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, Wade Donnell
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.

Signature of Holding Company Director and Official

03/12/2021
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID
C.I.

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

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Horizon Bankshares, Inc.
Legal Title of Holding Company

2535 N.E. 28th Street
(Mailing Address of the Holding Company) Street / P.O. Box

Fort Worth	TX	76106
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Melinda Mayben	SVP/CFO
Name	Title

817/752-2302
Area Code / Phone Number / Extension

817/549-0216
Area Code / FAX Number

mmayben@nbt.bank
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."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

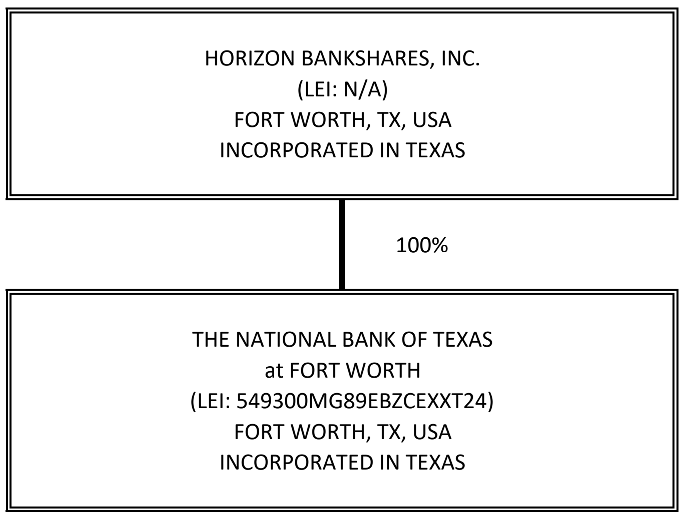
Form FR Y-6

HORIZON BANKSHARES, INC.
FORT WORTH, TEXAS
Fiscal Year Ending December 31, 2020

Report Item

1: The bank holding company prepares an annual report to shareholders and is not registered with the SEC. A copy of the annual report is included.

2a: Organization Chart



2b: Domestic Branch Listing
Results: A list of branches for your depository institution: NATIONAL BANK OF TEXAS AT FORT WORTH, THE (ID_RSSD: 406059).
This depository institution is held by HORIZON BANKSHARES, INC. (1133026) of FORT WORTH, 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)	406059	NATIONAL BANK OF TEXAS AT FORT WORTH, THE	2535 N.E. 28TH	FORT WORTH	TX	76106	TARRANT	UNITED STATES	Not Required	Not Required	NATIONAL BANK OF TEXAS AT FORT WORTH, THE	406059	
OK		Full Service	4227627	AZLE BRANCH	405 COMMERCE STREET	AZLE	TX	76020	PARKER	UNITED STATES	Not Required	Not Required	NATIONAL BANK OF TEXAS AT FORT WORTH, THE	406059	
OK		Full Service	3536292	BURLESON BRANCH	400 E RENFRO ST	BURLESON	TX	76028	JOHNSON	UNITED STATES	Not Required	Not Required	NATIONAL BANK OF TEXAS AT FORT WORTH, THE	406059	
OK		Full Service	2994149	PRECINCT LINE BRANCH	2080 PRECINCT LINE RD	HURST	TX	76054	TARRANT	UNITED STATES	Not Required	Not Required	NATIONAL BANK OF TEXAS AT FORT WORTH, THE	406059	

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HORIZON BANKSHARES, INC.
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2020		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Allen Family (1) Fort Worth, TX, USA	USA	5,991 common stock 5.12%	None		
Cantrell Family (2) Colleyville, TX, USA	USA	7,042 common stock 6.02%			
Rector Family (3) Fort Worth, TX, USA	USA	15,587 common stock 13.33%			
Justin V. Haynes Alpine, TX, USA	USA	5,870 common stock 5.02%			

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HORIZON BANKSHARES, INC.
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders (supporting documentation)

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			**Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2020**		
(1)(a) Name & Address (City, State, Country)	**(1)(b)** Country of Citizenship or Incorporation	**(1)(c)** Number and Percentage of Each Class of Voting Securities	**(2)(a)** Name & Address (City, State, Country)	**(2)(b)** Country of Citizenship or Incorporation	**(2)(c)** Number and Percentage of Each Class of Voting Securities
Allen Family (1)			None		
Gary M. Allen Grantor Trust Scott Marshall Allen Trustee Haltom City, TX, USA	USA	3,734 common stock 3.19%			
Beverly H. Allen Grantor Trust Ms. Robyn Allen Canterbury Trustee Fort Worth, TX, USA	USA	2,257 common stock 1.93%			
Cantrell Family (2)					
Gary L. or Karen Cantrell JTWROS [A] Colleyville, TX, USA	USA	6,000 common stock 5.13%			
Nathan C. Cantrell Roakoke, TX, USA	USA	1,042 common stock 0.89%			
Rector Family (3)					
Andrew C. and Kathy Rector Tenants in Common Fort Worth, TX, USA	USA	3,871 common stock 3.31%			
Andrew Campbell Rector 2009 Irrv Trust Andrew C. Rector Trustee Fort Worth, TX, USA	USA	2,813 common stock 2.41%			
Linda Lloyd Rector 2009 Irrv Trust Andrew C. Rector Trustee Fort Worth, TX, USA	USA	2,814 common stock 2.41%			
Scott Willis Rector 2009 Irrv Trust Andrew C. Rector Trustee Fort Worth, TX, USA	USA	2,813 common stock 2.41%			
Tracy T. Rector 2009 Irrv Trust Andrew C. Rector Trustee Fort Worth, TX, USA	USA	2,813 common stock 2.41%			
Brett and Ashley Rector Dallas, TX, USA	USA	463 common stock 0.38%			

[A] Joint Tenant with Right of Survivorship (JTWROS)

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HORIZON BANKSHARES, INC.
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders (Page 1 of 3)

(1) (2), (3)(a)(b)(c) and (4)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3) (c)	4(a)	4(b)	4(c)
Names and address (City, State, Country)	**Principal occupation if other than with Bank Holding Company**	**Title & Position with Bank Holding Company**	**Title & Position with subsidiaries (include names of subsidiaries)**	**Title & Position with other businesses (include names of other businesses)**	**Percentage of voting shares in Bank Holding Company**	**Percentage of voting shares in Subsidiaries (include names of subsidiaries)**	**List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)**
George M. Bradford Fort Worth, TX, USA	Consultant	Director and Chairman	Director and Chairman of Executive Committee, Compliance Management Committee, Directors' Loan Committee, National Bank of Texas	None	0.90%	None	None
Wade C. Donnell Paradise, TX, USA	Banker	Director and President	Director and President/CEO, National Bank of Texas	Secretary, SK Products, Inc.; and Trustee, Wright Grandchildren's Trust et all.	0.07%	None	None
George Chaggaris North Richland Hills, TX, USA	Banker	Vice President	Director, National Bank of Texas	None	0.00%	None	None
Rhonda L. Herriage Boyd, TX, USA	Banker	Vice President	Executive Vice President/COO, National Bank of Texas	Co-owner, Country Auto Body	None	None	Country Auto Body, 50%
Melinda Mayben Benbrook, TX, USA	Banker	Secretary/Treasurer	Senior Vice President/CFO, National Bank of Texas	First Successor Trustee, The Demetra A. Mayben Revocable Living Trust; and Grantor/Trustee, Melinda Ann Mayben Family Revocable Trust.	None	None	Melinda Ann Mayben Family Revocable Trust, 100%
Rebecca S. Bodzy Dallas, TX, USA	Consultant	Director	Director and Chairman of Audit Committee, National Bank of Texas	None	4.94%	None	Al's Inv, 100%; Al's Formal Wear Inc., 100%; PV Capital LTD, 100%; Sankary Property Co Austin, 100%; Sankary Management Co, 100%; Sankary Family Partnership, 100%; Sankary Legacy Trust, 100%; Sankary Dynasty Trust, 100%; Sankary Exempt Trust, 100%; and NEC Westpark Court & Dock Mcginnis, LLC, 100%.
Gary L. Cantrell[2 & 3] Colleyville, TX, USA	Real Estate Development	Director	Director and Chairman of Properties Committee, National Bank of Texas	Chairman, Cantrell Development Group Inc; Limited Partner, Glade Family, LTD; Managing Member, GLKZ Properties, LLC; Limited Partner, Elk Office Park, LTD; Limited Partner, Cantrell Development West, LLC; Co-Trustee, Shannon Creek Trust; Limited Partner, NCA Growth, LTD; and Limited Partner, NCA Riverdance, LTD.	5.13%	None	Cantrell Development Group Inc., 30%; Glade Family LTD, 19.5%; GLKZ Properties, LLC, 50%; Elk Office Park, LTD, 10%; Cantrell Development West, LLC. 19.5%; Shannon Creek Trust, 50%; NCA Growth, LTD, 20%; and NCA Riverdance, LTD, 25%.

(1) (2), (3)(a)(b)(c) and (4)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3) (c)	4(a)	4(b)	4(c)
Names and address (City, State, Country)	**Principal occupation if other than with Bank Holding Company**	**Title & Position with Bank Holding Company**	**Title & Position with subsidiaries (include names of subsidiaries)**	**Title & Position with other businesses (include names of other businesses)**	**Percentage of voting shares in Bank Holding Company**	**Percentage of voting shares in Subsidiaries (include names of subsidiaries)**	**List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)**
Nathan C. Cantrell[2] Colleyville, TX, USA	Real Estate Development	Director	Director and Chairman of Salary and Compensation Committee, National Bank of Texas	President, Nate Cantrell Construction LLC; Chief Operating Officer, Cantrell Development Group Inc.; Limited Partner, Elk Office Park, LTD; Limited Partner, Branded C Ventures, LTD; Limited Partner, Glade Family, LTD.; Limited Partner, NCA Riverdance, LTD: Partner, Cantrell Development Group West, LLC; and President, Trophy Point Construction, Inc.	0.89%	None	Nate Cantrell Construction LLC, 99%; Cantrell Development Group Inc, 25%; Elk Office Park LTD, 34%; Branded C Ventures LTD, 33%; Glade Family LTD, 20%; NCA Riverdance LTD, 25%; Cantrell Development Group West LLC, 33%; and Trophy Point Construction, Inc, 100%.
Steven G. Eargle Fort Worth, TX, USA	Attorney	Director	Director and Chairman of ERM and Nominating Committee, National Bank of Texas	Partner, Fort Worth Royalty Company; Shareholder, Rector & Eargle, PC; Shareholder, Beckham, Rector & Eargle, LLC; CEO & Founder, Seek First Foundation; Limited & General Partner, Twisted Off Aviation; Shareholder, SEAR Properties, LC; Limited & General Partner, Big Redhorn Properties, LP; Settler, Eargle 2010 Insurance Trust; Trustee & Member, Live Oak Foundation; Trustee, Eargle 2002 Trust; and Rector & Eargle, PC owner, Fidelity National Title.	3.31%	None	Fort Worth Royalty Company, 50%; Rector & Eargle, PC, 50%; Beckham, Rector & Eargle, LLC, Rector & Eargle, PC is a 50% Shareholder; Twisted Off Aviation, 49.5% LP & 50% Partner of 1% GP; SEAR Properties, LC, 50%; Big Redhorn Properties, LP, 49.5% LP & 50% Partner of 1% GP; and Fidelity National Title, Rector & Eargle, PC 100%.
Steve Parker Azle, TX, USA	Investments	Director	Director, Chairman of the Board and Chairman of Strategic Planning Committee, National Bank of Texas	Owner, S.L.A.P. Investments, LLC; Trustee, Parker Living Trust 50%	2.28%	None	S.L.A.P. Investments, LLC, 100%; Parker Living Trust 50%
James W. Wilson [1] Cleburne, TX, USA	Advertising/ Marketing	Director	Director, National Bank of Texas	Owner, Jim & Marianna Wilson Rental Account; General Partner, Mainstay Farm Winery, LLC; General Partner, LUMECA, LLC; and General Partner, James W. Wilson Group Strategic Solutions, LP.	0.50%	None	Mainstay Farm Winery, LLC, 50%; and James W. Wilson Group Strategic Solutions, LP, 74%.

Report Item 4: Insiders (Page 1 of 3)

(1) (2), (3)(a)(b)(c) and (4)(a)(b)(c)

(1)	(2)	(3)(a)	(3)(b)	(3) (c)	4(a)	4(b)	4(c)
Names and address (City, State, Country)	**Principal occupation if other than with Bank Holding Company**	**Title & Position with Bank Holding Company**	**Title & Position with subsidiaries (include names of subsidiaries)**	**Title & Position with other businesses (include names of other businesses)**	**Percentage of voting shares in Bank Holding Company**	**Percentage of voting shares in Subsidiaries (include names of subsidiaries)**	**List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)**
Andrew C. Rector[4] Fort Worth, TX, USA	Attorney	Principal Securities Holder	N/A	General Partner, Fort Worth Royalty Co; Chairman, Rector & Eargle, PC; Partner, Beckham, Rector & Eargle, LLP; Chairman of GP, Big Redhorn Properties, LP; Chairman, SEAR Properties, LC; CEO, Live Oak Foundation; Sole Member, Oaknutt Partners, LC; President of GP, Rector Oil, LTD; President of GP, Rector Family Limited Partnership; President of GP, Rector Investments, LP; President of GP, Rector Holdings; Trustee, Rector Living Trust E; Trustee, Rector Living Trust M1; Trustee, Rector Living Trust M2; Trustee, Rector 2009 Irrevocable Trust; Trustee, Rector 2012 Family Trust; Trustee, Rector Family QPRT; Trustee, Jane F Rector QPRT; President, ASTL Buckeye Enterprises, LC; Trustee, Andrew Campbell Rector 2009 Irrev Trust; Trustee, Linda Lloyd Rector 2009 Irrev Trust; Trustee, Scott Willis Rector 2009 Irrev Trust; Trustee, Tracy T. Rector 2009 Irrev Trust; and Rector & Eargle, PC owner, Fidelity National Title.	13.33%	None	Fort Worth Royalty Co, 50%; Rector & Eargle, PC, 50%; Beckham, Rector & Eargle, LLP, 25%; Big Redhorn Properties, LP, 50%; SEAR Properties, LC, 50%; Oaknutt Partners, LC, 100%; Rector Oil, LTD, 25%; Rector Family Limited Partnership, 9%; Rector Investments, LP, 25%; Rector Holdings, 25%; Rector Living Trust E, 25%; Rector Living Trust M1, 25%; Rector Living Trust M2, 25%; Rector 2009 Irrevocable Trust, 25; Rector 2012 Family Trust, 25%; Rector Family QPRT, 25%; Jane F Rector QPRT, 25%; ASTL Buckeye Enterprises, LC, 25%; Andrew Campbell Rector 2009 Irrev Trust, 100%; and Rector & Eargle, PC owner, Fidelity National Title
Kathy Rector[4] Fort Worth, TX, USA	Homemaker	Principal Securities Holder	N/A	None	3.31%	None	None
Brett Rector[4] Dallas, TX, USA	Attorney	Principal Securities Holder	N/A	None	0.38%	None	None
Ashley Rector[4] Dallas, TX, USA	Homemaker	Principal Securities Holder	N/A	None	0.38%	None	None

[1] Wilson Family total shares common stock 1,034 voting shares 0.88% (Elizabeth Wilson Adcock is not a director)

[2] Cantrell Family total shares common stock 7,042 voting shares 6.02%

[3] 5.13% owned by Gary L.or Karen Cantrell, JTWROS[A]

[4] Rector Family - Andrew C. and Kathy Rector, Tenants in Common (3.31%); Andrew Campbell Rector 2009 Irrev Trust, Andrew C. Rector Trustee (2.41%); Linda Lloyd Rector 2009 Irrev Trust, Andrew C. Rector Trustee (2.41%); Scott Willis Rector 2009 Irrev Trust, Andrew C. Rector Trustee (2.41%); Tracy T. Rector 2009 Irrev Trust, Andrew C. Rector Trustee (2.41%); Brett and Ashely Rector, Tenants in Common (0.38%); shares common stock 15,587 voting shares 13.33%

[A] Joint Tenant with Right of Survivorship (JTWROS)

HORIZON BANKSHARES, INC.
AND SUBSIDIARY

Consolidated Financial Statements
and Additional Information

December 31, 2020 and 2019

(With Independent Auditor's Report Thereon)

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
Horizon Bankshares, Inc. and Subsidiary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of Horizon Bankshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Bankshares, Inc. and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Payne & Smith, LLC

January 19, 2021

12240 Inwood Rd. • Suite 440 • Dallas, TX 75244 • 214 / 363-9927 • Fax 214 / 363-9980

HORIZON BANKSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2020 and 2019

(In Thousands)

		2020		2019
ASSETS				
Cash and cash equivalents	$	71,019	$	45,020
Interest bearing deposit in other banks		2,568		2,515
Securities available for sale		4,980		28,564
Loans		253,403		209,356
Bank premises and equipment		7,934		8,058
Accrued interest receivable		604		640
Other assets		2,523		1,862
	$	343,031	$	296,015
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest bearing	$	111,448	$	89,940
Interest bearing		195,915		171,670
Total deposits		307,363		261,610
Accrued interest payable		111		174
Other liabilities		538		676
Commitments and contingencies		-		-
Stockholders' equity:				
Common stock		124		124
Paid-in capital		17,748		17,644
Retained earnings		17,933		16,876
Accumulated other comprehensive income (loss), net of tax expense of $0 for 2020		2		(300)
		35,807		34,344
Treasury stock, at cost		(788)		(789)
Total stockholders' equity		35,019		33,555
	$	343,031	$	296,015

HORIZON BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the Years Ended December 31, 2020 and 2019

(In Thousands)

	2020	2019
Interest income:		
Interest and fees on loans	$ 11,895	$ 11,345
Interest on investment securities	102	838
Interest on interest bearing deposits in other banks	278	447
Other	50	93
Total interest income	12,325	12,723
Interest expense:		
Interest on deposit accounts	1,474	1,860
Other	2	213
Total interest expense	1,476	2,073
Net interest income	10,849	10,650
Provision for loan losses	1,061	954
Net interest income after provision for loan losses	9,788	9,696
Noninterest income:		
Service charges on deposit accounts	768	1,031
Net gain on sale of securities available for sale	129	-
Bank card and credit card interchange income	545	504
Other	164	235
Total noninterest income	1,606	1,770
Noninterest expense:		
Salaries and employee benefits	6,727	5,929
Occupancy expense	1,251	1,363
Net loss on sale of securities available for sale	-	31
Other	2,592	2,484
Total noninterest expense	10,570	9,807
Net income before income tax benefit	824	1,659
Income tax benefit	(353)	-
Net income	$ 1,177	$ 1,659

See accompanying notes to consolidated financial statements.

HORIZON BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2020 and 2019

(In Thousands)

	2020	2019
Net income	$ 1,177	$ 1,659
Other comprehensive income on securities available for sale:		
Change in net unrealized gain (loss) during the period, net of tax expense of $27 for 2020	404	1,742
Reclassification adjustment for net (gains) losses included in net income, net of tax expense of ($27) for 2020	(102)	31
Other comprehensive income, net of tax	302	1,773
Total comprehensive income	$ 1,479	$ 3,432

See accompanying notes to consolidated financial statements.

HORIZON BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2020 and 2019

(In Thousands, Except for Share Amounts)

	Common Stock $1 par value, 10,000,000 Shares Authorized				Accumulated Other		
	Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Total
Balance January 1, 2019	124,035	$ 124	$ 17,644	$ 15,724	$ (2,073)	$ (787)	$ 30,632
Purchase of treasury stock	-	-	-	-	-	(2)	(2)
Net income	-	-	-	1,659	-	-	1,659
Other comprehensive income	-	-	-	-	1,773	-	1,773
Distributions	-	-	-	(507)	-	-	(507)
Balance December 31, 2019	124,035	124	17,644	16,876	(300)	(789)	33,555
Contribution of common stock to ESOP	335	-	100	-	-	-	100
Sale of treasury stock	-	-	-	-	-	1	1
Stock option compensation	-	-	4	-	-	-	4
Net income	-	-	-	1,177	-	-	1,177
Other comprehensive income	-	-	-	-	302	-	302
Dividends	-	-	-	(120)	-	-	(120)
Balance December 31, 2020	124,370	$ 124	$ 17,748	$ 17,933	$ 2	$ (788)	$ 35,019

See accompanying notes to consolidated financial statements.

HORIZON BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

(In Thousands)

	2020	2019
Cash flows from operating activities:		
Net income	$ 1,177	$ 1,659
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	477	592
Net (gain) loss on sales of securities available for sale	(129)	31
Provision for loan losses	1,061	954
Contribution of common stock to ESOP	100	-
Stock compensation expense	4	-
Deferred tax benefit	(438)	-
(Increase) decrease in other assets	(247)	78
(Decrease) increase in other liabilities	(201)	181
Net cash provided by operating activities	1,804	3,495
Cash flows from investing activities:		
Net increase in interest bearing deposits in other banks	(53)	(2,515)
Purchases of securities available for sale	(149,830)	(74,997)
Proceeds from sales, maturities, calls and paydowns of securities available for sale	173,816	109,087
Net originations of loans	(45,108)	(9,765)
Net additions to bank premises and equipment	(264)	(1,281)
Net cash (used in) provided by investing activities	(21,439)	20,529
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	42,997	12,421
Net increase in certificates of deposits	2,756	19,435
Net decrease in federal funds purchased	-	(50)
Repayments on other borrowings	-	(20,000)
Sale (purchase) of treasury stock	1	(2)
Cash dividends/distributions	(120)	(507)
Net cash provided by financing activities	45,634	11,297
Net increase in cash and cash equivalents	25,999	35,321
Cash and cash equivalents at beginning of year	45,020	9,699
Cash and cash equivalents at end of year	$ 71,019	$ 45,020

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by Horizon Bankshares, Inc. and Subsidiary (together referred to as Company) in the preparation of its consolidated financial statements. These accounting policies conform to generally accepted accounting principles and practices generally followed within the banking industry. A description of the more significant of these policies follows.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Horizon Bankshares, Inc. (Bankshares) and its wholly owned subsidiary, The National Bank of Texas at Fort Worth (Bank). All significant inter-company transactions and balances have been eliminated in consolidation.

Business

Horizon Bankshares, Inc. is a one bank holding company with a corporate office in Fort Worth, Texas, which provides a full range of banking services to individual and corporate customers and is subject to competition from other banks and financial institutions. The Bank and Bankshares are subject to the regulations of certain federal agencies and undergo periodic examinations by those regulatory agencies.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of other real estate owned. While management uses available information to recognize losses on loans and other real estate owned, future provisions may be necessary based on changes in local economic conditions. In addition, banking regulators, as an integral part of their examination process, periodically review the Company's allowance for loan and other real estate losses. They may require the Company to record additional provisions for losses based on their judgment about information available to them at the time of their examination.

A significant portion of the Company's loans are secured by real estate and related assets located in local and regional markets. Accordingly, the ultimate collectibility of this portion of the Company's loan portfolio is susceptible to changes in those market conditions.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, other short-term investments and federal funds sold. All highly liquid investments with an initial maturity of less than ninety days are considered to be cash equivalents.

Interest Bearing Deposits in Other Banks

Interest bearing deposits in other banks are carried at cost and generally mature within twelve to twenty-four months.

Debt Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, 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 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Investment Securities

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

Loans

The Company grants commercial, real estate, agricultural, and consumer loans to customers. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Fees and costs associated with originating loans are recognized in income generally in the period in which the fees and costs were incurred. Under generally accepted accounting principles, such net fees or costs generally are deferred and recognized over the life of the loan as an adjustment of yield. For the years ending December 31, 2020 and 2019, management believes that not deferring such fees and costs and amortizing them over the life of the related loans does not materially affect the financial position or results of operations of the Company.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions typically require the placement of a loan on nonaccrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest on nonaccrual loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment based on historical loss experience, current economic conditions, and performance trends.

Interest payments on impaired loans are typically applied to principal unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Troubled Debt Restructured (TDR) Loans

A TDR loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms, which have been modified or restructured due to a borrower's financial difficulty, include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals, and rewrites. A TDR loan would generally be considered impaired in the year of modification and will be assessed periodically for further impairment.

COVID-19 Loan Deferments

Certain of the Company's borrowers are currently unable to meet their contractual payment obligations because of the adverse effects of COVID-19. To help mitigate these effects, loan customers may apply for a deferral of payments, or portions thereof, not to exceed six months. A portion of the Company's customers have requested such deferrals. In the absence of other intervening factors, such short-term modifications made on a good faith basis are not categorized as troubled debt restructurings, nor are loans granted payment deferrals related to COVID-19 reported as past due or placed on non-accrual status (provided the loans were not past due or on non-accrual status prior to the deferral). At December 31, 2020, there were approximately thirteen loans in COVID-19 related deferment with an aggregate outstanding balance of approximately $540,000.

Allowance for Loan Losses

The allowance for loan losses is 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. The allowance, in the judgment of management, is necessary to provide for estimated loan losses inherent in the loan portfolio. The allowance for possible loan losses includes allowance allocations calculated in accordance with ASC Topic 310, *Receivables* and allowance allocations calculated in accordance with ASC Topic 450, *Contingencies.* 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, 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.

The allowance consists of specific and general allocations. The specific allocation relates to loans that are impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general allocation is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity, and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves, which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Bank Premises and Equipment

Land is carried at cost. Premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the related property.

Foreclosed Assets

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

Revenue Recognition

Effective January 1, 2019, the Company adopted new policies related to revenue recognition with the adoption of Accounting Standards Update ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams, such as deposit related fees, interchange fees, merchant income, and brokerage and investment advisory service commissions. The recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers.

Income Taxes

Bankshares files a consolidated income tax return with its subsidiary.

Prior to April 1, 2020, the Company had elected S Corporation status and, accordingly, earnings and losses were included in the personal income tax returns of the Company's stockholders and taxed depending on personal tax strategies. The Company generally did not incur additional income tax obligations and financial statements generally did not include a provision for income taxes. The Company's stockholders were obligated to pay federal income taxes on the earnings of Bankshares which included the earnings of the Bank.

Effective April 1, 2020, the Company terminated its S Corporation status and became taxed as a C Corporation. Accordingly, federal income tax expense or benefit has been allocated on a separate return basis. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities will be adjusted through the provision for income taxes. Valuation allowances will be established when necessary to reduce deferred tax assets to the amount expected to be realized.

Accounting principles generally accepted in the United States of America require Company management to evaluate tax positions taken by the Company. Management evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Therefore, no liability for tax penalties has been included in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2017.

Treasury Stock

Treasury stock is recorded at cost. At December 31, 2020 and 2019, respectively, the Company had 7,445 and 7,449 shares held in treasury.

Off-Balance Sheet Credit Related Financial Instruments

The Company has not acquired or issued any derivative financial instruments.

In the ordinary course of business the Company may enter into certain off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Advertising

Advertising consists of the Company's advertising in its local market area. Advertising is expensed as incurred. Advertising expense was approximately $72,000 and $96,000 for the years ended December 31, 2020 and 2019, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) includes both net income and other comprehensive income (loss), which includes the change in unrealized gains and losses on securities available for sale.

Stock Compensation Plans

Compensation expense for stock options is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. The fair value of stock options is estimated using the Black-Scholes option-pricing model. The fair value on non-vested stock awards is generally the market price of the Company's stock on the date of grant.

Fair Values of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, 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 Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (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 that 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.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Subsequent Events

The Company has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were available to be issued.

Global Pandemic

The Company's business has been and continues to be impacted by the ongoing outbreak of COVID-19. In March 2020, COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the President of the United States. Efforts to limit the spread of COVID-19 have led to shelter-in place orders, the closure of non-essential businesses, travel restrictions, supply chain disruptions and prohibitions on public gatherings, among other things, throughout many parts of the United States and, in particular, the markets in which the Company operates. As the current pandemic is ongoing and dynamic in nature, there are many uncertainties related to COVID-19 including, among other things, its ultimate geographic spread; its severity; the duration of the outbreak; the impact to the Company's customers, employees and vendors; the impact to the financial services and banking industry; and the impact to the economy as a whole. COVID-19 has negatively affected, and is expected to continue to negatively affect, the Company's business, financial position and operating results. The Company's financial position is susceptible to the ability of loan customers to meet loan obligations. In light of the uncertainties, the ultimate adverse impact of COVID-19 cannot be reliably estimated at this time.

Reclassification

Certain amounts previously reported have been reclassified to conform to the current format.

2. Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The amendment to the Leases topic of the Accounting Standards Codification was to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amended guidance and subsequent updates require lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (i) A lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) 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. Under the new guidance, lessor accounting is largely unchanged. The amendment will be effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Earlier application is permitted. This statement is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The update and subsequent updates require 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 the credit quality and underwriting standards of an organization's portfolio. The guidance replaces the incurred loss model with a current expected loss model, which is referred to as the current expected credit loss (CECL) model. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In April 2019, The FASB issued Accounting Standards Update 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses (Topic 815), Derivatives and Hedging, and Financial Instruments* (*Topic 825*) to address certain codification improvements and to provide certain accounting policy electives related to accrued interest as well as the disclosure related to credit losses, among other things. In May 2019, the FASB issued Accounting Standards Update 2019-05, *Financial Instruments—Credit Losses* (*Topic 326*): *Targeted Transition Relief,* to provide transition relief in connection with the adoption of ASU 2016-03, whereby entities would have the option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. The amendments for non-public business entities will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal year beginning after December 15, 2018. The Company has formed a CECL committee and is evaluating the impact this amendment will have on the Company's consolidated financial statements. The adoption of ASU 2016-13 is not expected to have a significant impact on the regulatory capital ratios. The ultimate impact of adoption could be significantly different than current expectation as modeling processes will be significantly influenced by the composition, characteristics and quality of the loan and securities portfolios as the prevailing economic conditions and forecasts as of that date, notwithstanding any further refinements to the expected credit loss models.

In January 2017, the FASB issued Accounting Standards Update 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The update simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. ASU 2017-04 is effective for fiscal years beginning after December 15, 2022. Early application is permitted. The adoption of ASU 2017-04 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2020, the FASB issued Accounting Standards Update 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The update provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-4 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2020-04 did not have a material impact on the Company's consolidated financial statements.

In August 2020, the FASB issued Accounting Standards Update 2020-08, *Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs.* The update clarifies the accounting for the amortization of purchase premiums for callable debt securities with multiple call dates. ASU 2020-08 is effective for fiscal years beginning after December 15, 2021. Early application is permitted. The adoption of ASU 2020-08 is not expected to have a material impact on the Company's consolidated financial statements.

3. Statement of Cash Flows

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, loans made to customers and principal collections on those loans.

The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Cash transactions:		
Interest expense paid	$ 1,539	$ 2,054
Federal income taxes paid	$ 233	$ -

4. Debt Securities

Debt securities have been classified in the consolidated balance sheet according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 2020 and 2019 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2020:				
U.S. Treasury Note	$ 4,978	$ 2	$ -	$ 4,980
December 31, 2019:				
Mortgage-backed securities and collateralized mortgage obligations	$ 28,864	$ 1	$ 301	$ 28,564

There were no securities pledged to secure public fund deposits or for other purposes required by law at December 31, 2020 and 2019.

Proceeds from the sales of securities classified as available for sale were approximately $31,982,000 and $24,001,000 for the years ended December 31, 2020 and 2019, respectively. Gross gains of approximately $192,000 and $9,000, respectively, were recognized on sales during 2020 and 2019. Gross losses of approximately $63,000 and $40,000, respectively, were recognized on sales during 2020 and 2019.

The amortized cost and estimated fair value of debt securities at December 31, 2020 by contractual maturity are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due from one year to five years	-	-
Due from five years to ten years	4,978	4,980
Due after ten years	-	-
	$ 4,978	$ 4,980

There were no investment securities with unrealized losses at December 31, 2020. Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2019, are summarized as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
Securities Available for Sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019:						
Mortgage-backed securities and collateralized mortgage obligations	$ 4,729	$ 15	$ 22,951	$ 286	$ 27,680	$ 301

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 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.

As of December 31, 2019, management believed the impairments detailed in the table above were temporary and no impairment loss was recorded in the Company's consolidated statement of income and comprehensive income.

5. Loans and Allowance for Loan Losses

Loans at December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Real estate:		
Construction, land development, land	$ 16,443	$ 17,934
Farmland	2,818	3,040
1-4 family residential properties	123,585	80,646
Multi-family residential	1,495	224
Nonfarm nonresidential owner occupied	18,044	22,898
Nonfarm nonresidential other	35,225	17,572
Total real estate	197,610	142,314
Commercial	45,652	53,702
Agricultural	39	58
Consumer	13,141	14,622
Other	347	1,732
	256,789	212,428
Allowance for loan losses	(3,386)	(3,072)
	$ 253,403	$ 209,356

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At December 31, 2020 and 2019, a significant portion of the Company's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower, and may deteriorate in value during the time the credit is extended. The weakening of real estate markets may have an adverse effect on the Company's profitability and asset quality. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Company has loans secured by inventory, accounts receivable, equipment, marketable securities, or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program (CRE) for a financial institution. Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency regulatory guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk based capital, or total commercial real estate loans representing 300% or more of the institution's total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration. At December 31, 2020 and 2019, the Bank is within regulatory guidelines with respect to CRE concentrations.

At December 31, 2020 and 2019, loans secured by 1-4 family residential properties total $123,585,000 and $80,646,000, respectively. Included in these balances are 15 and 20 year mortgage loan participation pools purchased from an independent community bank totaling $97,258,000 and $67,507,000 at December 31, 2020 and 2019, respectively. The loan participations include pools of small dollar mortgage loans made to resident aliens (ITIN loans) in the DFW area. The Bank has implemented additional risk management practices to monitor the concentration risk of the purchased participation pools and has established internal limits of 225% of total regulatory capital for 15 year mortgages and 100% of total regulatory capital for 20 year mortgages. At December 31, 2020, the Bank had approximately $74,952,000 of 15 year mortgage participation pools representing approximately 202% of the Bank's total regulatory capital. Additionally, at December 31, 2020, the Bank had approximately $22,306,000 of 20 year mortgage participation pools representing approximately 60% of the Bank's total regulatory capital. At December 31, 2019, all of the Bank's mortgage participation pools were 15 year mortgages and represented approximately 190% of the Bank's total regulatory capital.

Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2020 and 2019 is as follows (in thousands):

	Beginning Balance	Provision	Charge offs	Recoveries	Ending Balance
December 31, 2020:					
Real estate:					
Construction, land development, land	$ 207	$ (20)	$ -	$ -	$ 187
Farmland	36	(4)	-	-	32
1-4 family residential properties	955	449	-	-	1,404
Multi-family residential	3	14	-	-	17
Nonfarm nonresidential owner occupied	270	(66)	-	-	204
Nonfarm nonresidential other	208	192	-	-	400
Total real estate	1,679	565	-	-	2,244
Commercial	1,029	425	(560)	11	905
Agricultural	1	(1)	-	-	-
Consumer	301	89	(182)	13	221
Other	62	(17)	(46)	17	16
	$ 3,072	$ 1,061	$ (788)	$ 41	$ 3,386
December 31, 2019:					
Real estate:					
Construction, land development, land	$ 309	$ (102)	$ -	$ -	$ 207
Farmland	35	1	-	-	36
1-4 family residential properties	871	84	-	-	955
Multi-family residential	3	-	-	-	3
Nonfarm nonresidential owner occupied	258	12	-	-	270
Nonfarm nonresidential other	108	100	-	-	208
Total real estate	1,584	95	-	-	1,679
Commercial	806	657	(436)	2	1,029
Agricultural	1	-	-	-	1
Consumer	228	161	(96)	8	301
Other	30	41	(15)	6	62
	$ 2,649	$ 954	$ (547)	$ 16	$ 3,072

The Company's individual ALLL allocations are established for probable losses on specific loans. The Company's general ALLL allocations are established based upon historical loss experience for similar loans with similar characteristics adjusted for economic conditions and other qualitative risk factors both internal and external to the Company. Further information pertaining to the allowance for loan losses (ALLL) at December 31, 2020 and 2019 is as follows (in thousands):

	Loan Evaluation			ALLL Allocations			
					General		
	Individually	General	Total loans	Individually	Historical	Other	Total ALLL
December 31, 2020:							
Real estate:							
Construction, land development, land	$ -	$ 16,443	$ 16,443	$ -	$ -	$ 187	$ 187
Farmland	-	2,818	2,818	-	-	32	32
1-4 family residential properties	-	123,585	123,585	-	-	1,404	1,404
Multi-family residential	-	1,495	1,495	-	-	17	17
Nonfarm nonresidential owner occupied	-	18,044	18,044	-	-	204	204
Nonfarm nonresidential other	-	35,225	35,225	-	-	400	400
Total real estate	-	197,610	197,610	-	-	2,244	2,244
Commercial	157	45,495	45,652	95	325	485	905
Agricultural	-	39	39	-	-	-	-
Consumer	99	13,042	13,141	2	91	128	221
Other	-	347	347	-	12	4	16
	$ 256	$ 256,533	$ 256,789	$ 97	$ 428	$ 2,861	$ 3,386
December 31, 2019:							
Real estate:							
Construction, land development, land	$ 483	$ 17,451	$ 17,934	$ -	$ -	$ 207	$ 207
Farmland	-	3,040	3,040	-	-	36	36
1-4 family residential properties	-	80,646	80,646	-	-	955	955
Multi-family residential	-	224	224	-	-	3	3
Nonfarm nonresidential owner occupied	41	22,857	22,898	-	-	270	270
Nonfarm nonresidential other	-	17,572	17,572	-	-	208	208
Total real estate	524	141,790	142,314	-	-	1,679	1,679
Commercial	199	53,503	53,702	101	295	633	1,029
Agricultural	-	58	58	-	-	1	1
Consumer	55	14,567	14,622	38	91	172	301
Other	-	1,732	1,732	-	42	20	62
	$ 778	$ 211,650	$ 212,428	$ 139	$ 428	$ 2,505	$ 3,072

Impaired Loans

Impaired loans include loans modified in troubled debt restructurings (TDRs) where concessions have been granted to borrowers experiencing financial difficulties. No significant interest income was recognized on impaired loans during 2020 and 2019.

The following is a summary of information pertaining to impaired loans at December 31, 2020 and 2019 (in thousands):

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment Total	Related Allowance
December 31, 2020:					
Commercial	$ 189	$ 48	$ 109	$ 157	$ 95
Consumer	106	97	2	99	2
	$ 295	$ 145	$ 111	$ 256	$ 97
December 31, 2019:					
Construction, land development, land	$ 483	$ 483	$ -	$ 483	$ -
Nonfarm nonresidential owner occupied	41	41	-	41	-
Commercial	200	80	119	199	101
Consumer	56	5	50	55	38
	$ 780	$ 609	$ 169	$ 778	$ 139

Average impaired loans during 2020 and 2019 were approximately $675,000 and $667,000, respectively.

Past Due Loans

The following is a summary of past due and nonaccrual loans at December 31, 2020 and 2019 (in thousands):

	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Past Due 90 Days or More Nonaccrual	Total Past Due and Nonaccrual
December 31, 2020:				
1-4 family residential properties	$ 397	$ -	$ -	$ 397
Commercial	365	91	124	580
Consumer	99	-	90	189
Other	13	-	-	13
	$ 874	$ 91	$ 214	$ 1,179
December 31, 2019:				
Construction, land development, land	$ 217	$ -	$ 483	$ 700
1-4 family residential properties	2,157	-	-	2,157
Nonfarm nonresidential owner occupied	-	-	41	41
Commercial	11	-	199	210
Consumer	133	-	40	173
Other	16	-	-	16
	$ 2,534	$ -	$ 763	$ 3,297

Approximately $32,000 and $36,000 of additional interest would have been recognized if the impaired loans on nonaccrual had been on accrual status during 2020 and 2019, respectively. As stated in Note 1, there are approximately $540,000 of loans related to COVID-19 deferments that are not included in the above table.

Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring (TDR) if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. At December 31, 2020 and 2019, TDRs totaled approximately $122,000 and $110,000, respectively. Included in these amounts are performing TDRs of approximately $42,000 and $15,000 at December 31, 2020 and 2019, respectively. The Company had allocated approximately $80,000 and $95,000 of specific reserves in regard to TDRs at December 31, 2020 and 2019, respectively.

During the years ended December 31, 2020 and 2019, the Company had no significant loans which were modified as a TDR.

A TDR is considered to be in payment default once it is 30 days contractually past due under the modified terms. During the year ended December 31, 2020 and 2019, the Company had no TDRs which defaulted within twelve months of its modification.

The Company is not committed to lend additional funds to debtors whose loans have been modified.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. The Company uses the following definitions for risk ratings:

Pass

Loans classified as pass are loans with low to average risk.

Special Mention

Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

As of December 31, 2020 and 2019, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2020:					
Real estate:					
Construction, land development, land	$ 16,397	$ 46	$ -	$ -	$ 16,443
Farmland	2,818	-	-	-	2,818
1-4 family residential properties	122,166	-	1,419	-	123,585
Multi-family residential	1,495	-	-	-	1,495
Nonfarm nonresidential owner occupied	17,014	284	746	-	18,044
Nonfarm nonresidential other	35,225	-	-	-	35,225
Total real estate	195,115	330	2,165	-	197,610
Commercial	38,098	5,208	2,316	30	45,652
Agricultural	39	-	-	-	39
Consumer	12,440	336	344	21	13,141
Other	347	-	-	-	347
	$ 246,039	$ 5,874	$ 4,825	$ 51	$ 256,789
December 31, 2019:					
Real estate:					
Construction, land development, land	$ 17,451	$ -	$ 483	$ -	$ 17,934
Farmland	3,040	-	-	-	3,040
1-4 family residential properties	80,646	-	-	-	80,646
Multi-family residential	224	-	-	-	224
Nonfarm nonresidential owner occupied	22,124	187	546	41	22,898
Nonfarm nonresidential other	17,572	-	-	-	17,572
Total real estate	141,057	187	1,029	41	142,314
Commercial	51,228	474	1,920	80	53,702
Agricultural	58	-	-	-	58
Consumer	14,335	92	184	11	14,622
Other	1,732	-	-	-	1,732
	$ 208,410	$ 753	$ 3,133	$ 132	$ 212,428

In addition to using a loan grading system the Bank utilizes the OCC's Credit Underwriting Assessment guidance to monthly monitor underwriting trends on loans over $500,000. The guidance addresses compliance with policy and sound lending practices, and provides ratings on the five significant underwriting factors; Structure, Collateral, Controls, Compliance and Risk. Each underwriting factor is rated either Conservative, Conservative/Moderate, Moderate, Moderate/Liberal or Liberal.

6. Bank Premises and Equipment

Bank premises and equipment at December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Land	$ 2,618	$ 2,618
Buildings and improvements	6,236	6,243
Construction in progress	63	-
Furniture and equipment	3,303	3,122
	12,220	11,983
Accumulated depreciation	(4,286)	(3,925)
	$ 7,934	$ 8,058

7. Deposits

Deposits at December 31, 2020 and 2019 are summarized as follows (in thousands):

	2020		2019	
	Amount	Percent	Amount	Percent
Noninterest bearing demand accounts	$ 111,448	36.3	$ 89,940	34.4
Interest bearing accounts	101,559	33.0	85,695	32.7
Savings accounts	24,672	8.0	19,047	7.3
Certificates of deposit, $250,000 or less	22,472	7.3	26,485	10.1
Certificates of deposit, greater than $250,000	47,212	15.4	40,443	15.5
	$ 307,363	100.0	$ 261,610	100.0

At December 31, 2020 and 2019, deposits of approximately $83,067,000 and $49,760,000, respectively, were related to three customers representing approximately 27% and 19% of total deposits.

There were no brokered deposits at December 31, 2020 and 2019.

At December 31, 2020, scheduled maturities of certificates of deposit accounts are as follows (in thousands):

Less than one year	$ 61,036
One to three years	8,648
Over three years	-
	$ 69,684

8. Other Borrowings

Federal Home Loan Bank

Advances from the FHLB are collateralized by a security agreement, which requires the borrowing bank to maintain a certain level of qualified first mortgage collateral in relation to the amount of any outstanding advances. The Company had no outstanding advances from the Federal Home Loan Bank at December 31, 2020 and 2019.

At December 31, 2020, the amount available to the Bank under this credit facility was approximately $37,912,000.

Securities Sold Under Agreements to Repurchase

At December 31, 2020 and 2019, the Company had no borrowings incurred in connection with securities sold under agreements to repurchase. During the years ended December 31, 2020 and 2019, the Company had borrowings incurred in connection with securities sold under agreements to repurchase. Additional information concerning such borrowings during the years ended December 31, 2020 and 2019 are summarized as follows:

	2020	2019
Balance at December 30	$ -	$ -
Average balance during the year	201	201
Maximum balance during the year	73,529	73,526
Average interest rate	0.76%	2.28%

Line of Credit

During August 2020, the Company obtained a revolving line of credit with an unaffiliated bank with a maximum advanceable amount of $5,000,000 at December 31, 2020. The line of credit is secured by 100% of the capital stock of the Bank and matures on August 12, 2022. There were no outstanding advances at December 31, 2020.

Other

Additionally, the Bank has unused federal funds lines available from commercial banks of approximately $21,796,000 and $26,796,000 at December 31, 2020 and 2019, respectively.

9. Income Taxes

As stated in Note 1, effective April 1, 2020, Horizon Bankshares, Inc. terminated its S Corporation status and became taxed as a C corporation. Accordingly, the provision for income tax (benefit) expense for the year ended December 31, 2020 consisted of the following (in thousands):

Income tax (benefit) expense:		
Current	$	85
Deferred		(438)
Income tax benefit	$	(353)

Income taxes for financial reporting purposes differed from the amounts computed by the statutory federal income tax rates for the year ended December 31, 2020, primarily due to due the recognition of the deferred tax asset associated with the Company's conversion to a C Corporation.

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax return purposes. Significant components of the Company's net deferred tax asset at December 31, 2020 are as follows (in thousands):

Deferred tax assets:		
Deferred compensation expense	$	70
Allowance for loan losses for book in excess of tax		711
Other		8
Total deferred tax assets		789
Deferred tax liabilities:		
Basis of bank premises and equipment for book in excess of tax		260
Accrual to cash adjustment		91
Total deferred tax liabilities		351
Net deferred tax asset	$	438

The net deferred tax asset of approximately $438,000 is included in other assets in the accompanying consolidated balance sheet at December 31, 2020. Additionally, included in other assets at December 31, 2020 is a current income tax receivable of approximately $148,000.

10. Employee Benefit Plans

401(k) Plan

The Company has a retirement savings 401(k) plan (Plan) covering substantially all employees. Under the Plan, the Company may contribute, at their discretion, up to 15% of eligible employee's compensation. The Plan provides that employees may elect to defer an unlimited amount of eligible earnings up to a maximum of $19,500 and $19,000, for 2020 and 2019, respectively. The Company matched 100% of employee contributions up to 6% during 2020 and 50% of employee contributions up to 7% during 2019; contributing approximately $220,000 and $162,000, respectively. Any excess contributions by the Company over the matching portion are prorated to the participants in the Plan.

ESOP

Effective April 1, 2020, Horizon Bankshares, Inc. (Company) established the Horizon Bankshares, Inc. Employee Stock Ownership Trust (Plan). The Plan is a stock bonus plan which is intended to be qualified under Section 401(a) of the Internal Revenue Code. The Plan provides eligible employees with an opportunity to accumulate capital for their future economic security by acquiring stock ownership in the Company. The Plan covers all employees meeting certain age and service requirements. Nonelective contributions are made for each Plan year in the form of cash or shares of common stock, or both, in such amounts that may be determined by the Board of Directors at its discretion. During the year ended December 31, 2020, the Company contributed 335 shares of its common stock to the Plan. The contributed stock had an estimated fair value of $298 per share. Accordingly, the Company recognized approximately $100,000 of expense related to the contribution which is included in salaries and employee benefits in the accompanying consolidated statement of income.

Equity Incentive Plan

Effective September 2020, the Company adopted the 2020 Equity Incentive Plan (Plan) which allows for employees, directors and consultants to be granted stock awards consisting of incentive and non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based awards. The Plan allows initially for issuance of up to 15,000 shares of the Company's common stock pursuant to the stock awards. The maximum aggregate number of shares that may be issued pursuant to all awards under the Plan will increase annually on the first day of each year after adoption of the Plan by the number of shares equal to the lesser of (i) two percent of the total issued and outstanding common shares of the Company on the first day of such year, or (ii) such lesser amount determined by the Board. During the year ended December 31, 2020, the Company granted both stock options and stock grants to certain employees and directors. As discussed in Note 1 to the financial statements, the Company measures stock compensation cost using the fair value of an award on the grant date and recognizes this cost over the service (vesting) period. Stock compensation expense of approximately $4,000 was recognized in the statement of income relating to these awards granted during 2020.

Stock Options

During the year ended December 31, 2020, the Company issued 840 incentive stock options and 500 non-statutory options to certain employees and directors. The Company had 1,340 stock options outstanding at December 31, 2020. Stock options become exercisable on a pro rata annual basis over a five-year period and expire ten years from the date of the grant. A summary of option activity under the Option Plan as of December 31, 2020, and changes during the year then ended is as follows:

	Option	Per Share
Outstanding at beginning of year	-	$ -
Granted during the year	1,340	297.50
Exercised during the year	-	-
Forfeited during the year	-	-
Outstanding at the end of year	1,340	$ 297.50
Options exercisable	-	
Weighted average remaining contractual life	9.75	

A summary of the status of the Company's nonvested shares at December 31, 2020, and changes during the year then ended is as follows:

	Shares	Weighted Average Grant Fair Value
Nonvested at beginning of year	-	$ -
Granted during the year	1,340	28.38
Vested during the year	-	-
Forfeited during the year	-	-
Nonvested at end of year	1,340	$ 28.38

During 2020, the Company granted options to purchase 1,340 shares of its common stock for an option price of $297.50 per share. The fair value of each option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	0.00%
Expected life	10 years
Expected volatility	4.70%
Risk-free interest rate	0.67%

The expected volatility is based upon historical volatility of banks in the state of Texas. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield in effect at the date of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on comparable banks in the state of Texas.

Stock Grants

During the year ended December 31, 2020, the Company granted the right to receive 100 shares of stock to a director as incentive compensation. The shares become vested on April 30, 2021, subject to certain performance provisions. Additionally, the stock received at the vesting date is subject to certain "clawback provisions" for a period of two years from the time the incentive compensation is received by the director.

Subsequent to December 31, 2020, the Company granted the right to receive 3,500 shares of common stock to an executive officer of the Bank. The stock rights shall be converted into shares of the Company's common stock on a pro rata basis over a six year period subject to the executive officer's continuous service with the Bank and other conditions set forth in the Incentive Compensation Plan.

11. Commitments and Contingencies

From time to time the Company is involved in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial position or results of operations of the Company.

The Company does not anticipate any material losses as a result of commitments and contingent liabilities.

12. Financial Instruments

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

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 amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. At December 31, 2020 and 2019, the approximate amounts of these financial instruments were as follows (in thousands):

	2020	2019
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 66,797	$ 40,464
Standby letters of credit	251	96
	$ 67,048	$ 40,560

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty.

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

Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

13. Significant Group Concentrations of Credit Risk

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The contractual amounts of credit related financial instruments such as commitments to extend credit and letters of credit, represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

At December 31, 2020 and 2019, the Company has a concentration of funds on deposit in excess of federally insured limits at certain correspondent banks. The nature of the Company's business requires that it maintain amounts at due from banks which, at times, may exceed federally insured limits. The Company closely monitors the financial condition of their correspondent banks and has not experienced any losses from such accounts.

14. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including borrowings, with its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons. At December 31, 2020 and 2019, the aggregate amount of such loans was $3,143,000 and $4,143,000, respectively. During 2020, approximately $3,643,000 of new loans and advances were made and net repayments and on loans totaled approximately $4,643,000. The Company had unfunded commitments to related parties of approximately $8,730,000 and $4,351,000 at December 31, 2020 and 2019, respectively.

15. <u>Fair Value Disclosures</u>

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. ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2020 and 2019 are as follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 31, 2020:			
Available for sale securities (1)	$ -	$ 4,980	$ -
December 31, 2019:			
Available for sale securities (1)	$ -	$ 28,564	$ -

(1) Securities are measured at fair value on a recurring basis, generally monthly.

Certain financial and non-financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2020:				
Financial assets - impaired loans	$ -	$ -	$ 159	$ 159
December 31, 2019:				
Financial assets - impaired loans	$ -	$ -	$ 639	$ 639

During the years ended December 31, 2020 and 2019, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. For the years ended December 31, 2020 and 2019, impaired loans with a carrying value of $256,000 and $778,000 were reduced by specific valuation allowance allocations totaling $97,000 and $139,000 to a total reported fair value of $159,000 and $639,000, based on collateral valuations utilizing Level 3 valuation inputs at December 31, 2020 and 2019, respectively.

Foreclosed assets are valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third-party appraisals, less estimated costs to sell. Appraisals based upon comparable sales result in a Level 2 classification while appraisals based upon expected cash flows of the property result in a Level 3 classification. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the customer and customer's business. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above. During the years ended December 31, 2020 and 2019, there were no acquisitions or write-downs of other real estate owned.

16. Stockholders' Equity and Regulatory Matters

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020 and 2019, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations for banking institutions provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2020 and 2019, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Additionally, Basel III added a 2.5% "capital conservation buffer" which was designed for banking institutions to absorb losses during periods of economic stress. Banking institutions with capital ratios below the minimum for capital adequacy purposes plus the capital conservation buffer may face constraints on dividends, equity repurchases and executive compensation relative to the amount of the shortfall.

Actual and required capital amounts and ratios at December 31, 2020 and 2019 are presented below (in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum for Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum to be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020:								
Total capital to risk weighted assets	$ 37,099	17.00%	$ 17,460	8.00%	$22,916	10.50%	$ 21,824	10.00%
Tier 1 (core) capital to risk weighted assets	34,363	15.75%	13,095	6.00%	18,551	8.50%	17,460	8.00%
Common Tier 1 (CET1)	34,363	15.75%	9,821	4.50%	15,277	7.00%	14,186	6.50%
Tier 1 (core) capital to average assets	34,363	9.91%	13,873	4.00%	13,873	4.00%	17,341	5.00%
December 31, 2019:								
Total capital to risk weighted assets	$ 35,524	18.78%	$ 15,135	8.00%	$19,864	10.50%	$ 18,918	10.00%
Tier 1 (core) capital to risk weighted assets	33,150	17.52%	11,351	6.00%	16,081	8.50%	15,135	8.00%
Common Tier 1 (CET1)	33,150	17.52%	8,513	4.50%	13,243	7.00%	12,297	6.50%
Tier 1 (core) capital to average assets	33,150	11.36%	11,676	4.00%	11,676	4.00%	14,596	5.00%

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

On Additional Information

The Board of Directors
Horizon Bankshares, Inc. and Subsidiary
Fort Worth, Texas

We have audited the consolidated financial statements of Horizon Bankshares, Inc. and Subsidiary as of and for the year ended December 31, 2020, and have issued our report thereon dated January 19, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 32 and 33 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Payne & Smith, LLC

January 19, 2021

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HORIZON BANKSHARES, INC. AND SUBSIDIARY

Consolidating Balance Sheet

December 31, 2020

(In Thousands)

	Horizon Bankshares, Inc.	The National Bank of Texas at Fort Worth	Eliminations		Consolidated
ASSETS					
Cash and cash equivalents	$ 654	$ 70,958	$ (593)	(a)	$ 71,019
Interest bearing deposits in other banks	-	2,568	-		2,568
Securities available for sale	-	4,980	-		4,980
Investment in subsidiary	34,365	-	(34,365)	(b)	-
Loans	-	253,403	-		253,403
Bank premises and equipment	-	7,934	-		7,934
Accrued interest receivable	-	604	-		604
Other assets	-	2,523	-		2,523
	$ 35,019	$ 342,970	$ (34,958)		$ 343,031
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Noninterest bearing	$ -	$ 112,041	$ (593)	(a)	$ 111,448
Interest bearing	-	195,915	-		195,915
Total deposits	-	307,956	(593)		307,363
Accrued interest payable	-	111	-		111
Other liabilities	-	538	-		538
Commitments and contingencies	-	-	-		-
Stockholders' equity:					
Common stock	124	557	(557)	(b)	124
Paid-in capital	17,748	16,231	(16,231)	(b)	17,748
Retained earnings	17,933	17,575	(17,575)	(b)	17,933
Accumulated other comprehensive income	2	2	(2)	(b)	2
Treasury stock, at cost	(788)	-	-		(788)
Total stockholders' equity	35,019	34,365	(34,365)		35,019
	$ 35,019	$ 342,970	$ (34,958)		$ 343,031

See description of consolidating entries on page 34 and accompanying independent auditor’s report on additional information.

HORIZON BANKSHARES, INC. AND SUBSIDIARY

Consolidating Statement of Income and Comprehensive Income

For the Year Ended December 31, 2020

(In Thousands)

	Horizon Bankshares, Inc.	The National Bank of Texas at Fort Worth	Eliminations		Consolidated
Interest income:					
Interest and fees on loans	$ 21	$ 11,874	$ -		$ 11,895
Interest on investment securities	-	102	-		102
Interest on interest bearing deposits in other banks	1	277	-		278
Other	-	50	-		50
Total interest income	22	12,303	-		12,325
Interest expense:					
Interest on deposit accounts	-	1,474	-		1,474
Other	-	2	-		2
Total interest expense	-	1,476	-		1,476
Net interest income	22	10,827	-		10,849
Provision for loan losses	-	1,061	-		1,061
Net interest income after provision for loan losses	22	9,766	-		9,788
Noninterest income:					
Service charges on deposit accounts	-	768	-		768
Dividends from subsidiary	120	-	(120)	(c)	-
Equity in undistributed earnings from subsidiary	1,109	-	(1,109)	(d)	-
Net gain on sale of securities available for sale	-	129	-		129
Bank card and credit card interchange income	-	545	-		545
Other	-	164	-		164
Total noninterest income	1,229	1,606	(1,229)		1,606
Noninterest expense:					
Salaries and employee benefits	-	6,727	-		6,727
Occupancy expense	-	1,251	-		1,251
Other	74	2,518	-		2,592
Total noninterest expense	74	10,496	-		10,570
Net income before income tax benefit	1,177	876	(1,229)		824
Income tax benefit	-	(353)	-		(353)
Net income	1,177	1,229	(1,229)		1,177
Other comprehensive income, net of tax, on securities available for sale:					
Change in net unrealized loss during the period	404	404	(404)	(e)	404
Reclassification adjustment for net gains included in net income	(102)	(102)	102	(e)	(102)
Other comprehensive income, net of tax	302	302	(302)		302
Total comprehensive income	$ 1,479	$ 1,531	$ (1,531)		$ 1,479

See description of consolidating entries on page 34 and accompanying independent auditor's report on additional information.

Description of Consolidating Entries

For the Year Ended December 31, 2020

(a) To eliminate intercompany cash and deposits.

(b) To eliminate investment accounts against the stockholder's equity of the consolidated subsidiary.

(c) To eliminate dividends from subsidiary.

(d) To eliminate equity in undistributed earnings of subsidiary.

(e) To eliminate the changes in other comprehensive income.