 SOUTH 77 SUNSHINE STRIP	HARLINGEN	TX	78550	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	3482250	STUART PLACE ROAD BRANCH	405 N STUART PLACE RD	HARLINGEN	TX	78552	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	3540262	LOS FRESNOS BRANCH	205 EAST OCEAN BOULEVARD	LOS FRESNOS	TX	78566	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	4722403	MCALLEN BRANCH	8000 NORTH 10TH STREET	MCALLEN	TX	78504	HIDALGO	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
CHANGE	12/1/2012	Full Service	4455635	RAYMONDVILLE BRANCH	729 EAST HIDALGO AVENUE	RAYMONDVILLE	TX	78580	WILLACY	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	Branch Relocated
OK		Full Service	3540271	EXPRESSWAY BRANCH	600 SOUTH SAM HOUSTON BOULEVARD	SAN BENITO	TX	78586	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	2783772	SOUTH PADRE ISLAND BRANCH	2701 PADRE BLVD	SOUTH PADRE ISLAND	TX	78597	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	

2020

ANNUAL REPORT

FIRST SAN BENITO BANCSHARES CORPORATION

"Helping our communities grow and succeed"

SHAREHOLDER'S LETTER

It is said that adversity creates opportunity. That certainly rang true in 2020 as the challenges ushered in by the coronavirus pandemic were met head on by our team of banking professionals! We are pleased to report that through the collective efforts of our employees, tremendous results were achieved. Ultimately, new records were set for growth and profitability. Moreover, customer needs were met every step of the way.

The first case of the new coronavirus was confirmed in the United States in January. By the end of March the US had more confirmed cases of COVID-19 than any other country. To protect both our employees and our customers, we closed our lobbies at the end of the third week of March. However, we continued to serve their needs in our drive thru banking facilities, by appointment and on line. We even provided curb side service for those customers that required special assistance. It was a challenging time, as a number of our employees personally contracted the virus. Even though we were short staffed, we elected to keep all our banking centers open. As an essential business, we instead reduced hours and stretched our human resources so that customers would be served. We were blessed with no loss of life on our team and could not be more proud of their accomplishments during this extraordinary time.

The CARES Act was signed into law on March 27, 2020. Part of the small business assistance included in the act was the SBA Paycheck Protection Program (PPP). The roll out of the plan was uncoordinated to say the least, with guidelines piecemealed out to the banking industry on a daily and even hourly basis. It was rewarding to see our staff rise to the occasion, quickly establishing processes and procedures to provide timely delivery of these much needed loans. Through two rounds of funding, we originated 501 loans totaling over $38 million, preserving thousands of jobs in the Rio Grande Valley. The rewards for the bank were significant as well, with a total of $1.485 million in fees paid directly to FCB by the Small Business Administration. By year end a total of 161 loans had been paid off in full through the forgiveness process, totaling almost $16 million.

When the year began, our single largest initiative was to convert the bank's core processing system to a technologically advanced platform that would help us compete in today's market. It was a big decision, as it required a strong commitment from our team to plan, organize and execute the conversion over and above their normal duties and responsibilities. It was a sizeable financial commitment as well, with total conversion related expenses during the calendar year totaling almost $1 million. The conversion took place over the Columbus Day weekend and all went remarkably well. The new platform has given our bankers the tools they need to meet and exceed customer expectations, greatly enhance the "customer experience" and bring increased efficiencies to the organization as a whole. And, with the pandemic causing a tremendous shift to the use of our on-line channels, the timing could not have been better.

The financial results are proof positive that 2020 was a tremendous success. Total assets grew a record $92 million, or 18.79%, to $581 million by year end. Through a combination of earnings and securities appreciation total stockholder's equity grew by $9.4 million, or 23.3%. That was net of $944,640 paid directly to shareholders in the form of cash dividends for the year. Earnings per share topped $3.65, with total company earnings after tax of $6.9 million, up 10.17% from the previous year. Return on average equity was 14.57%, 47% higher than First Community Bank's national peer group average. Return on equity on a consolidated basis was 15.24%.

We made great strides in growing our organization efficiently this past year and our team overcame tremendous obstacles to achieve success. On behalf of the Board of Directors, we would like to thank each and every employee for their efforts. And, as always, we extend our appreciation to our shareholders for their continued support.

Sincerely,

Leonard Simmons
President
First San Benito Bancshares Corporation

C. Michael Scott
President/CEO
First Community Bank

BOARD OF DIRECTORS

Cecil Simmons

Michael Scott

Leonard Simmons
Chairman of the Board

Anita Boswell

Frank Russell

Francisco Loya

Luis Muzquiz

EXECUTIVE TEAM

Michael Scott, President
Chief Executive Officer

Ricky Leal, Senior Vice President/Manager
Harlingen - Stuart Place

Anita Boswell, Executive Vice President
Chief Administrative Officer

Phil Teinert, Senior Vice President
Chief Lending Officer

Carlos Muniz, Senior Vice President
Chief Financial Officer

Joaquin Lopez, Senior Vice President
Chief Operations Officer

Brandon Ede, Senior Vice President/IT Manager
San Benito

OFFICERS

Rosemary Varnam, Vice President/Accounting Harlingen - Stuart Place

Raul Marroquin, Vice President/ Loan Portfolio Management, San Benito

Connie Gonzalez, Vice President/ Bank Secrecy Act Officer, Harlingen

Gordon Magdalena, Senior Vice President/ Lending, Harlingen

Kim White, Senior Vice President/Manager Harlingen

Marco Perez, Senior Vice President/Lending McAllen

OFFICERS

Luis Cortinas, Senior Vice President/Manager
McAllen

Jennifer Sanchez, Senior Vice President/Manager
San Benito

Nora Lang, Vice President/
Customer Service Manaager, San Benito

Walter Pawkett, Senior Vice President/Lending
Brownsville

Albert Muñiz, Vice President/Lending
Harlingen - Stuart Place

Sandra Lopez-Langley, Vice President/
Business Development, Brownsville

OFFICERS

Markus Villanueva, Senior Vice President/Lending
Brownsville

Flora Fagan, Vice President/Lending
McAllen

Cynthia Gamez, Senior Vice President
Corporate Adminstration, Harlingen

John Reed, Senior Vice President/Manager
South Padre Island

Bob Walker, Vice President/Lending
Los Fresnos

Kyle Orgera, Vice President/Lending
Harlingen

OFFICERS

Steven Rivera, Senior Vice President
San Benito

Diana Salazar, Vice President/Manager
Los Fresnos

Jennifer Naranjo, Vice President/
Senior Credit Analyst, San Benito

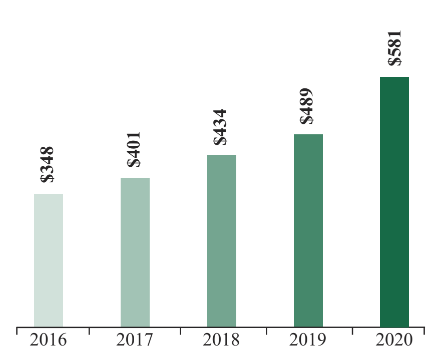
Arnie Gonzalez, Senior Vice President/Lending
Brownsville

Jerry Salazar, Vice President/Lending
McAllen

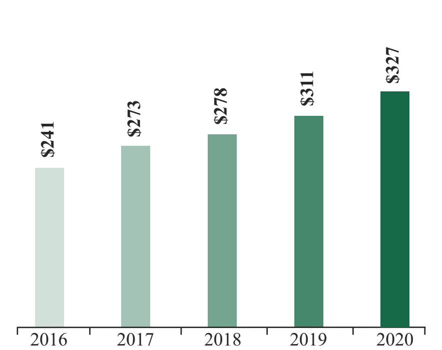
FINANCIAL HIGHLIGHTS

(Dollars in Thousands)	December 31, 2020	2019
Balances at Year End		
Total Assets	$ 581,257	$ 489,298
Loans	327,091	311,182
Securities	126,674	96,784
Interest-Earning Assets	453,765	407,966
Deposits	517,863	435,794
Shareholder’s Equity	49,661	40,275
Average Balances for the Year		
Total Assets	$ 551,429	457,494
Loans	332,579	300,277
Securities	116,592	86,141
Interest-Earning Assets	519,725	427,942
Deposits	491,288	411,341
Shareholder’s Equity	45,283	36,468

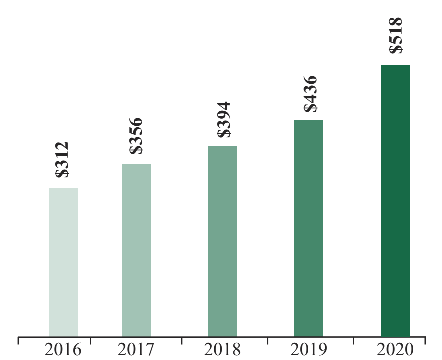
Total Assets
(dollars in millions)



Total Loans
(dollars in millions)



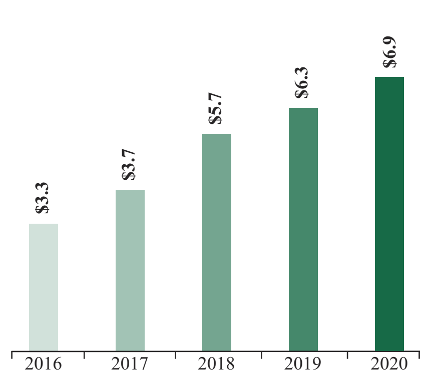
Total Deposits
(dollars in millions)



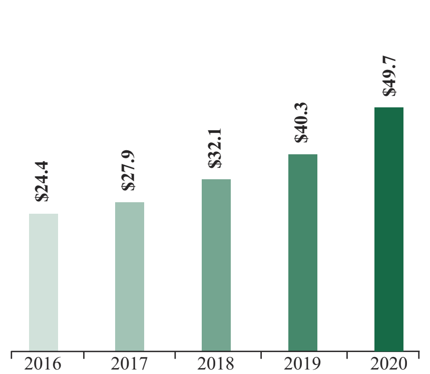
FINANCIAL HIGHLIGHTS

(Dollars in Thousands, Except per Share Data)	December 31, 2020	2019
For the Year		
Net Income	$ 6,899	$ 6,262
Return on Average Assets	1.25%	1.37%
Return on Average Shareholder's Equity	15.24%	17.17%
Net Interest Margin	3.70%	4.30%
Efficiency Ratio	66.74%	65.27%
Per Common Share Data		
Net Income	$ 3.65	3.31
Book Value at Period - End	26.29	21.32
Weighted Average Shares	1,889,280	1,889,280
Capital Ratios at Year End (First Community Bank)		
Total Risk-Based Capital Ratio	14.8%	13.5%
Tier I Risk-Based Capital Ratio	13.6%	12.2%
Leverage Capital Ratio	8.2%	8.7%
Equity to Asset Ratio	9.0%	8.9%

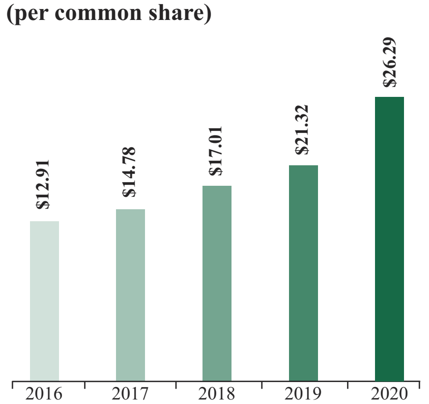
Net Income
(dollars in millions)



Shareholder's Equity
(dollars in millions)



Book Value
(per common share)



BANKING CENTERS

BROWNSVILLE 470 E. Morrison Road

HARLINGEN 405 N. Stuart Place Road

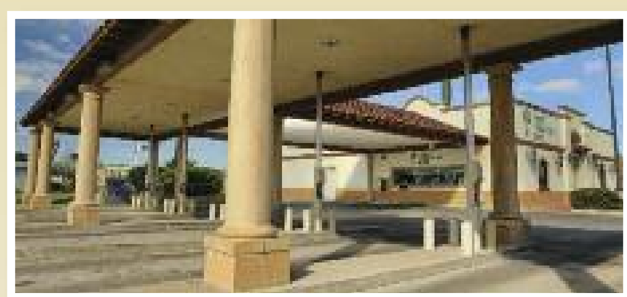
HARLINGEN 806 S. 77 Sunshine Strip

LOS FRESNOS 205 E. Ocean Boulevard

McALLEN 8000 N. Tenth Street

RAYMONDVILLE 729 E. Hidalgo Avenue

SAN BENITO 1151 W. Highway 77



SAN BENITO 600 S. Sam Houston

SOUTH PADRE ISLAND 2701 Padre Boulevard

REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

FIRST SAN BENITO BANCSHARES CORPORATION

DECEMBER 31, 2020 and 2019

Table of Contents

MOSSADAMS

Report of Independent Auditors

The Board of Directors
First San Benito Bancshares Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First San Benito Bancshares Corporation and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Moss Adams LLP

Dallas, Texas
June 3, 2021

	As of December 31, 2020	As of December 31, 2019
ASSETS		
Cash and due from banks	$ 71,337,869	$ 25,515,487
Federal funds sold	33,450,000	33,675,000
Total cash and cash equivalents	104,787,869	59,190,487
Available-for-sale securities	126,673,841	96,783,547
Loans	327,090,896	311,182,256
Less allowance for loan losses	(3,977,429)	(3,949,063)
Net loans	323,113,467	307,233,193
Premises and equipment, net	12,833,461	12,981,634
Non-marketable equity securities	1,098,252	1,089,252
Foreclosed assets held for sale, net	-	167,819
Interest receivable	2,284,145	1,945,349
Cash surrender value of life insurance	8,780,113	8,574,485
Goodwill	471,006	471,006
Core deposits intangible asset	117,000	156,000
Other assets	1,098,262	705,442
Total assets	$ 581,257,416	$ 489,298,214
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	$ 220,895,522	$ 153,692,931
Savings, NOW and money market	213,138,615	176,513,511
Time deposits	83,828,653	105,587,639
Total deposits	517,862,790	435,794,081
Short-term borrowings	8,027,321	7,413,095
Other borrowings	3,093,000	3,693,000
Interest payable and other liabilities	2,612,807	2,122,627
Total liabilities	531,595,918	449,022,803
Stockholders' Equity		
Common stock; $0.10 par value; authorized 10,000,000 shares; 1,889,280 shares issued and outstanding 2020 and 2019	188,928	188,928
Additional paid-in capital	4,606,345	4,606,345
Retained earnings	40,211,237	34,256,762
Accumulated other comprehensive income	4,654,988	1,223,376
Total stockholders' equity	49,661,498	40,275,411
Total liabilities and stockholders' equity	$ 581,257,416	$ 489,298,214

First San Benito Bancshares Corporation
Consolidated Statements of Income

	For Years Ended December 31,	
	2020	2019
INTEREST INCOME		
Loans	$18,507,212	$18,413,032
Securities		
Taxable	1,027,181	1,053,903
Tax-exempt	1,474,039	1,046,052
Federal funds sold and other	270,054	923,351
Total interest income	21,278,486	21,436,338
INTEREST EXPENSE		
Deposits	1,871,703	2,843,978
Other interest expense	161,683	210,988
Total interest expense	2,033,386	3,054,966
NET INTEREST INCOME	19,245,100	18,381,372
PROVISION FOR LOAN LOSSES	200,000	322,000
	19,045,100	18,059,372
NONINTEREST INCOME		
Service charges on deposit accounts	1,857,894	2,419,727
ATM and debit card income	1,317,226	1,194,679
Loan fee income	2,103,186	720,773
Net realized gains on sales of available-for-sale securities	326,488	36,339
Other	260,622	246,142
Total noninterest income	5,865,416	4,617,660
NONINTEREST EXPENSE		
Salaries and employee benefits	9,464,260	8,903,688
Occupancy and equipment expense	2,044,276	2,008,658
Data processing fees	1,295,650	761,762
ATM and debit card processing and expenses	1,202,795	754,222
Advertising and public relations	398,937	404,647
Consultants	95,071	210,642
Communications	168,737	210,244
Office Supplies	235,986	206,169
Director fees	210,000	189,000
Net realized loss on sales of premises and equipment	13,426	-
Net realized loss on foreclosed assets	48,705	10,738
Other	1,424,997	1,339,656
Total noninterest expense	16,602,840	14,999,426
INCOME BEFORE INCOME TAX	8,307,676	7,677,606
PROVISION FOR INCOME TAXES	1,408,561	1,415,584
NET INCOME	$ 6,899,115	$ 6,262,022

Consolidated Statements of Comprehensive Income

	For the Years Ended December 31,	
	2020	2019
NET INCOME	$ 6,899,115	$ 6,262,022
OTHER COMPREHENSIVE INCOME		
Unrealized appreciation on available-for-sale securities, net of taxes of $980,762 and $707,734 for 2020 and 2019, respectively	3,689,538	2,662,433
Reclassification adjustment for realized gains included in net income, net of taxes of $68,562 and $7,631 for 2020 and 2019, respectively	(257,926)	(28,708)
TOTAL OTHER COMPREHENSIVE INCOME	3,431,612	2,633,725
COMPREHENSIVE INCOME	$ 10,330,727	$ 8,895,747

First San Benito Bancshares Corporation
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
BALANCE, January 1, 2019	1,889,280	$188,928	$4,606,345	$28,750,452	$ (1,410,349)	$32,135,376
Net income	-	-	-	6,262,022	-	6,262,022
Other comprehensive income	-	-	-	-	2,633,725	2,633,725
Dividends on common stock, $0.40 per share	-	-	-	(755,712)	-	(755,712)
BALANCE, December 31, 2019	1,889,280	188,928	4,606,345	34,256,762	1,223,376	40,275,411
Net income	-	-	-	6,899,115	-	6,899,115
Other comprehensive income	-	-	-	-	3,431,612	3,431,612
Dividends on common stock, $0.50 per share	-	-	-	(944,640)	-	(944,640)
BALANCE, December 31, 2020	1,889,280	$188,928	$4,606,345	$40,211,237	$ 4,654,988	$49,661,498

First San Benito Bancshares Corporation
Consolidated Statements of Cash Flows

	For Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,899,115	$ 6,262,022
Items not requiring (providing) cash		
Depreciation	590,336	662,756
Provision for loan losses	200,000	322,000
Amortization of premiums and discounts on securities	1,054,189	634,096
Amortization of intangible assets	39,000	39,000
Deferred income taxes	(76,106)	(157,207)
Increase in cash surrender value of life insurance	(205,628)	(191,653)
Stock dividends on nonmarketable equity securities	(9,000)	(22,900)
Net realized gains on sales of available-for-sale securities	(326,488)	(36,339)
Net realized losses on foreclosed assets	48,705	10,738
Net realized losses on other assets	13,426	-
Changes in		
Interest receivable	(338,796)	(50,568)
Other assets	(315,694)	12,486
Interest payable and other liabilities	(345,915)	445,982
Net cash provided by operating activities	7,227,144	7,930,413
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(147,857,196)	(110,663,957)
Proceeds from maturities of available-for-sale securities	13,146,787	8,473,800
Proceeds from sales of available-for-sale securities	108,436,227	97,888,969
Net change in loans	(16,157,395)	(33,602,704)
Purchase of premises and equipment	(599,715)	(222,435)
Proceeds from sales of foreclosed assets	196,235	241,510
Proceeds from sale of other assets	67,000	-
Purchase of life insurance	-	(2,666,666)
Net cash used in investing activities	(42,768,057)	(40,551,483)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, NOW, savings and money market deposits	103,827,695	20,159,522
Net decrease in time deposits	(21,758,986)	21,137,657
Net change in short-term borrowings	614,226	6,634,289
Repayment of other borrowings	(600,000)	(1,600,000)
Dividends paid	(944,640)	(755,712)
Net cash provided by financing activities	81,138,295	45,575,756
INCREASE IN CASH AND CASH EQUIVALENTS	45,597,382	12,954,686
CASH AND CASH EQUIVALENTS, beginning of year	59,190,487	46,235,801
CASH AND CASH EQUIVALENTS, end of year	$104,787,869	$ 59,190,487
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid	$ 1,694,590	$ 1,560,590
Income taxes paid	$ 1,610,000	$ 1,530,000
Real estate acquired in settlement of loans	$ 77,121	$ 216,638

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

First San Benito Bancshares Corporation (Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary First Community Bank (Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Cameron, Willacy, and Hidalgo Counties in Texas. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. The Company owns 100 percent of the common securities of First San Benito Statutory Trust I (Trust). The Trust is considered a VIE; however, the Trust is not consolidated because the Company is not the primary beneficiary. There are no other VIEs in which the Company has an interest.

All facts and circumstances are taken into consideration when determining whether the Company has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Company's financial statements. In many cases, it is qualitatively clear based on whether the Company has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether the Company is obligated to absorb significant losses of or has a right to receive significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis are required to make such a determination.

The Company monitors the consolidated and unconsolidated VIEs to determine if any reconsideration events have occurred that could cause any of them to no longer be a VIE. The Company reconsiders whether it is the primary beneficiary of a VIE on an ongoing basis. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE.

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 relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets, other-than-temporary impairments (OTTI), and fair values of financial instruments.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents
The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted primarily of cash and federal funds sold.

Securities
Available-for-sale securities, which include any debt security for which the Company has no immediate plan to sell but which may be sold in the future, are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. 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 trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Loans
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 balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees and certain direct origination costs are generally recognized in the period in which fees were received and/or costs were incurred. Under accounting principles generally accepted in the United States of America, such fees and costs are deferred and recognized over the life of the loan as an adjustment of the yield. As of December 31, 2020 and 2019, management believes that the effect of not deferring such fees and costs, and amortizing them over the life of the related loan does not materially affect the financial position of the Company.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

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

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

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

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

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

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

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35 - 40 years
Leasehold improvements	5 - 10 years
Equipment and automobiles	3 - 10 years

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Long-Lived Asset Impairment
The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Non-Marketable Equity Securities
Non-marketable equity securities consist of common stock in the Federal Home Loan Bank (FHLB) and The Independent Bankers Bank (TIB). The FHLB stock is a required investment for institutions that are members of the FHLB system. The required investment in this common stock is based on a predetermined formula. The common stock in TIB was purchased to obtain advantageous rates on correspondent services offered by TIB to its shareholders. The securities are carried at cost and periodically evaluated for impairment.

Foreclosed Assets Held for Sale
Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in income or expense from foreclosed assets.

Bank-Owned Life Insurance
The Bank has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill
Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Intangible Assets
Intangible assets with finite lives are being amortized on the straight-line basis over ten years. Such assets are periodically evaluated as to the recoverability of their carrying values.

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 – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (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 or the ability to unilaterally cause the holder to return specific assets.

Short-Term Borrowings
At December 31, 2020 and 2019, short-term borrowings consisted of repurchase agreements totaling $8,027,321 and $7,413,095, respectively. Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by available-for-sale securities, and such collateral is held by Frost Bank.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Income Taxes
The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities and enacted changes in tax rates and laws and are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent. The terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated federal income tax returns with its subsidiary.

Comprehensive Income
Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities.

Transfers Between Fair Value Hierarchy Levels
Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Reclassifications
Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 consolidated financial statement presentation. These reclassifications had no effect on net income.

Note 2 – Restriction on Cash and Due from Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. In response to the Covid -19 pandemic, the Federal Reserve reduced the reserve requirement ratio to zero across all deposit tiers, effective March 26, 2020.

Note 3 – Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
U.S. government and federal agency	$ 997,843	$ -	$ (23,149)	$ 974,694
Government sponsored enterprises (GSE) residential mortgage-backed securities	53,029,400	1,481,001	(22,949)	54,487,452
State and political subdivisions	66,754,208	4,457,487	-	71,211,695
	$120,781,451	$5,938,488	$ (46,098)	$126,673,841
December 31, 2019				
Government sponsored enterprises (GSE) residential mortgage-backed securities	$ 49,446,179	$ 396,573	$(157,405)	$ 49,685,347
State and political subdivisions	45,788,791	1,340,560	(31,151)	47,098,200
	$ 95,234,970	$1,737,133	$(188,556)	$ 96,783,547

The amortized cost and fair value of available-for-sale securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 815,254	$ 818,657
One to five years	1,579,423	1,620,875
Five to ten years	11,808,491	12,239,361
After ten years	53,548,883	57,507,496
	67,752,051	72,186,389
Mortgage-backed securities	53,029,400	54,487,452
Totals	$120,781,451	$126,673,841

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $92,827,659 and $85,063,887 at December 31, 2020 and 2019, respectively.

Gross gains of $382,919 and $154,193 and gross losses of $56,431 and $117,854 resulting from sales of available-for-sale securities were realized for 2020 and 2019, respectively.

Note 3 – Securities (continued)

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2020 and 2019, was $9,100,051 and $27,272,037, which is approximately 7 percent and 28 percent, respectively, of the Company's available-for-sale portfolio. These declines primarily resulted from recent changes in market interest rates from those at the time the securities were purchased.
Management believes the declines in fair value for these securities are temporary.

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
GSE residential mortgage-backed securities	$9,100,051	$ 46,098	$ -	$ -	$ 9,100,051	$46,098
State and political subdivisions	-	-	-	-	-	-
Total temporarily impaired securities	$9,100,051	$ 46,098	$ -	$ -	$ 9,100,051	$46,098
December 31, 2019						
GSE residential mortgage-backed securities	$12,473,652	$ 36,746	$9,630,967	$120,659	$22,104,619	$ 157,405
State and political subdivisions	4,239,897	28,693	927,521	2,458	5,167,418	31,151
Total temporarily impaired securities	$16,713,549	$ 65,439	$10,558,488	$123,117	$27,272,037	$ 188,556

Residential Mortgage-Backed Securities
The unrealized losses on the Company's investment in residential mortgage-backed securities were caused by interest rate increases subsequent to the purchase. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020.

State and Political Subdivisions
The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate increases subsequent to the purchase. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity.

Note 4 – Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

	2020	2019
Commercial and industrial	$ 79,172,532	$ 61,810,571
Real estate		
Commercial real estate	133,229,361	136,573,506
Residential real estate	81,229,004	71,626,323
Agricultural real estate	12,669,008	13,482,795
Construction	6,638,017	12,456,178
Agricultural production	7,586,785	8,454,009
Consumer and other	6,566,189	6,778,874
	327,090,896	311,182,256
Less		
Allowance for loan losses	(3,977,429)	(3,949,063)
Net loans	$323,113,467	$307,233,193

Note 4 – Loans and Allowance for Loan Losses (continued) The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31:

	2020					
	Commercial and Industrial	Real Estate	Agricultural Production	Consumer and Other	Unallocated	Total
Allowance for loan losses						
Balance, beginning of year	$ 547,375	$ 2,962,161	$ 84,875	$ 174,522	$ 180,130	$3,949,063
Provision	73,828	87,211	(5,214)	25,438	18,737	200,000
Losses charged off	(100,792)	(167)	-	(139,043)	-	(240,002)
Recoveries	10,368	-	-	58,000	-	68,368
Balance, end of year	$ 530,779	$ 3,049,205	$ 79,661	$ 118,917	$ 198,867	$3,977,429
Allowance Balances						
Ending balance, individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, collectively evaluated for impairment	530,779	3,049,205	79,661	118,917	198,867	3,977,429
Ending balance	$ 530,779	$ 3,049,205	$ 79,661	$ 118,917	$ 198,867	$3,977,429
Loans						
Ending balance, individually evaluated for impairment	$ -	$ 1,973,976	$ -	$ -	$ -	$1,973,976
Ending balance, collectively evaluated for impairment	79,172,532	231,791,414	7,586,785	6,566,189	-	325,116,920
Ending balance	$ 79,172,532	$ 233,765,390	$7,586,785	$ 6,566,189	$ -	$327,090,896

	2019					
	Commercial and Industrial	Real Estate	Agricultural Production	Consumer and Other	Unallocated	Total
Allowance for loan losses						
Balance, beginning of year	$ 461,922	$ 2,504,022	$ 100,692	$ 174,833	$ 512,326	$3,753,795
Provision	70,931	458,139	(15,817)	140,943	(332,196)	322,000
Losses charged off	(60,000)	-	-	(173,751)	-	(233,751)
Recoveries	74,522	-	-	32,497	-	107,019
Balance, end of year	$ 547,375	$ 2,962,161	$ 84,875	$ 174,522	$ 180,130	$3,949,063
Allowance Balances						
Ending balance, individually evaluated for impairment	$ -	$ 8,299	$ -	$ -	$ -	$ 8,299
Ending balance, collectively evaluated for impairment	828,931	2,681,790	129,531	(210,939)	511,451	3,940,764
Ending balance	$ 828,931	$ 2,690,089	$ 129,531	$ (210,939)	$ 511,451	$3,949,063
Loans						
Ending balance, individually evaluated for impairment	$ -	$ 2,109,511	$ -	$ -	$ -	$2,109,511
Ending balance, collectively evaluated for impairment	61,810,551	232,029,291	8,454,009	6,778,894	-	309,072,745
Ending balance	$ 61,810,551	$ 234,138,802	$8,454,009	$ 6,778,894	$ -	$311,182,256

Note 4 – Loans and Allowance for Loan Losses (continued)
No allowance for credit losses has been recognized for PPP loans as such loans are fully guaranteed by the SBA.

Internal Risk Categories
Loan grades are numbered 1 through 7. Grades 1 through 4 are considered satisfactory grades. The grade of 5 or Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, Substandard, or 7, Doubtful, refer to assets that are classified. The use of and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

Pass (1–3) – The Bank has three levels within this category to provide granularity between loans.

Pass Watch (4) – Pass watch grade is used to identify credits which may have some of the following characteristics: collateral documentation deficiencies, marginal collateral support, weak or unsupported collateral valuations, lack current or complete financial data and/or analysis, needs additional monitoring, recent changes in management or operations, terms beyond policy guidelines, variations in balance sheet or cash flow/operating components or trends from prior periods or forecasts, past credit problems, high leverage, or untested performance under repayment terms, among others.

Special Mention (OAEM) (5) – These assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (6) – These loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful (7) – Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment and class of the loan portfolio are described as follows:

Commercial
The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

With the passage of the CARES Act Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA), the Company has participated in originating loans to its customers through the program. PPP loans have terms of two to five years and earn interest at 1%. In return for processing and funding the loans, the SBA paid the lenders a processing fee tiered by the size of the loan. At December 31, 2020, there were $24,036,641, in PPP loans outstanding included in the commercial loan portfolio. In addition, the Company has recorded fees associated with PPP loans of $1,486,754 as of December 31, 2020. Based on published program guidelines, these loans funded through the PPP are fully guaranteed by the U.S. government. Management believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program with any remaining loan balances, after the forgiveness of any amounts, still fully guaranteed by the SBA.

Note 4 – Loans and Allowance for Loan Losses (continued)

Residential Real Estate
The residential 1–4 family real estate loans are generally secured by nonowner-occupied 1–4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial and Agricultural Real Estate
Commercial and agricultural real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Construction and Land Development Real Estate
Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values, and the local economies in the Company's market areas.

Agricultural
The agriculture portfolio consists of lines of credit and term loans extended for the purpose of working capital and equipment purchases for borrowers engaged in farming operations. The loans in this category are repaid primarily from the cash flow of the farming operation. Credit risk in these loans is driven by commodity prices, weather, and creditworthiness of the borrower.

Consumer
The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

Note 4 – Loans and Allowance for Loan Losses (continued)

The following table presents the credit risk profile of the Company's loan portfolio based on internal rating category and payment activity as of December 31:

	2020			
	Pass	Special Mention	Substandard	Total
Commercial and industrial	$ 79,170,752	$ -	$ 1,780	$79,172,532
Real estate				
Commercial real estate	129,359,568	-	3,869,793	133,229,361
Residential real estate	81,117,632	-	111,372	81,229,004
Agricultural real estate	12,669,008	-	-	12,669,008
Construction	6,638,017	-	-	6,638,017
Agricultural production	7,586,785	-	-	7,586,785
Consumer and other	6,566,189	-	-	6,566,189
Total	$323,107,951	$ -	$ 3,982,945	$327,090,896

	2019			
	Pass	Special Mention	Substandard	Total
Commercial and industrial	$ 61,810,571	$ -	$ -	$ 61,810,571
Real estate				
Commercial real estate	130,277,602	-	6,295,904	136,573,506
Residential real estate	71,348,443	-	277,880	71,626,323
Agricultural real estate	13,020,802	-	461,993	13,482,795
Construction	12,456,178	-	-	12,456,178
Agricultural production	8,454,009	-	-	8,454,009
Consumer and other	6,736,511	-	42,363	6,778,874
Total	$304,104,116	$ -	$ 7,078,140	$311,182,256

Note 4 – Loans and Allowance for Loan Losses (continued)

The following tables present the Company's loan portfolio aging analysis as of December 31:

	2020					
	30-90 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Commercial and industrial	$ 14,190	$ -	$ 1,780	$ 15,970	$ 79,156,562	$ 79,172,532
Real estate						
Commercial real estate	132,078			132,078	133,097,283	133,229,361
Residential real estate	700,284	-	-	700,284	80,528,720	81,229,004
Agricultural real estate	-	-	-	-	12,669,008	12,669,008
Construction	169,415	142,800	-	312,215	6,325,802	6,638,017
Agricultural production	-	-	-	-	7,586,785	7,586,785
Consumer and other	21,980	2,613	-	24,593	6,541,596	6,566,189
Total	$1,037,947	$ 145,413	$ 1,780	$1,185,140	$325,905,756	$327,090,896

	2019					
	30-90 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Commercial and industrial	$ 132,489	$ -	$ 23,174	$ 155,663	$ 61,654,908	$ 61,810,571
Real estate						
Commercial real estate	139,627	-	-	139,627	136,433,879	136,573,506
Residential real estate	173,389	-	79,467	252,856	71,373,467	71,626,323
Agricultural real estate	-	-	-	-	13,482,795	13,482,795
Construction	-	200,000	-	200,000	12,256,178	12,456,178
Agricultural production	-	-	-	-	8,454,009	8,454,009
Consumer and other	41,459	-	-	41,459	6,737,415	6,778,874
Total	$ 486,964	$ 200,000	$ 102,641	$ 789,605	$310,392,651	$311,182,256

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

Note 4 – Loans and Allowance for Loan Losses (continued)

The following tables present impaired loans for the years ended December 31:

	2020						
	Unpaid Contractual Balance	Recorded Investment with No Specific Allowance	Recorded Investment with Specific Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate							
Commercial real estate	-	-	-	-	-	-	-
Residential real estate	481,738	481,738	-	481,738	-	528,317	31,049
Agricultural real estate	-	-	-	-	-	-	-
Construction	1,492,238	1,492,238	-	1,492,238	-	1,513,427	96,176
Agricultural production	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	$ 1,973,976	$1,973,976	$ -	$1,973,976	$ -	$2,041,744	$ 127,225

	2019						
	Unpaid Contractual Balance	Recorded Investment with No Specific Allowance	Recorded Investment with Specific Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate							
Commercial real estate	-	-	-	-	-	-	-
Residential real estate	574,895	495,428	79,467	574,895	8,299	581,789	36,651
Agricultural real estate	-	-	-	-	-	-	-
Construction	1,534,616	1,534,616	-	1,534,616	-	1,554,637	9,589
Agricultural production	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	$2,109,511	$2,030,044	$ 79,467	$2,109,511	$ 8,299	$2,136,426	$ 46,240

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. These loans had originally been classified as troubled debt restructurings in previous years. The primary reason for the troubled debt restructuring classifications were modifications of terms to allow interest-only payments or an amortization period that was in excess of loans with similar characteristics. At December 31, 2020 and 2019, the Company had $-0- and $2,030,044, respectively, of troubled debt restructurings that were classified as impaired. There were no trouble debt restructurings that defaulted in the subsequent year.

Note 4 – Loans and Allowance for Loan Losses (continued)

Under ASC Subtopic 310-40 and federal banking agencies interagency guidance, certain short-term loan modifications made on a good faith basis in response to COVID-19 (as defined by the guidance) are not considered TDRs. Additionally, under section 4013 of the CARES Act, banks may elect to suspend the requirement for certain loan modifications to be categorized as a TDR. In response to the COVID-19 pandemic, the Company has implemented prudent modifications allowing for primarily short-term payment deferrals or other payment relief to borrowers with pandemic-related economic hardships, where appropriate, that complies with the above guidance. As such, the Company's TDR loans noted above do not include loans that are modifications to borrowers impacted by COVID-19. Deferred payments during the deferral period are due and payable on the maturity date. As of December 31, 2020, the Company has six loans with outstanding balances of $2,354,433.

Note 5 – Foreclosed Assets Held for Sale

Activity in the allowance for losses at December 31 on foreclosed assets was as follows:

	2020	2019
Balance, beginning of year	$ -	$ -
Provision charged to expense	-	-
Sales of properties with allowances	-	-
Balance, end of year	$ -	$ -

Expenses applicable to foreclosed assets at December 31 include the following:

	2020	2019
Net losses on sales of real estate	$ 48,705	$ 10,738
Provision for losses	-	-
Operating expenses, net of rental income	9,492	16,912
Total	$ 58,197	$ 27,650

Note 6 – Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2020	2019
Land	$ 3,101,004	$ 3,101,004
Buildings and improvements	13,418,458	13,330,748
Equipment and automobiles	7,271,335	7,137,526
	23,790,797	23,569,278
Less accumulated depreciation	10,957,336	10,587,644
Net premises and equipment	$12,833,461	$12,981,634

Depreciation expense totaled $590,336 and $662,756 for the years ended December 31, 2020 and 2019, respectively.

Note 7 – Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets were:

	December 31,			
	2020		2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 390,000	$ 273,000	$ 390,000	$ 234,000

Amortization expense for the years ended December 31, 2020 and 2019 was $39,000. Estimated amortization expense for each of the following five years and thereafter is:

2021	$ 39,000
2022	39,000
2023	39,000
Total amortization expense	$ 117,000

Note 8 – Interest-bearing Deposits

Interest-bearing time deposits in denominations of more than $250,000 were approximately $32,139,002 and $39,309,000 on December 31, 2020 and 2019, respectively.

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

Years Ending December 31,	
2021	$ 70,349,700
2022	9,764,837
2023	3,714,116
Total interest-bearing time deposits	$ 83,828,653

Note 9 – Other Borrowings

Other borrowings consisted of the following components at December 31:

	2020	2019
Junior subordinated deferrable interest debentures	$3,093,000	$3,093,000
Promissory notes - Frost Bank	-	600,000
Total	$3,093,000	$3,693,000

Promissory Note

In June 2020, the Company entered into a revolving line of credit with Frost Bank for $5,000,000 or so much as may be outstanding. Principal is due in one payment on June 12, 2021, and interest is due quarterly and began in September 2020. The rate is variable at Wall Street Journal Prime Rate, which was 3.25 percent at December 31, 2020, with a floor of 3.50 percent. The Company has pledged collateral of 125,000 shares (100 percent) of the Bank's common stock. The balance outstanding at December 31, 2020 was $0.

Junior Subordinated Deferrable Interest Debentures

The Company has issued a total of $3,093,000 of junior subordinated deferrable interest debentures to the Trust. The Trust funded the purchase of the subordinated debentures through the sale of trust-preferred securities to a third-party with a liquidation value not to exceed $3,000,000. Using interest payments made by the Company on the debentures, the Trust pays dividends to preferred security holders. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is three-month LIBOR plus 3.15 percent. The preferred securities mature on March 20, 2033, unless the Company elects and obtains regulatory approval to accelerate the maturity date. The Trust's obligations under the trust preferred securities are fully and unconditionally guaranteed by the Company.

Note 9 – Other Borrowings (continued)

Aggregate annual maturities of other borrowings debt at December 31, 2020, are:

Years Ending December 31,	
2021	$ -
2022	-
2023	-
2024	-
2025	-
Thereafter	3,093,000
	$3,093,000

Note 10 – Income Taxes

The provision for income taxes includes these components at December 31:

	2020	2019
Taxes currently payable	$1,484,667	$1,572,791
Deferred income taxes	(76,106)	(157,207)
Total income tax expense	$1,408,561	$1,415,584

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below at December 31:

	2020	2019
Computed at the statutory rate	$1,744,612	$1,612,297
Increase (decrease) resulting from		
Tax exempt interest	(309,548)	(201,560)
Increase in cash surrender value of life insurance	(43,181)	(40,247)
Nondeductible expenses	96,922	13,035
Other	(80,244)	32,059
Actual tax expense	$1,408,561	$1,415,584

The tax effects of temporary differences related to net deferred taxes included in other assets at December 31, 2020 and 2019, and other liabilities at December 31, 2020 and 2019, in the consolidated balance sheets were:

	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 835,260	$ 829,303
Allowance for losses on unfunded commitments	52,225	52,225
Payroll incentive plans	140,482	79,902
Valuation of foreclosed assets	-	952
	1,027,967	962,382
Deferred tax liabilities		
Properties and equipment	620,061	620,061
Net unrealized gain on securities available-for-sale	1,237,402	325,201
Core deposits intangible asset	24,570	32,760
Accretion on investment securities	19,760	31,244
Valuation of foreclosed assets	7,252	-
Other	43,857	41,956
	1,952,902	1,051,222
Net deferred tax (liability)	$(924,935)	$(88,840)

Note 11 – Regulatory Matters

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

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table on following page) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

Note 11 – Regulatory Matters (continued)

The Bank’s actual capital amounts and ratios are also presented in the table below (dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total risk-based capital (to risk-weighted assets)	$ 51,520	14.8%	$27,870	8.0%	$34,837	10.0%
Tier I capital (to risk-weighted assets)	$ 47,294	13.6%	$20,902	6.0%	$27,870	8.0%
Common Equity Tier I capital (to risk-weighted assets)	$ 47,294	13.6%	$15,677	4.5%	$22,644	6.5%
Tier I capital (to adjusted total assets)	$ 47,294	8.2%	$23,111	4.0%	$28,888	5.0%

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total risk-based capital (to risk-weighted assets)	$ 46,100	13.5%	$27,401	8.0%	$34,251	10.0%
Tier I capital (to risk-weighted assets)	$ 41,902	12.2%	$20,551	6.0%	$27,401	8.0%
Common Equity Tier I capital (to risk-weighted assets)	$ 41,902	12.2%	$15,413	4.5%	$22,263	6.5%
Tier I capital (to adjusted total assets)	$ 41,902	8.7%	$19,357	4.0%	$24,196	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2020, approximately $11,681,000 of retained earnings was available for dividend declaration without prior regulatory approval.

Note 11 – Regulatory Matters (continued)

Basel III Capital Rules
In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Note 12 – Related Party Transactions

At December 31, 2020 and 2019, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $1,732,507 and $1,079,013, respectively.

Annual activity consisted of the following at December 31:

	2020	2019
Beginning balance	$ 1,079,013	$ 1,224,202
New loans	1,087,108	1,007,439
Repayments	(433,614)	(1,152,628)
Ending balance	$ 1,732,507	$ 1,079,013

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Company at December 31, 2020 and 2019, totaled approximately $996,179 and $3,012,756, respectively. During the years ended December 31, 2020 and 2019, the Company paid approximately $59,000 and $41,000, respectively, for legal services provided by a law firm whose partner is an immediate family member of a member of executive management and the board of directors.

Note 13 – Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute a portion of their compensation subject to IRS limitations. The Company matches 100 percent of the employee's contribution on the first six percent of the employee's compensation. Employer contributions charged to expense for 2020 and 2019, were approximately $356,000 and $317,000, respectively.

Note 14 – Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following methods and assumptions were used to estimate the fair value.

Limitations
Fair value estimates are made at a specific point in time, based on relevant market information and other information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument.

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

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

In general, we do not purchase investment portfolio securities that are esoteric or that have a complicated structure. Our entire portfolio consists of traditional investments, nearly all of which are federal agency bullet or mortgage pass-through securities, or general obligation or revenue based municipal bonds. Pricing for such instruments is fairly generic and easily obtained.

The following tables summarize financial asses measured at fair value on a recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
2020				
Securities available for sale:				
U.S. government and federal agency	$ 974,694	$ -	$ 974,694	$ -
U.S. government sponsored enterprises				
GSE residential mortgage-backed	$54,487,452	$ -	$54,487,452	$ -
State and political subdivisions	71,211,695	-	71,211,695	-
2019				
Securities available for sale:				
U.S. government sponsored enterprises				
GSE residential mortgage-backed	$ 9,685,347	$ -	$49,685,347	-
State and political subdivisions	47,098,200	-	47,098,200	-

Note 14 – Disclosures About Fair Value of Assets and Liabilities (continued)

Nonrecurring Measurements
Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. Financial assets measured at fair value on a nonrecurring basis during the reported periods include certain impaired loans reported at fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based on observable market data, typically in the case of real estate collateral, or Level 3 inputs based on the customized discounting criteria, typically in the case on non-real estate collateral such as inventory, accounts receivable, equipment or other business assets.

The following table presents impaired loans that were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for credit losses on loans based upon the fair value of the underlying collateral:

Level 2	2020	2019
Carrying value of impaired loans before allocations	$1,973,976	$ 2,109,511
Specific valuation allowance allocations	-	(8,299)
Fair value	$1,973,976	$ 2,101,212

Certain non-financial assets measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial liabilities measured in the second step of goodwill impairment test, and intangible assets. Non-financial assets measured at fair value on a non-recurring basis during the reported periods include certain foreclosed assets which, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for credit losses on loans and certain foreclosed assets which, subsequent to their initial recognition, were remeasured at fair value through a write-down included in other non-interest expense. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. During the reported periods al fair value measurements for foreclosed assets utilized Level 2 inputs.

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

Level 2	2020	2019
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	$ -	$ 167,819
Charge-offs recognized in the allowance for credit losses on loans	-	-
Fair value	$ -	$ 167,819

Note 15 – Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 16 – Commitments and Credit Risk

Commitments to Originate Loans and Lines of Credit

Commitments to originate loans and lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments and lines of credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

At December 31, 2020 and 2019, the Company had outstanding commitments to originate loans and unused lines of credit aggregating approximately $56,957,000 and $58,671,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to $1,428,000 and $2,814,000 at December 31, 2020 and 2019, respectively, with terms ranging from seven months to two years.

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Note 17 – Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

ASSETS

	As of December 31,	
	2020	2019
Cash and due from banks	$ 6,946	$ 71,840
Investment in Bank	52,536,351	43,752,725
Investment in Trust	93,000	93,000
Other assets	190,037	60,554
Total assets	$52,826,334	$43,978,119

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Long-term debt	$ 3,093,000	$ 3,693,000
Due to bank subsidiary	70,082	1,911
Other liabilities	1,754	7,797
Total liabilities	3,164,836	3,702,708
Stockholders' Equity		
Common stock	188,928	188,928
Additional paid-in capital	4,606,345	4,606,345
Retained earnings	40,211,237	34,256,762
Accumulated other comprehensive income	4,654,988	1,223,376
Total stockholders' equity	49,661,498	40,275,411
Total liabilities and stockholders' equity	$52,826,334	$43,978,119

Note 17 – Condensed Financial Information (Parent Company Only) (continued)

Condensed Statements of Comprehensive Income

	For the Years Ended December 31, 2020	2019
Income		
Dividends from Bank	$ 2,900,000	$ 1,650,000
Interest income	3,851	5,298
Total income	2,903,851	1,655,298
Expenses		
Interest expense	140,420	210,140
Other expense	56,973	67,940
Total expenses	197,393	278,080
Income Before Income Tax and Equity in Undistributed Net Income of Bank	2,706,458	1,377,218
Income Tax Benefit	(40,644)	(57,284)
Income Before Equity in Undistributed Net Income of Bank	2,747,102	1,434,502
Equity in Undistributed Net Income of Bank	4,152,013	4,827,520
Net Income	6,899,115	6,262,022
Other comprehensive income	3,431,612	2,633,725
Dividends paid	(944,640)	(755,712)
Comprehensive Income	$ 9,386,087	$ 8,140,035

Note 17 – Condensed Financial Information (Parent Company Only) (continued)

Condensed Statements of Cash Flows

	For the Years Ended December 31,	
	2020	2019
Operating Activities		
Net income	$ 6,899,115	$ 6,262,022
Equity in undistributed income of Bank	(4,152,013)	(4,827,520)
Net change in due from Bank and other assets	(129,484)	69,053
Net change in other liabilities	62,128	(81,900)
Net cash provided by operating activities	2,679,746	1,421,655
Investing Activities		
Investment in subsidiary	(1,200,000)	-
Net cash used in investing activities	(1,200,000)	-
Financing Activities		
Dividends paid	(944,640)	(755,712)
Repayments of long-term debt	(600,000)	(600,000)
Proceeds of other borrowings	-	-
Net cash used in financing activities	(1,544,640)	(1,355,712)
Net Change in Cash and Cash Equivalents	(64,894)	65,943
Cash and Cash Equivalents, Beginning of Year	71,840	5,897
Cash and Cash Equivalents, End of Year	$ 6,946	$ 71,840

Note 18 – Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Bank recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet including estimates inherent in the process of preparing the consolidated financial statements. The Bank's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after the balance sheet date and before the consolidated financial statements are available to be issued. Management has evaluated subsequent events through June 3, 2021, the date the consolidated financial statements were available to be issued.

Note 19 - Risks and Uncertainties

On March 11, 2020, the World Health Organization assessed the novel coronavirus (COVID-19) outbreak and characterized it as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. In addition, the Federal Open Market Committee of the United States Federal Reserve System lowered the federal funds target rate by 1.50%, reduced the rate for discount window loans, and took other actions to promote the stability of the financial system.

The duration and intensity of the impact of the coronavirus and resulting impact to the Bank is unknown. A broad-based reduction in interest rates may reduce the Bank interest income and/or net interest margin, may result in increased prepayments of mortgage loans, negatively impacting the value of the Bank mortgage servicing rights, and may cause customers to withdraw deposits, impacting the Bank's liquidity. A reduction in economic output or a recession in the U.S. economy, both of which appear probable as a result of the pandemic, may also result in a decreased valuation of many of the Bank's assets.

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LOS FRESNOS
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McALLEN
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RAYMONDVILLE
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SAN BENITO MAIN
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