

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.

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

December 31, 2020

Month / Day / Year

None

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

Reporter's Name, Street, and Mailing Address

First Liberty National Bancshares, Inc.

Legal Title of Holding Company

P O Box 10109

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

Liberty

TX

77575

City

State

Zip Code

1900 Sam Houston

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Jerry Ursprung

Treasurer

Name

Title

936/336/6471/1148

Area Code / Phone Number / Extension

936/336/3390

Area Code / FAX Number

jursprung@flnb.com

E-mail Address

flnb.com

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

I, Kelly D. Stretcher

Name of the Holding Company Director and Official

President, CEO, and Director

Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

3-23-2021

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. _____

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

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

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

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

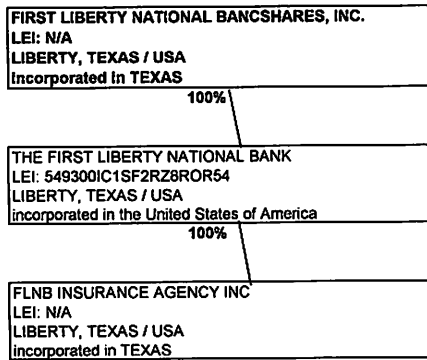
FORM FR Y-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.
LIBERTY, TEXAS
Fiscal Year Ending 12/31/2020

Report Item

1: The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the specified by the appropriate Reserve Bank, 1 copy is included

2 a: Organizational Chart



2b. Domestic branch listing provided to the Federal Reserve Bank.

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.
LIBERTY, TEXAS / USA

Fiscal Year Ending 12/31/2020

REPORT ITEM 3 (1) : SECURITIES HOLDERS

CURRENT SECURITIES HOLDERS WITH OWNERSHIP, CONTROL OF HOLDING OF 5% OR MORE WITH POWER TO VOTE AS OF FISCAL YEAR ENDING 12/31/2020

(1)(A) Name & Address City, State, Country	(1)(B) Country of Citizenship or Incorporation	(1)(C) Number & Percentage of Each Class of Voting Stock	
1. MARY C. HAYWOOD BAYTOWN, TX USA	USA	654.410	14.46% COMMON STOCK
LISA FLEETWOOD LIBERTY, TX USA	USA	654.410	14.46% COMMON STOCK
DAVID HAYWOOD BAYTOWN, TX USA	USA	10.000	0.22% COMMON STOCK
	TOTAL	1,318.82	29.14%
2. CHARLES R WIGGINS LIBERTY, TX USA	USA	343.985	7.60% COMMON STOCK
JOANN WIGGINS (wife) LIBERTY, TX USA	USA	215.804	4.77% COMMON STOCK
CHARLES K WIGGINS (son) ALBUQUERQUE, NM USA	USA	134.412	2.97% COMMON STOCK
KARL WIGGINS (son) HUMBLE, TX USA	USA	134.412	2.97% COMMON STOCK
TAMI WIGGINS (daughter) ALBUQUERQUE, NM USA	USA	134.412	2.97% COMMON STOCK
	TOTAL	963.025	21.29%
3. D. MAYES MIDDLETON, II WALLISVILLE, TX USA	USA	398.89	8.82% COMMON STOCK
4. CHARLES L MCGUIRE LIBERTY, TX USA	USA	312.510	6.91% COMMON STOCK

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.
LIBERTY, TEXAS / USA

Fiscal Year Ending 12/31/2020

REPORT ITEM 3 (2): SECURITIES HOLDERS

**SECURITIES HOLDERS WITH OWNERSHIP, CONTROL OF HOLDING OF 5% OR MORE
DURING THE FISCAL YEAR, NOT LISTED IN SECTION 3(1) 12/31/2020**

(1)(A) Name & Address City, State, Country	(1)(B) Country of Citizenship or Incorporation	(1)(C) Number & Percentage of Each Class of Voting Stock
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NONE

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.
 LIBERTY, TEXAS / USA
 Fiscal Year Ending 12/31/2020

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)
 # 1., 2., 3 a, b, c, & 4 a, b, c

1) Name & Address City, State, Country	2) Principal Occupation If other than with Bank Holding Company	3a) Title & Position with Bank Holding Company	3b) Title & Position with Subsidiaries	3c) Title & Position with Other Businesses	4a) Percentage of Voting Shares in Bank Holding Company	4b) Percentage of Voting Shares in Subsidiaries	4c) List names of other Companies if 25% of more of Voting Stock is Held
LISA HART-FREGIA LIBERTY, TX USA	BANKER	SECRETARY	AVP (THE FIRST LIBERTY NATIONAL BANK)	NONE	0.00%	NONE	NONE
LISA FLEETWOOD LIBERTY, TX USA	INVESTMENTS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	LIMITED PARTNER HAYWOOD W/I UNITS, LTD LIBERTY, TX USA	14.46%	NONE	Not Applicable
				SHAREHOLDER LDFMCH, LLC LIBERTY, TX USA		NONE	LDFMCH, LLC 50%
				SHAREHOLDER & SECRETARY LIBERTY INVESTMENT COMPANY LIBERTY, TX USA		NONE	LIBERTY INVESTMENT CO. 25.928%
				PRESIDENT KLMB PROPERTIES, LLC LIBERTY, TX USA		NONE	KLMB PROPERTIES, LLC 50%
				JOINT OWNER KLMB MINERALS, LLC LIBERTY, TX USA		NONE	KLMB MINERALS, LLC 50%
MATTHEW HARRIS LIBERTY, TX USA	CONTRACTOR	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT PELCO CONSTRUCTION LIBERTY, TX USA	0.22%	NONE	PELCO CONSTRUCTION 100%
				MANAGER PELCO PROPERTIES LIBERTY, TX USA		NONE	NOT APPLICABLE
				MANAGER JAYAR INC DAYTON, TX USA		NONE	NOT APPLICABLE
				PRESIDENT PELCO BUILDERS LIBERTY, TX USA		NONE	PELCO BUILDERS 100%
				MANAGER JOE & FRANCES HARRIS FAMILY PARTNERSHIP LIBERTY, TX USA		NONE	NOT APPLICABLE

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.
LIBERTY, TEXAS
Fiscal Year Ending 12/31/2020

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)

1., 2., 3 a, b, c, & 4 a, b, c

1) Name & Address City, State, Country	2) Principal Occupation if other than with Bank Holding Company	3a) Title & Position with Bank Holding Company	3b) Title & Position with Subsidiaries	3c) Title & Position with Other Businesses	4a) Percentage of Voting Shares in Bank Holding Company	4b) Percentage of Voting Shares in Subsidiaries	4c) List names of other Companies if 25% of more of Voting Stock is Held
GUY L. HARRIS DAYTON, TX USA	RETIRED-BLDG MATERIALS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	GENERAL PARTNER TOWN PROP. LLP DAYTON, TX USA	0.44%	NONE	NOT APPLICABLE
				GENERAL PARTNER PEOPLES LUMBER & SUPPLY LLP DAYTON, TX USA		NONE	NOT APPLICABLE
				TRUSTEE ROBERT D HARRIS MOORES BLUFF TRUST DAYTON, TX USA		NONE	NOT APPLICABLE
				TRUSTEE ROBERT D & BARBARA HARRIS IRREVOCABLE INSURANCE TRUST DAYTON, TX USA		NONE	NOT APPLICABLE
				TRUSTEE ROBERT HARRIS UNIFIED CREDIT TRUST DAYTON, TX USA		NONE	NOT APPLICABLE
				PRESIDENT PEOPLES BUUILDING CENTER DAYTON, TX USA		NONE	PEOPLES BUILDING CENTER 60.2%
MARY C. HAYWOOD BAYTOWN, TX USA	INVESTMENTS	Principal Securites Holder	NONE	LIMITED PARTNER HAYWOOD WI UNITS, LTD BAYTOWN, TX USA	14.46%	NONE	NOT APPLICABLE
				SHAREHOLDER LDFMCH, LLC BAYTOWN, TX USA		NONE	LDFMCH LLC 50%
				SHAREHOLDER & VICE PRESIDENT LIBERTY INVESTMENT COMPANY BAYTOWN, TX USA		NONE	LIBERTY INVESTMENT CO. 25.928%
DAVID HAYWOOD	INVESTMENTS	Principal Securites Holder	NONE (father of Lisa Fleetwood & Mary Haywood)	SHAREHOLDER & PRESIDENT LIBERTY INVESTMENT CO. BAYTOWN, TX USA	0.22%	NONE	LIBERTY INVESTMENT CO. 10.00%

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.
LIBERTY, TEXAS
Fiscal Year Ending 12/31/2020

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)

1., 2., 3 a, b, c, & 4 a, b, c

1) Name & Address City, State, Country	2) Principal Occupation If other than with Bank Holding Company	3a) Title & Position with Bank Holding Company	3b) Title & Position with Subsidiaries	3c) Title & Position with Other Businesses	4a) Percentage of Voting Shares in Bank Holding Company	4b) Percentage of Voting Shares in Subsidiaries	4c) List names of other Companies if 25% of more of Voting Stock is Held
PAUL HENRY LIBERTY, TX USA	RETIRED - BANKER	DIRECTOR	DIRECTOR	DIRECTOR, VICE-PRESIDENT LIBERTY COUNTY HOSPITAL DISTR # 1 LIBERTY, TX USA	1.37%	NONE	NONE
JOAN JEFFREY LIBERTY, TX USA	FARMING & INVESTMENTS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	OWNER JGJ FARMS LIBERTY, TX USA	0.24%	NONE	JGJ FARMS 100%
CHARLES L. MCGUIRE LIBERTY, TX USA	C.P.A. & ATTORNEY	CHRMN & DIRECTOR	CHAIRMAN & DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	OWNER CHARLES MCGUIRE C.P.A. & ATTORNEY AT LAW LIBERTY, TX USA	6.91%	NONE	CHARLES MCGUIRE C.P.A. 100%
				JOINT OWNER TEXAS MOBILE MILL, LLC LIBERTY, TX USA		NONE	TEXAS MOBILE MILL, LLC 50%
D. MAYES MIDDLETON, II WALLISVILLE, TX USA	ATTORNEY	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT MIDDLETON OIL COMPANY HOUSTON, TX USA	8.82%	NONE	MIDDLETON OIL CO. 100%
				OWNER DMM ENERGY LLC HOUSTON, TX USA		NONE	DMM ENERGY LLC 100%

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.
 LIBERTY, TEXAS
 Fiscal Year Ending 12/31/2020

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)
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EDGAR R. NORWOOD LIBERTY, TX USA	ATTORNEY	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT SR PRODUCTION CORP LIBERTY, TX USA	1.86%	NONE	SR PRODUCTION 100%
				OWNER NORWOOD LAW FIRM LIBERTY, TX USA		NONE	NORWOOD LAW FIRM 100%
EDWARD PICKETT LIBERTY, TX USA	ATTORNEY	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT PICKET & PICKETT P.C. LIBERTY, TX USA	2.52%	NONE	PICKETT & PICKETT P.C. 50%
				CO-OWNER PICKETT JOINT PROPERTIES LIBERTY, TX USA		NONE	NOT APPLICABLE
KELLY D. STRETCHER LIBERTY, TX USA	BANKER	PRESIDENT & CEO & DIRECTOR	PRESIDENT & CEO & DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	OWNER JFS RANCH MT. VERNON, TX USA	0.13%	NONE	JFS RANCH 100%
JERRY URSPRUNG LIBERTY, TX USA	BANKER	TREASURER & ADVISORY DIRECTOR	EXEC. V.P. - CFO & CASHIER & ADVISORY DIRECTOR (THE FIRST LIBERTY NATIONAL BANK) (SECRETARY/ TREASURER FLNB INSURANCE AGENCY)	BOARD MEMBER & SECRETARY HARDIN I.S.D. SCHOOL BOARD HARDIN, TX USA	0.03%	NONE	NONE

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.
LIBERTY, TEXAS
Fiscal Year Ending 12/31/2020

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)
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1) Name & Address City, State, Country	2) Principal Occupation if other than with Bank Holding Company	3a) Title & Position with Bank Holding Company	3b) Title & Position with Subsidiaries	3c) Title & Position with Other Businesses	4a) Percentage of Voting Shares in Bank Holding Company	4b) Percentage of Voting Shares in Subsidiaries	4c) List names of other Companies if 25% of more of Voting Stock is Held
CHARLES R WIGGINS LIBERTY, TX USA	RETIRED - BANKING	DIRECTOR	CHRM EMERITUS & DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	NONE	7.60%	NONE	NONE
JOANN WIGGINS LIBERTY, TX USA	HOMEMAKER (WIFE OF CHARLES WIGGINS)	Principal Securities Holder	NONE	NONE	4.77%	NONE	NONE
CHARLES K. WIGGINS ALBUQUERQUE, NM USA	ACTOR, MODEL, CONSTR.	Principal Securities Holder	N/A	N/A	2.97% **	NONE	NOT APPLICABLE
KARL WIGGINS HUMBLE, TX USA	AIRLINE GROUND CREW	Principal Securities Holder	N/A	N/A	2.97% **	NONE	NOT APPLICABLE
TAMI WIGGINS ALBUQUERQUE, NM USA	SELF EMPL- AERIAL SURV.	Principal Securities Holder	N/A	N/A	2.97% **	NONE	NOT APPLICABLE

** NOTE: ALTHOUGH CHARLES KEVIN WIGGINS, KARL WIGGINS, AND TAMI WIGGINS ARE NOT DIRECTORS OR OFFICERS OF THE HOLDING COMPANY, INFORMATION MUST BE PROVIDED BECAUSE THEY ARE CONSIDERED A "PRINCIPAL SECURITIES HOLDER" OF THE HOLDING COMPANY. THIS DEFINITION CAN BE FOUND IN THE FR Y-6 INSTRUCTIONS.

Results: A list of branches for your depository institution: **FIRST LIBERTY NATIONAL BANK, THE (ID_RSSD: 629353)**.
 This depository institution is held by **FIRST LIBERTY NATIONAL BANCSHARES, INC. (1233627)** of **LIBERTY, TX**.
 The data are as of **12/31/2020**. Data reflects information that was received and processed through **01/05/2021**.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

- OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.
- Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
- Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
- Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
- Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
 To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of **Change, Close, Delete, or Add**.
 The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	629353	FIRST LIBERTY NATIONAL BANK, THE	1900 SAM HOUSTON AVENUE	LIBERTY	TX	77575	LIBERTY	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	
OK		Full Service	5450945	CHINA BRANCH	15113 HIGHWAY 90	BEAUMONT	TX	77713	JEFFERSON	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	
OK		Full Service	3020335	DAYTON BRANCH	109 E HIGHWAY 90	DAYTON	TX	77535	LIBERTY	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	
OK		Full Service	5514865	DAYTON MORTGAGE CENTER	900 HIGHWAY 146 SOUTH	DAYTON	TX	77535	LIBERTY	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	
OK		Full Service	3879618	HUFFMAN BRANCH	24900 FM 2100	HUFFMAN	TX	77336	HARRIS	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	
OK		Full Service	5119327	HARDIN BRANCH	11030 HWY 146 N	LIBERTY	TX	77575	LIBERTY	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
The First Liberty National Bank
Liberty, Texas

We have audited the accompanying consolidated financial statements of The First Liberty National Bank and Subsidiary (an S corporation), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' 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 auditors consider 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.


To the Board of Directors and Stockholders of
The First Liberty National Bank
Re: Independent Auditors' Report

Opinion

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating financial information in Schedules I through IV 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 as a whole.


Briggs & Veselka Co.
Houston, Texas

March 17, 2021

THE FIRST LIBERTY NATIONAL BANK
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and due from banks	\$ 9,708,795	\$ 4,984,014
Interest-bearing deposits in banks	28,902,579	25,994,819
Federal funds sold	<u>146,576</u>	<u>1,230,052</u>
Total cash and cash equivalents	38,757,950	32,208,885
Certificates of deposits in banks	13,200,109	15,778,300
Available-for-sale securities, at fair value	111,617,763	78,480,066
Loans, net	203,581,533	209,814,328
Accrued interest receivable	1,961,072	1,550,440
Premises and equipment, net	13,476,306	11,569,642
Other assets	<u>2,329,910</u>	<u>1,925,571</u>
TOTAL ASSETS	<u>\$ 384,924,643</u>	<u>\$ 351,327,232</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 22,579,761	\$ 27,258,158
Savings, NOW and money market	280,203,824	241,534,454
Time deposits	<u>36,090,008</u>	<u>40,243,822</u>
Total deposits	338,873,593	309,036,434
Federal Home Loan Bank borrowings	670,600	1,420,600
Accrued expenses and other liabilities	<u>967,002</u>	<u>1,022,526</u>
Total liabilities	340,511,195	311,479,560
Stockholders' equity		
Common stock, \$100 par value; 20,000 shares authorized; 20,000 issued and outstanding	2,000,000	2,000,000
Additional paid-in capital	2,000,000	2,000,000
Retained earnings	38,104,444	35,192,668
Accumulated other comprehensive income (loss)	<u>2,309,004</u>	<u>655,004</u>
Total stockholders' equity	<u>44,413,448</u>	<u>39,847,672</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 384,924,643</u>	<u>\$ 351,327,232</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE FIRST LIBERTY NATIONAL BANK
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Interest and dividend income		
Loans	\$ 11,908,387	\$ 11,554,657
Debt securities	1,814,746	1,565,571
Deposits with financial institutions	463,048	860,838
Federal funds sold	3,814	28,174
Dividends	<u>15,694</u>	<u>27,093</u>
Total interest and dividend income	14,205,689	14,036,333
Interest expense		
Deposits	1,050,998	1,200,864
Federal Home Loan Bank borrowings	<u>32,956</u>	<u>57,737</u>
Total interest expense	<u>1,083,954</u>	<u>1,258,601</u>
Net interest income	13,121,735	12,777,732
Provision for loan losses	<u>1,304,824</u>	<u>1,158,333</u>
Net interest income after provision for loan losses	11,816,911	11,619,399
Noninterest income (loss)		
Service charges on deposit accounts	1,309,136	1,558,214
Other service charges and fees	3,286,034	3,404,077
Insurance commissions	322,288	448,902
Income from fiduciary activities	131,291	153,128
Net gain on call or sale of securities	341,517	3,162
Net loss on sale of other real estate	-	(86,459)
Other income	<u>401,462</u>	<u>440,294</u>
Total noninterest income	5,791,728	5,921,318
Noninterest expense		
Salaries and employee benefits	6,854,226	6,815,397
Occupancy and equipment	2,141,531	1,761,652
Data processing	939,358	1,075,434
Director fees	167,000	162,150
FDIC assessments	38,298	62,515
Legal fees	169,499	146,451
Professional fees	434,394	423,647
Other general and administrative	<u>1,747,353</u>	<u>2,058,177</u>
Total noninterest expense	<u>12,491,659</u>	<u>12,505,423</u>
NET INCOME	<u>\$ 5,116,980</u>	<u>\$ 5,035,294</u>
EARNINGS PER SHARE	<u>\$ 255.85</u>	<u>\$ 251.76</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE FIRST LIBERTY NATIONAL BANK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Consolidated net income	\$ 5,116,980	\$ 5,035,294
Other comprehensive income:		
Change in unrealized gain on available-for-sale securities	1,995,517	1,298,336
Reclassification adjustment for realized gains included in net income	<u>(341,517)</u>	<u>3,162</u>
Total other comprehensive income	<u>1,654,000</u>	<u>1,301,498</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 6,770,980</u>	<u>\$ 6,336,792</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE FIRST LIBERTY NATIONAL BANK
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE, DECEMBER 31, 2018	20,000	\$ 2,000,000	\$ 2,000,000	\$ 35,241,376	\$ (646,494)	\$ 38,594,882
Net income	-	-	-	5,035,294	-	5,035,294
Total other comprehensive income	-	-	-	-	1,301,498	1,301,498
Dividends paid	-	-	-	(5,084,002)	-	(5,084,002)
BALANCE, DECEMBER 31, 2019	20,000	2,000,000	2,000,000	35,192,668	655,004	39,847,672
Net income	-	-	-	5,116,980	-	5,116,980
Total other comprehensive income	-	-	-	-	1,654,000	1,654,000
Dividends paid	-	-	-	(2,205,204)	-	(2,205,204)
BALANCE, DECEMBER 31, 2020	<u>20,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 38,104,444</u>	<u>\$ 2,309,004</u>	<u>\$ 44,413,448</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE FIRST LIBERTY NATIONAL BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Net income	\$ 5,116,980	\$ 5,035,294
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	882,481	569,416
Provision for loan losses	1,304,824	1,158,333
Net amortization of security premiums and discounts	793,248	202,920
Net loss on sale of other real estate	-	86,459
Changes in operating assets and liabilities:		
Accrued interest receivable	(410,632)	(146,261)
Other assets	(386,139)	155,800
Accrued expenses and other liabilities	(55,524)	(39,665)
Net cash from operating activities	<u>7,245,238</u>	<u>7,022,296</u>
Cash flows from investing activities		
Net change in federal funds sold	1,083,476	77,072
Net change in interest-bearing deposits in banks	(329,569)	(5,906,853)
Activity in available-for-sale securities:		
Sales	9,349,911	226,590
Maturities, calls and principal paydowns	367,893,394	311,412,502
Purchases	(409,520,250)	(323,086,313)
Purchase of Federal Home Loan Bank stock	(8,200)	(19,300)
Purchase of FISC Stock	(10,000)	-
Proceeds from sale of other assets	-	212,741
Net change in loans	4,927,971	(23,190,055)
Purchases of premises equipment	(2,789,145)	(4,915,777)
Net cash from investing activities	<u>(29,402,412)</u>	<u>(45,189,393)</u>
Cash flows from financing activities		
Net change in noninterest-bearing deposits	(4,678,397)	3,276,181
Net change in interest-bearing deposits	34,515,556	40,502,719
Net change in borrowings	(750,000)	(750,000)
Dividends paid	(2,205,204)	(5,084,002)
Net cash from financing activities	<u>26,881,955</u>	<u>37,944,898</u>
Net change in cash and due from banks	4,724,781	(222,199)
Cash and due from banks at beginning of year	<u>4,984,014</u>	<u>5,206,213</u>
Cash and due from banks at end of year	<u>\$ 9,708,795</u>	<u>\$ 4,984,014</u>
Supplemental disclosure of cash flow information:		
Interest paid on deposits and borrowings	\$ 1,108,824	\$ 1,256,463

The accompanying notes are an integral part of these consolidated financial statements.

THE FIRST LIBERTY NATIONAL BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The First Liberty National Bank (the “Bank”) provides a variety of financial services to individuals and small businesses through its main office in Liberty, Texas and full-service branches in Huffman, Hardin China, and Dayton, Texas. Its primary deposit products are demand, savings and term certificate accounts and its primary lending products are commercial, real estate and consumer loans. The Bank’s operations also include trust and discount brokerage services. The Bank’s wholly-owned subsidiary, FLNB Insurance Agency, Inc. (FLNB Insurance), also located in Liberty, is an independent full-service insurance agency.

Basis of Presentation – The Company maintains its accounts on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation – The consolidated financial statements include the accounts of the Bank and FLNB Insurance (the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

Segment Reporting – We have determined that all of our lending divisions and subsidiaries meet the aggregation criteria of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 280, *Segment Reporting*, since all offer similar products and services, operate with similar processes, and have similar customers.

Use of Estimates – In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from 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, loan origination fees and their amortization period and fair value of financial instruments.

Risks and Uncertainties – During 2020, many countries around the world, including the United States, were impacted by the coronavirus (the “virus” or COVID-19) outbreak. While the virus is continuing to evolve, its implications could involve unavailability of personnel, and disruptions of supply chains. At this time, management is unaware of any material risk to the Company’s financial statements and cannot quantify the full extent the virus may have on the Company’s financial information. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could adversely impact the Company.

Cash and Cash Equivalents – Cash and cash equivalents include cash, due from banks, interest-bearing deposits in banks and federal funds sold. Generally, the Company considers all highly-liquid instruments with original maturities of three months or less to be cash and cash equivalents. In monitoring credit risk associated with deposits in other banks, the Bank periodically evaluates the stability of the correspondent financial institutions. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, balance due from banks, and federal funds sold, all of which have original maturities of 90 days or less.

Interest-Bearing Deposits and Certificates of Deposit in Banks – Interest-bearing deposits and certificates of deposit in banks are carried at cost. All certificates of deposit mature within six years.

THE FIRST LIBERTY NATIONAL BANK
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Federal Funds Sold – Federal funds transactions involve lending of immediately available reserve balances. Usually, the federal funds transactions are for one day or overnight borrowing and lending. In addition, agreements may include rollover provisions. In monitoring credit risk associated with these uninsured deposits, the Company periodically evaluates the stability of the correspondent financial institutions.

Investment Securities – Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Securities not classified as held-to-maturity or trading 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 period to maturity. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Nonmarketable Equity Securities – Nonmarketable equity securities include restricted stock held for membership and regulatory purposes, such as Federal Home Loan Bank (FHLB) stock, Federal Reserve Bank (FRB) stock, and FISC stock. The investments are carried at cost and periodically evaluated for impairment. At December 31, 2020 and 2019, total FHLB, FRB stock, and FISC stock of \$959,600 and \$941,400, respectively, was included in other assets in the consolidated balance sheets.

Loans – The Bank grants commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout southeast Texas. The ability of the Bank’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees are deferred and recognized as an adjustment of the related loan yield. Certain direct origination costs are not material and are expensed as incurred. In 2020 and 2019 fees and costs associated with originating loans are recognized as income and expense generally in the period in which fees are received and costs are incurred. Under GAAP, such net fees or costs generally are deferred and recognized over the life of the loan as an adjustment of yield. Management believes that not deferring such fees and costs and amortizing them over the life of the related loans does not materially affect the financial position or results of operations of the Bank.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due in accordance with the contractual terms of the loan agreement.

Foreclosed Assets – Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. Foreclosed assets amounted to \$294,923 and \$-0- at December 31, 2020 and 2019, respectively, and are reported within other assets on the consolidated balance sheets.

Premises and Equipment – Land is carried at cost. Autos, buildings, improvements and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs which do not extend the life of banking premises and equipment are charged to expense. Disposals are removed at cost less accumulated depreciation; any resulting gain or loss is reflected in operations.

Income Taxes – The Company files a consolidated federal income tax return, which is filed by the Bank's holding company, First Liberty National Bancshares, Inc.

The consolidated return includes the Company. In accordance with FASB ASC 740, *Income Taxes*, the Bank believes that it has no uncertain tax provisions that qualify for either recognition or disclosure in the financial statements.

Earnings Per Share – Earnings per share represents income available to common stockholders divided by the shares outstanding at the end of the period.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income includes unrealized gains (loss) on securities available-for-sale, and unrealized losses related to factors other than credit on debt securities which are also recognized as separate components of equity.

Fair Value Measurements – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A three-level fair value hierarchy prioritizes the inputs used to measure fair value:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 1 assets generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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- **Level 2** – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. The valuation may be based on quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset.
- **Level 3** – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include financial instruments whose value is determined using pricing models; discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial Instruments With Off-Balance-Sheet Risk – In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Advertising Costs – The Company expenses the costs of advertising as it is incurred, except for certain advertising which is included in prepaid expenses and amortized over its expected period of future benefits. Advertising expense was \$153,516 and \$237,787 in 2020 and 2019, respectively.

Concentration of Credit Risk – Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains deposits in federally insured financial institutions in excess of federally insured limits. Management monitors the credit ratings and concentration of risk with these financial institutions on a continuing basis to safeguard cash deposits.

Most of the Company's business activity is with customers located within its market area. Investments in state and municipal securities include some governmental entities within the Bank's market area.

The types of securities that the Bank invests in are included in *Note 3*. The types of lending that the Bank engages in are included in *Note 4*. The Bank does not have any significant concentrations to any one industry or customer.

Revenue Recognition – The FASB ASC 606, *Revenue From Contracts With Customers* (ASC 606), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of their revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, and investment securities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of their revenue-generating activities that are within the scope of ASC 606, which are presented in the consolidated statements of income as components of noninterest income, are as follows:

Service Charges on Deposit Accounts – These represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue consisting primarily of overdraft and nonsufficient funds fees, is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

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Other Service Charges and Fees – These include the Company’s merchant interchange income and other deposit fees. The merchant interchange income and other deposits fees are in the scope of ASC 606, and payment for such performance obligations are generally received at the time the performance obligations are satisfied. The majority of these fees in other noninterest income are not subject to the requirements of ASC 606.

Trust Income – Trust income includes fees and commissions from investment management, administrative and advisory services primarily for individuals, and to a lesser extent, partnerships and corporations. Revenue is recognized on an accrual basis at the time the services are performed and when we have a right to invoice and are based on either the market value of the assets managed or the services provided.

Other Noninterest Income – This primarily includes items such as loan and letter of credit fees, late charges and other general operating income, none of which are subject to the requirements of ASC 606.

Recently Adopted Accounting Pronouncements – In August 2018, FASB issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework* modifies the disclosure requirements on fair value measurement in *Topic 820, Fair Value Measurement*. These amendments in this update are effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this update may be early adopted and require a prospective transition approach for certain prescribed disclosure requirements, with all other amendments applied retrospectively.

Recent Accounting Pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* as amended in July 2018 by ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements*, that replace existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the consolidated balance sheets. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of income.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue From Contracts With Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, to defer these two standards. Under the deferral for leases rules, private companies and private not-for-profit organizations can apply the standard to fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact the provisions of these ASU’s and anticipates recognition of additional assets and corresponding liabilities relating to these leases on the consolidated balance sheets, but does not expect the adjustment to be material assuming no changes in lease activity.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the incurred loss model for recognition of credit losses with a methodology that reflects expected credit losses over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. In November 2019, the FASB issued ASU 2019-10, which provides a one-year deferral of the effective dates of ASU No. 2016-13. Accordingly, the guidance is effective for fiscal years beginning after December 15, 2022 for nonpublic companies. The Company is currently evaluating the impact the adoption of this standard would have on the financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The amendments in this guidance eliminate the requirement to calculate the implied fair value of goodwill to measure goodwill impairment charge (Step 2).

THE FIRST LIBERTY NATIONAL BANK
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As a result, an impairment charge will equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis.

The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021, for nonpublic companies. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The impact of this guidance for the Company will depend on the outcomes of future goodwill impairment tests.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, an update that provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The optional guidance is provided to ease the potential burden of accounting for reference rate reform. The guidance is effective and can be adopted no later than December 31, 2022. The Company is currently evaluating the impact that adopting this guidance would have on the financial statements and related disclosures

NOTE 2 – RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank of Dallas. At December 31, 2020 and 2019, these reserve balances amounted to \$-0-.

NOTE 3 – SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Available-for-sale securities:				
U.S. Treasury	\$ 1,486,953	\$ 46,420	\$ -	\$ 1,533,373
U.S. Government agency	3,999,535	4,695	(710)	4,003,520
State and municipal	80,000,018	1,869,474	(152,825)	81,716,667
SBA pooled	948,273	-	(1,650)	946,623
Mortgage-backed	<u>22,873,980</u>	<u>593,206</u>	<u>(49,606)</u>	<u>23,417,580</u>
Total available-for-sale securities	<u>\$ 109,308,759</u>	<u>\$ 2,513,795</u>	<u>\$ (204,791)</u>	<u>\$ 111,617,763</u>
December 31, 2019				
Available-for-sale securities:				
U.S. Treasury	\$ 1,476,459	\$ 32,108	\$ -	\$ 1,508,567
U.S. Government agency	6,563,675	47,477	(3,667)	6,607,485
State and municipal	38,692,645	425,517	(126,366)	38,991,796
SBA pooled	2,146,477	15,845	(29,386)	2,132,936
Mortgage-backed	<u>28,945,805</u>	<u>349,013</u>	<u>(55,536)</u>	<u>29,239,282</u>
Total available-for-sale securities	<u>\$ 77,825,061</u>	<u>\$ 869,960</u>	<u>\$ (214,955)</u>	<u>\$ 78,480,066</u>

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At December 31, 2020 and 2019, securities with a carrying value of approximately \$45,860,069 and \$43,343,000 respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2020 were as follows:

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due in one year or less	\$ 7,793,562	\$ 7,852,428
Due from one to five years	29,506,246	30,214,740
Due from five to ten years	32,006,640	32,585,856
Due after ten years	40,002,311	40,964,739
Totals	\$ 109,308,759	\$ 111,617,763

For purposes of the maturity table, mortgage-backed and SBA pooled securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the actual contractual maturities of underlying collateral. Expected maturities may differ from contractual maturities because borrowers may call or prepay obligations.

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2020						
Available-for-sale securities:						
U.S. Government agency	\$ 499,290	\$ (710)	\$ -	\$ -	\$ 499,290	\$ (710)
State and municipal	12,071,096	(147,684)	545,588	(5,141)	12,616,684	(152,825)
SBA pooled	-	-	946,623	(1,650)	946,623	(1,650)
Mortgage-backed	3,667,989	(49,606)	-	-	3,667,989	(49,606)
Total temporarily impaired securities	<u>\$ 16,238,375</u>	<u>\$ (198,000)</u>	<u>\$ 1,492,211</u>	<u>\$ (6,791)</u>	<u>\$ 17,730,586</u>	<u>\$ (204,791)</u>
December 31, 2019						
Available-for-sale securities:						
U.S. Government agency	\$ 1,062,410	\$ (3,667)	\$ -	\$ -	\$ 1,062,410	\$ (3,667)
State and municipal	8,720,996	(121,009)	2,828,844	(5,357)	11,549,840	(126,366)
SBA pooled	467,320	(8,042)	737,415	(21,345)	1,204,735	(29,387)
Mortgage-backed	7,888,995	(52,188)	1,796,302	(3,347)	9,685,297	(55,535)
Total temporarily impaired securities	<u>\$ 18,139,721</u>	<u>\$ (184,906)</u>	<u>\$ 5,362,561</u>	<u>\$ (30,049)</u>	<u>\$ 23,502,282</u>	<u>\$ (214,955)</u>

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 (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

NOTE 4 – LOANS

A summary of the balances of loans was as follows at December 31:

	<u>2020</u>	<u>Percent</u>	<u>2019</u>	<u>Percent</u>
Commercial	\$ 31,654,447	15.3%	\$ 23,807,755	11.2%
Real estate	158,158,490	76.5%	164,544,884	77.5%
Consumer	16,636,781	8.1%	23,763,976	11.2%
Other	<u>129,825</u>	<u>0.1%</u>	<u>206,865</u>	<u>0.1%</u>
Subtotal	206,579,543	<u>100.0%</u>	212,323,480	<u>100.0%</u>
Less: allowance for loan losses	<u>(2,998,010)</u>		<u>(2,509,152)</u>	
Net loans	<u>\$ 203,581,533</u>		<u>\$ 209,814,328</u>	

An analysis of the allowance for loan losses was as follows at December 31:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 2,509,152	\$ 2,231,773
Provision for loan losses	1,304,823	1,158,333
Loans charged-off	(964,406)	(1,046,515)
Recoveries	<u>148,441</u>	<u>165,561</u>
Balance at end of year	<u>\$ 2,998,010</u>	<u>\$ 2,509,152</u>

Two levels of disaggregation are defined for disclosures about the credit quality of loans and the allowance for loan losses – portfolio segment and class. Portfolio segment is defined as the level at which the Bank develops and documents a systematic method for determining its allowance for loan losses. Classes generally represent a further disaggregation of a portfolio segment based on certain risk characteristics.

The Bank disaggregates its loans into portfolio segments for purposes of determining the allowance for loan losses. The portfolio segments include commercial, real estate, consumer and other.

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The following table provides a summary of the allowance for loan losses and related loans classified by portfolio segment:

	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
December 31, 2020					
Allowance for loan losses:					
Beginning balance	\$ 1,795,608	\$ 298,031	\$ 415,513	\$ -	\$ 2,509,152
Provision for loan losses	1,076,729	163,278	64,816	-	1,304,823
Loans charged-off	(587,729)	(114,538)	(262,139)	-	(964,406)
Recoveries	<u>46,510</u>	<u>1,695</u>	<u>100,236</u>	-	<u>148,441</u>
Ending balance	2,331,118	348,466	318,426	-	2,998,010
Ending balance: individually evaluated for impairment					
	<u>1,211,108</u>	<u>198,328</u>	<u>47,890</u>	-	<u>1,457,326</u>
Ending balance: collectively evaluated for impairment					
	<u>\$ 1,120,010</u>	<u>\$ 150,138</u>	<u>\$ 270,536</u>	<u>\$ -</u>	<u>\$ 1,540,684</u>
Loans:					
Ending balance	\$ 31,654,447	\$ 158,158,490	\$ 16,636,781	\$ 129,825	\$ 206,579,543
Ending balance: individually evaluated for impairment					
	<u>4,181,860</u>	<u>10,373,729</u>	<u>229,838</u>	-	<u>14,785,427</u>
Ending balance: collectively evaluated for impairment					
	<u>\$ 27,472,587</u>	<u>\$ 147,784,761</u>	<u>\$ 16,406,943</u>	<u>\$ 129,825</u>	<u>\$ 191,794,116</u>
December 31, 2019					
Allowance for loan losses:					
Beginning balance	\$ 1,591,463	\$ 174,760	\$ 465,550	\$ -	\$ 2,231,773
Provision for loan losses	925,423	123,271	109,639	-	1,158,333
Loans charged-off	(861,131)	-	(185,384)	-	(1,046,515)
Recoveries	<u>139,853</u>	<u>-</u>	<u>25,708</u>	-	<u>165,561</u>
Ending balance	1,795,608	298,031	415,513	-	2,509,152
Ending balance: individually evaluated for impairment					
	<u>1,220,735</u>	<u>229,371</u>	<u>117,906</u>	-	<u>1,568,012</u>
Ending balance: collectively evaluated for impairment					
	<u>\$ 574,873</u>	<u>\$ 68,660</u>	<u>\$ 297,607</u>	<u>\$ -</u>	<u>\$ 941,140</u>
Loans:					
Ending balance	\$ 23,807,755	\$ 164,544,884	\$ 23,763,976	\$ 206,865	\$ 212,323,480
Ending balance: individually evaluated for impairment					
	<u>2,543,160</u>	<u>6,344,914</u>	<u>525,323</u>	-	<u>9,413,397</u>
Ending balance: collectively evaluated for impairment					
	<u>\$ 21,264,595</u>	<u>\$ 158,199,970</u>	<u>\$ 23,238,653</u>	<u>\$ 206,865</u>	<u>\$ 202,910,083</u>

Credit Risk Profile – To facilitate the monitoring of credit quality within the commercial portfolio segment, and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the commercial portfolio segment, the Bank utilizes categories of credit grades. The categories, which are derived from standard regulatory rating definitions, are assigned based on periodic loan evaluations.

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The Bank's internally assigned grades are as follows:

- **Pass** – Loans and leases with strong credit and no existing or known potential weaknesses deserving of management's close attention.
- **Special Mention** – Loans and leases that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or lease or the Bank's credit position.
- **Substandard** – Loans and leases that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans and leases have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans and leases in this grade are also characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies noted are not addressed and corrected.
- **Doubtful** – Loans and leases that have all the attributes of a substandard rating 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. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.
- **Loss** – Loans and leases considered uncollectible and are charged off in the period in which they are determined uncollectible. Because loans and leases in this category are fully charged down, they are not included in the following tables.

The following table summarizes the credit risk profile of the Bank's portfolio by segment:

	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
December 31, 2020					
Grade					
Pass	\$ 27,472,587	\$ 147,784,761	\$ 16,406,943	\$ 129,825	\$ 191,794,116
Special mention	632,719	3,800,157	38,277	-	4,471,153
Substandard	2,908,806	6,573,572	191,561	-	9,673,939
Doubtful	<u>640,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>640,335</u>
Totals	<u>\$ 31,654,447</u>	<u>\$ 158,158,490</u>	<u>\$ 16,636,781</u>	<u>\$ 129,825</u>	<u>\$ 206,579,543</u>
December 31, 2019					
Grade					
Pass	\$ 21,264,595	\$ 158,199,970	\$ 23,238,653	\$ 206,865	\$ 202,910,083
Special mention	163,517	403,369	53,697	-	620,583
Substandard	2,144,056	5,603,573	471,626	-	8,219,255
Doubtful	<u>235,587</u>	<u>337,972</u>	<u>-</u>	<u>-</u>	<u>573,559</u>
Totals	<u>\$ 23,807,755</u>	<u>\$ 164,544,884</u>	<u>\$ 23,763,976</u>	<u>\$ 206,865</u>	<u>\$ 212,323,480</u>

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Age Analysis of Past Due Loans – The following table summarizes the Bank’s loans by age and segment:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
December 31, 2020							
Commercial	\$ 45,680	\$ -	\$ 44,894	\$ 90,574	\$ 31,563,873	\$ 31,654,447	\$ -
Real estate	1,689,690	1,218,171	193,856	3,101,717	155,056,773	158,158,490	193,856
Consumer	158,289	10,229	17,901	186,419	16,450,362	16,636,781	-
Other	-	-	-	-	129,825	129,825	-
Totals	\$ 1,893,659	\$ 1,228,400	\$ 256,651	\$ 3,378,710	\$ 203,200,833	\$ 206,579,543	\$ 193,856
December 31, 2019							
Commercial	\$ 56,379	\$ 57,281	\$ -	\$ 113,660	\$ 23,694,095	\$ 23,807,755	\$ -
Real estate	1,230,276	232,234	984,846	2,447,356	162,097,528	164,544,884	608,807
Consumer	437,107	23,796	-	460,903	23,303,073	23,763,976	-
Other	-	-	-	-	206,865	206,865	-
Totals	\$ 1,723,762	\$ 313,311	\$ 984,846	\$ 3,021,919	\$ 209,301,561	\$ 212,323,480	\$ 608,807

Impaired Loans – Loans included that exhibit probable or observed credit weaknesses are subject to individual review. The Bank considers the current value of collateral, credit quality of any guarantees, the loan structure, and other factors when evaluating whether an individual loan is impaired. Other factors may include the geography and industry of the borrower, size and financial condition of the borrower, cash flow and leverage of the borrower, and the Bank’s evaluation of the borrower’s management.

The following table summarizes the Bank’s recorded investment in impaired loans and related allowance:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
December 31, 2020				
With no related allowance recorded:				
Commercial	\$ 632,719	\$ 632,719	\$ -	\$ 398,119
Real estate	6,407,169	6,407,169	-	4,846,899
Consumer	38,277	38,277	-	45,988
With a related allowance recorded:				
Commercial	\$ 3,549,141	\$ 3,549,141	\$ 1,211,108	\$ 2,964,391
Real estate	3,966,560	3,966,560	198,328	3,512,423
Consumer	191,561	191,561	47,890	331,593
Totals:				
Commercial	\$ 4,181,860	\$ 4,181,860	\$ 1,211,108	\$ 3,362,510
Real estate	10,373,729	10,373,729	198,328	8,359,322
Consumer	229,838	229,838	47,890	377,580

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	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
December 31, 2019				
With no related allowance recorded:				
Commercial	\$ 163,519	\$ 163,519	\$ -	\$ 334,557
Real estate	3,286,629	3,286,629	-	1,943,891
Consumer	53,698	53,698	-	121,312
With a related allowance recorded:				
Commercial	\$ 2,379,641	\$ 2,379,641	\$ 1,220,735	\$ 1,940,062
Real estate	3,058,285	3,058,285	229,371	2,295,647
Consumer	471,625	471,625	117,906	599,637
Totals:				
Commercial	\$ 2,543,160	\$ 2,543,160	\$ 1,220,735	\$ 2,274,619
Real estate	6,344,914	6,344,914	229,371	4,239,538
Consumer	525,323	525,323	117,906	720,948

Interest income on the cash basis on impaired loans during 2020 and 2019 was \$980,146 and \$430,717, respectively.

Trouble Debt Restructuring Loans – Restructured loans are considered “trouble debt restructuring” if due to the borrower’s financial difficulties, the Bank has granted a concession that it would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, rates, or a combination of the two. There were no new modifications during 2020 and 2019.

Loans on Nonaccrual Status – The Bank had three commercial and three installment loans on nonaccrual at December 31, 2020 with a total balance of \$968,679. Total nonaccrual loans to gross loans and total nonaccrual loans to total assets amount to 0.47% and 0.25%, respectively. The Bank had six commercial loans on nonaccrual at December 31, 2019 with a total balance of \$1,027,625.

Payment Protection Program – The Company is participating in the Paycheck Protection Program (PPP), which is a loan program that originated from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and was subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act.

The PPP is designed to provide U.S. small businesses with cash-flow assistance through loans fully guaranteed by the Small Business Administration (SBA). If the borrower meets certain criteria and uses the proceeds towards certain eligible expenses, the borrower’s obligation to repay the loan can be forgiven up to the full principal amount of the loan and any accrued interest. Upon borrower forgiveness, the SBA pays the Company for the principal and accrued interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original loan terms with the 100% SBA guaranty remaining. As of December 31, 2020, the Company had approximately 153 PPP loans with outstanding balances totaling \$7,144,948. As compensation for originating the loans, the Company received lender processing fees from the SBA, which were recognized as income.

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NOTE 5 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment were as follows at December 31:

	<u>2020</u>	<u>2019</u>
Premises and equipment		
Land	\$ 3,565,091	\$ 3,565,091
Buildings and improvements	10,909,153	9,456,807
Furniture and equipment	<u>5,755,879</u>	<u>4,516,591</u>
Total cost	20,230,123	17,538,489
Less: accumulated depreciation	<u>(6,753,817)</u>	<u>(5,968,847)</u>
Total premises and equipment, net	<u>\$ 13,476,306</u>	<u>\$ 11,569,642</u>

Depreciation expense for 2020 and 2019 amounted to \$882,481 and \$569,416, respectively.

NOTE 6 – DEPOSITS

The aggregate amount of time deposits, in denominations of \$250,000 or more, at December 31, 2020 and 2019 was approximately \$8,013,681 and \$10,961,000, respectively. At December 31, 2020, \$5,251,638 of these deposits mature within one year.

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

<u>Maturity</u>	<u>Amount</u>
2021	\$ 24,604,115
2022	4,755,284
2023	3,434,566
2024	1,628,386
2025	<u>1,667,657</u>
Total	<u>\$ 36,090,008</u>

Certain demand deposit accounts have been reclassified to interest-bearing accounts for Federal Reserve Bank of Dallas requirements as allowed by The Monetary Control Act of 1980 and Federal Reserve Regulation D. The reclassification for 2020 and 2019 amounted to \$91,751,514 and \$74,752,296, respectively.

Deposits of state, local and other public entities totaled approximately \$53,569,690 and \$43,303,000 at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, these deposits represented 15.8% and 14.0%, respectively, of total deposits.

NOTE 7 – BORROWINGS

At December 31, 2020 and 2019, the Bank had \$23,000,000 of unsecured federal funds lines of credit available with other banks. The lender may, at its discretion, require security prior to selling funds to the Bank. At December 31, 2020 and 2019, the Bank did not have any borrowings against these lines.

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At December 31, 2020 and 2019, the Bank had a line of credit with the FHLB of approximately \$92,507,301 and \$73,043,000, respectively. That amount is due as shown in the following table with interest due monthly at the rates of 2.20%. The agreement provides for earlier call dates. Borrowings under the line of credit are limited to 35% of the Bank's total assets. All borrowings are secured by a blanket lien on qualified collateral, as defined by the agreement. The borrowings also require the purchase of FHLB capital stock. The Bank's outstanding balance at December 31, 2020 and 2019 was \$670,600 and \$1,420,600, respectively.

<u>Maturity</u>	<u>Amount</u>
2021	\$ <u>670,600</u>
Total	\$ <u>670,600</u>

The Company has an unsecured line of credit with FHLB for \$27,100,000 to be used to secure deposit accounts either (a) maintained at the bank by one or more public entities or (b) that otherwise qualify as public entities deposits. The Company has no outstanding balance from this line of credit at December 31, 2020.

NOTE 8 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Credit-Related Financial Instruments – The Bank is a party to credit related 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, overdraft protection, and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk at December 31:

	<u>Contract Amounts</u>	
	<u>2020</u>	<u>2019</u>
Unfunded commitments under lines of credit	\$ 18,550,855	\$ 23,314,846
Overdraft protection agreements	6,854,351	7,145,152
Letters of credit	736,495	141,495
Unused ACH commitments	3,888,500	4,049,500
Loans sold to FHLB with recourse	-	327,903

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

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Unfunded commitments under lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are generally uncollateralized and ultimately may not be drawn upon to the total extent to which the Bank is committed.

Letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary.

Collateral Requirements – To reduce credit risk related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank’s credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate.

NOTE 9 – LEGAL CONTINGENCIES

Various legal claims arise from time-to-time in the normal course of business which, in the opinion of management, will not have a material effect on the Company’s financial statements.

NOTE 10 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators, which if undertaken, could have a direct material effect on the Bank’s financial statements.

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In July 2013, the Federal Reserve Bank of Dallas published final rules for the adoption of the Basel III regulatory capital framework (the “Basel III Capital Rules”). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called Common Equity Tier 1 (CET1), (ii) specify that Tier 1 capital consist of CET1 and Additional Tier 1 Capital instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

The Basel III Capital Rules became effective for the Company on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019.

Additionally, the Basel III Capital Rules require that the Bank maintain a capital conservation buffer with respect to each of the CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. The capital conservation buffer is added to the 4.5% CET1 capital ratio, the 6.0% Tier 1 capital ratio and the 8.0% total capital ratio as that buffer is phased in, effectively increasing the respective minimum capital ratios.

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The capital conservation buffer is subject to a three-year phase-in period that began on January 1, 2016 and was fully phased in on January 1, 2019 at 2.5%. The required phase-in capital conservation buffer during 2019 is 2.50% and was 1.875% during 2018. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the following tables of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2020 and 2019, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December, 31 2020 and 2019 are presented as follows:

	Actual		Required Under Basel III Phase-in		Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
(in thousands)						
Total Capital (to Risk-Weighted Assets)	\$ 44,676	21.76%	\$ 21,561	≥10.50%	\$ 20,534	≥10.00%
Tier I Capital (to Risk-Weighted Assets)	\$ 42,104	20.50%	\$ 17,454	≥8.50%	\$ 16,427	≥8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	\$ 42,104	20.50%	\$ 14,374	≥7.00%	\$ 13,347	≥6.50%
Tier I Capital (to Average Total Assets)	\$ 42,104	10.77%	\$ 15,644	≥4.00%	\$ 19,554	≥5.00%
As of December 31, 2019						
(in thousands)						
Total Capital (to Risk-Weighted Assets)	\$ 41,701	19.93%	\$ 21,972	≥10.50%	\$ 20,926	≥10.00%
Tier I Capital (to Risk-Weighted Assets)	\$ 39,192	18.73%	\$ 17,787	≥8.50%	\$ 16,740	≥8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	\$ 39,192	18.73%	\$ 14,648	≥7.00%	\$ 13,602	≥6.50%
Tier I Capital (to Average Total Assets)	\$ 39,192	11.43%	\$ 13,719	≥4.00%	\$ 17,149	≥5.00%

THE FIRST LIBERTY NATIONAL BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 11 – RELATED PARTY TRANSACTIONS

The Bank has entered into transactions with its executive officers, directors, significant stockholders, and their affiliates (related parties). For 2020 and 2019, fees paid to directors totaled \$166,964 and \$162,150, respectively. Deposits from related parties held by the Bank at December 31, 2020 and 2019 amounted to approximately \$19,894,475 and \$16,198,000, respectively.

The activity of loans to such related parties was as follows:

	<u>2020</u>	<u>2019</u>
Loans outstanding at January 1	\$ 3,449,829	\$ 3,560,161
New loans	3,314,315	3,426,801
Repayments	<u>(3,318,749)</u>	<u>(3,537,133)</u>
Loans outstanding at December 31	<u>\$ 3,445,395</u>	<u>\$ 3,449,829</u>

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

Periodically, the Company does business with entities that have representation with the Board of Directors, but which transactions are not considered material to the financial statements.

NOTE 12 – EMPLOYEE BENEFIT PLAN

The Bank and FLNB Insurance have a 401(k) profit sharing plan whereby employees who meet certain eligibility requirements may participate in the Plan. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws.

The Bank and FLNB Insurance make matching contributions equal to 100% of the first 6% of an employee’s compensation contributed to the Plan. In addition, discretionary contributions can be made as determined annually by the Board of Directors. Salaries and employee benefits expense includes \$262,830 and \$223,347 for contributions made to the Plan in 2020 and 2019, respectively.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. The Bank groups its financial assets in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments measured on a nonrecurring basis.

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Impaired Loans – Loans held for investment are generally not recorded at fair value on a recurring basis. Periodically, the Bank records nonrecurring adjustments to the carrying value of these loans based on fair value measurements for loans subject to impairment.

The fair value of impaired loans is typically determined using a combination of observable inputs, such as interest rates, contract terms, appraisals of collateral supporting the loan and recent comparable sales of similar properties, and unobservable inputs such as creditworthiness, disposition costs and underlying cash flows associated with the loan. Since the estimates of fair value utilized for loans also involve unobservable inputs, valuations of impaired loans have been classified as Level 3.

Fair values of assets and liabilities measured on a recurring and nonrecurring basis are as follows:

	Fair Value Measurements Using			Fair Value
	Level 1	Level 2	Level 3	
December 31, 2020				
Recurring basis				
U.S. Treasury	\$ 1,533,373	\$ -	\$ -	\$ 1,533,373
U.S. Government agency	-	4,003,520	-	4,003,520
State and municipal	-	81,716,667	-	81,716,667
SBA pooled	-	946,623	-	946,623
Mortgage-backed	-	23,417,580	-	23,417,580
Nonrecurring basis				
Impaired loans	-	-	14,785,427	14,785,427
Totals	\$ 1,533,373	\$ 110,084,390	\$ 14,785,427	\$ 126,403,190
December 31, 2019				
Recurring basis				
U.S. Treasury	\$ 1,508,567	\$ -	\$ -	\$ 1,508,567
U.S. Government agency	-	6,607,485	-	6,607,485
State and municipal	-	38,991,796	-	38,991,796
SBA pooled	-	2,132,936	-	2,132,936
Mortgage-backed	-	29,239,282	-	29,239,282
Nonrecurring basis				
Impaired loans	-	-	9,413,397	9,413,397
Totals	\$ 1,508,567	\$ 76,971,499	\$ 9,413,397	\$ 87,893,463

NOTE 14 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 17, 2021, which is the date the financial statements were available to be issued and no events occurred that required recording or disclosure in the accompanying financial statements.

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SCHEDULE I – CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2020

	The First Liberty National Bank	FLNB Insurance Agency, Inc	Eliminations	Consolidated
ASSETS				
Cash and due from banks	\$ 9,705,738	\$ 112,927	\$ (109,870)	\$ 9,708,795
Interest-bearing deposits in banks	28,902,579	-	-	28,902,579
Federal funds sold	146,576	-	-	146,576
Total cash and cash equivalents	<u>38,754,893</u>	<u>112,927</u>	<u>(109,870)</u>	<u>38,757,950</u>
Certificate of deposit in banks	12,767,109	433,000	-	13,200,109
Available-for-sale securities, at fair value	111,367,992.00	249,771	-	111,617,763
Loans, net	203,581,533	-	-	203,581,533
Accrued interest receivable	1,958,073	2,999	-	1,961,072
Premises and equipment, net	13,476,306	-	-	13,476,306
Investment in subsidiary	1,160,140	-	(1,160,140)	-
Other assets	<u>1,966,537</u>	<u>363,373</u>	<u>-</u>	<u>2,329,910</u>
TOTAL ASSETS	<u>\$ 385,032,583</u>	<u>\$ 1,162,070</u>	<u>\$ (1,270,010)</u>	<u>\$ 384,924,643</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
EQUITY				
Liabilities				
Deposits				
Noninterest-bearing	\$ 22,689,631	\$ -	\$ (109,870)	\$ 22,579,761
Savings, NOW and money market	280,203,824	-	-	280,203,824
Time deposits	36,090,008	-	-	36,090,008
Total deposits	<u>338,983,463</u>	<u>-</u>	<u>(109,870)</u>	<u>338,873,593</u>
Federal Home Loan Bank borrowings	670,600	-	-	670,600
Accrued expenses and other liabilities	965,073	1,929	-	967,002
Total liabilities	<u>340,619,136</u>	<u>1,929</u>	<u>(109,870)</u>	<u>340,511,195</u>
Stockholders' equity				
Common stock	2,000,000	1,000	(1,000)	2,000,000
Additional paid-in capital	2,000,000	499,000	(499,000)	2,000,000
Retained earnings	38,104,443	660,141	(660,140)	38,104,444
Accumulated other comprehensive income	2,309,004	-	-	2,309,004
Total stockholders' equity	<u>44,413,447</u>	<u>1,160,141</u>	<u>(1,160,140)</u>	<u>44,413,448</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 385,032,583</u>	<u>\$ 1,162,070</u>	<u>\$ (1,270,010)</u>	<u>\$ 384,924,643</u>

THE FIRST LIBERTY NATIONAL BANK
SCHEDULE II – CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	The First Liberty National Bank	FLNB Insurance Agency, Inc	Eliminations	Consolidated
Interest and dividend income				
Loans	\$ 11,908,387	\$ -	\$ -	\$ 11,908,387
Debt securities	1,814,444	302	-	1,814,746
Deposits with financial institutions	449,336	13,712	-	463,048
Federal funds sold	3,814	-	-	3,814
Dividends	15,694	-	-	15,694
Total interest and dividend income	14,191,675	14,014	-	14,205,689
Interest expense				
Deposits	1,050,998	-	-	1,050,998
Federal Home Loan Bank borrowings	32,956	-	-	32,956
Total interest expense	1,083,954	-	-	1,083,954
Net interest income	13,107,721	14,014	-	13,121,735
Provision for loan losses	1,304,824	-	-	1,304,824
Net interest income after provision for loan losses	11,802,897	14,014	-	11,816,911
Noninterest income (loss)				
Service charges on deposit accounts	1,309,136	-	-	1,309,136
Other service charges and fees	3,286,034	-	-	3,286,034
Insurance commissions	-	322,288	-	322,288
Income from fiduciary activities	131,291	-	-	131,291
Net gain on call or sale of securities	341,517	-	-	341,517
Other income	401,462	-	-	401,462
Total noninterest income	5,469,440	322,288	-	5,791,728
Noninterest expense				
Salaries and employee benefits	6,679,426	174,800	-	6,854,226
Occupancy and equipment	2,103,596	37,935	-	2,141,531
Data processing	938,715	643	-	939,358
Director fees	167,000	-	-	167,000
FDIC assessments	38,298	-	-	38,298
Legal fees	169,499	-	-	169,499
Professional fees	425,394	9,000	-	434,394
Other general and administrative	1,738,639	8,714	-	1,747,353
Total noninterest expense	12,260,567	231,092	-	12,491,659
Income before equity in earnings of subsidiary	5,011,770	105,210	-	5,116,980
Equity in earnings of subsidiary	105,209	-	(105,209)	-
NET INCOME	\$ 5,116,979	\$ 105,210	\$ (105,209)	\$ 5,116,980

THE FIRST LIBERTY NATIONAL BANK
SCHEDULE III – CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2019

	The First Liberty National Bank	FLNB Insurance Agency, Inc	Eliminations	Consolidated
ASSETS				
Cash and due from banks	\$ 4,984,014	\$ 165,360	\$ (165,360)	\$ 4,984,014
Interest-bearing deposits in banks	25,984,724	10,095	-	25,994,819
Federal funds sold	<u>1,230,052</u>	<u>-</u>	<u>-</u>	<u>1,230,052</u>
Total cash and cash equivalents	32,198,790	175,455	(165,360)	32,208,885
Certificate of deposit in banks	15,253,300	525,000	-	15,778,300
Available-for-sale securities, at fair value	78,480,066	-	-	78,480,066
Loans, net	209,814,328	-	-	209,814,328
Accrued interest receivable	1,547,605	2,835	-	1,550,440
Premises and equipment, net	11,569,642	-	-	11,569,642
Investment in subsidiary	1,054,931	-	(1,054,931)	-
Other assets	<u>1,585,609</u>	<u>339,962</u>	<u>-</u>	<u>1,925,571</u>
TOTAL ASSETS	<u>\$ 351,504,271</u>	<u>\$ 1,043,252</u>	<u>\$ (1,220,291)</u>	<u>\$ 351,327,232</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
EQUITY				
Liabilities				
Deposits				
Noninterest-bearing	\$ 27,423,518	\$ -	\$ (165,360)	\$ 27,258,158
Savings, NOW and money market	241,534,454	-	-	241,534,454
Time deposits	<u>40,243,822</u>	<u>-</u>	<u>-</u>	<u>40,243,822</u>
Total deposits	309,201,794	-	(165,360)	309,036,434
Federal Home Loan Bank borrowings	1,420,600	-	-	1,420,600
Accrued expenses and other liabilities	<u>1,034,206</u>	<u>(11,680)</u>	<u>-</u>	<u>1,022,526</u>
Total liabilities	311,656,600	(11,680)	(165,360)	311,479,560
Stockholders' equity				
Common stock	2,000,000	1,000	(1,000)	2,000,000
Additional paid-in capital	2,000,000	499,000	(499,000)	2,000,000
Retained earnings	35,192,667	554,932	(554,931)	35,192,668
Accumulated other comprehensive loss	<u>655,004</u>	<u>-</u>	<u>-</u>	<u>655,004</u>
Total stockholders' equity	<u>39,847,671</u>	<u>1,054,932</u>	<u>(1,054,931)</u>	<u>39,847,672</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 351,504,271</u>	<u>\$ 1,043,252</u>	<u>\$ (1,220,291)</u>	<u>\$ 351,327,232</u>

THE FIRST LIBERTY NATIONAL BANK
SCHEDULE IV – CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	The First Liberty National Bank	FLNB Insurance Agency, Inc	Eliminations	Consolidated
Interest and dividend income				
Loans	\$ 11,554,657	\$ -	\$ -	\$ 11,554,657
Debt securities	1,565,571	-	-	1,565,571
Deposits with financial institutions	847,010	13,828	-	860,838
Federal funds sold	28,174	-	-	28,174
Dividends	27,093	-	-	27,093
Total interest income	14,022,505	13,828	-	14,036,333
Interest expense				
Deposits	1,200,864	-	-	1,200,864
Federal Home Loan Bank borrowings	57,737	-	-	57,737
Total interest expense	1,258,601	-	-	1,258,601
Net interest income	12,763,904	13,828	-	12,777,732
Provision for loan losses	1,158,333	-	-	1,158,333
Net interest income after provision for loan losses	11,605,571	13,828	-	11,619,399
Noninterest income (loss)				
Service charges on deposits	1,558,214	-	-	1,558,214
Other service charges and fees	3,404,077	-	-	3,404,077
Insurance commissions	-	448,902	-	448,902
Income from fiduciary activities	153,128	-	-	153,128
Net loss on call or sale of securities	3,162	-	-	3,162
Net loss on sale of other real estate	(86,459)	-	-	(86,459)
Other income	440,294	-	-	440,294
Total noninterest income	5,472,416	448,902	-	5,921,318
Noninterest expense				
Salaries and employee benefits	6,541,200	274,197	-	6,815,397
Occupancy and equipment	1,727,699	33,953	-	1,761,652
Data processing	1,072,931	2,503	-	1,075,434
Director fees	162,150	-	-	162,150
FDIC assessments	62,515	-	-	62,515
Legal fees	146,451	-	-	146,451
Professional fees	414,647	9,000	-	423,647
Other general and administrative	2,041,013	17,164	-	2,058,177
Total noninterest expense	12,168,606	336,817	-	12,505,423
Income before equity in earnings of subsidiary	4,909,381	125,913	-	5,035,294
Equity in earnings of subsidiary	125,912	-	(125,912)	-
NET INCOME	\$ 5,035,293	\$ 125,913	\$ (125,912)	\$ 5,035,294