FR Y-6
OMB Number 7100-0297
Approval expires November 30, 2022
Page 1 of 2

**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, Cynthia L. Blankenship
Name of the Holding Company Director and Official

Director, President, and Secretary
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]
Signature of Holding Company Director and Official

3.26.2021
Date of Signature

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

**For Federal Reserve Bank Use Only**

RSSD ID ______
C.I. ______

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

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

Reporter's Name, Street, and Mailing Address

Greater Southwest Bancshares, Inc.
Legal Title of Holding Company

108 W. Northwest Highway
(Mailing Address of the Holding Company) Street / P.O. Box

| City | State | Zip Code |
|---|---|---|
| Grapevine | Texas | 76051 |

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Jo Lynn Dobie — EVP/CFO
Name / Title

817/310-1957
Area Code / Phone Number / Extension

817.310.6857
Area Code / FAX Number

jdobie@bnkwest.com
E-mail Address

n/a
Address (URL) for the Holding Company's web page

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

In accordance with the General Instructions for this report (check only one),
1. a letter justifying this request is being provided along with the report ........ ☐
2. a letter justifying this request has been provided separately ... ☐

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

# For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City | State | Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City | State | Zip Code

Physical Location (if different from mailing address)

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City | State | Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City | State | Zip Code

Physical Location (if different from mailing address)

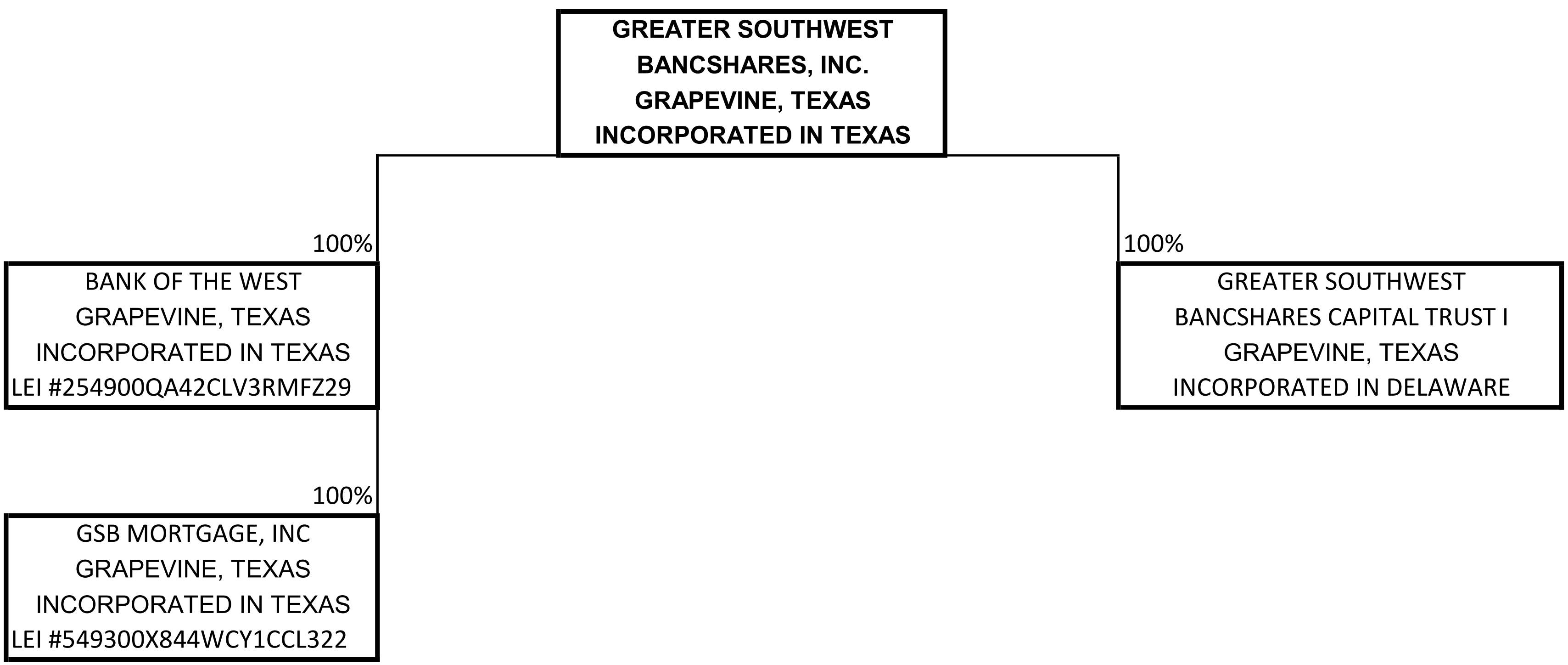
**FORM FR Y-6**

GREATER SOUTHWEST BANSHARES, INC.
GRAPEVINE, TX.
FISCAL YEAR ENDING DECEMBER 31, 2020

**Report Item**

1: a. The bank holding company prepares an annual report for its shareholders and is not registered with the SEC.

2a: Organization Chart




2b: Domestic branch listing included herein

Form FR Y-6
Greater Southwest Bancshares, Inc.
December 31, 2020

**2.b. Domestic Branch Listing**

**Results:** A list of branches for your depository institution: BANK OF THE WEST (ID_RSSD: 859552).
This depository institution is held by GREATER SOUTHWEST BANCSHARES, INC. (1141384) of GRAPEVINE, TX.
The data is as of 12/31/2020. Data reflects information that was received and processed through 01/01/2021.

**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) | 859552 | BANK OF THE WEST | 108 W NORTHWEST HWY | GRAPEVINE | TX | 76051-3270 | TARRANT | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |
| OK | | Full Service | 5225442 | FLOWER MOUND BRANCH | 5011 LONG PRAIRIE ROAD | FLOWER MOUND | TX | 75028 | DENTON | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |
| OK | | Full Service | 3542444 | WILLIAM D. TATE BRANCH | 4100 WILLIAM D. TATE BLVD | GRAPEVINE | TX | 76051 | TARRANT | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |
| OK | | Full Service | 2301596 | BELTLINE BRANCH | 950 NORTH BELTLINE ROAD | IRVING | TX | 75061 | DALLAS | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |
| OK | | Full Service | 3454136 | IRVING BOULEVARD BRANCH | 2400 WEST IRVING BLVD. | IRVING | TX | 75061-4229 | DALLAS | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |
| OK | | Full Service | 3074963 | LEWISVILLE BRANCH | 329 E MAIN ST | LEWISVILLE | TX | 75057-3865 | DENTON | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |
| OK | | Full Service | 4964128 | DAVIS BLVD BRANCH | 5801 DAVIS BOULEVARD | NORTH RICHLAND HILLS | TX | 76180 | TARRANT | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |
| OK | | Full Service | 3385829 | PONDER BRANCH | 301 N FM 156 | PONDER | TX | 76259 | DENTON | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |
| OK | | Full Service | 275769 | VERNON BRANCH | 1630 HILLCREST | VERNON | TX | 76384-4053 | WILBARGER | UNITED STATES | Not Required | Not Required | BANK OF THE WEST | 859552 | |

**Form FR Y-6**
**December 31, 2020**

## Greater Southwest Bancshares, Inc.

**Report Item 3: Shareholders**
**Current shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020**

| 1a<br>Name/Address | 1b<br>Country | 1c<br>Number and % of Shares | | |
|---|---|---|---|---|
| Cynthia L. Blankenship<br>Colleyville, TX, USA | USA | 18,676 shs - 12.08% of common stock[(1)] | 18,676 | 12.08% |
| H. Gary Blankenship<br>Colleyville, TX, USA | USA | 71,893 shs - 46.51% of common stock[(2)] | 71,893 | 46.51% |
| Cynthia L. Blankenship &<br>H. Gary Blankenship, Jointly<br>Colleyville, TX, USA | USA | 30,072 shs - 19.46% of common stock | 30,072 | 19.46% |
| Sunrise East Building &<br>Marketing Co., Inc. Profit<br>Sharing Trust fbo Mr. John Eastwood<br>Mr. John Eastwood is Trustee<br>Irving, TX, USA | USA | 25,486 shs - 16.49% of common stock | 25,486 | 16.49% |
| Total shares issued and outstanding | | | 154,568 | 100.00% |

[(1)] Includes 11,988 shares held of record by the Greater Southwest Bancshares, Inc. 401 (k) Plan fbo Cynthia L. Blankenship

[(2)] Includes 18,641 shares held of record by the Greater Southwest Bancshares, Inc. 401 (k) Plan fbo H. Gary Blankenship

| 2a<br>Name/Address | 2b<br>Country | 2c<br>Number and % of Shares |
|---|---|---|
| None | | |

**Form FR Y-6**

**Greater Southwest Bancshares, Inc.**

**Fiscal Year Ending December 31, 2020**

**Report Item 4: Directors and Officers (Insiders)**

| 1<br>Name, City, State, Country | 2<br>Principal Occupation, if Other than with Holding Company | 3a<br>Title & Position with Holding Company | 3b<br>Title & Position with Subsidiaires, Including Names of Subsidiaries | 3c<br>Title & Position with Other Businesses, Including Names of Other Businesses | 4a<br>Percentage of Voting Shares in Holding Company * | 4b<br>Percentage of Voting Shares in Subsidiaries | 4c<br>Names of Other Companies, if 25% or More of Voting Securities are Held |
|---|---|---|---|---|---|---|---|
| Cynthia L. Blankenship<br>Colleyville, TX, USA | N/A | Director, President & Secretary | Vice-Chairman/Corp Pres -<br>Bank of the West<br>Administrative Trustee -<br>Greater Southwest<br>Bancshares Capital Trust I<br>President - GSB Mortgage, Inc. | N/A | 31.54% | None | None |
| H. Gary Blankenship<br>Colleyville, TX, USA | N/A | Director, Chairman, & CEO | Chairman/CEO -<br>Bank of the West<br>Administrative Trustee -<br>Greater Southwest<br>Bancshares Capital Trust I<br>Chairman - GSB Mortgage, Inc. | N/A | 46.51% | None | None |
| John Eastwood<br>Irving, TX, USA | R/E Developer | Director | Director - Bank of the West<br>Director - GSB Mortage | President & Owner<br>Sunrise East Building &<br>Marketing Co. | 16.49% | None | Sunrise East Building &<br>Marketing Co.<br>Irving, Tx. - 100% |
| Stephen Segal<br>Dallas, TX, USA | Attorney | Director | Director - Bank of the West<br>Director - GSB Mortage | Sole Proprietor<br>Law Practice | 0.11% | None | Stephen Segal, Sole<br>Proprietor - 100% |
| Terry L Bouton<br>Colleyville, TX, USA | CPA | Director | Director - Bank of the West<br>Director - GSB Mortage | Sole Proprietor<br>CPA Practice | None | None | Terry Bouton, Sole<br>Proprietor - 100% |
| Lisa Blankenship<br>Grapevine, TX, USA | N/A | Director | EVP/CFO/Controller -<br>GSB Mortgage, Inc.<br>Director - GSB Mortage | N/A | None | None | None |
| Bailey Blankenship<br>Grapevine, TX, USA | N/A | Director | VP/Audit Officer -<br>Bank of the West | N/A | None | None | None |
| Samantha Blankenship<br>Grapevine, TX, USA | N/A | Director | Media Marketing Coordinator -<br>Bank of the West | N/A | None | None | None |

*Joint Shares of Cynthia L Blankenship and H. Gary Blankenship are inluded with Cynthia L. Blankenship on this schedule.

BANK of the WEST

## REPORT OF MANAGEMENT

**Management Report**
In this management report, the following subsidiary institution of Greater Southwest Bancshares, Inc. (the Company) that is subject to Part 363 is included in the statement of management's responsibilities and the report on management's assessment of compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions: Bank of the West.

**Statement of Management's Responsibilities**
The management of Greater Southwest Bancshares, Inc. is responsible for preparing the Company's annual financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council (FFIEC) Instructions for Consolidated Reports of Condition and Income; and for complying with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions.

**Management's Assessment of Compliance with Designated Laws and Regulations**
The management of Greater Southwest Bancshares, Inc. has assessed the Company's compliance with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020. Based upon its assessment, management has concluded that the Company complied with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020.

Cynthia L Blankenship

Cynthia Blankenship
President
April 26, 2021

Christy Bair

Christy Bair
Executive Vice President/COO/Cashier
April 26, 2021

108 West Northwest Highway, Grapevine, TX 76051 • Ph: 817.310.1999

www.bnkwest.com

*GREATER SOUTHWEST BANCSHARES, INC.*
*AND SUBSIDIARY*

**Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(With Independent Auditor's Report Thereon)**

# Independent Auditor's Report

Board of Directors and Stockholders
Greater Southwest Bancshares, Inc.

**Report on the Financial Statements**
We have audited the accompanying consolidated financial statements of Greater Southwest Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2020; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

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

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

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

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

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Southwest Bancshares, Inc. and Subsidiary as of December 31, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**
The financial statements of Greater Southwest Bancshares, Inc. and Subsidiary, as of and for the year ended December 31, 2019, were audited by other auditors, whose report dated March 17, 2020, expressed an unmodified opinion on those statements.

RSM US LLP

San Antonio, Texas
April 16, 2021

# *GREATER SOUTHWEST BANCSHARES, INC. AND SUBSIDIARY*

Consolidated Balance Sheets

December 31, 2020 and 2019

(In thousands, except share data)

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ | 173,414 | $ | 72,778 |
| Interest bearing deposits in other banks | | 497 | | 1,493 |
| Securities available for sale | | 29,359 | | 38,836 |
| Loans held for sale | | 4,099 | | 3,388 |
| Loans held for investment | | 433,796 | | 357,444 |
| Accrued interest receivable | | 2,111 | | 1,588 |
| Premises and equipment | | 22,863 | | 23,692 |
| Other real estate owned | | 1,983 | | 1,983 |
| Goodwill | | 647 | | 647 |
| Other assets | | 3,917 | | 3,943 |
| | $ | 672,686 | $ | 505,792 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| Deposits: | | | | |
| Noninterest bearing | $ | 257,944 | $ | 205,054 |
| Interest bearing | | 358,086 | | 248,900 |
| Total deposits | | 616,030 | | 453,954 |
| Junior subordinated debentures | | 6,702 | | 6,702 |
| Other liabilities | | 3,075 | | 1,753 |
| Commitments and contingencies (Notes 6, 10, 11 and 13) | | - | | - |
| Stockholders' equity: | | | | |
| Common stock, $2 par value, 1,100,000 shares authorized; 154,568 shares issued and outstanding at December 31, 2020 and 2019, respectively | | 309 | | 309 |
| Paid-in capital | | 97 | | 97 |
| Retained earnings | | 45,576 | | 42,496 |
| Accumulated other comprehensive income | | 897 | | 481 |
| Total stockholders' equity | | 46,879 | | 43,383 |
| | $ | 672,686 | $ | 505,792 |

See accompanying notes to consolidated financial statements.

# *GREATER SOUTHWEST BANCSHARES, 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 | $ 22,413 | $ 20,864 |
| Interest on investment securities | 750 | 914 |
| Other | 316 | 1,334 |
| Total interest income | 23,479 | 23,112 |
| Interest expense: | | |
| Interest on deposit accounts | 2,896 | 2,833 |
| Other | 199 | 278 |
| Total interest expense | 3,095 | 3,111 |
| Net interest income | 20,384 | 20,001 |
| Provision for loan losses | 1,099 | 514 |
| Net interest income after provision for loan losses | 19,285 | 19,487 |
| Noninterest income: | | |
| Service charges on deposit accounts | 778 | 857 |
| Net gain on sales of investment securities available for sale | 16 | - |
| Gain on sales of loans held for sale | 3,012 | 1,270 |
| Other | 1,064 | 1,084 |
| Total noninterest income | 4,870 | 3,211 |
| Noninterest expense: | | |
| Salaries and employee benefits | 9,985 | 9,656 |
| Occupancy expense | 2,693 | 2,618 |
| Other | 4,322 | 4,233 |
| Total noninterest expense | 17,000 | 16,507 |
| Net income | $ 7,155 | $ 6,191 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2020 and 2019

(In thousands)

| | 2020 | 2019 |
|---|---|---|
| Net income | $ 7,155 | $ 6,191 |
| Other comprehensive income on securities available for sale: | | |
| Change in net unrealized gain during the period | 432 | 1,102 |
| Reclassification adjustment for net gains included in net income | (16) | - |
| Other comprehensive income | 416 | 1,102 |
| Total comprehensive income | $ 7,571 | $ 7,293 |

See accompanying notes to consolidated financial statements.

# *GREATER SOUTHWEST BANCSHARES, INC. AND SUBSIDIARY*

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2020 and 2019

(In thousands)

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total |
|---|---|---|---|---|---|
| Balance January 1, 2019 | $ 309 | $ 97 | $ 40,135 | $ (621) | $ 39,920 |
| Net income | - | - | 6,191 | - | 6,191 |
| Other comprehensive income | - | - | - | 1,102 | 1,102 |
| Dividends | - | - | (3,830) | - | (3,830) |
| Balance December 31, 2019 | 309 | 97 | 42,496 | 481 | 43,383 |
| Net income | - | - | 7,155 | - | 7,155 |
| Other comprehensive income | - | - | - | 416 | 416 |
| Dividends | - | - | (4,075) | - | (4,075) |
| Balance December 31, 2020 | $ 309 | $ 97 | $ 45,576 | $ 897 | $ 46,879 |

See accompanying notes to consolidated financial statements.

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 | $ 7,155 | $ 6,191 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on sale of securities available for sale | (16) | - |
| Depreciation and amortization | 1,495 | 1,452 |
| Provision for loan losses | 1,099 | 514 |
| Gain on sales of loans held for sale | (3,012) | (1,270) |
| Originations of loans held for sale | (142,777) | (57,056) |
| Proceeds from sales of loans held for sale | 145,078 | 55,494 |
| Increase in accrued interest receivable and other assets | (604) | (1,601) |
| Increase (decrease) in accrued expenses and other liabilities | (178) | (70) |
| Net cash provided by operating activities | 8,240 | 3,654 |
| Cash flows from investing activities: | | |
| Purchases of securities available for sale | (80,000) | (54,998) |
| Proceeds from sales, maturities, calls and principal reductions of securities available for sale | 89,617 | 60,909 |
| Decrease in interest bearing time deposits in other banks | 996 | 17,619 |
| Net originations of loans | (77,451) | (14,044) |
| Net additions of bank premises and equipment | (267) | (399) |
| Net cash (used in) provided by investing activitties | (67,105) | 9,087 |
| Cash flows from financing activities: | | |
| Net increase in demand deposits, NOW and savings accounts | 161,251 | 9,638 |
| Net increase in certificates of deposit | 825 | 1,696 |
| Decrease in other borrowings | - | (600) |
| Dividends paid | (2,575) | (3,830) |
| Net cash provided by financing activities | 159,501 | 6,904 |
| Net increase in cash and cash equivalents | 100,636 | 19,645 |
| Cash and cash equivalents at beginning of year | 72,778 | 53,133 |
| Cash and cash equivalents at end of year | $ 173,414 | $ 72,778 |

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 Greater Southwest Bancshares, 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.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Greater Southwest Bancshares, Inc. (Bancshares) and its wholly owned subsidiary, Bank of the West (Bank), and GSB Mortgage, Inc. (GSB) and BOW ORE Holdings, LLC, wholly owned subsidiaries of the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

### Nature of Operations

The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, and investment and liquidity management activities. The Company's primary deposit products are demand deposits and certificates of deposit, and its primary lending products are commercial business and real estate loans, real estate mortgage loans, and consumer loans with customers located primarily in and around the surrounding areas of Dallas, Fort Worth, and Vernon, Texas.

### Use of Estimates

The preparation of 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 securities available for sale.

### Significant Group Concentrations of Credit

Most of the Company’s activities are with customers located in Texas, primarily in the north Texas regions. Such customers are normally also depositors of the Company. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of lending in which the Company engages. Commercial real estate, including commercial construction loans, represented 34.1% and 35.4% of the total loan portfolio at December 31, 2020 and 2019.

### Risks and Uncertainties

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

### 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. The nature of the Company’s business requires that it maintain deposits with other banks which, at times, may exceed federally insured limits. The Company has not experienced nor anticipates any losses from such accounts.

### Interest Bearing Deposits in Other Banks

Investments in certificates of deposit are carried at cost and generally mature within one year of purchase.

**Securities**

The Company's debt securities 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Declines in the fair value of available for sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other than temporary impairment losses on debt securities, management considers a number of factors including, but not limited to, (i) the length of time and the extent to which the fair value has been less than the amortized cost; (ii) the financial condition and near-term prospects of the issuer; (iii) the current market conditions; and (iv) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

**Restricted Investment Securities**

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

**Loans Held for Sale**

The Company through GSB originates mortgage loans both for sale and for investment purposes. The designation of mortgage loans is made by management at the time of origination. Mortgage loans designated as held for sale are stated at the lower of aggregate cost, net of discounts or premiums, or estimated fair market value. Market value is based on the contract prices at which the mortgage loans will be sold or, if the loans are not committed for sale, the current market price. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income. Loans held for sale are sold with the mortgage servicing rights released by the Company.

Gain or loss on the sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer and their relative fair value at the date of transfer.

The Company enters into interest rate lock commitments, which are commitments to originate mortgage loans to be held for sale, whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. Accordingly, such commitments are recorded at fair value with changes in fair value recorded in net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements and considers the difference between current levels of interest rates and the committed rates. The Company also has forward sale commitments related to these interest rate lock commitments, which are recorded at fair value with changes in fair value recorded in net gain or loss on sale of mortgage loans. The effect of these derivative instruments was insignificant during the years ended December 31, 2020 and 2019.

**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.

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

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

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or 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. Loan origination fees are recognized as income when received and loan origination costs are expensed as incurred. For the years ended December 31, 2020 and 2019, respectively, management believes that not deferring loan fees and loan origination costs does not materially affect the consolidated 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.

**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.

**Servicing and Sales of Loans**

In the normal course of business, the Company sells the guaranteed portion of certain loans originated with the partial guarantee of the Small Business Administration (SBA). Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned.

Gains on sales of the guaranteed portion of SBA loans originated by the Company are recognized as income generally in the period in which the loans are sold. Under accounting principles generally accepted in the United States of America, such gain recognition is to be based upon the relative fair values at the date of sale of the guaranteed (sold) portion and unguaranteed (retained) portion. During the years ended December 31, 2020 and 2019, the Company did not sell the guaranteed portion of any SBA loans.

**Bank Premises and Equipment**

Land is carried at cost and premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is recognized principally on the straight-line method over the estimated useful lives of the assets.

**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 other operating expenses.

**Revenue Recognition**

Interest income is recognized on the accrual method based on the outstanding balance. Other revenue is recognized at the time the service is rendered or transactions occur.

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

**Goodwill**

Goodwill represents the excess of the cost of the business acquired over the fair value of the net assets acquired. At least annually or more frequently if circumstances dictate, management assesses qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that goodwill is impaired. If, after assessing the totality of events and circumstances, management concludes that it is not more likely than not that goodwill is impaired, then no further action is taken. If, however, management concludes otherwise, than the fair value of goodwill is determined and tested for impairment by comparing the fair value with the carrying amount in accordance with ASC Topic 350, *Intangibles-Goodwill and Other*.

**Income Taxes**

The Company, with the consent of its stockholders, has elected under the Internal Revenue Code to be taxed as an S Corporation. The stockholders of an S Corporation are taxed on their proportionate share of the entity's taxable income. Therefore, no provision or liability for federal income taxes has be included in the consolidated financial statements. Certain specific deductions and credits flow through the Company to its stockholders. Because Bancshares' stockholders are obligated to pay federal income taxes on the earnings of Bancshares and the Bank, and Bancshares has no substantial operations other than ownership of the Bank, the Bank expects to declare cash distributions sufficient to fund stockholders' tax payments as they come due.

Accounting principles generally accepted in the United States of America require Bancshares' management to evaluate tax positions taken by Bancshares. Management evaluated Bancshares' tax positions and concluded that they had maintained its S Corporation status and had 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, Bancshares is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2016.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense was approximately $175 thousand and $180 thousand for the years ended December 31, 2020 and 2019, respectively.

**Off-Balance Sheet Credit-Related Financial Instruments**

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

**Comprehensive Income (Loss)**

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

**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.

**New and Recently Issued Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). Under the new guidance, lessees are required to recognize right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either a finance or operating lease based on the principle of whether or not the lease is effectively a financed purchase by the lessee with such classification affecting the pattern of expense recognition in the income statement. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard is effective for the Company in fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating the impact of this new guidance on the consolidated financial statement.

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

**Reclassifications**

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

**Subsequent Events**

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

## 2. 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, and 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 is presented as follows (in thousands):

| | 2020 | 2019 |
|---|---|---|
| Cash transactions: | | |
| Interest expense paid | $ 3,136 | $ 2,952 |
| Noncash transactions: | | |
| Foreclosure on loans to other real estate owned | $ - | $ 1,174 |

## 3. Investment Securities

Debt securities have been classified as available for sale 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. government agency securities | $ 1,361 | $ 14 | $ - | $ 1,375 |
| Mortgage-backed securities | 3,766 | 116 | - | 3,882 |
| State and municipal securities | 23,335 | 767 | - | 24,102 |
| | $ 28,462 | $ 897 | $ - | $ 29,359 |
| December 31, 2019: | | | | |
| U.S. government agency securities | $ 3,177 | $ - | $ 41 | $ 3,136 |
| Mortgage-backed securities | 6,860 | 28 | 51 | 6,837 |
| State and municipal securities | 28,318 | 548 | 3 | 28,863 |
| | $ 38,355 | $ 576 | $ 95 | $ 38,836 |

Proceeds from the sales of securities classified as available for sale were approximately $2.6 million for the year ended December 31, 2020. Gross gains of approximately $20 thousand were recognized on sales of securities available for sale during 2020. Gross losses of approximately $4 thousand were recognized on sales of securities available for sale during 2020. There were no sales of securities during the year ended December 31, 2019.

Securities with recorded values of approximately $3.0 million and $2.6 million at December 31, 2020 and 2019, respectively, were pledged to secure public funds or for other purposes required or permitted by law.

The scheduled maturities of securities available for sale at December 31, 2020 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.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 4,314 | $ 4,344 |
| Due from one year to five years | 12,464 | 12,950 |
| Due from five years to ten years | 7,738 | 8,019 |
| Due after ten years | 3,946 | 4,046 |
| | $ 28,462 | $ 29,359 |

There were no securities with gross unrealized losses at December 31, 2020. Information pertaining to securities with gross unrealized losses at December 31, 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

| | Less Than 12 months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| **Securities Available for Sale:** | | | | | | |
| December 31, 2019: | | | | | | |
| U.S. government agency securities | $ 820 | $ 9 | $ 1,815 | $ 32 | $ 2,635 | $ 41 |
| Mortgage-backed securities | 497 | 1 | 4,758 | 50 | 5,255 | 51 |
| State and municipal securities | 212 | 1 | 458 | 2 | 670 | 3 |
| | $ 1,529 | $ 11 | $ 7,031 | $ 84 | $ 8,560 | $ 95 |

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, 2020, management does not have the intent to sell any of its securities classified as available for sale and believes that it is more likely than not that the Company will not have to sell any securities in an unrealized loss position before a recovery of cost. The unrealized losses, when they occur, are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2020 and 2019, management believes the impairments detailed in the table above are temporary and no impairment loss has been recorded in the Company's income statement.

**4. Loans Held for Investment and Allowance for Loan Losses**

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

| | 2020 | 2019 |
|---|---|---|
| Real estate: | | |
| Commercial | $ 273,889 | $ 255,310 |
| Residential | 51,835 | 52,570 |
| Farmland | 4,418 | 4,952 |
| Total real estate | 330,142 | 312,832 |
| Commercial | 100,026 | 37,110 |
| Agricultural | 843 | 1,002 |
| Consumer | 7,583 | 10,357 |
| | 438,594 | 361,301 |
| Allowance for loan losses | (4,798) | (3,857) |
| | $ 433,796 | $ 357,444 |

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At December 31, 2020 and 2019, the majority 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.

The Coronavirus Aid, Relief and Economic Security (CARES) Act created funding for the Small Business Administration's SBA loan program providing forgiveness of up to the full principal amount of qualifying loans guaranteed under the new program called the Paycheck Protection Program (PPP). The intent of the PPP is to provide loans to small businesses in order to keep their employees on the payroll and make certain other eligible payments. Loans granted under the PPP are guaranteed by the SBA and are fully forgivable if used for qualifying expenses, such as payroll, rent and utilities. If the loans are not forgiven, they must be repaid over a term not to exceed five years. Under the PPP, through December 31, 2020, the Company funded $86.4 million in loans to more than 871 borrowers and with fees of $3.4 million and had remaining deferred fees of approximately $941 thousand of SBA processing fees that will be recognized as interest income over the term of the loans. As of December 31, 2020, $49.5 million of principal remained outstanding of these PPP loans.

***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: | | | | | |
| Commercial | $ 3,021 | $ 45 | $ (50) | $ - | $ 3,016 |
| Residential | 289 | 264 | - | - | 553 |
| Farmland | 27 | (5) | - | - | 22 |
| Total real estate | 3,337 | 304 | (50) | - | 3,591 |
| Commercial | 421 | 751 | (138) | 33 | 1,067 |
| Agricultural | 41 | 47 | - | - | 88 |
| Consumer | 58 | (3) | (4) | 1 | 52 |
| | $ 3,857 | $ 1,099 | $ (192) | $ 34 | 4,798 |
| December 31, 2019: | | | | | |
| Real estate: | | | | | |
| Commercial | $ 2,633 | $ 259 | $ - | $ 129 | $ 3,021 |
| Residential | 358 | (69) | - | - | 289 |
| Farmland | 49 | (22) | - | - | 27 |
| Total real estate | 3,040 | 168 | - | 129 | 3,337 |
| Commercial | 677 | 43 | (309) | 10 | 421 |
| Agricultural | 21 | 260 | (240) | - | 41 |
| Consumer | 30 | 43 | (19) | 4 | 58 |
| | $ 3,768 | $ 514 | $ (568) | $ 143 | 3,857 |

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 and on 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 | | |
|---|---|---|---|---|---|---|
| | Individually | General | Total loans | Individually | General | Total ALLL |
| December 31, 2020: | | | | | | |
| Real estate: | | | | | | |
| Commercial | $ 563 | $ 273,326 | $ 273,889 | $ 32 | $ 2,984 | $ 3,016 |
| Residential | - | 51,835 | 51,835 | - | 553 | 553 |
| Farmland | 1,287 | 3,131 | 4,418 | - | 22 | 22 |
| Total real estate | 1,850 | 328,292 | 330,142 | 32 | 3,559 | 3,591 |
| Commercial | 1,124 | 98,902 | 100,026 | 91 | 976 | 1,067 |
| Agricultural | - | 843 | 843 | - | 88 | 88 |
| Consumer | 64 | 7,519 | 7,583 | - | 52 | 52 |
| | $ 3,038 | $ 435,556 | $ 438,594 | $ 123 | $ 4,675 | $ 4,798 |
| December 31, 2019: | | | | | | |
| Real estate: | | | | | | |
| Commercial | $ 641 | $ 254,669 | $ 255,310 | $ 63 | $ 2,958 | $ 3,021 |
| Residential | - | 52,570 | 52,570 | - | 289 | 289 |
| Farmland | 10 | 4,942 | 4,952 | - | 27 | 27 |
| Total real estate | 651 | 312,181 | 312,832 | 63 | 3,274 | 3,337 |
| Commercial | 1,247 | 35,863 | 37,110 | 113 | 308 | 421 |
| Agricultural | - | 1,002 | 1,002 | - | 41 | 41 |
| Consumer | 44 | 10,313 | 10,357 | - | 58 | 58 |
| | $ 1,942 | $ 359,359 | $ 361,301 | $ 176 | $ 3,681 | $ 3,857 |

***Impaired Loans***

Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. Included in impaired loans at December 31, 2020 and 2019 are performing troubled debt restructured loans in the amounts of approximately $762 thousand and $819 thousand, respectively. The Company recognized approximately $68 thousand and $67 thousand of interest income on performing TDRs during 2020 and 2019, respectively. Additionally, at December 31, 2020 and 2019 the Company had approximately $202 thousand and $219 thousand, respectively, of loans included in impaired loans which were not on non-accrual or performing troubled debt restructured loans. There were specific reserves of approximately $63 thousand and $90 thousand, respectively, in regard to these loans at December 31, 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: | | | | | |
| Real estate: | | | | | |
| Commercial | $ 613 | $ 516 | $ 47 | $ 563 | $ 32 |
| Residential | - | - | - | - | - |
| Farmland | 1,287 | 1,287 | - | 1,287 | - |
| Total real estate | 1,900 | 1,803 | 47 | 1,850 | 32 |
| Commercial | 1,403 | 875 | 249 | 1,124 | 91 |
| Agricultural | - | - | - | - | - |
| Consumer | 64 | 64 | - | 64 | - |
| | $ 3,367 | $ 2,742 | $ 296 | $ 3,038 | $ 123 |
| December 31, 2019: | | | | | |
| Real estate: | | | | | |
| Commercial | $ 641 | $ 486 | $ 155 | $ 641 | $ 63 |
| Residential | - | - | - | - | - |
| Farmland | 10 | 10 | - | 10 | - |
| Total real estate | 651 | 496 | 155 | 651 | 63 |
| Commercial | 1,431 | 923 | 324 | 1,247 | 113 |
| Agricultural | - | - | - | - | - |
| Consumer | 44 | 44 | - | 44 | - |
| | $ 2,126 | $ 1,463 | $ 479 | $ 1,942 | $ 176 |

Average impaired loans during 2020 and 2019 were approximately $2.0 million and $2.5 million, respectively.

In the first quarter of 2020, the Company elected to work with borrowers impacted by COVID-19 by providing temporary payment modifications. If certain conditions are met, these modifications are excluded from classification as a troubled debt restructuring under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, the outstanding balance of loans modified under Section 4013 of the CARES Act was $14.6 million, which represents 3.3% of total loans.

***Past Due and Nonaccrual Loans***

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

| | 30-89 Days Past Due | Past Due 90 Days or More Still Accruing | Nonaccrual | Total Past Due & Nonaccrual |
|---|---|---|---|---|
| December 31, 2020: | | | | |
| Real estate: | | | | |
| Commerical | $ 249 | $ - | $ 56 | $ 305 |
| Residential | - | 57 | - | 57 |
| Farmland | 826 | - | 1,287 | 2,113 |
| Total real estate | 1,075 | 57 | 1,343 | 2,475 |
| Commercial | 20 | - | 875 | 895 |
| Agricultural | - | - | - | - |
| Consumer | - | - | - | - |
| | $ 1,095 | $ 57 | $ 2,218 | $ 3,370 |
| December 31, 2019: | | | | |
| Real estate: | | | | |
| Commerical | $ 337 | $ 105 | $ - | $ 442 |
| Residential | - | - | - | - |
| Farmland | - | - | 10 | 10 |
| Total real estate | 337 | 105 | 10 | 452 |
| Commercial | 298 | 47 | 894 | 1,239 |
| Agricultural | - | - | - | - |
| Consumer | - | - | - | - |
| | $ 635 | $ 152 | $ 904 | $ 1,691 |

Average nonaccrual loans, which are included in impaired loans during 2020 and 2019, were approximately $1.2 million and $1.3 million, respectively. Approximately $63 thousand and $74 thousand of additional interest would have been recognized on nonaccrual impaired loans if the loans had been on accrual status during 2020 and 2019, respectively.

***Troubled Debt Restructurings***

At December 31, 2020 and 2019, the Company had performing TDRs totaling approximately $762 thousand and $819 thousand, respectively. The Company is not committed to lend additional funds to debtors whose loans have been modified.

During the years ended December 31, 2020 and 2019, the Company had no significant loans modified as TDRs.

A TDR is considered to be in payment default once it is 30 days contractually past due under the modified terms. During the years ended December 31, 2020 and 2019, the Company had no significant TDRs that subsequently defaulted within twelve months following their modification.

***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, 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: | | | | | |
| Commericial | $ 263,621 | $ 3,867 | $ 6,401 | $ - | $ 273,889 |
| Residential | 51,835 | - | - | - | 51,835 |
| Farmland | 2,357 | 774 | 1,287 | - | 4,418 |
| Total real estate | 317,813 | 4,641 | 7,688 | - | 330,142 |
| Commercial | 97,771 | 1,130 | 1,125 | - | 100,026 |
| Agricultural | 843 | - | - | - | 843 |
| Consumer | 7,583 | - | - | - | 7,583 |
| | $ 424,010 | $ 5,771 | $ 8,813 | $ - | $ 438,594 |
| December 31, 2019: | | | | | |
| Real estate: | | | | | |
| Commericial | $ 251,620 | $ 2,827 | $ 863 | $ - | $ 255,310 |
| Residential | 52,524 | 46 | - | - | 52,570 |
| Farmland | 4,138 | - | 814 | - | 4,952 |
| Total real estate | 308,282 | 2,873 | 1,677 | - | 312,832 |
| Commercial | 36,268 | - | 842 | - | 37,110 |
| Agricultural | 1,002 | - | - | - | 1,002 |
| Consumer | 10,357 | - | - | - | 10,357 |
| | $ 355,909 | $ 2,873 | $ 2,519 | $ - | $ 361,301 |

## 5. Loan Servicing

SBA loans serviced for others are not included in the accompanying consolidated balance sheet. As of December 31, 2020, and 2019 the unpaid principal balances of loans serviced for others totaled approximately $8.0 million and $9.8 million, respectively.

## 6. Bank Premises and Equipment

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

| | 2020 | 2019 |
|---|---|---|
| Land | $ 6,840 | $ 6,840 |
| Buildings and improvements | 21,395 | 21,328 |
| Furniture and equipment | 4,718 | 4,821 |
| Automobiles | 221 | 231 |
| | 33,174 | 33,220 |
| Accumulated depreciation | (10,311) | (9,528) |
| | $ 22,863 | $ 23,692 |

Depreciation expense for the years ended December 31, 2020 and 2019 totaled approximately $1.1 million each year.

The Company leases certain premises under non-cancelable operating lease agreements with some containing renewal options subsequent to the initial terms. Rent expense under the Company's operating lease agreements totaled approximately $108 thousand and $125 thousand for the years ended December 31, 2020 and 2019, respectively. Future minimum rental commitments under operating leases at December 31, 2020 are as follows (in thousands):

| Year | Amount |
|---|---|
| 2021 | $ 93 |
| 2022 | 82 |
| 2023 | 60 |
| 2024 | 60 |
| 2025 | 20 |
| Thereafter | - |
| | $ 315 |

## 7. Goodwill

Goodwill in the amount of $647 thousand at December 31, 2020 and 2019 is included in the accompanying consolidated financial statements. Goodwill is assessed at least annually for impairment. At December 31, 2020 and 2019, management has determined that no impairment of goodwill has occurred.

## 8. Deposits

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Noninterest bearing demand accounts | $ 257,944 | 41.9 | $ 205,054 | 45.2 |
| Interest bearing demand accounts | 12,999 | 2.1 | 12,075 | 2.7 |
| Savings accounts | 29,862 | 4.8 | 24,765 | 5.5 |
| Limited access money market accounts | 254,164 | 41.3 | 151,824 | 33.4 |
| Certificates of deposit, less than $250,000 | 30,086 | 4.9 | 27,829 | 6.1 |
| Certificates of deposit, $250,000 or greater | 30,975 | 5.0 | 32,407 | 7.1 |
| | $ 616,030 | 100.00 | $ 453,954 | 100.0 |

The Company had no brokered deposits at December 31, 2020 and 2019.

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

| | |
|---|---|
| Less than one year | $ 53,539 |
| One to three years | 5,877 |
| Over three years | 1,645 |
| | $ 61,061 |

## 9. Junior Subordinated Debenture

The junior subordinated debentures of approximately $6.7 million at December 31, 2020 and 2019 represent amounts payable to a Special Purpose Entity (SPE) in conjunction with the Company's sponsorship of the SPE. The SPE has one issuance outstanding totaling $6.5 million in trust preferred securities and $202 thousand in common stock (wholly-owned by the Company) at December 31, 2020 and 2019. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of 3-month LIBOR plus l.60% (1.83% at December 31, 2020 and 3.59% at December 31, 2019), are redeemable at various dates, and mature in July 2036. Interest is payable quarterly and may be deferrable on a cumulative basis for up to five years.

The trust preferred securities are tax-advantaged issues that currently qualify as Tier 1 capital for the Company. Distributions on these securities are included as interest expense on other borrowed funds. The underlying trust is a statutory business trust organized for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The preferred trust securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust’s obligations under the trust preferred securities issued by the trust.

The Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital for depository institution holding companies, such as the Company. However, because the Company had less than $15 billion of consolidated assets as June 30, 2011, the Company will be permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier 1 capital, but will not be able to include any trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital. Further, the Board of Governors of the Federal Reserve System (Board) has determined that trust preferred securities are restrictive core capital elements in computing Tier 1 capital of bank holding companies. The Board has limited restrictive core capital elements (as defined) to 25% of core capital elements. Accordingly, the Company is limited on the trust preferred securities which it can include in its Tier 1 capital.

## 10. Other Borrowings

### *Federal Home Loan Bank*

The Company has available borrowings from the Federal Home Loan Bank (FHLB) of approximately $186.5 million at December 31, 2020. 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 outstanding debt. At December 31, 2020 and 2019, no amounts were outstanding under this agreement.

### *Other*

The Company has an unused federal funds line available from a commercial bank of approximately $17 million at December 31, 2020.

## 11. 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 consolidated 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 | $ 55,210 | $ 64,320 |
| Standby letters of credit | 854 | 943 |
| | $ 56,064 | $ 65,263 |

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 creditworthiness 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 these activities.

## 12. Employee Benefit Plans

The Company maintains a qualified deferred compensation plan (the Plan) under Section 401(k) of the Internal Revenue Code for all employees that meet certain age and service requirements. Under the plan, employees may elect to defer a portion of their salary, subject to the Internal Revenue Service limits. The Company may make a discretionary match contribution. Company contributions to the Plan were approximately $89 thousand and $78 thousand in 2020 and 2019, respectively.

## 13. Commitments and Contingencies

From time to time, the Company is involved in legal actions arising from normal business activities. Management believes the ultimate liability, if any, resulting from them will not materially affect the consolidated 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.

During 2020, the Company elected to participate in the Federal Home Loan Bank of Dallas' (FHLB) Mortgage Partnership Finance Program under which the Company as well as other participating financial institutions can sell loans to the FHLB. The FHLB assumes the first risk of loss up to a specified percentage, but has a limited right of recourse against the Company up to the maximum credit enhancement specified for each sale commitment under the program. The Company has considered this potential recourse in the allowance for credit losses and in its risk-based regulatory capital. As of December 31, 2020, the Company has sold no loans to the FHLB under this Program.

## 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, loans to related parties amounted to approximately $1.2 million and $756 thousand, respectively.

Unfunded commitments to these related parties totaled approximately $42 thousand and $54 thousand at December 31, 2020 and 2019, respectively.

Deposits from related parties held by the Bank totaled approximately $5.8 million and $4.8 million at December 31, 2020 and 2019, respectively.

**15. Fair Value Disclosures**

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

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

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

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

| | Fair Value Measurements Using | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| December 31, 2020: | | | |
| US government agency securities | $ - | $ 1,375 | $ - |
| Mortgage-backed securities | - | 3,882 | - |
| State and municipal securities | - | 24,102 | - |
| | $ - | $ 29,359 | $ - |
| December 31, 2019: | | | |
| US government agency securities | $ - | $ 3,136 | $ - |
| Mortgage-backed securities | - | 6,837 | - |
| State and municipal securities | - | 28,863 | - |
| | $ - | $ 38,836 | $ - |

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:

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| December 31, 2020: | | | | |
| Financial assets - impaired loans | $ - | $ - | $ 2,915 | $ 2,915 |
| Other real estate owned | - | 1,983 | - | 1,983 |
| December 31, 2019: | | | | |
| Financial assets - impaired loans | $ - | $ - | $ 1,766 | $ 1,766 |
| Other real estate owned | - | 1,983 | - | 1,983 |

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 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 $2.9 million and $1.9 million, respectively, were reduced by specific valuation allowance allocations totaling $123 thousand and $176 thousand, respectively, to a total reported fair value of $2.8 million and $1.8 million, respectively, based on collateral valuations utilizing Level 3 valuation inputs.

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.

## 16. Capital and Regulatory Matters

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

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

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

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

| | Actual | | Minimum Required for Capital Adequacy Purposes | | Minimum to be Well Capitalized under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2020: | | | | | | |
| Total capital to risk weighted assets | $ 55,662 | 13.95% | $41,902 | 10.50% | $ 39,907 | 10.00% |
| Tier 1 (core) capital to risk weighted assets | 50,864 | 12.75% | 33,921 | 8.50% | 31,926 | 8.00% |
| Common equity Tier 1 (CET1) | 50,864 | 12.75% | 27,935 | 7.00% | 25,940 | 6.50% |
| Tier 1 (core) capital to average assets | 50,864 | 7.77% | 26,201 | 4.00% | 32,751 | 5.00% |
| December 31, 2019: | | | | | | |
| Total capital to risk weighted assets | $ 51,568 | 13.79% | $39,270 | 10.50% | $ 37,400 | 10.00% |
| Tier 1 (core) capital to risk weighted assets | 47,711 | 12.76% | 31,790 | 8.50% | 29,920 | 8.00% |
| Common equity Tier 1 (CET1) | 47,711 | 12.76% | 26,180 | 7.00% | 24,310 | 6.50% |
| Tier 1 (core) capital to average assets | 47,711 | 9.41% | 20,270 | 4.00% | 25,338 | 5.00% |

RSM US LLP

## Independent Auditor's Report on Other Financial Information

Board of Directors and Stockholders
Greater Southwest Bancshares, Inc.

We have audited the consolidated financial statements of Greater Southwest Bancshares, Inc. and Subsidiary as of and for the year ended December 31, 2020, and have issued our report thereon dated April 16, 2021, which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial information is presented for purposes 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 taken as a whole.

RSM US LLP

San Antonio, Texas
April 16, 2021

# *GREATER SOUTHWEST BANCSHARES, INC. AND SUBSIDIARY*

Consolidating Balance Sheet

December 31, 2020

(In thousands)

| | Greater Southwest Bancshares, Inc. | Bank of the West | Eliminations | Consolidated |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ 920 | $ 173,414 | $ (920) (a) | $ 173,414 |
| Interest bearing deposits in other banks | - | 497 | - | 497 |
| Securities available for sale | - | 29,359 | - | 29,359 |
| Loans held for sale | - | 4,099 | - | 4,099 |
| Investment in subsidiary | 52,408 | - | (52,408) (b) | - |
| Loans held for investment | - | 433,796 | - | 433,796 |
| Accrued interest receivable | - | 2,111 | - | 2,111 |
| Premises and equipment | - | 22,863 | - | 22,863 |
| Other real estate owned | - | 1,983 | - | 1,983 |
| Goodwill | - | 647 | - | 647 |
| Other assets | 1,702 | 3,715 | (1,500) (d) | 3,917 |
| | $ 55,030 | $ 672,484 | $ (54,828) | $ 672,686 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Deposits: | | | | |
| Noninterest bearing | $ - | $ 258,864 | $ (920) (a) | $ 257,944 |
| Interest bearing | - | 358,086 | - | 358,086 |
| Total deposits | - | 616,950 | (920) | 616,030 |
| Junior subordinated debentures | 6,702 | - | - | 6,702 |
| Other liabilities | 1,449 | 3,126 | (1,500) (d) | 3,075 |
| Commitments and contingencies | - | - | - | - |
| Stockholders' equity: | | | | |
| Common stock | 309 | 1,010 | (1,010) (b) | 309 |
| Paid-in capital | 97 | 29,931 | (29,931) (b) | 97 |
| Retained earnings | 45,576 | 20,570 | (20,570) (b) | 45,576 |
| Accumulated other comprehensive income | 897 | 897 | (897) (b) | 897 |
| Total stockholders' equity | 46,879 | 52,408 | (52,408) | 46,879 |
| | $ 55,030 | $ 672,484 | $ (54,828) | $ 672,686 |

See description of consolidating entries on page 36 and accompanying auditor's report on additional information.

## *GREATER SOUTHWEST BANCSHARES, INC. AND SUBSIDIARY*

Consolidating Statement of Income and Comprehensive Income

For the Year Ended December 31, 2020

(In thousands)

| | Greater Southwest Bancshares, Inc. | Bank of the West | Eliminations | Consolidated |
|---|---|---|---|---|
| Interest income: | | | | |
| Interest and fees on loans | $ - | $ 22,413 | $ - | $ 22,413 |
| Interest on investment securities | - | 750 | - | 750 |
| Other | 6 | 310 | - | 316 |
| Total interest income | 6 | 23,473 | - | 23,479 |
| Interest expense: | | | | |
| Interest on deposit accounts | - | 2,896 | - | 2,896 |
| Other | 199 | - | - | 199 |
| Total interest expense | 199 | 2,896 | - | 3,095 |
| Net interest income | (193) | 20,577 | - | 20,384 |
| Provision for loan losses | - | 1,099 | - | 1,099 |
| Net interest income after provision for loan losses | (193) | 19,478 | - | 19,285 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | - | 778 | - | 778 |
| Dividends from subsidiary | 4,275 | - | (4,275) (c) | - |
| Equity in undistributed earnings from subsidiary | 3,153 | - | (3,153) (c) | - |
| Net gain on sales of investment securities available for sale | - | 16 | - | 16 |
| Gain on sales of loans held for sale | - | 3,012 | - | 3,012 |
| Other | - | 1,064 | - | 1,064 |
| Total noninterest income | 7,428 | 4,870 | (7,428) | 4,870 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 80 | 9,905 | - | 9,985 |
| Occupancy expense | - | 2,693 | - | 2,693 |
| Other | - | 4,322 | - | 4,322 |
| Total noninterest expense | 80 | 16,920 | - | 17,000 |
| Net income | 7,155 | 7,428 | (7,428) | 7,155 |
| Other comprehensive income on securities available for sale: | | | | |
| Change in net unrealized gain during the period | - | 432 | - | 432 |
| Reclassification adjustment for net gains included in net income | - | (16) | - | (16) |
| Other comprehensive income | - | 416 | - | 416 |
| Total comprehensive income | $ 7,155 | $ 7,844 | $ (7,428) | $ 7,571 |

See description of consolidating entries on page 36 and accompanying 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 the investment account against the stockholder's equity of the consolidated subsidiary.

(c) To eliminate dividends and equity in undistributed earnings of subsidiary.

(d) To eliminate intercompany dividends receivable/payable