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, Danny B. Butler
Name of the Holding Company Director and Official

President and Director
Title of the Holding Company Director and Official

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

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

Danny B Butler
Signature of Holding Company Director and Official

03/22/2021
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2020
Month / Day / Year

5493009HVWSAHN85QL37
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Jefferson Bancshares, Inc.
Legal Title of Holding Company

1777 N.E. Loop 410, Suite 201
(Mailing Address of the Holding Company) Street / P.O. Box

San Antonio	TX	78217
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Vincent L. Bordano	EVP & CFO
Name	Title

210-736-7818
Area Code / Phone Number / Extension

Area Code / FAX Number

vbordano@jeffersonbank.com
E-mail Address

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

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

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

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

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

Form FR Y-6

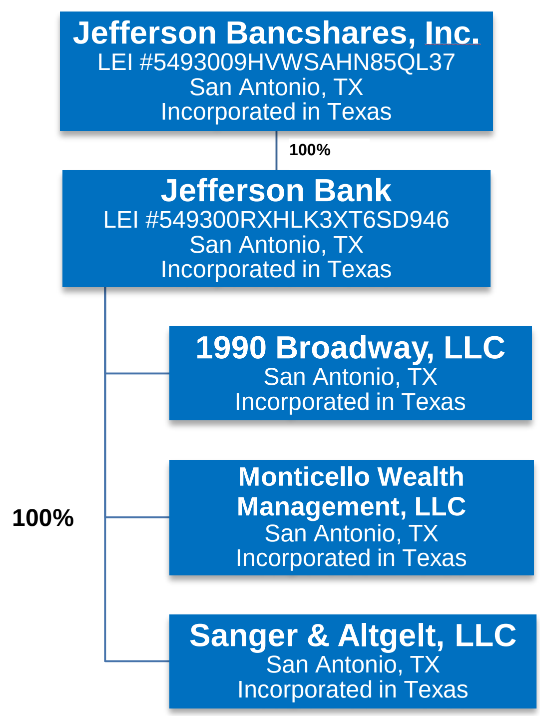
Jefferson Bancshares, Inc.
San Antonio, Texas
Fiscal Year Ending December 31, 2020

Report Item

1: Annual Report to Shareholders

The Company prepares an annual report for its shareholders and is not registered with the SEC. Enclosed is one copy of the annual report, which includes the Independent Auditors' Report.

2a: Organizational Chart



Note: LEI is not available for the three wholly-owned bank subsidiaries.

(1) Jefferson Bank is the Managing Member of 1990 Broadway, LLC ("**1990**"), Monticello Wealth Management, LLC ("**MWM**"), and Sanger & Altgelt, LLC ("**S&A**"). The Managers of 1990 are Paul E. McSween III, Steve C. Lewis, and Vincent L. Bordano, the Managers of MWM are Paul E. McSween III, A. J. Lewis III, Steve C. Lewis, and Todd Brockwell, and the Managers of S&A are Joe N. Haynes, Christine A. Haynes, and Danny B. Butler.

2b: Domestic Branch Listing

Submitted as part of this overall filing via email.

3: Securities holders

See the attached lists for information regarding this report item.

4: Insiders

See the attached lists for information regarding this report item.

Results: A list of branches for your depository institution: JEFFERSON BANK (ID_RSSD: 45560).
This depository institution is held by JEFFERSON BANCSHARES, INC. (1109290) of SAN ANTONIO, 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)	45560	JEFFERSON BANK	1777 NE LOOP 410, SUITE 201	SAN ANTONIO	TX	78217	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	3484704	BOERNE BANKING CENTER BRANCH	371 NORTH MAIN STREET	BOERNE	TX	78006-2073	KENDALL	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	3367339	NEW BRAUNFELS BANKING CENTER BRANCH	1551 N WALNUT AVE, SUITE 44	NEW BRAUNFELS	TX	78130-6047	COMAL	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	2142249	ALAMO HEIGHTS BANKING CENTER	6021 BROADWAY	SAN ANTONIO	TX	78209	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	3491449	BLANCO ROAD BANKING CENTER BRANCH	14614 BLANCO RD	SAN ANTONIO	TX	78216	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	3491430	DOWNTOWN BANKING CENTER BRANCH	711 NAVARRO SUITE 102	SAN ANTONIO	TX	78205	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	2340858	FREDERICKSBURG ROAD BANKING CENTER	2900 FREDERICKSBURG ROAD	SAN ANTONIO	TX	78201	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	4831499	GOLIAD ROAD BANKING CENTER	1111 GOLIAD ROAD	SAN ANTONIO	TX	78223	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Limited Service	4397968	INN AT LOS PATIOS BANKING CENTER BRANCH	8700 POST OAK LANE	SAN ANTONIO	TX	78217	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	217152	LEON VALLEY BANKING CENTER	7666 BANDERA ROAD	SAN ANTONIO	TX	78238	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	3271212	MORTGAGE BANKING CENTER BRANCH	6015 BROADWAY ST	SAN ANTONIO	TX	78209-4560	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	2799166	STONE OAK BANKING CENTER BRANCH	19002 STONE OAK PARKWAY	SAN ANTONIO	TX	78258	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	
OK		Full Service	2850058	SUNSET RIDGE BANKING CENTER BRANCH	6310 N NEW BRAUNFELS	SAN ANTONIO	TX	78209	BEXAR	UNITED STATES	Not Required	Not Required	JEFFERSON BANK	45560	

Form FR Y-6
Jefferson Bancshares, Inc.
Fiscal Year Ending December 31, 2020

Report Item 3: Securities holders
(1)(a)(b)(c) and 2(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12/31/2020.			Shareholders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/2020.		
(1)(a) Name & Address (City, State, Country)	**(1)(b) Country of Citizenship or Incorporation**	**(1)(c) Number and Percentage of Each Class of Voting Securities**	**(2)(a) Name & Address (City, State, Country)**	**(2)(b) Country of Citizenship or Incorporation**	**(2)(c) Number and Percentage of Each Class of Voting Securities**
Paul E. McSween III San Antonio, TX USA	USA	39,389.58; 10.76% of Common Stock	**None**		
Linda McSween Satel San Antonio, TX USA	USA	36,130.57; 9.87% of Common Stock			
Juliet McSween Zacher San Antonio, TX USA	USA	34,014.58; 9.29% of Common Stock			
Jennifer McSween Canavan San Antonio, TX USA	USA	34,146.57; 9.33% of Common Stock			
McSween Family Total San Antonio, TX USA	**USA**	**166,972.30; 45.62% of Common Stock**			
Laurie Lewis Saunders San Antonio, TX USA	USA	47,608.24; 13.01% of Common Stock			
Steve C. Lewis San Antonio, TX USA	USA	30,412.24; 8.31% of Common Stock			
A. J. Lewis, III San Antonio, TX USA	USA	38,352.22; 10.48% of Common Stock			
Lewis Family Total San Antonio, TX USA	**USA**	**145,016.70; 39.62% of Common Stock**			

Jefferson Bancshares, Inc.
Form FR Y-6 Report Item 3 Detail
Year Ended December 31, 2020

Listed below is each shareholder of record that directly or indirectly owns, controls or holds with power to vote 5% or more of common stock of the Bank Holding Company.

		Number of Common Shares Held or Controlled					
		Shares Owned		Shares Controlled		Total Owned and/or Controlled	
Name (Shareholder #)	*Address*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Steve C. Lewis							
Steve C. Lewis (#10)	San Antonio, TX	7,853.9000	2.15%				
Steve C. Lewis Family 2007 TR One (#91)	San Antonio, TX			6,387.6700	1.75%		
Steve C. Lewis Family 2007 TR Two (#94)	San Antonio, TX			6,387.6700	1.75%		
Susan C. Lewis (#112)	San Antonio, TX			100.0000	0.03%		
A. J. Lewis, Jr. Tr. FBO Steve C. Lewis (#162)	San Antonio, TX			5,225.0000	1.43%		
Peggy W. Lewis Art. III GST Ex. TR FBO S. Lewis (#165)	San Antonio, TX			925.0000	0.25%		
JB, Trustee for Barclay C. Adams (#81)	San Antonio, TX			986.0000	0.27%		
JB, Trustee for Richard S. Lewis II Grantor Trust (#101)	San Antonio, TX			2,547.0000	0.70%		
Totals for Steve C. Lewis		**7,853.9000**	**2.15%**	**22,558.3400**	**6.16%**	**30,412.2400**	**8.31%**
Laurie Lewis Saunders							
Laurie Lewis Saunders (#11)	San Antonio, TX	23,030.9100	6.29%				
Laurie Lewis Saunders Family 2007 TR One (#93)	San Antonio, TX			6,651.6600	1.82%		
Laurie Lewis Saunders Family 2007 TR Two (#96)	San Antonio, TX			6,652.6700	1.82%		
Laurie L. Saunders, Cust. For John T. Saunders IV (#111)	San Antonio, TX			395.0000	0.11%		
A. J. Lewis, Jr. Tr. FBO Laurie Lewis Saunders (#163)	San Antonio, TX			5,225.0000	1.43%		
Peggy W. Lewis Art. III FBO Laurie L. Saunders (#166)	San Antonio, TX			925.0000	0.25%		
JB, Trustee of the Virginia Grace Saunders Trust (#58)	San Antonio, TX			1,576.0000	0.43%		
JB, Trustee of the John T. Saunders III Trust (#59)	San Antonio, TX			1,576.0000	0.43%		
JB, Trustee of the Christina Marie Saunders Trust (#76)	San Antonio, TX			1,576.0000	0.43%		
Totals for Laurie Lewis Saunders		**23,030.9100**	**6.29%**	**24,577.3300**	**6.72%**	**47,608.2400**	**13.01%**

Jefferson Bancshares, Inc.
Form FR Y-6 Report Item 3 Detail
Year Ended December 31, 2020

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		Number of Common Shares Held or Controlled					
		Shares Owned		Shares Controlled		Total Owned and/or Controlled	
Name (Shareholder #)	*Address*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
A. J. Lewis, III							
A. J. Lewis, III (#9)	San Antonio, TX	7,761.8700	2.12%				
A. J. Lewis, III Family 2007 TR One (#92)	San Antonio, TX			6,494.6700	1.77%		
A. J. Lewis, III Family 2007 TR Two (#95)	San Antonio, TX			6,600.6600	1.80%		
A. J. Lewis, Jr. Tr. FBO A. J. Lewis III (#161)	San Antonio, TX			5,225.0000	1.43%		
Peggy W. Lewis Art III Tr. FBO A. J. Lewis III (#164)	San Antonio, TX			925.0000	0.25%		
JB, Trustee for Frances Marguerite Lewis Trust (#75)	San Antonio, TX			3,781.6800	1.03%		
JB, Trustee for Sallie Wolff Lewis (#85)	San Antonio, TX			3,781.6800	1.03%		
JB, Trustee for A. J. Lewis IV Grantor Trust (#98)	San Antonio, TX			3,781.6600	1.03%		
Totals for A. J. Lewis, III		**7,761.8700**	**2.12%**	**30,590.3500**	**8.36%**	**38,352.2200**	**10.48%**
Paul E. McSween III							
Paul E. McSween III (#5)	San Antonio, TX	18,400.0800	5.03%				
Richard Spencer Lewis Memorial Foundation (#143)	San Antonio, TX			4,890.0000	1.34%		
Paul E. McSween III Family 2011 TR One (#120)	San Antonio, TX			4,886.0000	1.33%		
Paul E. McSween III Family 2011 TR Two (#124)	San Antonio, TX			4,886.5000	1.34%		
JB, Trustee for Paul E. McSween IV Trust (#105)	San Antonio, TX			2,109.0000	0.58%		
JB, Trustee for Thomas D. McSween IV Trust (#106)	San Antonio, TX			2,109.0000	0.58%		
Benjamin Lewis McSween Grantor Trust (#158)	San Antonio, TX			2,109.0000	0.58%		
Totals for Paul E. McSween III		**18,400.0800**	**5.03%**	**20,989.5000**	**5.73%**	**39,389.5800**	**10.76%**

Jefferson Bancshares, Inc.
Form FR Y-6 Report Item 3 Detail
Year Ended December 31, 2020

Listed below is each shareholder of record that directly or indirectly owns, controls or holds with power to vote 5% or more of common stock of the Bank Holding Company.

		Number of Common Shares Held or Controlled					
		Shares Owned		Shares Controlled		Total Owned and/or Controlled	
Name (Shareholder #)	***Address***	***Number***	***Percent***	***Number***	***Percent***	***Number***	***Percent***
Linda McSween Satel							
Linda McSween Satel (#6)	San Antonio, TX	5,723.9775	1.56%				
Linda McSween Satel Family 2011 TR One (#121)	San Antonio, TX			4,882.0000	1.33%		
Linda McSween Satel Family 2011 TR Two (#125)	San Antonio, TX			4,883.5000	1.33%		
JB, Trustee of the Linda M. Satel Mgmt Trust (#60)	San Antonio, TX			15,831.0925	4.33%		
JB, Trustee for Katherine Ann Satel Grantor Trust (#130)	San Antonio, TX			1,724.0000	0.47%		
JB, Trustee for Emily Grace Satel Grantor Trust (#131)	San Antonio, TX			1,724.0000	0.47%		
Caroline McSween Satel Grantor Trust (#157)	San Antonio, TX			1,362.0000	0.37%		
Totals for Linda McSween Satel		**5,723.9775**	**1.56%**	**30,406.5925**	**8.31%**	**36,130.5700**	**9.87%**

Juliet McSween Zacher							
Juliet McSween Zacher (#4)	San Antonio, TX	5,999.5025	1.64%				
Juliet McSween Zacher Family 2011 TR One (#122)	San Antonio, TX			4,860.0000	1.33%		
Juliet McSween Zacher Family 2011 TR Two (#126)	San Antonio, TX			4,860.5000	1.33%		
JB, Trustee of the Juliet M. Zacher Mgmt Trust (#61)	San Antonio, TX			18,294.5775	5.00%		
Totals for Juliet McSween Zacher		**5,999.5025**	**1.64%**	**28,015.0775**	**7.65%**	**34,014.5800**	**9.29%**

Jennifer McSweenCanavan							
Jennifer McSween Canavan (#3)	San Antonio, TX	5,967.5000	1.63%				
Jennifer McSween Canavan Family 2011 TR One (#123)	San Antonio, TX			4,866.0000	1.33%		
Jennifer McSween Canavan Family 2011 TR Two (#127)	San Antonio, TX			4,866.5000	1.33%		
JB, Trustee for Jennifer M. Canavan Mgmt Trust (#142)	San Antonio, TX			18,446.5700	5.04%		
Totals for Jennifer McSween Canavan		**5,967.5000**	**1.63%**	**28,179.0700**	**7.70%**	**34,146.5700**	**9.33%**

Form FR Y-6
Jefferson Bancshares, Inc.
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Steve C. Lewis San Antonio, TX USA	N/A	Director and Chairman	Director and Chairman (Jefferson Bank) Manager (Monticello Wealth Management, LLC)	Owner, Steve C. Lewis Ranch Real Estate	8.31%	None	Steve C. Lewis Ranch Real Estate (100%)
Danny B. Butler San Antonio, TX USA	N/A	Director & President	Director and CEO (Jefferson Bank) Manager (Sanger & Altgelt, LLC)	N/A	0.00%	None	N/A
Paul E. McSween III San Antonio, TX USA	N/A	Director and Executive Vice President	Director and President (Jefferson Bank) Manager (Monticello Wealth Management, LLC) (1990 Broadway, LLC)	President, Richard Spencer Lewis Memorial Foundation	10.76%	None	N/A
Vincent L. Bordano San Antonio, TX USA	N/A	Executive Vice President & CFO, Treasurer and Assistant Secretary	Advisory Director, Executive Vice President & CFO (Jefferson Bank) Manager (1990 Broadway, LLC)	N/A	0.00%	None	N/A

Form FR Y-6
Jefferson Bancshares, Inc.
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
A. J. Lewis, III San Antonio, TX USA	Restaurant Supply	Director	Director (Jefferson Bank) Manager (Monticello Wealth Management, LLC)	CEO, Southwest Texas Equipment Distributors, Inc.	10.48%	None	Southwest Texas Equipment Distributors, Inc. (100% w/Wife)
Thomas F. Murrah Missouri City, TX USA	Investments	Director	Director (Jefferson Bank)	Director, Wulfenite Materials, Inc. Director, Tejas Production Services	0.88%	None	Wulfenite Materials, Inc. (31.57%)
Linda McSween Satel San Antonio, TX USA	N/A	Director	N/A	N/A	9.87%	None	N/A
Juliet McSween Zacher San Antonio, TX USA	N/A	Director	N/A	N/A	9.29%	None	N/A
Jennifer McSween Canavan San Antonio, TX USA	N/A	Director	N/A	N/A	9.33%	None	N/A
Laurie Lewis Saunders San Antonio, TX USA	N/A	Director	N/A	N/A	13.01%	None	N/A
Alane A. Honigblum San Antonio, TX USA	N/A	Secretary and Assistant Treasurer	Senior Vice President & Controller (Jefferson Bank)	N/A	0.00%	None	N/A

Jefferson Bancshares Inc. and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements December 31, 2020 and 2019

Monticello
WEALTH MANAGEMENT

Jefferson Bank

SANGER & ALTGELT LLC
Insurance ❖ Risk Management Services ❖ Bonds

CONTENTS

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
Jefferson Bancshares, Inc. and Subsidiary
San Antonio, Texas

We have audited the accompanying consolidated financial statements of Jefferson Bancshares, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, changes in shareholders' 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's Assessment of Internal Control over Financial Reporting.

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 the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Parent Company-Only Financial Statements for Small 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 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 the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. 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.

BKD, LLP

Houston, Texas
March 17, 2021

JEFFERSON
BANCSHARES,
INC.

POST OFFICE BOX 5190
SAN ANTONIO, TEXAS
78201-0190
210/734-4311

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Jefferson Bancshares, Inc.'s (the "**Company**") internal control over financial reporting is a process designed and effected by those charged with governance, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., the Parent Company Only Financial Statements for Small Bank Holding Companies ("**FR Y-9SP**"). 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 consolidated 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 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 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 is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements. 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 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 (2013)*. 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, is effective based on the criteria established in *Internal Control—Integrated Framework (2013)*. Jefferson Bank, the subsidiary institution is subject to Part 363 and is included in this assessment of internal control over financial reporting.

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, as of, December 31, 2020 has been audited by BKD, LLP, an independent public accounting firm, as stated in their report dated March 17, 2021.

Jefferson Bancshares, Inc. and Subsidiary

Danny B. Butler Date: March 17, 2021
Danny B. Butler
President

Vince Bordano Date: March 17, 2021
Vince Bordano, CPA
Executive Vice President & CFO

ASSETS	**2020**	2019
Cash and due from banks	**$ 24,119,643**	$ 19,724,780
Interest-bearing accounts	**355,566,580**	181,425,718
Total Cash and Cash Equivalents	**379,686,223**	201,150,498
Debt securities, available for sale	**386,815,207**	191,921,206
Debt securities, held to maturity	**61,592,966**	104,013,029
Equity investments	**8,704,910**	5,763,617
Loans held for sale	**18,299,142**	7,498,842
Loans	**1,370,316,256**	1,369,964,045
Less allowance for loan losses	**(16,360,870)**	(13,049,935)
Loans, net	**1,353,955,386**	1,356,914,110
Premises and equipment, net	**33,842,605**	27,461,918
Accrued interest receivable	**7,176,257**	5,392,759
Community development investments	**5,713,829**	5,961,576
Cash surrender value of life insurance	**36,752,678**	35,910,449
Goodwill and other intangibles	**2,164,189**	2,472,262
Pension asset	**6,497,754**	11,113,810
Prepaid expenses and other assets	**3,406,070**	4,883,131
Total Assets	**$ 2,304,607,216**	$ 1,960,457,207
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	**$ 666,484,008**	$ 520,984,261
Interest-bearing	**1,355,112,036**	1,218,552,408
Total Deposits	**2,021,596,044**	1,739,536,669
Federal Home Loan Bank advances	**70,000,000**	20,000,000
Subordinated notes	**20,000,000**	20,000,000
Accrued compensation and employee benefits	**12,639,877**	13,229,871
Dividends payable	**1,346,854**	1,289,166
Other liabilities	**8,544,791**	6,569,092
Total Liabilities	**2,134,127,566**	1,800,624,798
Shareholders' Equity		
Common stock, $5 par value, 1,000,000 shares authorized, 400,000 shares issued; and 365,993 and 368,333 shares outstanding at December 31, 2020 and 2019, respectively	**2,000,000**	2,000,000
Retained earnings	**191,763,809**	178,420,333
Treasury stock, at cost, 34,007 and 31,667 shares outstanding at December 31, 2020 and 2019, respectively	**(9,583,616)**	(7,653,036)
Accumulated other comprehensive loss	**(13,700,543)**	(12,934,888)
Total Shareholders' Equity	**170,479,650**	159,832,409
Total Liabilities and Shareholders' Equity	**$ 2,304,607,216**	$ 1,960,457,207

See accompanying notes to consolidated financial statements.

JEFFERSON BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

	2020	2019
INTEREST INCOME		
Interest and fees on loans	**$ 67,036,391**	$ 69,415,201
Debt securities, available for sale	**4,600,823**	5,362,863
Debt securities, held to maturity	**1,520,670**	2,781,598
Interest-bearing accounts and other investments	**897,614**	2,028,119
Total Interest Income	**74,055,498**	79,587,781
INTEREST EXPENSE		
Deposits	**5,501,883**	12,929,951
Short-term borrowings	**554,349**	331,564
Federal Home Loan Bank advances	**-**	153
Subordinated notes	**1,150,000**	1,150,000
Total Interest Expense	**7,206,232**	14,411,668
NET INTEREST INCOME	**66,849,266**	65,176,113
PROVISION FOR LOAN LOSSES	**3,825,000**	1,525,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**63,024,266**	63,651,113
NONINTEREST INCOME		
Deposit account service charges	**1,598,849**	2,305,474
Trust and wealth management fees	**4,053,498**	5,172,749
Insurance commissions	**4,654,557**	4,333,809
Investment advisory fees	**2,778,074**	2,421,268
Gain on sale of mortgage loans, net	**5,290,565**	2,797,783
Other fee income	**2,403,541**	2,163,811
Other noninterest income	**2,080,741**	1,132,958
Net gain/(loss) on securities sold	**(606)**	38,576
Total Noninterest Income	**22,859,219**	20,366,428
NONINTEREST EXPENSE		
Salaries and wages	**27,576,166**	25,919,638
Employee benefits	**15,106,936**	14,700,968
Net occupancy expense	**4,923,446**	4,755,544
Furniture and equipment expense	**5,141,343**	4,323,262
Professional services	**1,824,418**	1,680,675
FDIC insurance assessments	**740,451**	405,570
Data processing expense	**1,664,721**	1,574,146
Communication and office expense	**1,185,543**	1,141,963
Promotional and business development expense	**1,734,030**	2,142,475
Other noninterest expense	**3,080,955**	4,479,085
Total Noninterest Expense	**62,978,009**	61,123,326
CONSOLIDATED NET INCOME	**$ 22,905,476**	$ 22,894,215
EARNINGS PER WEIGHTED AVERAGE SHARE OF COMMON STOCK	**$ 62.70**	$ 62.13

See accompanying notes to consolidated financial statements.

JEFFERSON BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

	2020	2019
Consolidated Net Income	**$ 22,905,476**	$ 22,894,215
Other Comprehensive Income (Loss):		
Securities available for sale and transferred securities:		
Change in net unrealized gain/(loss) during the year	**5,153,313**	8,190,565
Change in net unrealized gain on securities transferred to held to maturity	**110,515**	111,675
Reclassification adjustment for net (gains)/loss included in net income	**606**	(38,576)
Total securities available for sale and transferred securities	**5,264,434**	8,263,664
Change in net unrealized gain/(loss) on cash flow derivatives	**(1,479,484)**	751,845
Defined benefit post retirement plan:		
Change in the net actuarial loss and prior service cost	**(4,550,605)**	(1,905,527)
Total Other Comprehensive Income (Loss)	**(765,655)**	7,109,982
Total Comprehensive Income	**$ 22,139,821**	**$ 30,004,197**

See accompanying notes to consolidated financial statements.

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

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, January 1, 2019	$ 2,000,000	$ 164,576,852	$ (7,153,534)	$ (20,243,949)	$ 139,179,369
Purchase of treasury stock (875 shares)	-	-	(499,502)	-	(499,502)
Dividends declared $24.02 per share	-	(8,851,655)	-	-	(8,851,655)
Consolidated net income	-	22,894,215	-	-	22,894,215
Other comprehensive income	-	-	-	7,109,982	7,109,982
Cumulative effect of change in accounting principle on equity investment	-	(199,079)	-	199,079	-
Balance, December 31, 2019	2,000,000	178,420,333	(7,653,036)	(12,934,888)	159,832,409
Purchase of treasury stock (4,340 shares)	**-**	**-**	**(2,821,580)**	**-**	**(2,821,580)**
Sale of treasury stock (2,000 shares)	**-**	**-**	**891,000**	**-**	**891,000**
Dividends declared $26.14 per share	**-**	**(9,562,000)**	**-**	**-**	**(9,562,000)**
Consolidated net income	**-**	**22,905,476**	**-**	**-**	**22,905,476**
Other comprehensive loss	**-**	**-**	**-**	**(765,655)**	**(765,655)**
Balance, December 31, 2020	**$ 2,000,000**	**$ 191,763,809**	**$ (9,583,616)**	**$ (13,700,543)**	**$ 170,479,650**

See accompanying notes to consolidated financial statements.

JEFFERSON BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

	2020	2019
OPERATING ACTIVITIES:		
Net Income	**$ 22,905,476**	$ 22,894,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,597,442**	2,598,978
Premium amortization on investment securities, net	**2,193,104**	1,869,282
Income on Bank owned life insurance	**(796,728)**	(785,467)
FHLB Stock Dividend	**(38,500)**	(294,400)
Provision for loan losses	**3,825,000**	1,525,000
Impairment of community development investment	**247,747**	1,240,000
Loss (gain) on sales of securities, net	**606**	(38,576)
Gains on sales of Mortgage loans, net	**(5,290,565)**	(2,797,783)
Amortization of unrealized loss on securities available for sale transferred to held to maturity during 2013	**110,515**	111,675
Net gain on equity investments	**(84,793)**	(114,285)
Valuation allowance for other real estate owned, net	**39,162**	-
Net periodic pension cost	**65,451**	547,999
Change in operating assets and liabilities:		
Loans held for sale	**(5,509,735)**	3,391,566
Accrued interest receivable	**(1,783,499)**	529,773
Prepaid expenses and other assets	**(286,006)**	(1,165,819)
Accrued interest payable	**(1,448,737)**	1,516,781
Other liabilities	**(2,171,982)**	3,868,442
Pension asset	**-**	(6,100,756)
Net cash provided by operating activities	**14,573,958**	28,796,625
INVESTING ACTIVITIES:		
Proceeds from sales, maturities, and paydowns of securities available for sale	**294,760,861**	227,252,164
Purchases of securities available for sale	**(485,399,509)**	(122,865,353)
Purchases of held to maturity securities	**(14,164,872)**	(8,357,641)
Proceeds from sales, maturities, and paydowns of held to maturity securities	**56,334,359**	65,107,457
Purchases of Federal Home Loan Bank stock	**(2,818,000)**	(556,100)
Sales of Federal Home Loan Bank stock	**-**	11,177,800
Decrease (increase) in loans and leases, net	**3,311,995**	(62,880,586)
Increase in community development investments, net	**-**	(55,060)
Purchases of premises and equipment, net	**(8,642,051)**	(3,100,942)
Purchase of life insurance	**(45,501)**	(889,501)
Net cash (used in)/provided by investing activities	**(156,662,718)**	104,832,238
FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	**145,499,747**	49,733,990
Net increase in interest-bearing deposits	**136,559,629**	3,686,838
Proceeds from (repayment of) Federal Home Loan Bank Short Term, net	**50,000,000**	(30,012,536)
Purchase of treasury stock	**(2,821,580)**	(499,502)
Sale of treasury stock	**891,000**	-
Dividends paid	**(9,504,311)**	(8,795,644)
Net cash provided by financing activities	**320,624,485**	14,113,146
NET CHANGE IN CASH AND CASH EQUIVALENTS	**178,535,725**	147,742,011
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**201,150,498**	53,408,487
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 379,686,223**	$ 201,150,498

See accompanying notes to consolidated financial statements.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation and Nature of Operations - The accompanying consolidated financial statements (financial statements) include the accounts of Jefferson Bancshares, Inc. (the Company), its wholly owned subsidiary Jefferson Bank (the Bank), Sanger & Altgelt, LLC, (Sanger & Altgelt) which was acquired by the Bank in July 2011, Monticello Wealth Management, LLC, (MWM) which was formed by the Bank in October 2015, and 1990 Broadway, LLC, which was established in June 2018. Sanger & Altgelt is a wholly owned insurance agency subsidiary of the Bank. MWM is a wholly owned investment and financial advisory services subsidiary of the Bank. 1990 Broadway, LLC is a wholly owned subsidiary of the Bank established to acquire land in downtown San Antonio for further development of the Bank's headquarters. All material intercompany accounts and transactions have been eliminated in consolidation.

The Company provides a variety of financial services to individuals and small businesses through its banking offices in San Antonio, Boerne and New Braunfels, Texas. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are commercial, industrial, construction, and mortgage loans. Additionally, the Company provides trust and wealth management services and insurance products to customers.

The Bank is subject to regulation by the Texas Department of Banking and the Federal Deposit Insurance Corporation (FDIC) and the Company is subject to regulation by the Federal Reserve Board.

The Company has evaluated subsequent events for potential recognition and/or disclosure through March 17, 2021, the date these consolidated financial statements were available to be issued. Refer to Note T for further discussion on subsequent events.

COVID-19 Impact - The coronavirus (COVID-19) pandemic has placed significant health, economic, and other major pressures on the communities we serve, the United States, and the entire world. In March, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") which was designed to provide comprehensive relief to individuals and businesses following the unprecedented impact of the COVID-19 pandemic. Additionally, we have been actively managing our response to the continuing COVID-19 pandemic and have implemented a number of procedures in response to the pandemic to support the safety and well-being of our employees and customers. Some of the implemented procedures include:

- Addressing the safety of the Company's branch network, following local, state, and federal guidelines;
- Holding regular executive and pandemic task force meetings to address issues that change rapidly;
- Implementing business continuity plans to help ensure that customers have adequate access to banking services;
- Providing extensions and deferrals to loan customers affected by COVID-19;
- Participating in both appropriations of the CARES Act Paycheck Protection Program ("PPP") that provide 100% federally guaranteed loans for small businesses to cover up to 24 weeks of payroll costs and assist with mortgage interest, rent, and utilities. Notably, these small business loans may be forgiven by the SBA if borrowers maintain their payrolls and satisfy certain other conditions during the COVID-19 pandemic.

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

As noted above, the Company provided extensions and deferrals to loan customers affected by COVID-19. The provisions in the CARES Act included an election within Section 4013 that allows banks to suspend the guidance on accounting for troubled debt restructurings ("TDRs") to loan modifications, such as extensions and deferrals, related to COVID-19 made between March 1, 2020 and the earlier of (i) December 31, 2020 or (ii) 60 days after the President terminates the COVID-19 national emergency declaration. The relief can only be applied to modifications on loans that were not more than 30 days past due as of December 31, 2019. In December, 2020, Congress passed the Consolidated Appropriations Act which, among other things, extended the relief from TDR accounting provided in Section 4013 of the CARES Act to the earlier of (i) January 1, 2022 or (ii) 60 days after the President terminates the COVID-19 national emergency declaration.

The Company has elected to adopt and apply the above provisions as provided in Section 4013 of the CARES Act to applicable loan modifications. As of December 31, 2020, the Company has full (principal and interest) and interest only deferrals of $6,429,035 and $41,581,713, respectively, designated under Section 4013 and related to COVID-19. The interest will be collected at maturity or once regular payments are resumed. Additionally, as of December 31, 2020, the Company had previously modified approximately 600 loans totaling $179,632,305 under the CARES Act that have returned to regular payment terms.

Through August 8, 2020, when the PPP ended to new applicants, the Company originated 812 PPP loans for a total of $130,857,505 with an average balance of $161,155 per loan. As of December 31, 2020, the outstanding balance of these PPP loans was $92,608,748. In addition, the Company earned total fees on PPP loans of $4,575,961 with $2,580,930 recognized in the current year. The remaining fees will be amortized over the remaining life of the loans or upon forgiveness by the Small Business Administration ("SBA") if prior to maturity. Net origination fee income related to PPP loans is deferred and amortized into interest income over the contractual life of the loan. PPP loans are 100% guaranteed by the SBA and have a zero percent risk-weight for regulatory capital ratios.

Summary of Significant Accounting and Reporting Policies - The accounting and reporting policies of the Company and the Bank conform, in all material respects, to accounting principles generally accepted in the United States of America (U.S. GAAP) and to prevailing practices within the financial services industry. A summary of significant accounting policies follows. The Company does not meet the definition of a public business entity.

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

Cash and Due from Banks - The Bank, as a correspondent of the Federal Reserve Bank, is required to maintain reserves for the purpose of facilitating the implementation of monetary policy. The reserves may be maintained in the form of balances at the Federal Reserve Bank or by vault cash maintained at the Bank. The Bank's reserve requirements were **$0** and $5,621,000 on December 31, 2020 and 2019, respectively. Accordingly, "cash and due from banks" balances were restricted to that extent.

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

The cash and cash equivalents of the Company are maintained with major financial institutions in the United States. The Company's deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Company periodically evaluates the stability of the financial institutions with which it has deposits. The Company has cash and time deposits in correspondent financial institutions in excess of the amount insured by the FDIC in the amount of **$55,138,597** and $110,574,805 at December 31, 2020 and 2019, respectively.

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

	2020	2019
Cash paid during the year for interest	**$ 8,654,969**	$ 12,894,887
Noncash foreclosure of real estate in partial satisfaction of debt	**$ -**	$ 868,337
Noncash financing activities:		
Unpaid common stock dividends delcared	**$ 1,346,854**	$ 1,289,166

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

Debt securities held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts. Management has the positive intent and the ability to hold these assets as long-term securities until their estimated maturities. During the year ending December 31, 2013, management transferred available for sale securities with a market value of $56,191,916 and a current face value of $56,305,367 into the held to maturity category. The market value at the date of transfer became the new cost basis for the securities with the unrealized loss of $1,391,125 as of the transfer date being amortized out of comprehensive income as a reduction to interest income on the securities. This reduction to interest income is partially offset by the accretion of the newly established discount to bring the securities to face value at the maturity date.

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

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

Investment securities classified as available for sale or held to maturity are generally evaluated for other-than-temporary impairment (OTTI) under Accounting Standards Codification (ASC) Topic 320, *Investments – Debt and Equity Securities*. In determining OTTI, management considers many factors, including: (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and the ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether the Company intends to sell the security or will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or it is more likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date.

If the Company does not intend to sell the security and it is not likely that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

Equity Securities - Banks that are members of the Federal Home Loan Bank (FHLB) are required to maintain a stock investment in the FHLB calculated as a percentage of aggregate outstanding mortgages, outstanding FHLB advances, and other financial instruments. FHLB stock is capital stock that is bought from and sold to the FHLB at $100 par value. At December 31, 2020 and 2019, the Company held **$4,501,400** and $1,644,900 in FHLB stock, respectively. At December 31, 2020 and 2019, the Company also held **$203,510** in the stock of Independent Bankers Financial Corporation (TIB).

Investments in stock of the FHLB are considered to be restricted investments with limited marketability and are stated at cost as management believes the par value is ultimately recoverable. Dividends on these investments are recognized in interest income when received.

The Company measures equity securities and equity investments without a readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment. Investments in stock of TIB are accounted for in this manner.

For equity securities and equity investments measured under the practicability exception, the Company performs a qualitative assessment for equity investments without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, the Company will recognize a loss based on the difference between carrying value and fair value.

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

The Company has also included in equity securities an investment in a Community Reinvestment Act (CRA) mutual fund purchased in 2016. With the adoption of ASU 2016-01, an unrealized loss of $199,079 was adjusted out of accumulated other comprehensive income on January 1, 2019. The investment is now carried at fair value and the unrealized gain or loss is included in earnings. The fair value of the CRA mutual fund at December 31, 2020 and 2019 was **$4,000,000** and $3,915,207, respectively. The unrealized gain included in earnings was **$84,793** and $114,286 at December 31, 2020 and December 31, 2019, respectively. There were no sales of this investment in 2020.

Community Development Investments – The community development investment limited partnerships are recorded at Net Asset Value (NAV), as a practical expedient, to determine fair value of the investment. Losses due to impairment are recorded when it is determined that the investment no longer has the ability to recover its carrying amount. For these equity investments, increases in fair value are recorded as other noninterest income at the statements of income and decreases in fair value are recorded as other noninterest expense at the statements of income.

Mortgage Loans Held for Sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees, if any, are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans - Loans that management has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less the allowance for loan losses.

The Company holds a small portfolio of lease financing receivables. Leases are purchased through a broker and are stated at the unpaid principal balances less net unamortized premiums of approximately **$10,300** and $12,000 at December 31, 2020 and 2019, respectively. Leases purchased by the Company are tax exempt and secured by equipment in which the Company is the first lien holder. The outstanding balance of all lease financing receivables are approximately **$67,000** and $106,000 at December 31, 2020 and 2019, respectively. Balances reflect the future lease payments within the facilities. Residual values are not considered material to the Company's financial statements.

Nonrefundable Fees Associated With Lending Activities - Loan origination and commitment fees are recorded as income when received as an offset to direct loan origination costs. The effect of this method on operations is deemed by management to be not materially different from the deferral of direct origination fees and costs, and the amortization thereof as an adjustment of the yield on the related loan.

Nonperforming Loans - Included in the nonperforming loan category are loans which have been categorized by management as nonaccrual because collection of interest is doubtful.

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

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

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

A loan is defined as impaired if, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings.

The allowance for loan losses related to impaired loans is determined based on the difference of carrying value of loans and the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

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

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

Allowance for Loan Losses - The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans including leases and other commitments to extend credit. All losses are charged to the allowance for loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance at the time of recovery.

The allowance, in the judgment of management, is necessary to reserve for the estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, generally, the entire allowance is available for any credit that, in management's judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications.

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

Intangible Assets - ASC Topic 350, *Intangibles – Goodwill and Other Intangible Assets*, requires a regular assessment for impairment of goodwill, and a write down of the goodwill if impairment occurs. In accordance with FASB ASC Topic 350, goodwill will not be amortized but will be annually tested for impairment based on the reporting unit.

Goodwill and indefinite-lived intangibles are evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that is more likely than not the fair value of the reporting unit is less than its carrying amount. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill fair value are not recognized in the financial statements.

ASC Topic 350 also requires that identifiable intangibles be amortized over their estimated useful life. The Company has identified intangibles in the form of insurance customer accounts and protective and restrictive covenants that are being amortized over a five to ten year period using the straight line method in keeping with the anticipated benefits derived from the acquisition of that customer base. Management does not believe any impairment of goodwill or other intangible assets exists at December 31, 2020 and 2019.

Mortgage Servicing - Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized mortgage servicing rights are amortized into noninterest income in proportion to, and over the period of the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Servicing fee income is recorded for fees earned from servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of the mortgage servicing rights is netted against loan servicing fee income and reflected in other fee income in the Company's consolidated statements of income.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced amounted to **$12,819,184** and $16,972,676 at December 31, 2020 and 2019, respectively.

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

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

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

The Company originates loans, commitments, and letters of credit primarily to customers located within Bexar, Comal, Kendall, and surrounding Texas counties. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. Concentrations of credit by type of loan are set forth in Note C. Management does not deem the Company to have any significant concentrations to any one industry or customer. It is the Company's policy to not extend credit to any single borrower or group of related borrowers in excess of the Company's legal lending limit as defined by state and federal banking regulations.

Interest Rate Risk - The Company is principally engaged in providing short-term commercial loans with interest rates that fluctuate with various market indices and intermediate-term, fixed rate real estate loans. These loans are primarily funded through short-term demand deposits and longer-term certificates of deposit with fixed rates. The Company may borrow against available lines of credit to fund additional loan growth, or other investment strategies, should the need arise. Deposits that are not utilized to fund loans are invested in securities that meet the Company's investment quality guidelines. Unrealized investment gains and losses on the Company's investments held as available for sale resulting from changing market interest rates are reflected in other comprehensive income.

A portion of the Company's investments have contractual maturity dates through the year 2048, bear fixed rates of interest and are collateralized by residential mortgages. Repayment of principal on these bonds is primarily dependent on the cash flows from payments made on the underlying collateral to the bond issuer. Reduced prepayments extend the Company's original anticipated holding period and thus increases interest rate risk over time, should market rates increase.

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

Premises and Equipment – Land is carried at cost. Building and improvements, and furniture and equipment are carried at cost, less accumulated depreciation, computed principally by the straight-line method based on the estimated useful lives of the related property. Leasehold improvements are generally depreciated over the lesser of the term of the respective leases or the estimated useful lives of the improvements.

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

Buildings	35 – 40 years
Leasehold improvements	5 – 10 years
Machinery and equipment	3 – 5 years
Furniture and fixtures	3 – 5 years

Pension Costs - Pension costs are charged to employee benefits expense and are funded as accrued. U.S. GAAP requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheets through comprehensive income or loss.

Income Taxes - During 2002, the Company elected S Corporation status in accordance with the Internal Revenue Code, and as a result, in lieu of corporate income taxes, the shareholders of the Company are taxed on their proportionate share of the Company's taxable income.

An entity is required to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Company believes that all significant tax positions utilized by the Company will more likely than not be sustained upon examination. The Company files income tax returns in the U.S. federal jurisdiction and is no longer subject to U.S. federal income tax examinations by tax authorities for years ending prior to December 31, 2017.

The Company is subject to Texas Margin Tax. Texas Margin Tax amounted to **$95,436** and $100,653 for the years ending December 31, 2020 and 2019, respectively.

Comprehensive Income - Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Besides net income, other components of the Company's comprehensive income include the effect of changes in the net unrealized gain/loss on securities available for sale, changes in the unrealized gain/loss and prior service costs on pension obligations, unrealized gain/loss related to the cash flow hedge, and the unrealized loss on available for sale securities transferred to held to maturity.

Fair Value Measurements - ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

These adjustments may include amounts to reflect counterparty credit quality and the entity's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

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

At December 31, 2020 and 2019, the Company has not elected to account for any financial assets or liabilities as trading instruments under ASC Topic 825, *The Fair Value Option for Financial Assets and Liabilities,* for which changes in market value on these instruments would be recorded in the Company's consolidated statements of income.

Derivative Financial Instruments - The Company may enter into derivative contracts for the purposes of managing exposure to interest rate risk to meet the financing needs of its customers. The Company records all derivatives on the balance sheet at fair value. In an effort to hedge against rising interest rates, the Company has entered into both fair value and cash flow hedges. The fair value hedge includes an interest rate swap agreement on fixed rate loans and investment securities. The cash flow hedge includes an interest rate swap on borrowing from the Federal Home Loan Bank. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the point of inception of the derivative contract.

For derivatives designated as hedging exposure to changes in the fair value of the hedged item, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain of the hedging instrument. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and are reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged items are recognized immediately in current earnings. As of December 31, 2020 and 2019, all hedges were deemed to be highly effective, and the Company expects the hedges to remain highly effective throughout their terms.

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

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

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

Earnings Per Common Share - Basic earnings per share represents net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. For the years ended December 31, 2020 and 2019, the Company had no dilutive potential common shares; therefore, diluted income per share does not differ from basic income per share. There were **365,311** and 368,472 weighted-average number of shares for the years ended December 31, 2020 and 2019, respectively.

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

Treasury Stock - The Company has repurchased shares of its authorized and issued common stock which is now held in treasury pending use for general corporate purposes or retirement. In 2020 and 2019, **4,340** and 875 shares of stock were purchased at an average price of approximately **$650.13** and $570.86 per share, respectively. Additionally, the Company has sold shares of its authorized and issued common stock held in treasury. In 2020, **2,000** shares of stock were sold at an average price of **$445.50** per share. There were no sales on treasury stock in 2019. At December 31, 2020 and 2019, the Company held **34,007** and 31,667 treasury shares, respectively, which are reflected as a component of shareholders' equity on the accompanying consolidated balance sheets.

Revenue from Contracts with Customers

The majority of the Company's revenues are comprised of net interest income on financial assets and financial liabilities which is explicitly excluded from the scope of "Revenue from Contracts with Customers (Topic 606)" (ASC 606). The Company's services that fall within the scope of ASC 606 include deposit service charges and fees, trust and asset management fees, insurance services, investment advisory services, and the sale of other real estate owned. The related revenue is presented as non-interest income on the consolidated statements of income and is recognized as the Company satisfies its obligations to the customer.

A description of the Company's revenue streams accounted for under ASC 606 follows:

Deposit Service Charges and Fees: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned at the point in time when the account statement is processed. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Trust and Asset Management Fees: Asset management fees are established and agreed upon at inception of the relationship. The services provided vary by relationship but the primary performance obligation for all contracts is to act as the agent on behalf of the customer. The services provided as the customer's agent may consist of one or more of the following but do not individually rise to the level of a performance obligation: administration services, advisory services, investment decision making, execution of transactions, custody of assets, and/or management of assets.

Asset management fees are based on output and considered variable income tied to market fluctuations. The asset management fee charges are annual fees based on the current published fee schedule in effect at the fee payment dates. The fees are computed and charged monthly based on the market value of the assets on the fee computation date. As such, revenue is assessed on a monthly basis at the reporting date. Once market values are finalized, a percentage is applied for services and revenue is booked for the month. Additionally, there are no additional variable fees, check fees, or transaction fees charged to the customer.

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

Insurance Services: Sanger & Altgelt acts as an insurance agent and risk management consultant. The insurance agency has several different lines of business including, personal, commercial, life and health and agency management. The performance obligation for each policy sold is to act as an insurance broker between an insurance agency and the customer. This is considered to have taken place at the effective date of the policy. Further, there is only a single pay obligation to Sanger & Altgelt for each policy.

As Sanger & Altgelt acts as an insurance broker, and there is only a single performance obligation and pay obligation for each policy sold, revenue is to be recognized when control transfers from Sanger & Altgelt to the insurance agency. Based on our review, we have determined control to have transferred when the policy becomes effective. Therefore, Sanger & Altgelt recognizes revenue as of the effective date of the policy. The Agency Management fees are contractual and billed once the performance obligation has been satisfied.

Investment Advisory Services: Monticello Wealth Management provides wealth management and investment advisory services. The only performance obligation that exists is to act as the customer's agent as part of these wealth management and advisory services provided. Specific responsibilities associated with these management and advisory services include supervising, managing, and directing assets on behalf of customers as well as purchasing, selling, investing, exchanging, converting, and trading the assets controlled.

At the beginning of each quarter, fees are assessed on each account and recorded to deferred income to be recognized equally each month over the current quarter. The fee assessed to any given customer is dependent on the total value of assets under management for that customer and is subject to any additional agreements between Monticello Wealth Management and the individual customer.

Gain/Losses on Sales of Other Real Estate Owned: The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed assets to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

<u>New Accounting Standards and Disclosure Requirements</u>

ASU 2016-02, Leases (Topic 842). ASU 2016-02 will, among other things, require lessees to recognize a lease liability for virtually all significant leases, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and *ASC Topic 606, Revenue from Contracts with Customers*. ASU 2016-02 will be effective for the Company for years beginning after December 15, 2020 and interim periods beginning after December 15, 2020 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the potential impact of ASU 2016-02 on our financial statements.

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

ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company for interim and annual periods beginning after December 15, 2022 and any impact will be reflected with a cumulative effect adjustment to retained earnings. We are currently evaluating the potential impact of ASU 2016-13 on our financial statements.

NOTE B DEBT SECURITES

The amortized cost and estimated fair values of securities at December 31, 2020 and 2019 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2020				
Securities Available For Sale:				
State and municipal securities	**$ 66,190,878**	**$ 4,932,748**	**$ -**	**$ 71,123,626**
U.S. government agency:				
Mortgage backed securities/ collateral mortgage obligations	**300,909,277**	**3,301,589**	**(11,536)**	**304,199,330**
Asset backed securities	**8,454,570**	**5,016**	**(260,078)**	**8,199,508**
Corporate debt securities	**3,263,285**	**29,458**	**-**	**3,292,743**
	$ 378,818,010	**$ 8,268,811**	**$ (271,614)**	**$ 386,815,207**
Securities Held to Maturity:				
State and municipal securities	**$ 7,502,677**	**$ 170,265**	**$ -**	**$ 7,672,942**
U.S. government agency:				
Mortgage backed securities/ collateral mortgage obligations	**40,340,289**	**1,643,934**	**(509)**	**41,983,714**
Subordinated notes	**13,750,000**	**83,713**	**(51,280)**	**13,782,433**
	$ 61,592,966	**$ 1,897,912**	**$ (51,789)**	**$ 63,439,089**
2019				
Securities Available For Sale:				
State and municipal securities	$ 32,177,186	$ 2,197,528	$ (213,613)	$ 34,161,101
U.S. government agency:				
Mortgage backed securities/ collateral mortgage obligations	142,387,367	803,896	(724,187)	142,467,076
Asset backed securities	11,561,928	-	(264,432)	11,297,497
Corporate debt securities	3,996,016	-	(483)	3,995,533
	$ 190,122,497	$ 3,001,424	$ (1,202,714)	$ 191,921,206
Securities Held to Maturity:				
State and municipal securities	$ 10,189,494	$ 76,170	$ -	$ 10,265,664
U.S. government agency:				
Bonds	27,985,988	8,634	(49,537)	27,945,085
Mortgage backed securities/ collateral mortgage obligations	61,837,547	291,302	(341,308)	61,787,541
Subordinated notes	4,000,000	70,170	-	4,070,170
	$ 104,013,029	$ 446,276	$ (390,845)	$ 104,068,460

NOTE B DEBT SECURITIES (CONTINUED)

The amortized cost and estimated fair value of debt securities at December 31, 2020, by contractual maturities, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage backed securities have been allocated over the maturity groupings below based on stated maturity date.

	Available For Sale		Held To Maturity	
Amounts Maturing In:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
1 year or less	**$ 6,263,804**	**$ 6,293,323**	**$ 1,658,670**	**$ 1,668,444**
1 year through 5 years	**26,990,852**	**27,398,071**	**1,472,484**	**1,503,128**
5 years through 10 years	**151,495,787**	**153,881,725**	**40,547,486**	**41,686,325**
After 10 years	**194,067,567**	**199,242,088**	**17,914,326**	**18,581,192**
	$ 378,818,010	**$ 386,815,207**	**$ 61,592,966**	**$ 63,439,089**

Securities available for sale with carrying amounts of **$28,939,454** and $23,091,590 at December 31, 2020 and 2019, respectively, and held to maturity securities with carrying amounts of **$1,842,298** and $831,549 at December 31, 2020 and 2019 were pledged to secure public deposits, collateralize hedging positions, and for other purposes required or permitted by law.

The gross gains and losses realized on securities available for sale that were sold during the years ending December 31, 2020 and 2019 are as follows:

	2020	2019
Gross gains recorded	**$ -**	$ 669,718
Gross losses recorded	**(606)**	(631,142)
	$ (606)	$ 38,576

NOTE B DEBT SECURITIES (CONTINUED)

The Company held **14** and 49 securities that were in an unrealized loss position at December 31, 2020 and 2019, respectively. The following table shows gross unrealized losses and fair value by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
2020				
Securities Available For Sale:				
U.S. Government Agency:				
Mortgage backed securities/ collateral mortgage obligations	**(11,536)**	**2,532,172**	**-**	**-**
Asset backed securities	**-**	**-**	**(260,078)**	**5,694,587**
	$ (11,536)	**$ 2,532,172**	**$ (260,078)**	**$ 5,694,587**
Securities Held to Maturity:				
U.S. Government Agency:				
Mortgage backed securities/ collateral mortgage obligations	**(509)**	**72,749**	**-**	**-**
Corporate Debt Securities	**(51,280)**	**8,448,720**	**-**	**-**
	$ (51,789)	**$ 8,521,469**	**$ -**	**$ -**
2019				
Securities Available For Sale:				
State and municipal securities	$ (24,801)	$ 3,872,609	$ -	$ -
U.S. Government Agency:				
Mortgage backed securities/ collateral mortgage obligations	(45,326)	19,312,260	(678,861)	50,644,501
Asset backed securities	-	-	(264,432)	11,297,497
Corporate Debt Securities	(483)	3,995,533	-	-
	$ (70,610)	$ 27,180,402	$ (943,293)	$ 61,941,998
Securities Held to Maturity:				
U.S. Government Agency: Bonds	-	-	(49,537)	19,949,618
Mortgage backed securities/ collateral mortgage obligations	(7,875)	2,932,073	(333,433)	31,496,991
	$ (7,875)	$ 2,932,073	$ (382,970)	$ 51,446,609

NOTE B DEBT SECURITIES (CONTINUED)

Management has the ability and the intent to hold the securities classified as held to maturity in the table above until they mature. Management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that the Company will not have to sell any of these securities before a recovery of cost. The unrealized losses on the Company's investment in mortgage-backed and asset-backed securities were caused by changes in interest rates and illiquidity. 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 illiquidity, 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. Accordingly, as of December 31, 2020 and 2019, management believes the impairments detailed in the above table are temporary and no impairment loss has been realized in the Company's consolidated statements of income for the years then ended.

NOTE C LOANS

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

	2020	2019
Commercial & industrial	**$ 207,401,496**	$ 132,142,924
Commercial real estate	**689,903,832**	706,497,502
Residential real estate	**458,492,626**	495,550,628
Consumer	**26,902,831**	27,035,837
Other	**7,976,735**	16,235,996
	1,390,677,520	1,377,462,887
Less net deferred loan fees for PPP loans	**(2,062,122)**	-
Less allowance for loan losses	**(16,360,870)**	(13,049,935)
	$ 1,372,254,528	$ 1,364,412,952

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. The Company's loans are segmented by type as noted in the preceding table. The Company sub-segments commercial real estate loans into the following classes: commercial real estate mortgage, construction and land development, multi-family residential mortgage and farmland. The consumer segment includes 1-4 family residential and other consumer loans. There are no other significant sub-segments within the other portfolio segments. Information and risk management practices specific to the Company's loan segments and classes follows.

NOTE C LOANS (CONTINUED)

Commercial and Industrial - The Company's commercial and industrial loans represent credit extended to small and medium sized businesses generally for the purpose of providing working capital and equipment purchase financing and includes asset based revolving lines, equipment purchase money loans, lease financing, and unsecured loans. Additionally, PPP loans held by the Company totaling $92,608,748 as of December 31, 2020 are included in commercial and industrial loans. Refer to Note A for further details on these loans. Commercial and industrial loans are underwritten on the basis of the borrower's ability to service the debt from income and often are dependent on the profitable operations of the borrower. These credits are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may also incorporate a personal guarantee. Some shorter term loans may be extended on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The cash flows of borrowers may not be as expected and the collateral securing these loans may fluctuate, increasing the risk associated with this loan segment. As a result of the additional complexities, variables, and risks, commercial loans typically require more thorough underwriting and servicing than other types of loans.

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

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

The Company's commercial real estate lending activities include extending credit secured by multi-family properties. These loans are typically retained by the Company and may be originated as construction loans or as mortgage loans.

The Company extends credit to local farmers secured by farmland and improvements thereon. Farmland includes land known to be used for agricultural purposes, such as crop and livestock production.

NOTE C LOANS (CONTINUED)

Residential Real Estate - The Company's residential real estate lending activities include the origination of 1-4 family residential loans. The terms of these loans typically range from five to thirty years and are secured by the properties financed. The Company requires the borrowers to maintain mortgage title insurance and hazard insurance. While the Company maintains the majority of the 1-4 family residential loans for its own portfolio, a portion are originated for immediate sale to the Federal Home Loan Mortgage Corporation (FHLMC) and the FHLB into the secondary market for a fee and without recourse. The Company is able to realize a higher yield on its mortgage operations by maintaining a portion of originated loans; however, the Company also incurs interest rate risk by holding the selected mortgages for its own portfolio. **$18,299,142** and $7,498,842 of 1-4 family residential loans were held for sale as of December 31, 2020 and 2019, respectively.

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

Other loans - Other loans consist primarily of smaller loans to business entities, municipalities, finance companies, and individuals for various personal and business purposes.

Loans Purchased and Sold

Loans purchased and sold by loan class during 2020 and 2019 are summarized in the table below.

	Loans Purchased During the Year	Loans Sold During the Year
2020		
Commercial & industrial	**$ 15,000,000**	**$ 509,396**
Commercial real estate mortgage	**7,700,000**	**-**
Construction & land development	**5,200,000**	**18,500,000**
	$ 27,900,000	**$ 19,009,396**
2019		
Commercial & industrial	$ 300,000	$ 6,380,823
Commercial real estate mortgage	2,017,387	21,050,939
Construction & land development	-	13,500,000
	$ 2,317,387	$ 40,931,762

NOTE D NONPERFORMING LOANS

Past Due and Nonaccrual Loans

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

2020	Current and accruing	30 - 89 days past due	90 days or more past due and accruing	Nonaccrual	Total loans
Commercial & industrial	**206,354,603**	**$ 254,008**	**$ -**	**$ 792,885**	**$ 207,401,496**
Commercial real estate mortgage	**491,959,913**	**-**	**-**	**4,623,370**	**496,583,283**
Construction & land development	**149,504,928**	**112,330**	**130,174**	**1,401,017**	**151,148,449**
Multi-family residential	**9,106,607**	**-**	**-**	**-**	**9,106,607**
Farmland	**32,281,087**	**784,406**	**-**	**-**	**33,065,493**
1 - 4 family residential	**449,478,474**	**6,154,925**	**1,247,211**	**1,612,016**	**458,492,626**
Consumer - other	**26,512,135**	**258,826**	**-**	**131,870**	**26,902,831**
Other loans	**7,971,441**	**5,294**	**-**	**-**	**7,976,735**
Total	**$ 1,373,169,188**	**$ 7,569,789**	**$ 1,377,385**	**$ 8,561,158**	**$ 1,390,677,520**
2019					
Commercial & industrial	$ 131,396,403	$ 452,432	$ -	$ 294,089	$ 132,142,924
Commercial real estate mortgage	490,477,254	1,334,658	-	916,928	492,728,840
Construction & land development	177,542,274	1,673,591	68,295	-	179,284,160
Multi-family residential	7,096,489	-	-	-	7,096,489
Farmland	27,388,015	-	-	-	27,388,015
1 - 4 family residential	482,523,254	10,688,724	1,540,239	798,411	495,550,628
Consumer - other	26,284,954	580,922	-	169,962	27,035,837
Other loans	16,219,630	15,440	924	-	16,235,994
Total	$ 1,358,928,273	$ 14,745,767	$ 1,609,457	$ 2,179,390	$ 1,377,462,887

Loans greater than 90 days past due and still accruing represent loans in the process of collection for which management has determined sufficient collateral exists. Management believes all principal and interest accrued will be collected. In accordance with regulatory guidance, management has therefore not considered these balances nonaccrual or impaired at December 31, 2020 or 2019.

Interest income on nonaccrual loans was reversed out of earnings when the loan was placed on nonaccrual during the years ended December 31, 2020 and 2019, the amounts of which are not deemed material. Interest income that would have been earned under the original terms of the nonaccrual loans was **$214,962** and $107,872 for the years ended December 31, 2020 and 2019, respectively.

NOTE D NONPERFORMING LOANS (CONTINUED)

Troubled Debt Restructuring

The following table illustrates loans, segregated by loan class, which were restructured due to the borrower's financial difficulties with concessions provided during 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
Commercial & industrial	**4**	**$ 825,796**	**$ 733,578**	2	$ 506,580	$ 506,580
Commercial real estate mortgages	**4**	**2,507,179**	**2,420,028**	3	940,389	916,928
1 - 4 family residential	**6**	**799,974**	**778,742**	3	937,571	884,109
Consumer - other	**5**	**49,447**	**43,366**	-	-	-
	19	**$ 4,182,396**	**$ 3,975,714**	8	$ 2,384,540	$ 2,307,617

All of the loans identified as troubled debt restructurings by the Company were classified and reported as impaired loans prior to restructuring. The modifications primarily related to extending the amortization periods of the loans or converting the loans to interest only for a limited period of time. The Company did not grant interest rate concessions on any restructured loan. Approximately **$1,449,331** in outstanding loans restructured during 2020 are on accrual status as of December 31, 2020. There is no impact to the Company's determination of the allowance for possible credit losses. The additional loans restructured during 2020 remain on nonaccrual status. Approximately $666,418 in outstanding loans restructured during 2019 were on accrual status as of December 31, 2019.

The Company had **$3,686,702** and $1,860,343 in default on troubled debt restructurings as of December 31, 2020 and 2019, respectively.

NOTE E ALLOWANCE FOR LOAN LOSSES

For purposes of determining the allowance for loan losses, the Company considers the loans in its portfolio by segment, class, and risk grade. Management uses judgment to determine the estimation method that fits the credit risk characteristics of each portfolio segment or class. To assist in the assessment of risk, management reviews reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. The Company utilizes an independent third party loan review service to review the credit risk assigned to loans on a periodic basis and the results are presented to management for review.

NOTE E ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Rollforward of the Allowance for Loan Losses

The following table presents a detail of the activity in the allowance for loan losses segregated by portfolio segment for the years ending December 31, 2020 and 2019.

	Balance at the beginning of year	Provisions	Charge-offs	Recoveries	Balance at end of year
2020					
Commercial & industrial	**$ 1,252,964**	**$ 565,400**	**$ (728,372)**	**$ 429,145**	**$ 1,519,137**
Commercial real estate	**6,954,625**	**1,900,500**	**-**	**-**	**8,855,125**
Consumer	**4,710,486**	**1,337,100**	**(234,878)**	**43,309**	**5,856,017**
Other loans	**131,860**	**22,000**	**(25,093)**	**1,824**	**130,591**
Total	**$ 13,049,935**	**$ 3,825,000**	**$ (988,343)**	**$ 474,278**	**$ 16,360,870**
2019					
Commercial & industrial	$ 1,133,376	$ 152,500	$ (138,304)	$ 105,392	$ 1,252,964
Commercial real estate	6,176,875	777,750	-	-	6,954,625
Consumer	4,266,029	579,500	(141,035)	5,992	4,710,486
Other loans	142,441	15,250	(31,362)	5,531	131,860
Total	$ 11,718,721	$ 1,525,000	$ (310,701)	$ 116,915	$ 13,049,935

Risk Grading of Loans

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

Grades 1-4 - Credits graded 1-4 are considered *"pass"* which indicates prudent underwriting and a normal amount of risk. The range of risk within these credits can vary from little to no risk with cash securing a credit, to a level of risk that requires a strong secondary source of repayment on the debt. Pass credits with a higher level of risk may be to borrowers that are highly leveraged, less well capitalized or in an industry or economic area that is known to carry a higher level of risk, volatility, or susceptibility to weaknesses in the economy. This higher risk grade may be assigned due to out of date credit information, as well as collateral information which may need to be updated for current market value in order to allow a credit quality analysis of the credit.

Grade 5 - Credits in this category contain more than the normal amount of risk and are referred to as *"other assets especially mentioned",* or OAEM, in accordance with regulatory guidelines. These credits possess clearly identifiable temporary weaknesses or trends that, if not corrected or revised, will result in a condition that exposes the Company to a higher level of risk of loss.

NOTE E ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Grade 6 - Credits in this category are *"substandard"* in accordance with regulatory guidelines and of unsatisfactory credit quality with well-defined weaknesses or weaknesses that jeopardize the liquidation of the debt. Credits in this category are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. These credits are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Often, the assets in this category will have a valuation allowance representative of management's estimated loss that is probable to be incurred.

Grade 7 - Credits in this category are considered *"doubtful"* in accordance with regulatory guidelines, are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Generally, these credits will have a valuation allowance based upon management's best estimate of the losses probable to occur in the liquidation of the debt.

Grade 8 - Credits in this category are considered *"loss"* in accordance with regulatory guidelines and are considered uncollectible and of such little value as to question their continued existence as assets on the Company's financial statements. Such credits are to be charged off or charged down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. This category does not intend to imply that the debt or some portion of it will never be paid, nor does it in any way imply that the debt will be forgiven.

The following table presents risk grades and classified loans by loan class at December 31, 2020 and 2019. Pass loans include risk grades 1 through 4. Special mention loans are grade 5 and classified loans include risk grades 6, 7, and 8. The Company had no loans graded 8 at as of December 31, 2020 and 2019.

2020	Pass	Grade 5	Grade 6	Grade 7	Total Loans
Commercial & industrial	$ 195,795,304	$ 10,632,818	$ 973,374	$ -	$ 207,401,496
Commercial real estate mortgage	429,285,379	14,966,514	52,331,390	-	496,583,283
Construction & land development	149,189,891	81,182	1,877,376	-	151,148,449
Multi-family residential	9,106,607	-	-	-	9,106,607
Farmland	33,065,493	-	-	-	33,065,493
1-4 family residential	446,897,690	993,132	10,601,804	-	458,492,626
Consumer - other	26,577,895	-	197,285	127,651	26,902,831
Other loans	7,976,439	-	296	-	7,976,735
Total	$ 1,297,894,698	$ 26,673,646	$ 65,981,525	$ 127,651	$ 1,390,677,520

NOTE E ALLOWANCE FOR LOAN LOSSES (CONTINUED)

2019	Pass	Grade 5	Grade 6	Grade 7	Total Loans
Commercial & industrial	$ 129,880,052	$ -	$ 2,262,872	$ -	$ 132,142,924
Commercial real estate mortgage	478,146,913	9,633,595	4,948,332	-	492,728,840
Construction & land development	177,564,553	-	1,719,607	-	179,284,160
Multi-family residential	7,096,489	-	-	-	7,096,489
Farmland	27,388,015	-	-	-	27,388,015
1-4 family residential	485,582,454	113,035	9,855,139	-	495,550,628
Consumer - other	26,703,909	-	170,228	161,700	27,035,837
Other loans	16,174,402	-	61,592	-	16,235,994
Total	$ 1,348,536,787	$ 9,746,630	$ 19,017,770	$ 161,700	$ 1,377,462,887

Specific and General Allowances

The Company's loan balances and allowance for loan losses as of December 31, 2020 and 2019 by loan class and disaggregated on the basis of the Company's impairment methodology is as follows:

2020	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total loans	Allowance related to loans individually evaluated for impairment
Commercial & industrial	**$ 843,203**	**$ 206,558,293**	**$ 207,401,496**	**$ 194,014**
Commercial real estate mortgage	**7,342,380**	**489,240,903**	**496,583,283**	**-**
Construction & land development	**1,511,436**	**149,637,013**	**151,148,449**	**3,185**
Multi-family residential	**-**	**9,106,607**	**9,106,607**	**-**
Farmland	**-**	**33,065,493**	**33,065,493**	**-**
1-4 family residential	**3,751,937**	**454,740,689**	**458,492,626**	**365,451**
Consumer - other	**285,796**	**26,617,035**	**26,902,831**	**86,589**
Other loans	**-**	**7,976,735**	**7,976,735**	**-**
Total	**$ 13,734,752**	**$ 1,376,942,768**	**$ 1,390,677,520**	**$ 649,239**

NOTE E ALLOWANCE FOR LOAN LOSSES (CONTINUED)

2019	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total loans	Allowance related to loans individually evaluated for impairment
Commercial & industrial	$ 1,785,188	$ 130,357,736	$ 132,142,924	$ 389,897
Commercial real estate mortgage	1,453,796	491,275,044	492,728,840	40,000
Construction & land development	-	179,284,160	179,284,160	-
Multi-family residential	-	7,096,489	7,096,489	-
Farmland	-	27,388,015	27,388,015	-
1-4 family residential	4,612,730	490,937,898	495,550,628	403,935
Consumer - other	264,197	26,771,640	27,035,837	133,994
Other loans	60,999	16,174,995	16,235,994	-
Total	$ 8,176,910	$ 1,369,285,977	$ 1,377,462,887	$ 967,826

Impaired Loans

The table on the following page reflects the unpaid principal balances for impaired loans, segregated by loan class, with the associated allowance amount as of December 31, 2020 and 2019. The Company had no commitment to lend additional funds to borrowers whose loans have been classified as impaired. The Company's recorded investment in impaired loans is equal to the unpaid principal balance. The average investment in impaired loans at December 31, 2020 and 2019 was **$11,200,255** and $7,023,109, respectively. Interest income recognized on impaired loans and interest income recognized on the cash basis was **$403,462** and **$147,196**, and $403,266 and $283,044 at December 31, 2020 and 2019, respectively.

NOTE E ALLOWANCE FOR LOAN LOSSES (CONTINUED)

2020	Impaired loans without allowance	Impaired loans with specific allowance	Related allowance
Commercial & industrial	**$ 59,306**	**$ 783,897**	**$ 194,014**
Commercial real estate mortgage	**7,342,380**	**-**	**-**
Construction & land development	**1,430,971**	**80,465**	**3,185**
Farmland	**-**	**-**	**-**
1-4 family residential	**1,782,197**	**1,969,740**	**365,451**
Consumer	**9,664**	**276,132**	**86,589**
Other loans	**-**	**-**	**-**
Total	**$ 10,624,518**	**$ 3,110,234**	**$ 649,239**
2019			
Commercial & industrial	$ 688,483	$ 1,096,705	$ 389,897
Commercial real estate mortgage	1,217,458	236,338	40,000
Farmland	-	-	-
1-4 family residential	2,127,167	2,485,563	403,935
Consumer	8,262	255,935	133,994
Other loans	60,999	-	-
Total	$ 4,102,369	$ 4,074,541	$ 967,826

NOTE F ACCRUED INTEREST RECEIVABLE

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

	2020	2019
Loans and leases	**$ 5,559,980**	$ 4,107,046
Investments and other	**1,616,277**	1,285,712
	$ 7,176,257	$ 5,392,759

NOTE G PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2020 and 2019 are summarized below:

	2020	2019
Land	$ 19,334,446	$ 15,375,019
Buildings and leasehold improvements	21,886,948	17,631,293
Furniture, fixtures and equipment	12,651,758	12,536,200
Computer hardware and software	5,098,938	4,815,201
Vehicles	198,581	400,490
	59,170,671	50,758,203
Less accumulated depreciation and amortization	(25,328,066)	(23,296,285)
	$ 33,842,605	$ 27,461,918

Depreciation expense was **$2,261,366** and $2,289,760 for 2020 and 2019, respectively.

NOTE H OTHER REAL ESTATE OWNED

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

	2020	2019
Balance, beginning of year	$ 868,337	$ -
Noncash foreclosure and repossession of real estate in partial satisfaction of debt	-	868,337
Valuation allowance	(39,162)	-
Balance, end of year	$ 829,175	$ 868,337

The Company recorded **$234,835** and $76,166 in expenses related to the maintenance and sale of other real estate owned for the year ended December 31, 2020 and 2019, respectively.

NOTE I GOODWILL AND OTHER INTANGIBLES

The Company has recorded goodwill, which is subject to impairment testing, and identifiable insurance customer accounts and protective and restrictive covenant intangibles, which are being amortized on a straight-line basis over the estimated useful life, determined by management, to be between five to ten years. Management determined no impairment existed on goodwill at December 31, 2020 and 2019. Goodwill, insurance customer account and protective and restrictive covenant intangibles, net of accumulated amortization, are as follows at December 31, 2020 and 2019:

2020	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Customer accounts	**$ 3,001,731**	**$ (2,851,646)**	**$ 150,085**
Goodwill	**2,011,470**	**-**	**2,011,470**
Protective and restrictive covenants	**157,986**	**(155,352)**	**2,634**
Total	**$ 5,171,187**	**$ (3,006,998)**	**$ 2,164,189**
2019			
Customer accounts	$ 3,001,731	$ (2,551,472)	$ 450,259
Goodwill	2,011,470	-	2,011,470
Protective and restrictive covenants	157,986	(147,453)	10,533
Total	$ 5,171,187	$ (2,698,925)	$ 2,472,262

Both the customer account intangible and protective and restrictive covenants are expected to be fully amortized in 2021. The expected amortization expense to be recognized for the year ending December 31, 2021 is $150,085 for the customer account intangible and $2,634 for the restrictive covenants.

NOTE J DEPOSITS

The aggregate amount of time deposits in excess of $250,000 at December 31, 2020 and 2019 was approximately **$211,527,735** and $302,130,492, respectively.

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

2021	**$ 267,419,589**
2022	**13,552,170**
2023	**2,001,032**
	$ 282,972,791

While no single deposit relationship amounted to more than 10% of total deposits as of December 31, 2020, **24%** of the Company's deposits, excluding brokered deposits, were made up of 10 deposit relationships. These particular customers have long-standing relationships with the Company and management expects the relationships to continue in the foreseeable future. However, should these relationships change for any number of reasons, the Company has sufficient liquidity to cover the outflow of deposits.

NOTE K BORROWINGS AND BORROWING LINES

FHLB Advances

The Company had available borrowings through the Federal Home Loan Bank of Dallas (FHLB) of **$723,148,200** and $777,842,814 based upon available and qualifying collateral consisting of certain loans and securities at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, borrowings amounting to **$70,000,000** and $20,000,000 respectively, were outstanding on the FHLB credit facility. Additionally, the Company has **$10,359,978** as of December 31, 2020 in letters of credit purchased from FHLB to pledge against public funds.

At December 31, 2020, the advance outstanding with the FHLB is at a fixed interest rate of 0.145% and matures in 2021.

Other Available Borrowings

The Company had approximately **$103,000,000** available in Federal funds lines of credit with major correspondent banks at December 31, 2020 and 2019. As of December 31, 2020 and 2019, the Company had not drawn on these lines.

NOTE L COMMITMENTS AND CONTINGENT LIABILITIES

Commitment to Extend Credit with Off-Balance-Sheet Risk

In the normal course of business, the Company enters into various transactions, which in accordance with U.S. GAAP, are not included in its consolidated balance sheets. The Company enters into these transactions to meet the financing needs of its customers. These financial instruments include commitments to extend credit for loans in process, commercial lines of credit, revolving credit lines, overdraft protection lines, and standby letters of credit at both fixed and variable rates of interest. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

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

	2020	2019
Commitments to extend credit (including guidance lines)	**$ 298,125,374**	$ 270,049,025
Standby letters of credit	**$ 8,805,807**	$ 12,880,838

NOTE L COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are extended at both fixed and variable rates of interest. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements.

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

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

Community Development Obligations

The Company has committed to contribute capital to various community development limited partnerships. At December 31, 2020 and 2019, the Company had **$798,425** and $798,425, respectively in unfunded commitments outstanding and subject to call by the respective entities. Outstanding contributions made by the Company in these partnerships were **$7,201,575**, and are included in community development investments on the Company’s consolidated balance sheets as of December 31, 2020 and 2019. The Company has received aggregate contribution returns of approximately **$2,968,000** on these investments.

Included in the total outstanding contributions above are investments in three separate CRA funds with the same General Partner, collectively known as the Lone Star CRA Funds. The Company identified the three Lone Star CRA Funds as applicable equity investments requiring fair value adjustments in 2020. Based on the Company’s historical experience with these funds, the Company has determined audited financial statements to be the most reliable source on which to base fair value adjustments. As such, the Company books an adjustment to all three Lone Star CRA Funds annually upon receipt of the audited financial statements. The Company had outstanding contributions in the three Lone Star CRA Funds of **$6,360,000** as of December 31, 2020 and 2019. The Company had a net adjustment of (**$1,487,747)** and ($1,240,000) with a fair value of **$4,872,253** and $5,120,000 as of December 31, 2020 and December 31, 2019, respectively. The current year fair value adjustment was **($247,747)** as of December 31, 2020.

Legal Matters

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

NOTE L COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Lease Obligations

The Company leases banking and office facilities under non-cancelable lease agreements with terms expiring at various dates, some of which contain renewal options. It is expected that in the normal course of business leases that expire will be renewed or replaced by leases on approximately the same terms and conditions if available. Total rent expense for operating leases of premises and equipment was **$2,342,188** and $2,252,535 for the years ending December 31, 2020 and 2019, respectively. A summary of non-cancelable future operating lease commitments at December 31, 2020 follows:

2021	**$ 2,140,603**
2022	**1,081,409**
2023	**356,243**
2024	**342,992**
2025	**220,059**
Thereafter	**27,745**
	$ 4,169,051

NOTE M SUBORDINATED NOTES

On October 31, 2014, the Company issued **$20,000,000** of 5.75% fixed rate subordinated notes (Notes) that mature on October 31, 2026. The Notes, which qualify for Tier 2 capital for the Company under the capital rules in effect at December 31, 2014, pay interest quarterly on each January 15, April 15, July 15, and October 15, commencing on January 15, 2015 until maturity. The Notes are subordinated in right of payment to all the Company's senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of the Company. The Notes cannot be accelerated except in the event of bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization. The Company may elect to redeem the Notes (subject to regulatory approval), in whole or in part and from time to time at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest on any interest payment date that occurs on or after the date that is five years after the original issue date. Accrued but unpaid interest amounted to **$287,500** at December 31, 2020 and 2019. Proceeds from the issuance of the Notes were used as additional capital for the Bank.

NOTE N RELATED PARTIES

Related parties are defined as executive officers, directors, and significant shareholders of the Company. A shareholder is considered significant if they and their affiliates own 5% or more of the Company. In the ordinary course of business, the Company has and expects to continue to conduct routine banking business with related parties. Such activities with related parties are identified as follows:

Loans - In the opinion of management, loans to related parties were entered into between the Company and such related parties in the ordinary course of business, and were made on the same terms and conditions as similar transactions with unaffiliated persons. Loans to such borrowers are summarized as follows:

	2020	2019
Balance, beginning of year	**$ 18,626,617**	$ 18,540,713
New loans and advances during the year	**7,803,859**	5,167,347
Repayments during the year	**(4,728,348)**	(5,516,749)
Loans sold	**387,783**	435,305
Balance, end of year	**$ 22,089,911**	$ 18,626,617

The Company has approximately **$7,114,853** and $2,871,855 of unfunded related party loan commitments as of December 31, 2020 and 2019, respectively.

Deposits - The Company held related party deposits of approximately **$234,278,000** and $58,220,000 at December 31, 2020 and 2019, respectively.

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS

Defined Benefit Plan

The Company has a qualified, defined benefit pension plan covering substantially all full-time employees. The benefits are based on years of service and the average of the highest three consecutive annual salaries paid. The Company's policy is to fund pension costs accrued based on an actuarial valuation for the plan. The Company's periodic pension costs are included in employee benefits in the consolidated statements of income.

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status follows:

	2020	2019
Benefit obligation	**$ (38,800,241)**	$ (32,480,192)
Fair value of plan assets	**45,297,995**	43,594,002
Funded status	**$ 6,497,754**	$ 11,113,810

Amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	2020	2019
Net loss	**$ 19,685,016**	$ 15,109,508
Prior service cost	**214,412**	239,315
	$ 19,899,428	$ 15,348,823

The accumulated benefit obligation was $34,013,596 and $27,897,858 at December 31, 2020 and 2019, respectively.

Other significant balances and costs are:

	2020	2019
Employer contributions	**$ -**	$ 6,100,756
Benefits paid	**913,233**	1,027,425
Net periodic pension cost	**65,451**	547,999

Net period pension cost consisted of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Employer service cost	**$ 1,379,292**	$ 1,283,400
Other components of net periodic pension costs	**(1,313,841)**	(735,401)
	$ 65,451	$ 547,999

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS (CONTINUED)

Employer service cost is recognized in employee benefits in the statements of income. The other components of net periodic pension costs are included in other noninterest income in the statements of income.

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

	2020	2019
Amounts arising during the period		
Net loss	**$ 5,418,972**	$ 2,761,910
Amounts reclassified as components of net periodic benefit cost of the period		
Net (gain) loss	**$ 843,464**	$ 831,480
Prior service costs	**24,903**	24,903

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year are $1,147,000 and $25,000.

Significant assumptions include:

Weighted-average assumptions used to determine pension benefit obligations at year-end:

	2020	**2019**
Discount Rate	**2.52%**	3.22%
Rate of compensation increase	**3.50%**	3.50%

Weighted-average assumptions used to determine net periodic pension cost:

	2020	**2019**
Discount Rate	**3.22%**	4.22%
Expected return on plan assets	**7.50%**	7.50%
Rate of compensation increase	**3.50%**	3.50%

The Company, as the plan sponsor, considers several factors in determining the expected long-term rate of return on plan assets. Long-term historical relationships between equities and fixed income are consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS (CONTINUED)

The Company employs a total return investment approach whereby a mix of investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The Company's pension plan asset allocations by asset category and segregated by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 *Fair Value Measurements and Disclosures* are as follows at December 31, 2020 and 2019:

	2020	2019
Level 1:		
Cash & equivalents	**$ 101,218**	$ 42,218
Equities	**23,377,274**	26,875,756
Mutual and exchange traded funds	**19,937,110**	15,688,172
Level 2:		
U.S. government securities	**1,882,393**	987,855
Total fair value of plan assets	**$ 45,297,995**	$ 43,594,002
Cash & equivalents	**0.2%**	0.1%
U.S. government securities	**4.2%**	2.3%
Mutual and exchange traded funds	**44.0%**	36.0%
Equities	**51.6%**	61.7%
Total	**100.0%**	100.0%

The following table illustrates the estimated pension benefit payments that are projected to be paid over the next ten years as of December 31, 2020:

2021	**$ 1,480,399**
2022	**1,878,178**
2023	**2,795,808**
2024	**1,733,376**
2025	**2,169,976**
2026 - 2030	**15,512,533**
	$ 25,570,270

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS (CONTINUED)

Defined Benefit Plan Amendments

Effective January 1, 2012 the Company's defined benefit plan was amended and restated to conform to the Pension Protection Act of 2006, the Pension Relief Act of 2010, and guidance issued with respect to such legislation. Effective January 1, 2010, all new participants are on a cash balance benefit formula and all existing participants were given the choice to elect cash balance or remain within the current benefit formula. Effective January 1, 2016, the cash balance benefit was amended to provide a 6% crediting rate.

Nonqualified Salary Continuation

The Company has nonqualified salary continuation agreements with key executives that provide each executive with annual benefits ranging from $12,500 to $24,000, payable on a monthly basis, over 10 to 20 years, once they reach normal retirement age. The cost to provide this benefit during 2020 and 2019 was **$103,332** and $41,346, respectively. The accrued liability related to these agreements as of December 31, 2020 and 2019 was **$975,946** and $979,114, respectively, and is included in accrued compensation and employee benefits in the Company's consolidated balance sheets.

401(k) Retirement Plan

The Company has a 401(k) plan to supplement employees' retirement income. Effective April 1, 2010, the Plan was amended to include employer matching contributions for new employees and employees electing the cash balance plan. Employees are eligible for the match upon completion of three months of service and having attained the age of 21. The Company will contribute 100% of the first 1% of compensation a participant contributes to the Plan and 50% of the next 5% of participant contributions. For the years ended December 31, 2020 and 2019, the Company contributed **$668,050** and $616,217, respectively, to the Plan.

Incentive Compensation Agreements

The Company has incentive compensation agreements with several key executives that provide both deferred and current benefits based on percentage increases in the annual change in book value of the Company, excluding certain adjustments, and a percentage of the cash dividends declared and paid to shareholders of the Company. The accrued expense related to the deferred compensation benefit during 2020 and 2019 was **$918,260** and $1,130,163, respectively. The accrued liability related to these agreements as of December 31, 2020 and 2019 was **$7,646,504** and $7,291,206, respectively, and is a part of accrued compensation and employee benefits in the Company's consolidated balance sheets. The cost of the current benefit during 2020 and 2019 was **$105,833** and $151,799, respectively, of which **$42,426** and $56,079 remained unpaid as of December 31, 2020 and 2019 respectively.

NOTE O PENSION PLAN AND OTHER EMPLOYEE BENEFITS (CONTINUED)

Bank Owned Life Insurance Plans

The Company also provides supplemental life insurance policies related to compensation plans for certain executive officers, senior officers, and directors. Additional premiums paid into certain of these policies amounted to **$45,501** and $889,501 for the years ending December 31, 2020 and 2019 respectively. Several of the policies on directors are administered under split-dollar agreements. The post retirement costs to carry the insurance are not accrued due to the expected continued service of the directors beyond retirement age.

The policies may be secured by the either the general assets of the insurance companies or by a combination of features of both general and separate account products commonly known as hybrid account policies.

NOTE P REGULATORY MATTERS

Regulatory Capital

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

As of December 31, 2020, the most recent notification from the Bank’s regulators, the Bank was categorized as “well capitalized” under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum Total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based, and Tier 1 leverage and capital ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Company’s or the Bank’s capital adequacy ratios.

NOTE P REGULATORY MATTERS (CONTINUED)

The regulatory capital ratios for the Company and the Bank for the years ending December 31, 2020 and 2019 are as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
Consolidated	Amount	Ratio	Amount	Ratio	Amount	Ratio
2020						
Total Risk Based Capital (to Risk Weighted Assets)	**$ 218,377**	**15.36%**	**$ 113,709**	**8.00%**	**N/A**	
Tier 1 Capital (to Risk Weighted Assets)	**$ 182,016**	**12.81%**	**$ 85,281**	**6.00%**	**N/A**	
Common Equity Tier 1 Capital (to Risk Weighted Assets)	**$ 182,016**	**12.81%**	**$ 63,961**	**4.50%**	**N/A**	
Tier 1 Leverage Ratio (to Adjusted Total Assets)	**$ 182,016**	**8.03%**	**$ 90,677**	**4.00%**	**N/A**	
2019						
Total Risk Based Capital (to Risk Weighted Assets)	$ 203,345	13.93%	$ 116,780	8.00%	N/A	
Tier 1 Capital (to Risk Weighted Assets)	$ 170,295	11.67%	$ 87,585	6.00%	N/A	
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 170,295	11.67%	$ 65,689	4.50%	N/A	
Tier 1 Leverage Ratio (to Adjusted Total Assets)	$ 170,295	9.03%	$ 75,429	4.00%	N/A	
Bank Only						
2020						
Total Risk Based Capital (to Risk Weighted Assets)	**$ 211,755**	**14.97%**	**$ 113,142**	**8.00%**	**$ 141,427**	**10.00%**
Tier 1 Capital (to Risk Weighted Assets)	**$ 195,394**	**13.82%**	**$ 84,856**	**6.00%**	**$ 113,142**	**8.00%**
Common Equity Tier 1 Capital (to Risk Weighted Assets)	**$ 195,394**	**13.82%**	**$ 63,642**	**4.50%**	**$ 91,928**	**6.50%**
Tier 1 Leverage Ratio (to Adjusted Total Assets)	**$ 195,394**	**8.65%**	**$ 90,400**	**4.00%**	**$ 113,000**	**5.00%**
2019						
Total Risk Based Capital (to Risk Weighted Assets)	$ 196,795	13.54%	$ 116,233	8.00%	$ 145,291	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 183,745	12.65%	$ 87,175	6.00%	$ 116,233	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 183,745	12.65%	$ 65,381	4.50%	$ 94,439	6.50%
Tier 1 Leverage Ratio (to Adjusted Total Assets)	$ 183,745	9.78%	$ 75,172	4.00%	$ 93,966	5.00%

NOTE P REGULATORY MATTERS (CONTINUED)

Capital Conservation Buffer

The Basel III Capital Rules were fully phased-in on January 1, 2019, which require banking organizations to maintain:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%);
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%);
- a minimum ratio of total capital (that is, Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (resulting in a minimum total capital ratio of 10.5%); and
- a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to adjusted average consolidated assets.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will face limitations on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall.

Dividend Restrictions

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

NOTE Q FAIR VALUE DISCLOSURES

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

NOTE Q FAIR VALUE DISCLOSURES (CONTINUED)

Fair Value Hierarchy

ASC Topic 820, *Fair Value Measurements and Disclosures*, specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are observable or unobservable. These inputs are summarized in the three broad levels listed below.

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

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

Level 3 - Level 3 inputs are based upon unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 measurements are determined using pricing models, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Financial Instruments Recorded at Fair Value

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

	Level 1	Level 2	Level 3	Total
2020				
Debt securities Available for Sale:				
State and municipal securities	$ -	$ 71,123,626	$ -	**$ 71,123,626**
U.S. Government Agency: Mortgage backed securities/ collateral mortgages obligations	-	304,199,330	-	**304,199,330**
Asset backed securities	-	8,199,508	-	**8,199,508**
Corporate debt securities	-	3,292,743	-	**3,292,743**
Equity investments	-	4,000,000	-	**4,000,000**
Fair value hedge derivatives	-	(4,278,783)	-	**(4,278,783)**
Cash flow hedge derivatives	-	(727,639)	-	**(727,639)**
	$ -	**$ 385,808,785**	**$ -**	**$ 385,808,785**

NOTE Q FAIR VALUE DISCLOSURES (CONTINUED)

2019	Level 1	Level 2	Level 3	Total
Debt securities Available for Sale:				
State and municipal securities	$ -	**$ 34,161,101**	$ -	**$ 34,161,101**
U.S. Government Agency: Mortgage backed securities/ collateral mortgages obligations	-	**142,467,075**	**-**	**142,467,075**
Asset backed securities	-	**11,297,497**	**-**	**11,297,497**
Corporate debt securities	-	**3,995,533**	**-**	**3,995,533**
Equity investments	-	**3,915,207**	**-**	**3,915,207**
Fair value hedge derivatives	-	**944,057**	**-**	**944,057**
Cash flow hedge derivatives	-	**751,845**	**-**	**751,845**
	$ -	**$ 197,532,315**	**$ -**	**$ 197,532,315**

Nonrecurring - Certain financial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). At December 31, 2020 and 2019, the Company held no financial instruments measured at fair value on a nonrecurring basis with Level 1 valuation inputs.

Collateral-dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results. The fair value of collateral dependent impaired loans was **$2,940,843** and $3,852,369 at December 31, 2020 and 2019, respectively.

Nonfinancial Assets and Nonfinancial Liabilities

The Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis. The Company has certain nonfinancial assets that are measured at fair value on a nonrecurring basis to include other real estate owned upon initial recognition or subsequent impairment. In addition, when deemed necessary, the Company assesses impairment of its intangible assets using Level 3 inputs.

NOTE Q FAIR VALUE DISCLOSURES (CONTINUED)

Other Real Estate Owned

Other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisal of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. Other real estate owned measured at fair value upon initial recognition and subsequent re-measurement is described in Note H.

NOTE R DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. As part of this strategy, the Company has entered into interest rate swaps designated as both fair value and cash flow hedges as further described below.

Fair Value Hedge

An interest rate swap with a notional amount totaling $100,000,000 as of December 31, 2020 and 2019, is designated as a fair value hedge of fixed rate loans and investment securities. The fair value of the swap was (**$4,278,783)** and $944,057 as of December 31, 2020 and 2019, respectively. This interest rate swap was determined to be highly effective during all periods presented. Therefore, the aggregate fair value of the swap is recorded in other assets (liabilities) with the gain or loss recognized in earnings in the period of change together with the offsetting change in the fair value of the hedged loans and investment securities. Additionally, the Company expects the hedge to remain fully effective during the remaining term of the swap.

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

	2020			2019		
	Carrying Amount of Hedged Asset	Notional Amount	Fair Value	Carrying Amount of Hedged Asset	Notional Amount	Fair Value
Interest rate swap related to debt and investment securities		**$ 100,000,000**	**$ (4,278,783)**		$ 100,000,000	$ 944,057
Loans designated as hedged items	**169,368,219**	**80,000,000**	**3,423,026**	$ 209,970,190	$ 80,000,000	$ (755,246)
Municipal securities designated as hedged items	**22,695,639**	**20,000,000**	**855,757**	$ 22,834,666	$ 20,000,000	$ (188,811)

The amounts included in Loans designated as hedged items and Municipal securities designated as hedged items above include the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedge item is the last layer expected to be remaining at the end of the hedging relationship.

NOTE R DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Company has agreed to pay a fixed rate of 1.371% and receive a floating rate equal to 1 month USD LIBOR on the fair value hedge. Interest income (expense) recorded on this swap transaction totaled **($803,406)** and $230,276 during 2020 and 2019, respectively, and is reported as a component of interest income on loans and investment securities.

Cash Flow Hedge

Two interest rate swaps with a combined notional amount totaling $70,000,000 and $20,000,000 as of December 31, 2020 and 2019, are designated as cash flow hedges of certain borrowings from the Federal Home Loan Bank. The fair value of the swaps was **($727,639)** and $751,845 as of December 31, 2020 and 2019, respectively. These interest rate swaps were determined to be highly effective during all periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets (liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedge no longer be considered effective. The Company expects the hedge to remain highly effective during the remaining term of the swap.

The following table reflects the cash flow hedges included in the Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019:

	2020		2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps related to FHLB advances	**$ 70,000,000**	**$ (727,639)**	$ 20,000,000	$ 751,845

The Company has agreed to pay a fixed rate of 1.340% on $20,000,000 and 0.642% on $50,000,000 and receive a floating rate equal to 1 month USD LIBOR on the cash flow hedges. Interest income (expense) recorded on this swap transaction totaled **($303,330)** and $22,143 during 2020 and 2019, respectively, and is reported as a component of interest expense on FHLB advances.

NOTE S ACCUMULATED OTHER COMPREHENSIVE INCOME (AOCI)

The components of accumulated other comprehensive income (loss) included in shareholders' equity are as follows:

	Net unrealized gain (losses) on debt securities, available-for-sale	Net unrealized gain (losses) on debt decurities, held to maturity	Net gain (loss) on cash flow hedge	Net unrealized gain (loss) on equity securities	Defined benefit pension plans	Total
Year Ended December 31, 2020						
Balance at beginning of period	1,987,521	(325,431)	751,845	-	(15,348,823)	(12,934,888)
Other comprehensive income (loss)	5,153,313	-	(1,479,484)	-	(5,418,972)	(1,745,143)
Amounts reclassified from AOCI to income	606	110,515	-	-	868,367	979,488
	7,141,440	(214,916)	(727,639)	-	(19,899,428)	(13,700,543)
Year Ended December 31, 2019						
Balance at beginning of period	(6,164,468)	(437,106)	-	(199,079)	(13,443,296)	(20,243,949)
Other comprehensive income (loss)	8,190,565	-	751,845	-	(2,761,910)	6,180,500
Amounts reclassified from AOCI to income	(38,576)	111,675	-	-	856,383	929,482
Cumulative effect of change in accounting principle on equity investment	-	-	-	199,079	-	199,079
	1,987,521	(325,431)	751,845	-	(15,348,823)	(12,934,888)

NOTE S ACCUMULATED OTHER COMPREHENSIVE INCOME (AOCI) (CONTINUED)

The following table summarizes the significant amounts reclassified out of each component of accumulated other comprehensive income for the years ended December 31, 2020 and 2019:

Details about AOCI Components	Amount Reclassified from AOCI Years Ended December 31, 2020	2019	Affected Line Item in the Statement Where Net Income is Presented
Realized gains and losses on available for sale securities	**$ (606)**	$ 38,576	Net gains (losses) on securities sold
	$ (606)	$ 38,576	Net income
Amortization of unrealized gains and losses on held-to-maturity securities	**$ (110,515)**	$ (111,675)	Interest income - securities, held to maturity
	$ (110,515)	$ (111,675)	Net income
Amortization of defined benefit pension items:			
Prior service costs	**$ (24,903)**	$ (24,903)	Noninterest income
Actuarial gains/(losses)	**(843,464)**	(831,480)	Noninterest income
	$ (868,367)	$ (856,383)	Net income
Total reclassifications for the period	**$ (979,488)**	$ (929,482)	

NOTE T SUBSEQUENT EVENTS

Paycheck Protection Program

Subsequent to December 31, 2020, a new round of Paycheck Protection Program (“PPP”) funding was approved by Congress (see “COVID-19 Impact” in Note A for further details on PPP loans). The Company is currently participating in this new round of funding and has originated over 270 loans with an approximate principal balance and associated fees of $32,500,000 and $1,500,000, respectively. The Company has an additional 50-70 PPP loans currently in the process of being originated.