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, Victor Pierson
Name of the Holding Company Director and Official

Chief Executive Officer, Director, & President
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03-19-2021
Date of Signature

For holding companies <u>*not*</u> *registered with the SEC–*
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

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

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

Reporter's Name, Street, and Mailing Address

Moody Bancshares, Inc
Legal Title of Holding Company

P.O. Box 1139
(Mailing Address of the Holding Company) Street / P.O. Box

Galveston	TX	77553
City	State	Zip Code

2302 Postoffice Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Jamie Heidt	Controller
Name	Title

409-632-5292
Area Code / Phone Number / Extension

409-621-4763
Area Code / FAX Number

jheidt@moodybank.com
E-mail Address

None
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.

Moody Bank Holding Company
Legal Title of Subsidiary Holding Company

2302 Postoffice Street
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

Galveston	TX	77550
City	State	Zip Code

245 East Liberty Street, Suite 200, Reno, NV 89501
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)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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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)

Form FR Y-6

Moody Bancshares, Inc.
December 31, 2020

Report Item

1. a. The Bank Holding Company is not required to prepare form 10K with the SEC.

   b. The Bank Holding Company does prepare an annual report for its shareholders. A copy of 2020 annual report is enclosed.

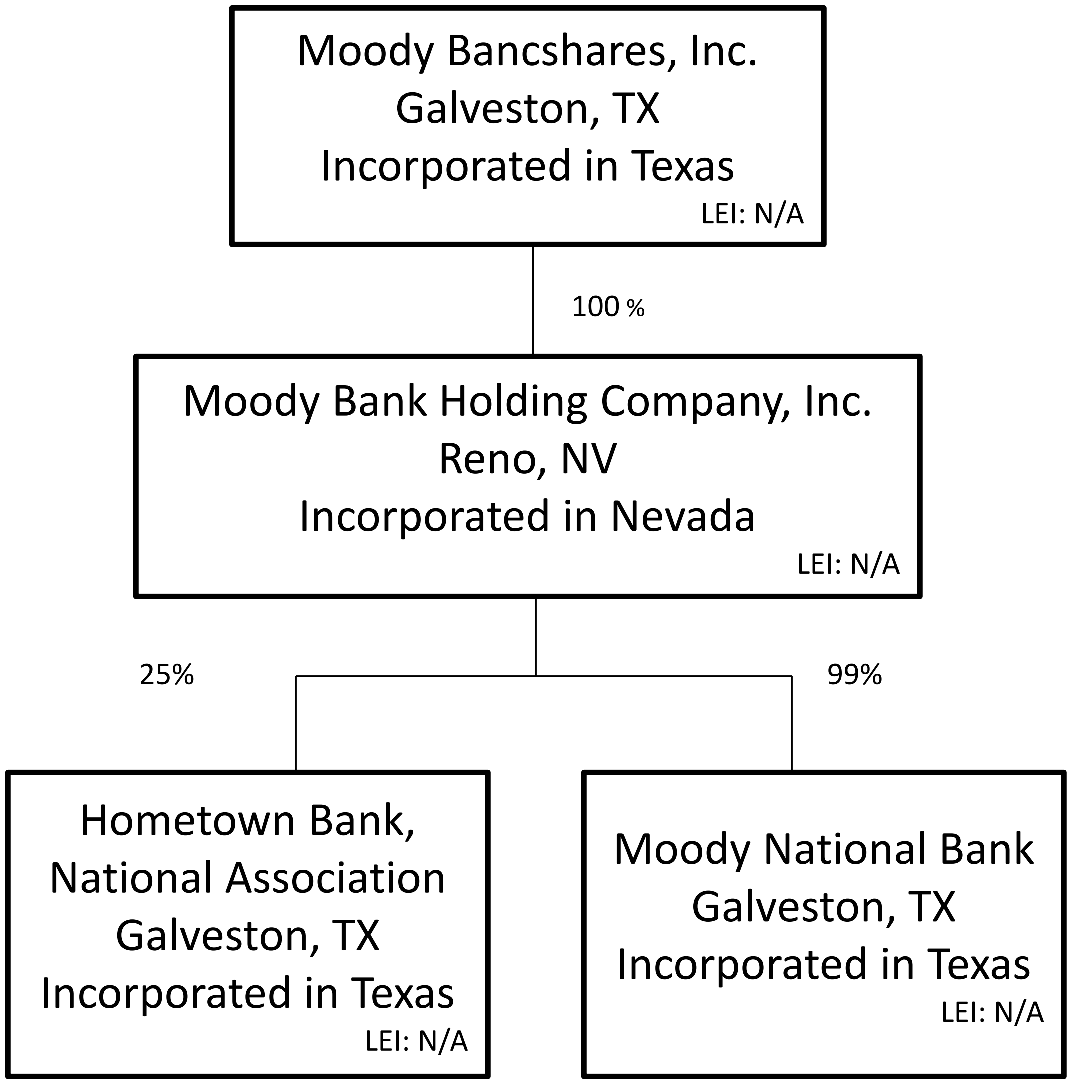
2. a. Organizational chart is enclosed.

   b. Domestic branch listing is enclosed.

3. List of shareholders for Moody Bancshares, Inc. is enclosed.

4. List of insiders for Moody Bancshares, Inc. is enclosed.

FR Y-6


Moody Bancshares, Inc.
Galveston, TX
Incorporated in Texas
LEI: N/A
100 %
Moody Bank Holding Company, Inc.
Reno, NV
Incorporated in Nevada
LEI: N/A
25%
99%
Hometown Bank,
National Association
Galveston, TX
Incorporated in Texas
LEI: N/A
Moody National Bank
Galveston, TX
Incorporated in Texas
LEI: N/A

Results: A list of branches for your holding company: MOODY BANCSHARES, INC. (1107522) of GALVESTON, 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)	393953	HOMETOWN BANK, NATIONAL ASSOCIATION	1801 45TH ST	GALVESTON	TX	77550	GALVESTON	UNITED STATES	Not Required	Not Required	HOMETOWN BANK, NATIONAL ASSOCIATION	393953	
OK		Full Service	3651328	ALVIN BANKING CENTER BRANCH	1050 NORTH ALVIN BYPASS 35	ALVIN	TX	77511	BRAZORIA	UNITED STATES	Not Required	Not Required	HOMETOWN BANK, NATIONAL ASSOCIATION	393953	
OK		Full Service	2995641	FRIENDSWOOD BANKING CENTER BRANCH	3211 EAST FM 528 ROAD	FRIENDSWOOD	TX	77546	HARRIS	UNITED STATES	Not Required	Not Required	HOMETOWN BANK, NATIONAL ASSOCIATION	393953	
OK		Full Service	4236517	FRIENDSWOOD DOWNTOWN BRANCH	601 SOUTH FRIENDSWOOD DRIVE	FRIENDSWOOD	TX	77546	GALVESTON	UNITED STATES	Not Required	Not Required	HOMETOWN BANK, NATIONAL ASSOCIATION	393953	
OK		Full Service	1975990	SEAWALL BANKING CENTER BRANCH	4424 SEAWALL BLVD	GALVESTON	TX	77550	GALVESTON	UNITED STATES	Not Required	Not Required	HOMETOWN BANK, NATIONAL ASSOCIATION	393953	
OK		Full Service	3378540	LEAGUE CITY BANKING CENTER BRANCH	1406 W MAIN	LEAGUE CITY	TX	77573	GALVESTON	UNITED STATES	Not Required	Not Required	HOMETOWN BANK, NATIONAL ASSOCIATION	393953	
OK		Full Service	4464525	HOMETOWN BANK OF PEARLAND	2651 PEARLAND PARKWAY	PEARLAND	TX	77581	BRAZORIA	UNITED STATES	Not Required	Not Required	HOMETOWN BANK, NATIONAL ASSOCIATION	393953	
OK		Full Service (Head Office)	253356	MOODY NATIONAL BANK	2302 POSTOFFICE STREET	GALVESTON	TX	77550	GALVESTON	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3969443	AUSTIN BRANCH	400 WEST 15TH STREET	AUSTIN	TX	78701	TRAVIS	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3589917	VICTORY LAKES BRANCH	1555 FM ROAD 646 WEST	DICKINSON	TX	77539	GALVESTON	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	2994354	FRIENDSWOOD BRANCH	408 WEST PARKWOOD	FRIENDSWOOD	TX	77546	GALVESTON	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	394455	WEST BRANCH	6820 SEAWALL BOULEVARD	GALVESTON	TX	77551	GALVESTON	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3824298	BAY AREA BANKING CENTER	1010 BAY AREA BOULEVARD	HOUSTON	TX	77058	HARRIS	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	2994336	CLEAR LAKE BRANCH	1100 BAY AREA BLVD	HOUSTON	TX	77058	HARRIS	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3377543	WEST HOUSTON BRANCH	850 N ELDRIDGE PKWY	HOUSTON	TX	77079	HARRIS	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3294958	LAKE JACKSON BRANCH	128 OYSTER CREEK DR	LAKE JACKSON	TX	77566	BRAZORIA	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	803359	SOUTH SHORE BRANCH	2901 SOUTH SHORE BLVD	LEAGUE CITY	TX	77573	GALVESTON	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	5219526	NEW BRAUNFELS PLAZA BANKING CENTER	401 MAIN PLAZA	NEW BRAUNFELS	TX	78130	COMAL	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3534373	PASADENA BRANCH	6003 FAIRMONT PARKWAY	PASADENA	TX	77505	HARRIS	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3534319	WEST PEARLAND BRANCH	2940 BROADWAY BEND DRIVE	PEARLAND	TX	77584	BRAZORIA	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3746644	SEABROOK BRANCH	2338 NASA RD 1	SEABROOK	TX	77586	HARRIS	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	3746662	SUGAR LAND BRANCH	7610 HIGHWAY 90A	SUGAR LAND	TX	77478	FORT BEND	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	
OK		Full Service	1864393	TEXAS CITY BRANCH	7940 EMMETT F LOWRY EXPRY	TEXAS CITY	TX	77591	GALVESTON	UNITED STATES	Not Required	Not Required	MOODY NATIONAL BANK	253356	

FORM FR Y-6
Moody Bancshares, Inc.
December 31, 2020

Report Item 3: Shareholders

1a. Name & Address	1b. Country of Citizenship or Incorporation	1c. Number and % of Each Class Voting Stock
Three R Trust Irwin M. Herz, Trustee Greer, Herz, and Adams Galveston, TX [redacted]	USA	144,314 Shares-50.3% of Class A Common Stock 10,000 Shares-100% of Class B Common Stock
National Western Life Insurance Company Ross R. Moody, Chairman of the Board, President, & CEO Austin, TX [redacted]	USA	19,522 Shares-6.8% of Class A Common Stock
The Moody Family: 8.2%		
Robert L. Moody, Sr. Galveston, TX [redacted]	USA	7,800 Shares-2.7% of Class A Common Stock
Robert L. Moody, Jr. Galveston, TX [redacted]	USA	15,907 Shares-5.5% of Class A Common Stock and Class A Restricted Stock
Victor Pierson Galveston, TX [redacted]	USA	15,000 Shares-5.2% of Class A Restricted Stock
James Earthman Galveston, TX [redacted]	USA	15,000 Shares-5.2% of Class A Restricted Stock
John Bill Mathis League City, TX [redacted]	USA	15,000 Shares-5.2% of Class A Restricted Stock
Stephen Phelps Pasadena, TX [redacted]	USA	15,000 Shares-5.2% of Class A Restricted Stock
Fred Raschke Galveston, TX [redacted]	USA	15,000 Shares-5.2% of Class A Restricted Stock
John Kelso Galveston, TX [redacted]	USA	4,000 Shares-1.4% of Class A Restricted Stock

2. N/A

FORM FY Y-6
Moody Bank Holding Company, Inc.
12/31/2020
Report Item 3: Shareholders# 3

Common Stock – Shareholders with Power to Vote 5% or more:

1. **Moody Bancshares Inc**
Galveston, TX [redacted]

1b. **United States**

1c. **100 shares of common stock, 100% ownership**

2. **N/A**

Moody Bancshares, Inc.
Insiders
As of December 31, 2020
Report Item# 4

I.

1. Robert L. Moody, Sr.
   Galveston, Texas [redacted]

2. Businessman

3. a. Chairman Emeritus
   b. Chairman Emeritus-Moody Bank Holding Company
   c. See Attachment

4. a. Class A Common Stock, representing approximately 2.7% of such class
   b. None
   c. See Attachment

II.

1. Robert L. Moody, Jr.
   Galveston, Texas [redacted]

2. Insurance Businessman

3. a. Director
   b. Director-Moody Bank Holding Company
   c. See Attachment

4. a. Class A Common Stock and Class A restricted stock, representing approximatel 5.5% of such class
   b. N/A
   c. See Attachment

III.

1. Three R Trust
   Irwin M. Herz, Trustee
   Greer, Herz, and Adams
   Galveston, Texas [redacted]

2. Attorney

3. a. Principal Securities Holder
   b. N/A
   c. See Attachment

4. a. Class A Common Stock representing approximately 50.3% of such class, and Class B Common Stock, representing 100% of such class
   b. N/A
   c. See Attachment

IV.

1. Victor R. Pierson
   Galveston, Texas [redacted]

2. Banker

3. a. Chief Executive Officer, Director & President
   b. Chief Executive Officer Director & President-Moody Bank Holding Company
   c. See Attachment

4. a. Class A restricted stock, representing 5.2% of such class
   b. N/A
   c. N/A

V.

1. Katherine Rodriguez
   Galveston, Texas [redacted]

2. Accountant

3. a. Treasurer
   b. Treasurer-Moody Bank Holding Company
   c. N/A

4. a. N/A
   b. N/A
   c. N/A

VI.

1. Debbie Williams
   Galveston, Texas [redacted]

2. Administrative Assistant

3. a. Secretary
   b. Secretary-Moody Bank Holding Company
   c. N/A

4. a. N/A
   b. N/A
   c. N/A

Moody Bank Holding Company, Inc.
Insiders
As of December 31, 2020
Report Item# 4

I.

1. Moody Bancshares, Inc.
   Galveston, Texas [redacted]

2. N/A

3. a. Shareholder
   b. N/A
   c. N/A

4. a. 100%
   b. N/A
   c. N/A

II.

1. Robert L. Moody, Sr.
   Galveston, Texas [redacted]

2. Businessman

3. a. Chairman Emeritus
   b. Chairman Emeritus-Moody National Bank
   c. See Attachment

4. a. N/A
   b. N/A
   c. See Attachment

III.

1. Robert L. Moody, Jr.
   Galveston, Texas [redacted]

2. Insurance Businessman

3. a. Director
   b. Director-Moody National Bank
   c. See Attachment

4. a. N/A
   b. N/A
   c. See Attachment

IV.

1. **Victor R. Pierson**
   Galveston, Texas [redacted]

2. **Banker**

3.
   a. **Chief Executive Officer, Director & President**
   b. **Chairman of the Board, Chief Executive Officer, Director & President-Moody National Bank**
   c. **See Attachment**

4.
   a. **N/A**
   b. **N/A**
   c. **N/A**

V.

1. **Katherine Rodriguez**
   Galveston, Texas [redacted]

2. **Accountant**

3.
   a. **Treasurer**
   b. **Chief Financial Officer-Moody National Bank**
   c. **N/A**

4.
   a. **N/A**
   b. **N/A**
   c. **N/A**

VI.

1. **Debbie Williams**
   Galveston, Texas [redacted]

2. **Administrative Assistant**

3.
   a. **Secretary**
   b. **Secretary-Moody National Bank**
   c. **N/A**

4.
   a. **N/A**
   b. **N/A**
   c. **N/A**

Robert L. Moody	Control or % Ownership	Company	Position with Entity
	Owns 99% Outstanding Class B Common Stock & 33.9% Outstanding Class A Common Stock	National Western Life Group, Inc.	Chairman Emeritus
	Control *	American National Insurance Co.	Chairman Emeritus
	Control *	Gal-Tex Hotel Corp	None
	Sole Member	MN-ACAD, LLC	Sole Member
	General Partner	RLMFLP Limited Partnership	General Partner
	Settlor	Robert L. Moody, Revocable Trust	Settlor
	Settlor	Robert L. Moody, Sr. Family Trust	Settlor
	Settlor	Robert L. Moody & Ann McLeod Moody Grandchildren's Trust 1995	Settlor
	Settlor	Robert L. Moody & Ann McLeod Moody Grandchildren's Trust 1998	Settlor
	Control *	Three R Trusts	Settlor
	Control *	Trusts 19 and 57	None

*The Staff of the Office of the Controller of the Currency has taken the position that Robert L. Moody controls these companies and their subsidiaries, if any. Without agreeing with the OCC staff's position on this matter, management has decided to treat these companies and their subsidiaries, if any, as related interests of Robert L. Moody in accordance with Moody National's conservative approach to these matters and the OCC staff's position.

Robert L. Moody Jr.	Control or % Ownership	Company	Position with Entity
	Owner	Moody Spring Ranch	Owner
	Director	Moody Endowment	Director
	Trustee	Robert L. Moody, Jr. Descendant's Trust	Trustee
	Owner 100%	Moody Insurance Group	Owner/President
	President	Treasure Oaks, LLC	President
	President	MIG Land Company, LLC	President
	President	MIG Land West, LLC	President
	President	MIG Management, LLC	President
	Director	Hometown Bank of Galveston	Director
	Director - Qualifying Shares	Moody National Bank	Director
	Director - Qualifying Shares	American National Insurance Company	Advisory Board Member
	Owner 100%	MIG Oil, LLC	Owner/President
	Partner	Texas Bluewater, LLC	President
	Owner 100%	Affinity Immediate Care, LLC	Chairman
	President	Dickinson Hughes, LLC	President
	President	MIG Blueberry Farms, LLC	President
	Director	Mary Moody Northen Endowment	Director
	Director	Center for 20th Century Studies	Director
	President	646 Development, LLC	President
	President	Guadalupe Bay Ranch, LLC	President
	General Partner	RLM2 Land, A Texas LLC	General Partner
	Trustee	Moody RLM Jr Interests, Ltd	Trustee
	Trustee	Moody RLM Jr Management Co, LLC	Trustee

Three R Trusts	Control or % Ownership	Company	Position with Entity
	50.3% outstanding Class A Common Stock and 100% Class B Common Stock	Moody Bancshares, Inc.	None
	100% Common	RCC Kingwood, Inc. (Texas d/b/a RCCKW, Inc.)	None
	100% Common	RCC League City, Inc. (Texas d/b/a RCCLC, Inc.)	None
	100% Common	RCC Management Services, Inc. (Texas d/b/a RCCMS, Inc.)	None
	100% Common	RCCEP, Inc	None
	100% Common	RCCL, Inc	None
	Owns 97.5%	RCCSA, Inc	None
	100% Common	RCCSA II, Inc	None
	100% Common	RCCSA III, Inc	None
	100% Common	RCCW, Inc.	None
	100% Common	RCC Woodway, Inc.	None
	99% Limited Partnership Interest	Regent Care Center of El Paso, Limited Partnership	None
	99% Limited Partnership Interest	Regent Care Center of Kingwood, Limited Partnership	None
	99% Limited Partnership Interest	Regent Care Center of Laredo, Limited Partnership	None
	89% Limited Partnership Interest	Regent Care Center of League City, Limited Partnership	None
	96.525% Limited Partnership Interest	Regent Care Center of San Antonio, Limited Partnership	None
	99% Limited Partnership Interest	Regent Care Center of San Antonio II, Limited Partnership	None
	99% Limited Partnership Interest	Regent Care Center of San Antonio III, Limited Partnership	None
	99% Limited Partnership Interest	Regent Care Center of the Woodlands, Limited Partnership	None
	99% Limited Partnership Interest	Regent Care Center of Woodway, Limited Partnership	None
	99% Limited Partnership Interest	Regent Management Services, Limited Partnership	None
	100% Common	RoRuFa, Inc	None
	99% Limited Partnership Interest	Texas Health Development I, LTD	None
	96.45% Limited Partnership Interest	Texas Health Development II, LTD	None
	99% Limited Partnership Interest	Texas Health Development III, LTD	None
	99% Limited Partnership Interest	Texas Health Development IV-S.A. II, Limited	None
	99% Limited Partnership Interest	Texas Health Development V-E.P., Limited	None
	99% Limited Partnership Interest	Texas Health Development VI-Woodway, Limited	None
	99% Limited Partnership Interest	Texas Health Development VII-S.A. III, Limited	None
	99% Limited Partnership Interest	Texas Health Development VIII-Kingwood, Limited	None
	99% Limited Partnership Interest	Texas Health Development IX-League City, Limited	None
	99% Limited Partnership Interest	Texas Health Development X-S.A. IV, Limited	None
	100% Common	Three R Markets, Inc.	None

Victor Pierson	Control or % Ownership	Company	Position with Entity
	N/A	1859-Beverage Company	Director
	N/A	1859 Management Partners GP, LLC	Director
	N/A	Colorado Landark Hotels, LLC	Director
	N/A	Gal-Tex Hospitality Partners LLC	Director
	N/A	Gal-Tex Hotel Corporation	Director
	N/A	INDEPENDENT Bankers Financial Corp.	Vice Chairman, Director
	N/A	Kentucky Landmark Hotels, LLC	Director
	N/A	LHH Hospitality, LLC	Director
	Director - Qualifying Shares	Moody Bancshares, Inc.	CEO, Director, President
	N/A	Moody Bank Holding Company, Inc.	CEO, Director, President
	N/A	Moody National Bank	Chairman of the Board, Director, President, CEO
	N/A	RCCEP, Inc.	Director
	N/A	RCC Kingwood, Inc. (Texas d/b/a RCCKW, Inc.)	Director
	N/A	RCCL, Inc.	Director
	N/A	RCC League City, Inc. (Texas d/b/a RCCLC, Inc.)	Director
	N/A	RCCL Financial Services, Inc.	Director
	N/A	RCCSA, Inc.	Director
	N/A	RCCSA II, Inc.	Director
	N/A	RCCSA III, Inc.	Director
	N/A	RCCSA Financial Services, Inc.	Director
	N/A	RCCW, Inc.	Director
	N/A	RCC Woodway, Inc.	Director
	N/A	RoRuFa, Inc.	Director
	N/A	Texas Independent Bancshares, Inc.	Vice Chairman, Director
	N/A	Three R Health Facilities, Inc.	Director
	N/A	Three R Markets, Inc.	Director

Moody Bancshares, Inc. and Subsidiaries

Independent Auditor's Report and

Consolidated Financial Statements

December 31, 2020 and 2019

Moody
Bancshares, Inc.

Moody Bancshares, Inc. and Subsidiaries
December 31, 2020 and 2019

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The Annual Meeting of Shareholders
April 15, 2021
Moody National Bank
2302 Postoffice Street, Galveston, Texas
3rd Floor Conference Room
10:30 A.M., Moody Bancshares, Inc.
10:45 A.M., Moody National Bank

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

Independent Auditor's Report

Board of Directors and Stockholders
Moody Bancshares, Inc. and Subsidiaries
Galveston, Texas

We have audited the accompanying consolidated financial statements of Moody Bancshares, Inc. and Subsidiaries (the Company), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements. We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Consolidated Financial Statements and Internal Control over Financial Reporting

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 effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management also is responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management Report Regarding Internal Control over Financial Reporting and Compliance with Designated Laws and Regulations*.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the entity's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects.

An audit of consolidated financial statements 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. An audit of consolidated financial statements 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.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Moody Bancshares, Inc.'s internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Parent-Only Financial Statements for Small Bank Holding Companies (Form FR Y-9SP). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Moody Bancshares, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the COSO.

Supplementary Information

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

BKD, LLP

Houston, Texas
March 11, 2021

Moody Bancshares, Inc.

March 11, 2021

MANAGEMENT REPORT REGARDING INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS

Management Report

In this management report, the following subsidiary institutions of the Moody Bancshares, Inc.'s (the "Company") that are subject to Part 363 are included in the statement of management's responsibilities; the report on management's assessment of compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions; and the report on management's assessment of internal control over financial reporting: Moody Bank Holding Company and Moody National Bank.

Statement of Management's Responsibilities

The management of the Company is responsible for preparing the Company's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9SP, Parent Company Only Financial Statements for Small Holding Companies; and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance With Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020.

Management's Assessment of Internal Control Over Financial Reporting

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., FR Y-9SP, Parent Company Only Financial Statements for Small Holding Companies.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9SP, Parent Company Only Financial Statements for Small Holding Companies, as of December 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control--Integrated Framework*.

Based upon its assessment, management has concluded that, as of December 31, 2020, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9SP, Parent Company Only Financial Statements for Small Holding Companies, is effective based on the criteria established in *Internal Control--Integrated Framework*.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9SP, Parent Company Only Financial Statements for Small Holding Companies, as of December 31, 2020, has been audited by BKD, LLP, an independent public accounting firm, as stated in their report dated March 11, 2021.

Moody Bancshares, Inc.

Victor Pierson, President — 3/11/21 Date

Katherine Rodriguez, Treasurer — 3\11\21 Date

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Moody Bancshares, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2020 and 2019
(Amounts in Thousands, Except Share Data)

Assets

	2020	2019
Cash and due from banks	$ 45,763	$ 43,095
Interest-bearing demand deposits in banks	11,420	20,297
Federal funds sold	78,619	22,448
Cash and cash equivalents	135,802	85,840
Available-for-sale securities	366,274	254,288
Held-to-maturity securities	17,338	22,644
Loans, net of allowance for loan losses of $12,281 and $10,248 at December 31, 2020 and 2019, respectively	841,419	793,678
Premises and equipment, net of accumulated depreciation of $13,074 and $13,498 at December 31, 2020 and 2019, respectively	19,135	20,003
Right-of-use assets	2,657	3,175
Restricted investment securities	1,367	707
Investment in Hometown Bank	23,156	20,052
Interest receivable	6,558	3,714
Deferred income taxes, net	-	292
Other	3,607	4,474
Total assets	$ 1,417,313	$ 1,208,867

See Notes to Consolidated Financial Statements

Liabilities and Stockholders' Equity

		2020		2019
Liabilities				
Deposits:				
Demand	$	396,930	$	340,497
Savings, NOW and money market		463,602		467,649
Time		328,885		200,076
Total deposits		1,189,417		1,008,222
Securities sold under repurchase agreements		3,935		1,907
Lease liability		2,714		3,208
Deferred income taxes, net		1,614		-
Interest payable and other liabilities		1,933		1,919
Total liabilities		1,199,613		1,015,256
Stockholders' Equity				
Moody Bancshares, Inc., stockholders' equity:				
Class A common stock, $0.10 par value; 3,000,000 authorized and 196,972 issued and outstanding, 2020 and 2019, exclusive of 94,000 and 90,000 qualifying directors' shares, 2020 and 2019		20		20
Class B common stock, $0.10 par value; 25,000 authorized and 10,000 issued and outstanding, 2020 and 2019		1		1
Additional paid-in capital		3,748		3,834
Retained earnings		202,343		186,032
Accumulated other comprehensive income		8,852		815
Treasury stock, at cost:				
Common: 140 and 4,140 shares, 2020 and 2019		(159)		(199)
Total Moody Bancshares, Inc., stockholders' equity		214,805		190,503
Noncontrolling interest		2,895		3,108
Total stockholders' equity		217,700		193,611
Total liabilities and stockholders' equity	$	1,417,313	$	1,208,867

Moody Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

(Amounts in Thousands, Except Share Data)

	2020	2019
Interest Income		
Loans, including fees	$ 43,318	$ 42,428
Debt securities:		
Taxable	3,579	2,893
Tax-exempt	2,509	1,550
Federal funds sold	107	841
Deposits with financial institutions	237	660
Other	49	86
Total interest income	49,799	48,458
Interest Expense		
Deposits	7,332	7,222
Repurchase agreements	31	128
Federal funds purchased	-	40
Federal Home Loan Bank Advances	21	386
Total interest expense	7,384	7,776
Net Interest Income	42,415	40,682
Provision for Loan Losses	3,000	1,800
Net Interest Income After Provision for Loan Losses	39,415	38,882
Noninterest Income		
Fiduciary activities	9,923	10,191
Customer service fees	1,843	1,943
Other service charges and fees	182	318
Credit card fees	1,232	1,742
Equity in earnings of Hometown Bank	2,445	2,190
Building rental income	420	434
Net gains on sales of available-for-sale securities	-	26
Net gains (losses) on sales of premises and equipment	(63)	11
Insurance proceeds	50	-
Other	231	66
Total noninterest income	16,263	16,920

See Notes to Consolidated Financial Statements

	2020	2019
Noninterest Expense		
Salaries and employee benefits	$ 17,584	$ 17,440
Occupancy	3,060	3,265
Equipment	3,913	4,072
Trust processing	1,249	1,290
Professional fees	3,406	2,416
Marketing	447	470
Printing and office supplies	404	422
Foreclosed assets, fair value and sales	(57)	(70)
Foreclosed assets, expenses	14	3
Deposit insurance premiums	208	112
Other	4,718	4,010
Total noninterest expense	34,946	33,430
Income Before Income Tax	20,732	22,372
Provision for Income Taxes	4,225	4,194
Net Income	16,507	18,178
Less net income attributable to the noncontrolling interest	212	289
Net Income Attributable to Moody Bancshares, Inc.	$ 16,295	$ 17,889
Basic Earnings Per Share	$ 78.73	$ 86.43

Moody Bancshares, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019
(Amounts in Thousands)

	2020	2019
Net Income	$ 16,507	$ 18,178
Other Comprehensive Income		
Unrealized gains on available-for-sale securities, net of taxes of $1,866 and $914 for 2020 and 2019, respectively	8,142	4,587
Reclassification adjustment for realized gains included in net income, net of taxes of $0 and $5 for 2020 and 2019, respectively	-	(21)
	8,142	4,566
Comprehensive Income	24,649	22,744
Less Comprehensive Income Attributable to the Noncontrolling Interest	317	351
Comprehensive Income Attributable to Moody Bancshares, Inc.	$ 24,332	$ 22,393

Moody Bancshares, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2020 and 2019

(Amounts in Thousands)

	Common Stock Class A	Common Stock Class B	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interest	Total
Balance, January 1, 2019	$ 20	$ 1	$ 3,935	$ 168,143	$ (3,679)	$ (199)	$ 3,321	$ 171,542
Net income	-	-	-	17,889	-	-	289	18,178
Other comprehensive loss	-	-	-	-	4,504	-	62	4,566
Purchase of subsidary shares from noncontrolling interest	-	-	(101)	-	(10)	-	(564)	(675)
Balance, December 31, 2019	20	1	3,834	186,032	815	(199)	3,108	193,611
Net income	-	-	-	16,295	-	-	212	16,507
Other comprehensive income	-	-	-	-	8,037	-	105	8,142
Treasury Shares Issued	-	-	(40)	-	-	40	-	-
Puchase of subsidary shares from noncontrolling interest	-	-	(46)	16	-	-	(530)	(560)
Balance, December 31, 2020	$ 20	$ 1	$ 3,748	$ 202,343	$ 8,852	$ (159)	$ 2,895	$ 217,700

Moody Bancshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Amounts in Thousands)

	2020	2019
Operating Activities		
Net income	$ 16,507	$ 18,178
Items not requiring (providing) cash:		
Depreciation and amortization	1,871	1,936
Provision for loan losses	3,000	1,800
Amortization of premiums and discounts on securities	4,210	2,429
Deferred income taxes	40	239
Net realized gains on available-for-sale securities	-	(26)
Equity earnings in Hometown Bank	(2,445)	(2,190)
(Gain) loss on sale or disposition of premises and equipment	64	(11)
Gain on sale of foreclosed assets	(57)	(70)
Repayment of operating lease liability	24	33
Non-cash expenses from Branch Acquisition	421	-
Dividends received from Hometown Bank	471	416
Changes in:		
Interest receivable	(2,844)	(391)
Other assets	1,183	(432)
Interest payable and other liabilities	6	50
Net cash provided by operating activities	22,451	21,961
Investing Activities		
Purchases of available-for-sale securities	(163,336)	(194,407)
Proceeds from called or matured available-for-sale securities and principal paydowns	56,224	101,674
Proceeds from the sales of available-for-sale securities	-	17,311
Proceeds from called or matured held-to-maturity securities	5,110	4,145
Net change in loans	(50,741)	(80,233)
Net cash provided from Branch Acquisition	23,452	-
Purchase of premises and equipment	(1,117)	(2,218)
Proceeds from sales of premises and equipment	-	143
Proceeds from insurance	50	-
Purchase of Federal Home Loan Bank stock	(660)	-
Sale of Federal Home Loan Bank stock	-	2,452
Proceeds from the sale of foreclosed assets	57	373
Net cash used in investing activities	(130,961)	(150,760)

Moody Bancshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019
(Amounts in Thousands)

	2020	2019
Financing Activities		
Net change in deposits	$ 157,004	$ 173,814
Net change in securities sold under repurchase agreements	2,028	(7,161)
Purchase of subsidiary shares from noncontrolling interest	(560)	(675)
Net cash provided by financing activities	158,472	165,978
Increase in Cash and Cash Equivalents	49,962	37,179
Cash and Cash Equivalents, Beginning of Year	85,840	48,661
Cash and Cash Equivalents, End of Year	$ 135,802	$ 85,840
Supplemental Cash Flows Information		
Interest paid	$ 7,385	$ 7,674
Income taxes paid	3,825	4,000
Lease liabilities arising from obtaining right-of-use assets	-	3,658

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

Nature of Operations

Moody Bancshares, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Moody Bank Holding Company (MBHC), which owns 98.50 percent and 98.19 percent in years 2020 and 2019 of the outstanding shares of Moody National Bank (MNB) and 25.38 percent ownership interest in Hometown Bank. The ownership of MNB increased from a Company initiative to buy back MNB shares from existing shareholders. The initiative resulted in 929 and 1,102 shares transferred into MBHC ownership at $613.00 per share in 2020 and 2019. MNB is primarily engaged in providing a full range of banking and financial services to individual and corporate customers located primarily in the southern portion of Houston-Sugarland-Baytown, a 10 county metropolitan statistical area defined by the Office of Management and Budget, Austin, and New Braunfels. MNB is subject to competition from other financial institutions. MNB is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

In July 2020, the Company announced an agreement to purchase the Clear Lake branch location from Spirit of Texas which included $24,000 in deposits in which a 3% premium was paid, 3 employees, and minimal cash on hand, prepaid expenses, and personal property. The transaction was finalized in October 2020. Per ASC 805-10, management determined the transaction to be an asset acquisition which resulted in a Core Deposit Intangible (CDI) of $333 which will utilize straight-line amortization over 7 years. Acquisition costs of $396 were also recognized in 2020.

Each class of common stock is entitled to the same right except the holders of outstanding Class A common stock may, as a class, only elect one-fifth of the Board of Directors of the Company while holders of the outstanding Class B stock, as a class, have the right to elect four-fifths of the Board of Directors of the Company. The qualifying director shares of 94,000 as of December 31, 2020 and 90,000 as of December 31, 2019 are Class A common stock transferred to directors of MNB at a purchase price of $0.01 per share. These shares exclude all rights except voting rights. The agreements require the directors to sell back these shares to the Company at $0.01 per share the day following their termination as director of MNB. The agreement restricts the transfer or assignment of the shares by the holders of these shares. As these shares are not entitled to dividends, they are excluded from the earnings per share calculation.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP) 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 and fair values of financial instruments.

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 consisted primarily of interest-bearing demand deposits from banks.

At December 31, 2020, the Company's cash accounts exceeded the federally insured limits by approximately $10,968.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Debt securities not classified as held to maturity, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). 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 (loss). For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income (loss) for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs 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, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial 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.

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 all commercial loans and residential real estate or consumer loans in excess of $100 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 less than $100 for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Reserve for Unfunded Commitments

In addition to the allowance for loan losses, the Company has established a reserve for unfunded commitments, classified in other liabilities. This reserve is maintained at a level sufficient to absorb losses arising from unfunded loan commitments. The adequacy of the reserve for unfunded commitments is determined quarterly. Net adjustments to the reserve for unfunded commitments are included in other non-interest expense.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method for major additions to premises and equipment and the double declining balance method for bank automobiles over the estimated useful lives of the assets.

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

Buildings and improvements	10-40 years
Equipment	3-7 years

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.

Restricted Investment Securities

Federal Reserve, Federal Home Loan Bank (FHLB) and Independent Bankers' Financial Corporation (TIB) stock are required investments for institutions that are members of the Federal Reserve, FHLB and TIB systems. The required investment in the common stock is based on a predetermined formula, all are carried at cost and evaluated for impairment. The TIB stock falls under Accounting Standards Update (ASU) 2016-01, *Financial Instruments-Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*. Due to the lack of a readily determinable fair value of this restricted stock, the Company has determined the fair value of this stock to be at cost. No impairment was recognized during the years ended December 31, 2020 and 2019.

Small Business Investment Companies (SBIC)

The Company owns three community reinvestment act qualified SBIC securities. These privately-owned venture capital funds are licensed by the small business administration (SBA) to invest in long-term debt and equity securities of small businesses. In accordance with ASU 2016-01, *Financial Instruments-Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*, these investments are valued at cost and evaluated for impairment or changes in observable price changes for similar investments. There is not a readily determinable fair value for these funds. The investments are recorded in the financial statements in other assets. The outstanding commitments to all three SBIC funds are $482 and $558 as of December 31, 2020 and 2019, respectively. No impairment was recognized during the years ended December 31, 2020 and 2019.

Securities Sold Under Agreements to Repurchase

The Company sells securities under agreements to repurchase to meet customer needs and as a service of liquidity. Investable funds deposited by customers are used to purchase securities owned by the Company and held in a general account with the designation of Customers' Securities. The securities involved in these transactions are generally municipals or mortgage backed securities. Securities sold under agreements to repurchase generally mature on the banking day following that on which the investment was initially purchased and are treated as collateralized financing transactions which are recorded at the amounts at which the securities were sold plus accrued interest. Interest rates and maturity dates of the securities involved vary and are not intended to be matched with funds from customers.

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 net income or expense from foreclosed assets.

Investment in Hometown Bank

The Company's 25.38 percent investment in Hometown Bank is recorded using the equity method of accounting. Losses due to impairment are recorded when it is determined that the investment no longer has the ability to recover its carrying amount.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Intangible Assets

Intangible Assets with finite lives are being amortized on a straight-line basis over a period of seven years. Such assets are periodically evaluated as to the recoverability of carrying value.

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.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (Accounting Standards Codification [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 Tax Cuts and Jobs Act (TCJA) enacted in 2017, 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 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.
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. With a few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2016. The Company files consolidated income tax returns with its subsidiaries.

Earnings Per Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Treasury stock shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains (losses) on available-for-sale securities.

Revenue Recognition (Topic 606)

Topic 606 specifically does not apply to the Company's revenue streams related to interest income, credit card fees, equity earnings of Hometown Bank, net gains on sales of available-for-sale and insurance proceeds. The Company must recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 is applied using five steps: 1) identify the contract with the customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company evaluates the nature of all contracts with customers that fall under the scope of Topic 606 and determined that further disaggregation of revenue from contracts with customers into categories was not necessary. The description of performance obligations for each type of contract with customers is detailed below:

- Service charges on deposit accounts – The term of a deposit contract between the customer and the Company is day-to-day or minute-to-minute. The termination clause is likely to be similar to a renewal right where each day or minute represents the renewal of the contract. Revenue for deposit fees are recognized as incurred due to the day-to-day or minute-to-minute contractual term. This has not resulted in a different recognition of revenue for the Company under this standard.

- Gains and losses on sales of foreclosed assets – In the normal course of business, the Company will enter into contracts with customers to sell foreclosed assets. The Company general satisfies its performance obligation upon conveyance of property from the Company to the customer. Though the occasion is rare, the Company will finance a portion of the proceeds the customer uses to purchase the property. These properties are generally sold without recourse or warranty.

- Non-interest income from fiduciary fees - Fee revenue from contracts are in accordance with the revenue standard as fee income is not recognized until the transfer of goods or services to customers are made. The trust department charges a monthly fee to the customer at the end of the month.

Fair Value of Financial Instruments

The Company discloses estimated fair value of the Company's loan portfolio based on an exit price calculation according to ASU 2016-01, *Financial Instruments-Overall (*Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*, issued by the Financial Accounting Standards Board (FASB) on January 5, 2016.

Reclassification of Certain Tax Effects

Accounting Standards Update 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, allows entities to reclassify stranded tax effects due to the TCJA in accumulated other comprehensive income (loss) to retained earnings. This reclassification is an option rather than a requirement. The Company has elected not to retrospectively implement it for 2019 or 2020 as the amount to reclassify is not material to the consolidated financial statements as a whole.

Leases

Accounting Standards Update 2016-02, *Leases (Topic 842)*, was adopted by the Company on January 1, 2019. The standard requires recognition of a lease liability, arising from the lessee's obligation to make contractual lease payments which are measured on a discounted basis, and a right-of-use (ROU) asset. The adjustment amount required by the standard was considered immaterial in nature, however the Company adopted the standard by applying the allowed transition method of recording lease payments over the expected term as of January 1, 2019. The discount on cash flows was determined using the FHLB advances standard rate as of January 1, 2019 for an 8-year period of 3.384%. The Company elected the transition practical expedient package for identification, classification, and initial direct costs. The Company also elected to adopt prospectively and did not adjust prior periods as allowed under Topic 842. Lease payments are recognized on a straight-line basis over the lease term. The adoption of the standard resulted in a lease liability and ROU asset as of January 1, 2019 of $3,658. No new leases were added in 2020. Lessor accounting is mostly unchanged, however, additional disclosures are required and included in the Leases footnote. See Note 13.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

In March 2020, the CARES Act was signed into law to provide relief from the impact of the coronavirus pandemic. The following provisions of the CARES Act had a direct impact on the Company:

Community Bank Leverage Ratio (CBLR)

The CARES Act section 4012 lowered the CBLR threshold from 9% to 8% which is effective until December 31, 2020. The CBLR requirement then transitions from 8% to 8.5% in 2021, and 9% thereafter.

Temporary Troubled Debt Restructurings (TDRs) Relief

Section 4013 of the CARES Act provided relief to TDRs by giving banks the option to suspend ASC 310-40 requirements for loan modifications that are specifically related to COVID-19 hardships for loans not more than 30 days past due as of December 31, 2019 that would typically be categorized as a TDR, including classifying loans as impaired for accounting purposes. As of December 31, 2020, the Company has 30 loans totaling $95,906 that meet the 4013 requirements.

SBA Paycheck Protection Program (PPP)

The CARES Act created the Paycheck Protection Program (PPP) loans where $349 billion was authorized to aide small business in payroll, mortgage and rent, utilities, and interest on debt expenses at an interest rate of 1%. Financial institutions process the loan applications and service the loans. These loans are federally guaranteed forgivable loans through the SBA for qualifying businesses. The Company has issued at total of 642 PPP loans totaling $85,481 in 2020. Fees collected from the SBA totaled $3,010 and have been deferred in accordance with GAAP. As of December 31, 2020, the Company had 529 outstanding PPP loans totaling $66,389.

Recent Accounting Pronouncements

Credit Losses on Financial Instruments

The FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, in June, 2016. This pronouncement amends the FASB's guidance on the impairment of financial instruments. The amendments in ASU 2016-13 replace the incurred loss model with a methodology that reflects expected credit losses over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates, known as the current expected credit loss (CECL) model. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is also intended to reduce the complexity of GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments.

The allowance for loan losses is a material estimate of the Company and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the allowance for loan losses at adoption date. The Company is anticipating a change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The Company will also develop new procedures for determining an allowance for credit losses relating to held-to-maturity investment securities. In addition, the current accounting procedures for other-than-temporary impairment on available-for-sale investment securities will be replaced with an allowance approach.

The Company is currently evaluating the impact, if any, ASU 2016-13 will have on its financial position and results of operations and currently does not know or cannot reasonably quantify the impact of the adoption of the amendments as a result of the complexity and extensive changes from the amendments. It is too early to assess the impact that the implementation of this guidance will have on the Company's financial statements; however, the Company has begun developing processes and procedures to ensure it is fully compliant with the amendments at the required adoption date. The credit losses on financial instruments standard will have an effective date for fiscal years beginning after December 15, 2022, including interim periods.

Fair Value Measurement Disclosures

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (*Topic 820): *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.* The standard eliminates, amends and adds disclosure requirements for fair value measurements. These amendments are part of the FASB's disclosure review project and they are expected to reduce costs for preparers while providing more decision-useful information for users. The eliminated disclosure requirements include the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy; the policy of timing of transfers between levels of the fair value hierarchy; and the valuation processes for Level 3 fair value measurements. Under the new disclosure requirements, entities must disclose the changes in unrealized gains or losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period. ASU 2018-13 was adopted in 2020 and did not have a material impact on the Company.

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. The reserve required at December 31, 2020, was $25,585.

Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as shown on the following tables.

(Amounts in Thousands, Except Share Data)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
December 31, 2020:				
U.S. Government and federal agency	$ 874	$ 8	$ -	$ 882
Mortgage-backed U.S. Government-sponsored enterprises (GSE) residential	202,852	4,703	(164)	207,391
State and political subdivisions	148,980	5,043	(43)	153,980
Corporate bonds	4,000	31	(10)	4,021
	$ 356,706	$ 9,785	$ (217)	$ 366,274

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
December 31, 2019:				
U.S. Government and federal agency	$ 1,147	$ -	$ (23)	$ 1,124
Mortgage-backed GSE residential	176,562	887	(527)	176,922
State and political subdivisions	75,899	622	(279)	76,242
	$ 253,608	$ 1,509	$ (829)	$ 254,288

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity securities:				
December 31, 2020:				
State and political subdivisions	$ 17,338	$ 566	$ -	$ 17,904
December 31, 2019:				
State and political subdivisions	$ 22,644	$ 485	$ -	$ 23,129

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2020, by contractual maturity, are shown on the following page. 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.

(Amounts in Thousands, Except Share Data)

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Within one year	$ 2,394	$ 2,401	$ 3,195	$ 3,214
One to five years	28,142	29,061	10,874	11,319
Five to ten years	24,852	25,575	3,269	3,371
After ten years	98,466	101,846	-	-
	153,854	158,883	17,338	17,904
Mortgage-backed securities	202,852	207,391	-	-
Totals	$ 356,706	$ 366,274	$ 17,338	$ 17,904

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $162,338 at December 31, 2020, and $130,006 at December 31, 2019.

The book value of securities sold under agreements to repurchase amounted to $16,904 and $14,276 at December 31, 2020 and 2019, respectively.

No sales of available-for-sale securities occurred in 2020. Gross gains of $84 and gross losses of $58 resulting from sales of available-for-sale securities were realized for 2019.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2020 and 2019 was $39,781 and $140,560 which is approximately 11 percent and 51 percent, respectively, of the Company's available-for-sale and held-to-maturity investment portfolios.

The table on the following page shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses, 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.

Moody Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Amounts in Thousands, Except Share Data)

	December 31, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
U.S. Government and federal agency	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed GSEs residential	28,024	(164)	-	-	28,024	(164)
State and political subdivisions	8,767	(43)	-	-	8,767	(43)
Corporate bonds	2,990	(10)	-	-	2,990	(10)
Total unrealized losses	$ 39,781	$ (217)	$ -	$ -	$ 39,781	$ (217)

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
U.S. Government and federal agency	$ -	$ -	$ 1,124	$ (23)	$ 1,124	$ (23)
Mortgage-backed GSEs residential	73,351	(302)	36,879	(225)	110,230	(527)
State and political subdivisions	29,206	(279)	-	-	29,206	(279)
Total unrealized losses	$ 102,557	$ (581)	$ 38,003	$ (248)	$ 140,560	$ (829)

	December 31, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity securities:						
State and political subdivisions	$ -	$ -	$ -	$ -	$ -	$ -

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-Maturity Securities:						
State and political subdivisions	$ -	$ -	$ -	$ -	$ -	$ -

State and Political Subdivisions and Corporate Bonds

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

Residential Mortgage-backed GSE Securities

The unrealized losses on the Company's investments in residential mortgage-backed GSE securities were caused by current yield curve environment. 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.

Investment in Hometown Bank

The Company's investment in Hometown Bank is recorded using the equity method of accounting. Hometown Bank has certain investment securities classified as available-for-sale in its financial statements. The net unrealized gains (losses) on these investment securities are carried by Hometown Bank as accumulated other comprehensive income (loss), with changes in the net unrealized gains (losses) on these securities, net of taxes, being recorded as other comprehensive income (loss). The Company records its portion of Hometown Bank's accumulated other comprehensive income (loss) and other comprehensive income (loss) in the consolidated financial statements. The Company's portion of Hometown Bank's accumulated other comprehensive income amounted to $1,407 and $287 at December 31, 2020 and 2019, respectively, and other comprehensive income amounted to $1,120 and $1,127 for 2020 and 2019, respectively.

(Amounts in Thousands, Except Share Data)

Note 4: Loans and Allowance for Loan Losses

Classes of loans at December 31, 2020 and 2019, include:

	2020	2019
Mortgage loans on real estate:		
Residential 1-4 family	$ 72,892	$ 84,837
Commercial	496,359	484,768
Construction and land development	133,944	149,645
Total mortgage loans on real estate	703,195	719,250
Commercial	145,657	77,661
Consumer	7,828	9,591
Gross loans	856,680	806,502
Less:		
Net deferred loan fees	2,980	2,576
Allowance for loan losses	12,281	10,248
Net loans	$ 841,419	$ 793,678

(Amounts in Thousands, Except Share Data)

The tables below page 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 and 2019.

	2020					
	Residential Real Estate	Commercial Real Estate	Construction & Land Development	Commercial	Consumer	Total
Allowance for loan losses:						
Balance, beginning of year	$ 1,115	$ 6,561	$ 1,951	$ 476	$ 145	$ 10,248
Provision charged to expense	327	1,921	571	139	43	$ 3,000
Losses charged off	-	(586)	-	(496)	(38)	(1,120)
Recoveries	-	49	-	104	-	153
Balance, end of year	$ 1,442	$ 7,944	$ 2,522	$ 224	$ 150	$ 12,281
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 1,442	$ 7,944	$ 2,522	$ 224	$ 150	$ 12,281
Loans:						
Ending balance	$ 72,892	$ 496,359	$ 133,944	$ 145,657	$ 7,828	$ 856,680
Ending balance: individually evaluated for impairment	$ 408	$ 29,452	$ -	$ 1,047	$ -	$ 30,907
Ending balance: collectively evaluated for impairment	$ 72,484	$ 466,907	$ 133,944	$ 144,610	$ 7,828	$ 825,773

(Amounts in Thousands, Except Share Data)

	2019					
	Residential Real Estate	Commercial Real Estate	Construction & Land Development	Commercial	Consumer	Total
Allowance for loan losses:						
Balance, beginning of year	$ 944	$ 5,553	$ 1,651	$ 1,649	$ 123	$ 9,920
Provision charged to expense	171	1,008	300	299	22	1,800
Losses charged off	-	-	-	(1,521)	(18)	(1,539)
Recoveries	-	-	-	49	18	67
Balance, end of year	$ 1,115	$ 6,561	$ 1,951	$ 476	$ 145	$ 10,248
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 1,115	$ 6,561	$ 1,951	$ 476	$ 145	$ 10,248
Loans:						
Ending balance	$ 84,837	$ 484,768	$ 149,645	$ 77,661	$ 9,591	$ 806,502
Ending balance: individually evaluated for impairment	$ 602	$ 1,338	$ -	$ 1,246	$ -	$ 3,186
Ending balance: collectively evaluated for impairment	$ 84,235	$ 483,430	$ 149,645	$ 76,415	$ 9,591	$ 803,316

Internal Risk Categories

Loan grades are lettered as described below. Grades A and B are considered satisfactory grades. Grades M and C represent loans of lower quality and are considered criticized. The grades of D, E, F and L refer to assets that are classified. The use and application of these grades by the Company will be uniform and shall conform to the Company's policy.

"A" **Pass –** Loans secured by cash or cash equivalents.

"B" **Pass –** Loans with satisfactory financial capacity that represent a reasonable credit risk.

"M" **Monitored Pass –** Loans that appear prudently underwritten and are performing, but a negative trend may have been defined or weakness identified that requires special monitoring. This may be due to lack of current collateral or credit information that would allow an analysis of the credit or may be due to the borrowing entity being relatively new without much outside financial support.

"C" **Special Mention (OAEM) –** Special mention assets have potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the institution's credit position at some future date. These assets pose elevated risk, but their weakness does not yet justify a substandard classification. Borrowers may be experiencing adverse operating trends (declining revenues or margins) or an ill-proportioned balance sheet (*e.g.*, increasing inventory without an increase in sales, high leverage, tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating. Nonfinancial reasons for rating a credit exposure special mention include management problems, pending litigation, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices. The special mention rating is designed to identify a specific level of risk and concern about asset quality. Although a special mention asset has a higher probability of default than a pass asset, its default is not imminent. Special mention is not a compromise between pass and substandard and should not be used to avoid exercising such judgment.

"D" **Substandard-Accrual –** A substandard loan is inadequately protected by the current worth and paying capacity of the obligor or collateral, if any, which are accruing interest. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Full collection of both principal and interest are expected.

"E" **Substandard-Non Accrual –** A substandard non-accrual loan is inadequately protected by the current worth and paying capacity of the obligor or collateral which are not accruing interest. This classification should be used for loans in which payment in full of principal and interest is not expected. Loans so classified include the same characteristics above for substandard-accrual loans.

"F" **Doubtful –** Loans are classified doubtful when their ultimate liquidation is improbable. Loans normally reside in this classification for relatively short periods of time, normally not exceed 181 days, in that they are forthwith either rated loss or collected. What saves these loans from being classified loss are certain reasonably specific impending events that, if occurring, will result in the collection of the debt. If no impending events exist or should those pending events not come to pass, then the loss classification is appropriate. All loans or any portion of a loan rated doubtful should be on or recommended to be placed on non-accrual.

"L" **Loss –** This classification is applied to those assets that are considered uncollectible and of such little value as to question their continued existence as assets on the Company’s books. Assignment of this classification does not mean that an asset has absolutely no recovery or salvage value, but simply that it is not practicable or desirable to defer writing off all or sometimes a portion of a basically worthless asset, even though partial recovery may be affected in the future.

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

Residential 1-4 Family Real Estate: The residential 1-4 family real estate are generally secured by owner-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 Real Estate: Commercial 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.

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.

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.

(Amounts in Thousands, Except Share Data)

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 and 2019:

	2020					
	Residential Real Estate	Commercial Real Estate	Construction & Land Development	Commercial	Consumer	Total
Grade:						
Pass (A & B)	$ 70,430	$ 304,754	$ 94,104	$ 138,918	$ 7,789	$ 615,995
Monitored pass (M)	422	94,305	10,722	248	-	105,697
Special mention (C)	899	39,145	16,359	1	39	56,443
Substandard accrual (D)	651	38,707	12,759	5,407	-	57,524
Substandard non-accrual (E)	490	19,448	-	1,083	-	21,021
Total	$ 72,892	$ 496,359	$ 133,944	$ 145,657	$ 7,828	$ 856,680

	2019					
	Residential Real Estate	Commercial Real Estate	Construction & Land Development	Commercial	Consumer	Total
Grade:						
Pass (A & B)	$ 83,718	$ 419,395	$ 145,050	$ 72,322	$ 9,525	$ 730,010
Monitored pass (M)	-	19,647	1,247	1,119	-	22,013
Special mention (C)	386	23,412	-	93	66	23,957
Substandard accrual (D)	37	20,897	3,315	2,385	-	26,634
Substandard non-accrual (E)	696	1,417	33	1,742	-	3,888
Total	$ 84,837	$ 484,768	$ 149,645	$ 77,661	$ 9,591	$ 806,502

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

(Amounts in Thousands, Except Share Data)

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2020 and 2019:

2020	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Real estate						
Residential 1-4 family	$ -	$ -	$ -	$ -	$ 72,892	$ 72,892
Commercial	1,357	-	-	1,357	495,002	496,359
Construction and land development	310	3,125	-	3,435	130,509	133,944
Commercial	20	100	-	120	145,537	145,657
Consumer	322	1	-	323	7,505	7,828
Total	$ 2,009	$ 3,226	$ -	$ 5,235	$ 851,445	$ 856,680

2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Real estate						
Residential 1-4 family	$ 367	$ -	$ -	$ 367	$ 84,470	$ 84,837
Commercial	4,973	-	-	4,973	479,795	484,768
Construction and land development		-	-	-	149,645	149,645
Commercial	78	-	-	78	77,583	77,661
Consumer	78	5	-	83	9,508	9,591
Total	$ 5,496	$ 5	$ -	$ 5,501	$ 801,001	$ 806,502

There were no loans past due 90 days or more that were still accruing interest at December 31, 2020 and 2019.

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 commercial loans but also include loans modified in troubled debt restructurings.

The following tables present impaired loans for the years ended December 31, 2020 and 2019.

(Amounts in Thousands, Except Share Data)

2020	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Residential 1-4 family	$ 408	$ 463	$ -	$ 136	$ -
Commercial real estate	29,452	30,210	-	2,746	-
Commercial	1,047	2,006	-	1,048	-
Loans with a specific valuation allowance:				-	
Commercial	-	-	-	-	-
Total	$ 30,907	$ 32,679	$ -	$ 3,930	$ -
Total:					
Real estate	$ 29,860	$ 30,673	$ -	$ 2,882	$ -
Commercial	1,047	2,006	-	1,048	-
Total impaired loans	$ 30,907	$ 32,679	$ -	$ 3,930	$ -

2019	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Residential 1-4 family	$ 602	$ 631	$ -	$ 150	$ -
Commercial real estate	1,338	2,005	-	1,338	-
Commercial	1,246	2,144	-	415	-
Loans with a specific valuation allowance:				-	
Commercial	-	-	-	-	-
Total	$ 3,186	$ 4,780	$ 0	$ 1,903	$ -
Total:					
Real estate	$ 1,940	$ 2,636	$ -	$ 1,488	$ -
Commercial	1,246	2,144	-	415	-
Total impaired loans	$ 3,186	$ 4,780	$ -	$ 1,903	$ -

The following table presents the nonaccrual loans at December 31, 2020 and 2019.

(Amounts in Thousands, Except Share Data)

Non Accrual Loans	2020	2019
Real estate:		
Residential 1-4 family	$ 490	$ 696
Commercial	19,448	1,417
Construction and land development	-	33
Commercial	1,083	1,742
Consumer	-	-
Total	$ 21,021	$ 3,888

At December 31, 2020 and 2019, the Company had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate, a reduction or pause in repayment terms, or a permanent reduction of the recorded investment in the loan.

There were fourteen newly classified troubled debt restructurings that occurred during the year ended December 31, 2020. There were no newly classified troubled debt restructurings that occurred during the year ended December 31, 2019. The following table presents information regarding new troubled debt restructurings by class for the years ended December 31, 2020 and 2019.

	2020			2019		
	Number of Loans	Pre-modification Recorded Balance	Post-modification Recorded Balance	Number of Loans	Pre-modification Recorded Balance	Post-modification Recorded Balance
Real estate:						
Commercial Real Estate	14	$ 25,482	$ 25,482	-	$ -	$ -

For the year ended December 31, 2020, troubled debt restructurings consisted of the following loans:

Four commercial real estate loans on the same property, two originating in 2016 with the other two originating in 2017, have been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified during the first quarter of 2020 to allow for payment deferral for 3 months. The balance as of the date of modification is reflected in the table. The outstanding balance as of December 31, 2020 for all four loans collectively is $3,344.

Four commercial real estate loans on the same property, two originating in 2016 with the other two originating in 2017, have been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified during the third quarter of 2020 to extend interest only payments through December 2020. The balance as of the date of modification is reflected in the table. The outstanding balance as of December 31, 2020 for all four loans collectively is $3,910.

A commercial real estate loan originating in 2019 has been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified during the third quarter of 2020 to extend interest only payments through September 2020. The balance as of the date of modification is reflected in the table. The outstanding balance as of December 31, 2020 for all four loans collectively is $2,996.

A commercial real estate loan originating in 2011 has been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified first quarter of 2020 to allow for payment deferral for 3 months. The balance as of the date of modification is reflected in the table. The outstanding balance as of December 31, 2020 for all four loans collectively is $1,720.

Two commercial real estate loans on the same property, both originating in 2016, have been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified first quarter of 2020 to allow for payment deferral for 3 months. The balance as of the date of modification is reflected in the table. The outstanding balance as of December 31, 2020 for all four loans collectively is $7,337

Two commercial real estate loans on the same property, both originating in 2015, have been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified during the third quarter of 2020 to extend interest only payments through December 2020. The balance as of the date of modification is reflected in the table. The outstanding balance as of December 31, 2020 for all four loans collectively is $5,288.

(Amounts in Thousands, Except Share Data)

For the year ended December 31, 2019, troubled debt restructurings consisted of the following loans:

A commercial loan originating in 2018 has been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified during the first quarter of 2018 to interest only payments for six months. The balance as of the date of modification is reflected in the table. The outstanding balance as of December 31, 2019 is $69.

A commercial loan originating in 2015 has been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified during the fourth quarter of 2017 to include additional funds for closing costs related to the loan renewal. The outstanding balance as of December 31, 2019 is $151.

A commercial loan originating in 2012 has been determined to be impaired due to the potential of not being able to collect all principal and interest in full under note terms. The loan terms were modified during the first quarter of 2016 to interest only payments for two years. The outstanding balance as of December 31, 2019 is $1,168.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as shown below.

	2020	2019
Land	$ 7,316	$ 7,316
Buildings and improvements	18,450	19,695
Construction in progress	223	295
Equipment	6,220	6,195
	32,209	33,501
Less accumulated depreciation	13,074	13,498
Net premises and equipment	$ 19,135	$ 20,003

(Amounts in Thousands, Except Share Data)

Note 6: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of $250 or more were $231,885 on December 31, 2020, and $112,542 on December 31, 2019.

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

2021	$	297,513
2022		23,518
2023		4,150
2024		1,483
2025		2,221
	$	328,885

Note 7: Short-term Borrowings

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by U.S. government and federal agency or mortgage-backed GSE residential securities and such collateral is held by MNB. The maximum amount of outstanding agreements at any month end during 2020 and 2019 totaled $13,407 and $13,494 respectively, and the monthly average of such agreements totaled $7,462 and $7,404 for 2020 and 2019, respectively.

The Company maintains a credit facility with the FHLB. The facility is collateralized by a blanket lien on the Company's loan portfolio. The Company had borrowings and repayments of $150,000 during the year ended December 31, 2020 and borrowings and repayments totaling $433,000 during the year ended December 31, 2019 under this credit facility. The Company had no outstanding balances at December 31, 2020 and 2019. Credit available under this facility was $379,938 and $401,743 at December 31, 2020 and 2019, respectively.

The Company has $45,000 in unsecured Federal Funds lines of credit at correspondent banks at December 31, 2020 and 2019. The Company had $5,000 and $442,547 drawn and repaid during the years ended December 31, 2020 and 2019, respectively. There was no balance at December 31, 2020 and 2019.

The Company has a $10,000 letter line of credit with the TIB-Texas Independent Bankers Bank collateralized by outstanding common stock of Moody National Bank and Moody Bank Holding Company, Inc. There was no balance at December 31, 2020 and 2019.

(Amounts in Thousands, Except Share Data)

Note 8: Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. Federal jurisdiction and the State of Texas.

The provision for income taxes includes these components:

	2020	2019
Taxes currently payable	$ 4,185	$ 3,955
Deferred income taxes	40	239
Income tax expense	$ 4,225	$ 4,194

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

	2020	2019
Computed at the statutory rate (21%)	$ 4,089	$ 4,494
Decrease resulting from:		
Tax-exempt interest	(495)	(295)
Other	631	(5)
Actual tax expense	$ 4,225	$ 4,194

(Amounts in Thousands, Except Share Data)

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 2,579	$ 2,152
Accrued expenses	107	69
	2,686	2,221
Deferred tax liabilities:		
Depreciation	530	154
Undistributed earnings in Hometown Bank	1,529	1,395
Unrealized gain on available-for-sale securities	2,009	143
Prepaid expense	229	229
Other	3	8
	4,300	1,929
Net deferred tax asset (liability)	$ (1,614)	$ 292

Note 9: Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in stockholders' equity are as follows:

	2020	2019
Net unrealized gain (loss) on available-for-sale securities	$ 10,975	$ 968
Tax effect	2,009	143
Net-of-tax amount	8,966	825
Less: Accumulated Other Comprehensive Income Attributable to the Noncontrolling Interest	114	10
Accumulated Other Comprehensive Income Attributable to Moody Bancshares, Inc.,	$ 8,852	$ 815

Note 10: Regulatory Matters

The Company and MNB 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 and MNB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and MNB must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under GAAP regulatory reporting requirements and regulatory capital standards. The Company and MNB's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

The Economic Growth Act provided for an exception from the Basel III Rules for community banks that maintain a Community Bank Leverage Ratio (“CBLR”) of at least 8.0% to 10.0%. The CBLR is calculated by dividing Tier 1 capital by the bank’s average total consolidated assets. In the final rules approved by the FDIC in September 2019, qualifying community banking organizations that opt in to using the CBLR are in compliance with the Basel III Rules as long as the bank maintains a CBLR of greater than 9.0%. If a bank is not a qualifying community banking organization, does not opt in to using the CBLR, or cannot maintain a CBLR of greater than 9.0%, the bank would have to comply with the Basel III Rules. On April 6, 2020, the CARES Act temporarily reduced the CBLR requirement to 8% and provided a grace period if the CBLR falls below the threshold. The Company meets the eligibility requirements to opt in for the CBLR requirements and is currently utilizing the CBLR framework. Management believes, as of December 31, 2020, that the Company and MNB meet all capital adequacy requirements to which they are subject.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Company and MNB to maintain minimum amounts and ratios (set forth in the table below) of total, Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020, that the Company and MNB meet all capital adequacy requirements to which they are subject.

As of December 31, 2020, the Company and MNB were considered as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Company and MNB must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company and MNB's category.

The Company and MNB's actual capital amounts and ratios are also presented in the following table.

(Amounts in Thousands, Except Share Data)

	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:						
Tier I Capital						
(to Average Assets):						
Moody National Bank	$ 185,673	13.06%	$ 113,774	8.00%	$ 71,109	5.00%
As of December 31, 2019:						
Total Capital						
(to Risk-Weighted Assets):						
Moody National Bank	182,282	19.14%	100,001	10.50%	95,239	10.00%
Tier I Capital						
(to Risk-Weighted Assets):						
Moody National Bank	171,830	18.42%	80,953	8.50%	76,191	8.00%
Common Equity Tier I Capital						
(to Risk-Weighted Assets):						
Moody National Bank	171,830	18.42%	66,667	7.00%	61,905	6.50%
Tier I Capital						
(to Average Assets):						
Moody National Bank	171,830	15.01%	71,837	6.00%	59,864	5.00%

Basel III Capital and CBLR Rules

Effective January 1, 2015, the Company and MNB became subject to new capital regulations (the “Basel III Capital Rules”) adopted by the Federal Reserve in July 2013 establishing a new comprehensive capital framework for U.S. Banks. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions compared to the previous U.S. risk-based capital rules. Full compliance with all of the final rule’s requirements was phased in over a multi-year schedule.

The final rules include a new common equity Tier 1 capital to risk-weighted assets (CET1) ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. CET1 generally consists of common stock; retained earnings; accumulated other comprehensive income (loss) and certain minority interests; all subject to applicable regulatory adjustments and deductions. The rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from

(Amounts in Thousands, Except Share Data)

4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The new capital conservation buffer requirement, which is included in the risk-weighted asset ratios in the preceding tables, began phasing in beginning on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets was required, which amount increased each year by 0.625% until the buffer requirement was fully implemented on January 1, 2019.

Companies who opt in to the CBLR framework are considered in compliance with the Basel III Rules if a CBLR of 9% or higher is maintained, 8% in 2020 as relief provided by the CARES Act. Management believes that, as of December 31, 2020, the Company and its subsidiary bank meet all capital adequacy requirements under the CBLR framework, and thus also the Basel III Capital Rules on a fully phased-in basis.

Note 11: 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 $838 and $995, respectively.

Annual activity consisted of the following:

	2020	2019
Beginning balance	$ 995	$ 1,306
New loans	103	75,534
Repayments	(260)	(75,845)
Ending balance	$ 838	$ 995

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 $121,602 and $122,131, respectively.

Note 12: Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all full time employees with one or more years of service. Employees may contribute up to 100 percent of their pre-tax compensation subject to the maximum dollar limits set by the IRS. The Company makes matching contributions based upon employees' elective deferrals at a percentage determined by the Company.

(Amounts in Thousands, Except Share Data)

Additionally, the Company, at its discretion, may elect to make annual contributions for all eligible plan participants employed on the last day of the plan year which must be designated as qualified non-elective contributions (profit sharing contributions). Employer contributions for the plan years ended December 31, 2020 and 2019, were $441 and $394, respectively.

The Company purchases insurance through a third party provider for employee medical claims. The amount charged to expense by the Company for the years ended December 31, 2020 and 2019 is approximately $1,084, and $1,058, respectively.

Note 13: Leases

The Company has several noncancelable operating leases, primarily for facility and certain equipment rental. These leases have remaining lease terms of 4 to 9 years, some of which include options to extend for up to 10 years. The option periods were not considered in the lease terms because the Company cannot be reasonably certain that the options will be exercised until two years prior to the option period. As of December 31, 2020, the Company leased equipment and 3 branch locations. The Company has no short-term leases as of December 31, 2020 and 2019. The related lease expense is recognized on a straight-line basis over the life of the lease term.

The components of the lease expense are presented on the following table:

	Leases
2021	$ 605
2022	615
2023	635
2024	536
2025	241
Thereafter	332
Total undiscounted lease liability	2,964
Discount on cash flows	(250)
Total lease liability	$ 2,714

	2020	2019
ROU Asset	$ 2,657	$ 3,175
Lease liability	$ 2,714	$ 3,208
Operating lease costs	$ 833	$ 555
Weighted average lease term, (in years)	6.0	6.0
Weighted average discount rate	3.384%	3.384%

(Amounts in Thousands, Except Share Data)

The Company's lessor arrangements consist solely of operating leases for office suites held within existing owned buildings. These contracts contain option periods to extend for two periods of 5 years each. Notice to extend and execute these options cannot be given until the contract is within 180 days of expiring so the option periods were not included in the maturity analysis of future undiscounted cash flows. Total lease income was $420 and $434 for the periods ending December 31, 2020 and 2019, respectively. Related party income from leases was $376 for years 2020 and 2019.

Future minimum undiscounted cash flows from operating leases are:

	Lease Income
2021	$ 422
2022	330
2023	330
2024	-
2025	-
Thereafter	-
Total undiscounted cash flow from operating leases	$ 1,082

Note 14: Earnings Per Share

Earnings per share (EPS) were computed as shown below (in thousands, except share data).

	Year Ended December 31, 2020		
	Net Income	Weighted-average Shares	Per Share Amount
Net income attributable to Moody Bancshares, Inc.	$ 16,295		
		206,972	
Basic earnings per share:			
Income available to common stockholders			$ 78.73

	Year Ended December 31, 2019		
	Net Income	Weighted-average Shares	Per Share Amount
Net income attributable to Moody Bancshares, Inc.	$ 17,889		
		206,972	
Basic earnings per share:			
Income available to common stockholders			$ 86.43

Note 15: 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. 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 that the entity can access at the measurement date.

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 supported by little or no market activity and are significant to the fair value of the assets or liabilities.

(Amounts in Thousands, Except Share Data)

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020:				
U.S. Government and federal agency	$ 882	$ -	$ 882	$ -
Mortgage-backed GSEs residential	207,391	-	207,391	-
State and political subdivisions	153,980	-	153,980	-
Corporate bonds	4,021	-	4,021	-
December 31, 2019:				
U.S. Government and federal agency	$ 1,124	$ -	$ 1,124	$ -
Mortgage-backed GSEs residential	176,922	-	176,922	-
State and political subdivisions	76,242	-	76,242	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2020 and 2019.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Nonrecurring Measurements

The Company has no nonrecurring fair value measurements as of December 31, 2020 and 2019.

(Amounts in Thousands, Except Share Data)

Fair Value of Financial Instruments

The following table presents estimated fair value of the Company's financial instruments at December 31, 2020 and 2019:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 135,802	$ 135,802	$ 85,840	$ 85,840
Held-to-maturity securities	17,338	17,904	22,644	23,129
Loans	841,419	846,240	793,678	787,616
Restricted investment securities	1,367	1,367	707	707
Interest receivable	6,558	6,558	3,714	3,714
Financial liabilities:				
Deposits	1,189,417	1,176,023	1,008,222	949,545
Securities sold under repurchase agreements	3,935	3,935	1,907	1,907
Interest payable	326	326	328	328

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Held-to-maturity Securities

Fair value is estimated using observable inputs other than quoted prices in active markets for identical assets, such as quoted prices for similar assets; 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.

Loans

Loans are measured at fair value for which an active secondary market and readily available market prices exist, are initially valued at current offering rates with additional risk premiums added. Loans are valued using discounted cash flows and adjusted for both liquidity and credit risk. Loans are reduced by the allowance for loan loss and the base discount rate (current loan market yields) includes credit risk. Liquidity risk is included by adding a spread to the discount rate to account for additional liquidity risk in rising rate environments.

Restricted Investment Securities

Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Interest Receivable and Payable

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits

Fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Company. The rates were the average of current rates offered by local competitors of the Company. The estimated fair value of demand, NOW, savings and money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date.

Securities Sold Under Repurchase Agreements

Fair value of term repurchase agreements is estimated based on current repurchase rates and borrowing rates currently available to the Company for repurchases and borrowings with similar terms and maturities.

Note 16: 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 note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk.

General Litigation

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

Foreclosed Assets Held for Sale

As of December 31, 2020 and 2019, there are no foreclosed assets held for sale in nonresidential real estate.

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 17: Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments 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 aggregating approximately $123,788 and $63,878, 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 nonfinancial 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 standby letters of credit issued 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 $372 and $1,511, at December 31, 2020 and 2019, respectively, with terms ranging from 30 days to two years.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines 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. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2020, the Company had granted unused lines of credit to borrowers aggregating approximately $254,434 and $1,475 for commercial lines and open-end consumer lines, respectively. At December 31, 2019, unused lines of credit to borrowers aggregated approximately $251,065 for commercial lines and $1,117 for open-end consumer lines.

At December 31, 2020 and 2019, the Company had a reserve for unfunded commitments in the amount of $250 and $204, respectively.

Note 18: Subsequent Events

Subsequent events have been evaluated through March 11, 2021, which is the date the consolidated financial statements were available to be issued.

(Amounts in Thousands, Except Share Data)

Note 19: Condensed Financial Information (Parent Company Only)

Presented on the following page is the condensed financial information as to financial position, results of operations and cash flows of the Parent Company:

Condensed Balance Sheets

	December 31, 2020	December 31, 2019
Assets		
Cash	$ 453	$ 593
Investment in common stock of subsidiary	214,194	189,752
Other assets	158	158
Total assets	$ 214,805	$ 190,503
Liabilities	$ -	$ -
Stockholders' Equity	214,805	190,503
Total liabilities and stockholders' equity	$ 214,805	$ 190,503

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2020	Years Ended December 31, 2019
Expenses		
Interest expense	$ -	$ -
Other expenses	140	9
Total expenses	140	9
Equity in Undistributed Net Income of Subsidiary	16,435	17,898
Net Income	$ 16,295	$ 17,889
Comprehensive Income	$ 24,332	$ 22,393

Moody Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019
(Amounts in Thousands, Except Share Data)

Condensed Statements of Cash Flows

	Years Ended December 31, 2020	2019
Operating Activities		
Net income	$ 16,295	$ 17,889
Equity in undistributed earnings of subsidiaries	(16,435)	(17,898)
Net cash used in operating activities	(140)	(9)
Net Change in Cash	(140)	(9)
Cash at Beginning of Year	593	602
Cash at End of Year	$ 453	$ 593

SUPPLEMENTAL INFORMATION

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Moody National Bank

Balance Sheets

December 31, 2020 and 2019

(Amounts in Thousands, Except Share Data)

Assets

	2020	2019
Cash and due from banks	$ 45,763	$ 43,095
Interest-bearing demand deposits in banks	11,420	20,297
Federal funds sold	78,619	22,448
Cash and cash equivalents	135,802	85,840
Available-for-sale securities	366,274	254,288
Held-to-maturity securities	17,338	22,644
Loans, net of allowance for loan losses of $12,281 and $10,248 at December 31, 2020 and 2019, respectively	841,419	793,678
Premises and equipment, net of accumulated depreciation of $13,074 and $13,498 at December 31, 2020 and 2019, respectively	19,135	20,003
Right-of-use asset	2,657	3,175
Restricted investment securities	1,367	707
Interest receivable	6,558	3,714
Deferred income taxes, net	-	1,666
Core deposit intangible	326	-
Other	3,240	4,073
Total assets	$ 1,394,116	$ 1,189,788

Liabilities and Stockholder's Equity

		2020		2019
Liabilities				
Deposits:				
Demand	$	399,119	$	341,954
Savings, NOW and money market		463,602		467,649
Time		328,885		200,076
Total deposits		1,191,606		1,009,679
Securities sold under repurchase agreements		3,935		1,907
Lease liability		2,714		3,208
Deferred income taxes, net		86		-
Interest payable and other liabilities		2,217		2,660
Total liabilities		1,200,558		1,017,454
Stockholder's Equity				
Moody National Bank, stockholder's equity:				
Common Stock; $5 par value				
300,000 authorized, issued and outstanding 2020 and 2019		1,500		1,500
Additional paid-in capital		3,500		3,500
Retained earnings		180,999		166,797
Accumulated other comprehensive income		7,559		537
Total stockholder's equity		193,558		172,334
Total liabilities and stockholder's equity	$	1,394,116	$	1,189,788

Moody National Bank

Statements of Income

Years Ended December 31, 2020 and 2019

(Amounts in Thousands, Except Share Data)

	2020	2019
Interest Income		
Loans, including fees	$ 43,318	$ 42,428
Debt securities:		
Taxable	3,579	2,893
Tax-exempt	2,509	1,550
Federal funds sold	107	841
Deposits with financial institutions	237	660
Other	49	86
Total interest income	49,799	48,458
Interest Expense		
Deposits	7,332	7,222
Repurchase agreements	31	128
Federal funds purchased	-	40
Federal Home Loan Bank Advances	21	386
Total interest expense	7,384	7,776
Net Interest Income	42,415	40,682
Provision for Loan Losses	3,000	1,800
Net Interest Income After Provision for Loan Losses	39,415	38,882
Noninterest Income		
Fiduciary activities	9,923	10,191
Customer service fees	1,843	1,943
Other service charges and fees	182	318
Credit card fees	1,232	1,742
Building rental income	420	434
Net gains on sales of available-for-sale securities	-	26
Net gain (losses) on sales of premises and equipment	(63)	11
Insurance proceeds	50	-
Other	231	66
Total noninterest income	13,818	14,731

		2020		2019
Noninterest Expense				
Salaries and employee benefits	$	17,584	$	17,440
Occupancy		3,060		3,265
Equipment		3,913		4,072
Trust processing		1,249		1,290
Professional fees		3,406		2,416
Marketing		447		470
Printing and office supplies		404		422
Foreclosed assets, net		(57)		(70)
Foreclosed assets, expenses		14		3
Deposit insurance premiums		208		112
Other		4,578		4,001
Total noninterest expense		34,806		33,421
Income Before Income Tax		18,427		20,191
Provision for Income Taxes		4,225		4,194
Net Income	$	14,202	$	15,997
Basic Earnings Per Share	$	47.34	$	53.32