

Board of Governors of the Federal Reserve System



# Annual Report of Holding Companies—FR Y-6

## Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, **Dan Neff**

Name of the Holding Company Director and Official

**CEO & Director**

Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

**03/31/2021**

Date of Signature

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

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

**For Federal Reserve Bank Use Only**

RSSD ID \_\_\_\_\_

C.I. \_\_\_\_\_

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

**December 31, 2020**

Month / Day / Year

N/A

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

Reporter's Name, Street, and Mailing Address

**Albany Bancshares Inc.**

Legal Title of Holding Company

**PO Box 2019**

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

<b>Albany</b>	<b>TX</b>	<b>76430</b>
City	State	Zip Code

**100 South Main Street**

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

**DeVona Davis** **none**

Name Title

**325-762-2222**

Area Code / Phone Number / Extension

**325-762-3913**

Area Code / FAX Number

**fnbalbany@fnbab.com**

E-mail Address

**None**

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

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

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

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

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

## For Use By Tiered Holding Companies

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

### Albany Bancshares Nevada Financial Corporation

Legal Title of Subsidiary Holding Company

#### PO Box 2019

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

Albany TX 76430

City State Zip Code

#### 100 South Main Street

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

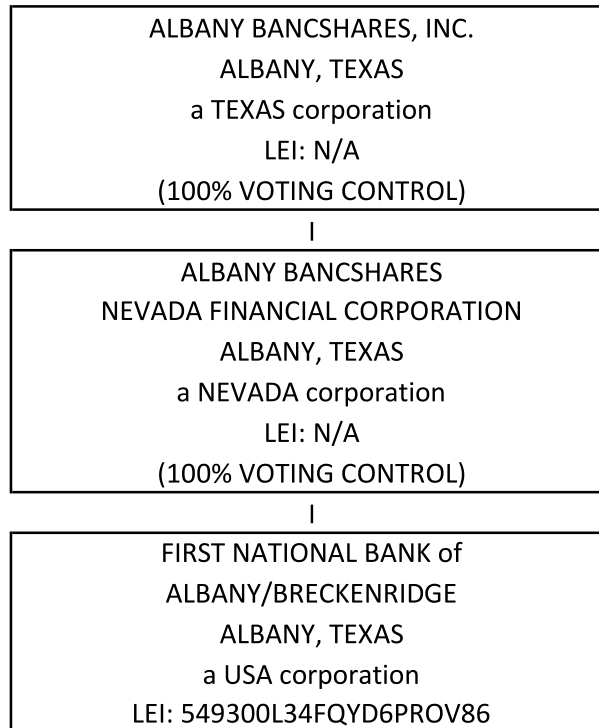
Physical Location (if different from mailing address)

**ALBANY BANCSHARES, INC.  
FR Y-6 REPORT ITEMS  
FOR YEAR ENDED DECEMBER 31, 2020**

REPORT ITEM 1: ANNUAL REPORT TO SHAREHOLDERS

Attached at the end of this report.

REPORT ITEM 2a: ORGANIZATION CHART



**Results:** A list of branches for your depository institution: **FIRST NATIONAL BANK OF ALBANY/BRECKENRIDGE (ID\_RSSD: 340751)**. This depository institution is held by **ALBANY BANCSHARES, INC. (1246926) of ALBANY, 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)	340751	FIRST NATIONAL BANK OF ALBANY/BRECKENRIDGE	100 SOUTH MAIN STREET	ALBANY	TX	76430	SHACKELFORD	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF ALBANY/BRECKENRIDGE	340751	
Change	1/19/2021	Full Service	5097555	ABILENE OFFICE	5657 BUFFALO GAP ROAD	ABILENE	TX	79606	TAYLOR	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF ALBANY/BRECKENRIDGE	340751	
OK		Full Service	1394210	BRECKENRIDGE BRANCH	101 EAST WALKER	BRECKENRIDGE	TX	76424	STEPHENS	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF ALBANY/BRECKENRIDGE	340751	
OK		Full Service	1394911	GORDON BRANCH	104 SOUTH MAIN	GORDON	TX	76453	PALO PINTO	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF ALBANY/BRECKENRIDGE	340751	
OK		Full Service	1407549	STRAWN BRANCH	CENTRAL & HOUSELEY	STRAWN	TX	76475	PALO PINTO	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF ALBANY/BRECKENRIDGE	340751	

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Albany Bancshares, Inc.  
Albany, Texas  
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Lynne Jacobs Teinert Albany, Texas	USA	606 Shares 12.14%	<b>N/A</b>		
SMJ Trust V Stephen M. Jones, Trustee Abilene, Texas	USA	432 Shares Trustee with 8.65% voting power			
Jon Rex Jones Dynasty Trust & JRJ Jr Trust V Jon Rex Jones, Jr., Trustee Austin, Texas	USA	1005 Shares Trustee with 20.13% voting power			
JRJ Jr. Dynasty Trust Brenda Jones, Trustee Austin, Texas	USA	298 Shares Trustee with 5.97% voting power			
JAJ Trust V Julie Ann Jarvis, Trustee Aledo, Texas	USA	432 Shares Trustee with 8.65% voting power			
DLJ Trust V Debora Jones, Trustee Mills Valley, California	USA	433 Shares Trustee with 8.67% voting power			
Jon Rex Jones Albany, Texas	USA	1 Share 0.02%			
Jon Rex Jones Family (individuals noted above)	USA	2,601 Shares 52.09% voting power			

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Albany Bancshares Nevada Financial Corporation

Albany, Texas

Fiscal Year Ending December 31, 2020

**Report Item 3: Securities Holders**

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Albany Bancshares, Inc. Albany, Texas	USA	1,000 Shares 100%	<b>N/A</b>		

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Albany Bancshares, Inc.  
Albany, Texas

Fiscal Year Ending December 31, 2020

Report Item 4: Insiders

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	Principal Occupation if other than with Bank Holding Company	Title & Position with Bank Holding Company	Title & Position with Subsidiaries (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Securities in Bank Holding Company	Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
James H. Cotter Albany, Texas USA	Certified Public Accountant	Director	Director of First National Bank Albany/Breckenridge	N/A	1.38%	N/A	N/A
Jon Rex Jones Albany, Texas USA	Oil Producer	Director	Director of Albany Bancshares Nevada Financial Corporation	Partner/ Director/ Trustee/ Officer of Jones Family Entities	0.02%	N/A	Jones Management Corp. - 100% Jones Interests, Inc. - 75% Jones Tucker Corp. - 38.88% McArron Partners, LP - 34.16% Red Metal Primer, LLC - 50% MCJ, LLC - 25%
Harold G. Cox Albany, Texas USA	Bank Consultant	Director	Vice President of Albany Bancshares Nevada Financial Corporation	N/A	0.02%	N/A	N/A
James C. Shelton Breckenridge, TX USA	Bank Consultant	Director	Director/Vice President/Consultant of First National Bank Albany/Breckenridge	President JS Land & Cattle Company, Inc.	0.12%	N/A	JS Land & Cattle Company Inc - 100%
Robert B. Amot Breckenridge, TX USA	Oil Production Petroleum Engineer	Director	Director/Executive Vice President of Albany Bancshares Nevada Financial Corporation	President Oil Co., LLC Partner Exploration	0.10%	N/A	Arnot Oil Company LLC - 100% Paloma Exploration Co. - 41.48%
Jimmy Dye Breckenridge, TX USA	Manufacturer	Director	Director of First National Bank Albany/Breckenridge	CEO Dye Manufacturing Corp.	0.06%	N/A	R.E. Dye Manufacturing Corp. - 90%

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Albany Bancshares, Inc.  
Albany, Texas

Fiscal Year Ending December 31, 2020

Report Item 4: Insiders (continued)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	Principal Occupation if other than with Bank Holding Company	Title & Position with Bank Holding Company	Title & Position with Subsidiaries (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Securities in Bank Holding Company	Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
J. Randall Palmore Albany, Texas USA	Banker	Director	Director/Secretary-Treasurer Albany Bancshares Nevada Financial Corporation	N/A	0.52%	N/A	N/A
Dan A. Neff Albany, Texas USA	Certified Public Accountant	Director/ CEO	Director/CEO of First National Bank Albany/Breckenridge	Partner James H Cotter, Neff & Co.	1.50%	N/A	DANPCO, Inc. - 100% Neff, Inc. - 25%
K. Kevin Simmons Breckenridge, TX USA	Banker	Director	Director/Breckenridge President of First National Bank Albany/Breckenridge	N/A	0.52%	N/A	N/A
Glenn A. Picquet Albany, Texas USA	Oil Producer & Investor	Director	N/A	President CE Jacobs Company Partner/ Trustee of various entities	1.02%	N/A	Picquet Management LLC - 100% CE Jacobs Company - 45% Jacobs Development LTD - 25% Jacobs Exploration LTD - 25% Texas Sports Acquisition Group LLC > 50% Zulu LTD Group - 25%
Lynne Jacobs Teinert Albany, Texas USA	Oil Producer & Investor	Director & Principal Shareholder	Director of First National Bank Albany/Breckenridge	N/A	12.14%	N/A	N/A
Stephen M. Jones Ablene, Texas USA	Oil Producer	Director	Director of First National Bank Albany/Breckenridge	Co-Trustee & Partner McArron Partners, LP	Trustee of 8.65%	N/A	McArron Partners, LP - 33.2%



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Albany Bancshares, Inc.  
Albany, Texas

Fiscal Year Ending December 31, 2020

Report Item 4: Insiders (continued)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	Principal Occupation if other than with Bank Holding Company	Title & Position with Bank Holding Company	Title & Position with Subsidiaries (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Securities in Bank Holding Company	Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Jon Rex Jones, Jr. Austin, Texas USA	Oil Producer	Principal Securities Holder	N/A	Trustee of Jon Rex Jones Dynasty Trust & JRJ Jr Trust V	* 20.13%	N/A	N/A
* Owner of the shares belongs to Jon Rex Jones Dynasty Trust & JRJ Jr Trust V, but voted on by its trustee, Jon Rex Jones, Jr.							
Debra Jones Mill Valley, California USA	Investor	Principal Securities Holder	N/A	N/A	Trustee of N/A 8.67%	N/A	N/A
Julie Ann Jarvis Aledo, Texas USA	Investor	Principal Securities Holder	N/A	N/A	Trustee of N/A 8.65%	N/A	N/A
Brenda Jones Austin, Texas USA	Investor	Principal Securities Holder	N/A	N/A	Trustee of N/A 5.97%	N/A	N/A

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Albany Bancshares Nevada Financial Corporation  
Albany, Texas

Fiscal Year Ending December 31, 2020

Report Item 4: Insiders

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	Principal Occupation if other than with Bank Holding Company	Title & Position with Bank Holding Company	Title & Position with Subsidiaries (include names of other businesses)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Securities in Bank Holding Company	Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Jon Rex Jones Albany, Texas USA	Oil Producer	Director	Director of First National Bank Albany/Breckenridge	Partner/ Director/ Trustee/ Officer of Jones Family Entities	N/A	N/A	Jones Management Corp. - 100% Jones Interests, Inc. - 75% Jones Tucker Corp. - 38.88% McArron Partners, LP - 34.16% Red Metal Primer, LLC - 50% MCJ, LLC - 25%
Harold G. Cox Albany, Texas USA	Bank Consultant	Vice President	Director/Vice President/Consultant of First National Bank Albany/Breckenridge	N/A	N/A	N/A	N/A
James C. Shelton Breckenridge, TX USA	Bank Consultant	Director/ Executive Vice President	Director/Breckenridge Consultant of First National Bank Albany/Breckenridge	President JS Land & Cattle Company, Inc.	N/A	N/A	JS Land & Cattle Company Inc - 100%
J. Randall Palmore Albany, Texas USA	Banker	Director/ Secretary- Treasurer	Director/Albany President of First National Bank Albany/Breckenridge	N/A	N/A	N/A	N/A

**First National Bank Albany/Breckenridge**  
Financial Statements  
For the Years Ended December 31, 2020 and 2019

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April 28, 2021

**To the Board of Directors  
First National Bank Albany/Breckenridge  
Albany, Texas**

**Independent Auditors' Report**

**Report on the Financial Statements**

We have audited the accompanying financial statements of First National Bank Albany/Breckenridge (the "Bank") which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, changes in stockholder's equity and cash flows for the years then ended and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 of material misstatement.

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

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

**Opinion**

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

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Condly and Company, L.L.P.*

Certified Public Accountants

**FIRST NATIONAL BANK ALBANY/BRECKENRIDGE**  
**BALANCE SHEETS**  
**DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and due from banks		
Noninterest-bearing balances and currency and coin	\$ 7,039,596	\$ 6,763,757
Interest-bearing balances	62,729,278	42,335,038
Federal funds sold	<u>2,000,000</u>	<u>2,000,000</u>
Total cash and due from banks	71,768,874	51,098,795
Investment securities available-for-sale, at fair value	114,519,035	110,722,976
Loans receivable, net of allowance for credit losses of \$11,938,700 and \$7,667,959 in 2020 and 2019, respectively	399,872,332	393,937,329
Accrued interest receivable	4,101,437	3,129,361
Premises and equipment, net	4,161,459	2,725,135
Bank-owned life insurance, at cash surrender value	6,467,336	3,945,378
Other assets	<u>2,773,177</u>	<u>1,412,841</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 603,663,650</u></b>	<b><u>\$ 566,971,815</u></b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing deposits	\$ 150,826,860	\$ 138,943,740
Interest-bearing deposits	<u>372,732,649</u>	<u>346,457,503</u>
Total deposits	523,559,509	485,401,243
Repurchase agreement	617,969	1,332,511
Accrued interest payable	181,689	386,427
Federal Home Loan Bank borrowings	-	5,000,000
Deferred salary continuation plan	2,206,154	2,109,060
Other liabilities	<u>1,134,425</u>	<u>1,043,115</u>
Total liabilities	527,699,746	495,272,356
<b>Stockholder's equity</b>		
Common stock, \$20 par value; 5,000 shares authorized, issued, and outstanding	100,000	100,000
Capital surplus	1,783,800	1,783,800
Retained earnings	68,364,954	65,015,439
Accumulated other comprehensive income	<u>5,715,150</u>	<u>4,800,220</u>
Total stockholder's equity	<u>75,963,904</u>	<u>71,699,459</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b><u>\$ 603,663,650</u></b>	<b><u>\$ 566,971,815</u></b>

*The accompanying notes are an integral part of the financial statements.*

**FIRST NATIONAL BANK ALBANY/BRECKENRIDGE**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Interest income		
Loans, including fees:		
Taxable	\$ 23,543,677	\$ 23,770,524
Nontaxable	85,826	98,976
Investment securities:		
Taxable	2,354,538	3,369,530
Nontaxable	1,740,027	1,601,607
Federal funds sold	5,707	37,703
Due from banks	<u>143,854</u>	<u>786,637</u>
Total interest income	27,873,629	29,664,977
Interest expense		
Deposits	3,727,081	5,914,770
Repurchase agreement	<u>1,993</u>	<u>2,567</u>
Total interest expense	<u>3,729,074</u>	<u>5,917,337</u>
Net interest income	24,144,555	23,747,639
Provision for loan losses	<u>4,250,000</u>	<u>3,000,000</u>
Net interest income after provision for loan losses	19,894,555	20,747,639
Noninterest income		
Service charges on deposits	1,217,144	1,314,892
Other noninterest income	368,347	1,331,970
Gain on sale of investment securities, net	<u>205,518</u>	<u>-</u>
Total noninterest income	1,791,009	2,646,862
Noninterest expenses		
Salaries and employee benefits	6,479,072	6,693,604
Equipment and data processing	1,079,026	1,107,654
Occupancy	546,552	779,003
Regulatory assessments and fees	274,529	268,329
Depreciation	202,019	245,937
State taxes and ad valorem taxes	183,919	152,218
Other expenses	<u>2,380,032</u>	<u>2,557,491</u>
Total noninterest expenses	<u>11,145,149</u>	<u>11,804,236</u>
NET INCOME	<u>\$ 10,540,415</u>	<u>\$ 11,590,265</u>

*The accompanying notes are an integral part of the financial statements.*



**FIRST NATIONAL BANK ALBANY/BRECKENRIDGE**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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	<u>2020</u>	<u>2019</u>
Net income	\$ 10,540,415	\$ 11,590,265
Other items of comprehensive income:		
Net change in unrealized gain on available-for-sale securities	1,120,448	869,430
Less: reclassification adjustment for (gains) included in net income	<u>(205,518)</u>	<u>-</u>
Total other items of comprehensive expense	<u>914,930</u>	<u>869,430</u>
Total comprehensive income	<u>\$ 11,455,345</u>	<u>\$ 12,459,695</u>

*The accompanying notes are an integral part of the financial statements.*

**FIRST NATIONAL BANK ALBANY/BRECKENRIDGE**  
**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder's Equity
BALANCE AT DECEMBER 31, 2018	\$ 100,000	\$ 1,783,800	\$ 60,020,874	\$ 3,930,790	\$ 65,835,464
Net income	-	-	11,590,265	-	11,590,265
Net change in unrealized gain on available-for-sale securities	-	-	-	869,430	869,430
Dividends paid	-	-	(6,595,700)	-	(6,595,700)
BALANCE AT DECEMBER 31, 2019	100,000	1,783,800	65,015,439	4,800,220	71,699,459
Net income	-	-	10,540,415	-	10,540,415
Net change in unrealized gain on available-for-sale securities	-	-	-	914,930	914,930
Dividends paid	-	-	(7,190,900)	-	(7,190,900)
BALANCE AT DECEMBER 31, 2020	\$ 100,000	\$ 1,783,800	\$ 68,364,954	\$ 5,715,150	\$ 75,963,904

*The accompanying notes are an integral part of the financial statements.*

**FIRST NATIONAL BANK ALBANY/BRECKENRIDGE**  
**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	\$ 10,540,415	\$ 11,590,265
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	202,019	245,937
Net amortization of investment securities available-for-sale	899,215	655,513
Provision for loan losses	4,250,000	3,000,000
Gain on sale of investment securities, net	(205,518)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(972,076)	441,850
Other assets	(3,882,294)	604,901
Repurchase agreement	(714,542)	(167,489)
Accrued interest payable	(204,738)	76,664
Other liabilities	<u>188,404</u>	<u>97,860</u>
Net cash from operating activities	<u>10,100,885</u>	16,545,501
Cash flows from investing activities		
Net (increase) decrease in loans	(10,185,003)	9,232,888
Purchases of investment securities available-for-sale	(38,313,638)	(25,717,684)
Proceeds from sales and maturities of investment securities available-for-sale	34,738,812	50,807,111
Purchases of premises and equipment	<u>(1,638,343)</u>	<u>(1,166,217)</u>
Net cash from investing activities	<u>(15,398,172)</u>	33,156,098
Cash flows from financing activities		
Net increase (decrease) in interest and noninterest-bearing deposits	38,158,266	(31,193,781)
Proceeds from Federal Home Loan Bank borrowings	25,000,000	-
Repayments of Federal Home Loan Bank borrowings	(30,000,000)	-
Proceeds from federal funds purchased	15,802,000	22,495,000
Repayments of federal funds purchased	(15,802,000)	(22,495,000)
Dividends paid	<u>(7,190,900)</u>	<u>(6,595,700)</u>
Net cash from financing activities	<u>25,967,366</u>	<u>(37,789,481)</u>
Net change in cash and due from banks	<u>20,670,079</u>	11,912,118
Cash and due from banks, beginning of year	<u>51,098,795</u>	<u>39,186,677</u>
Cash and due from banks, end of year	<u>\$ 71,768,874</u>	<u>\$ 51,098,795</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 3,933,812	\$ 3,404,225
Noncash and financing activities:		
Other assets acquired in settlement of loans	\$ -	\$ 16,061

*The accompanying notes are an integral part of the financial statements.*

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

The First National Bank Albany/Breckenridge (the “Bank”) conducts operations in the west Texas communities of Albany, Abilene, Breckenridge, Gordon, and Strawn. The Bank is a wholly-owned subsidiary of Albany Bancshares Nevada Financial Corporation, which is a wholly-owned subsidiary of Albany Bancshares, Inc. Effective January 1, 1997, the Bank elected to become a subchapter S corporation for federal income tax purposes.

**Basis of Presentation** – The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America (GAAP) and with general practices within the banking industry. Policies and practices which materially affect the determination of financial position, results of operations, and cash flows are summarized as follows:

**Use of Estimates** – The Bank’s financial statements are prepared in conformity with GAAP which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

**Cash and Due From Banks** – For purposes of the statements of cash flows, the Bank considers all highly liquid investments with an initial maturity less than three months to be cash equivalents. The composition of cash and due from Banks at December 31, 2020 and 2019 includes noninterest-bearing balances, currency and coin, cash items in the process of clearing, and interest-bearing balances with original terms less than three months, and federal funds sold under agreement to resell.

**Interest-Bearing Deposits in Banks** – Interest-bearing balances represent deposits with financial institutions that are carried at cost.

**Investment Securities Available-for-Sale** – Available-for-sale securities consist of securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses on available-for-sale securities are reported as a net amount in a separate component of stockholder’s equity until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost, that are other than temporary, result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. The Bank had no write-downs other than temporary in 2020 and 2019.

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

**Loans Receivable** – The Bank generally originates single-family residential loans within its primary lending area in Albany, Breckenridge, Abilene, Gordon and Strawn, Texas. The Bank’s underwriting policies generally require such loans to be 80% loan-to-value based upon appraised values. These loans are secured by the underlying properties. The Bank is also active in originating a variety of other secured consumer loans to its customers.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest is accrued daily on the outstanding balances.

**FIRST NATIONAL BANK ALBANY/BRECKENRIDGE**  
NOTES TO FINANCIAL STATEMENTS  
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GAAP requires that loan origination fees and certain direct origination costs be capitalized and recognized as an adjustment of the yield of the related loan. The Bank has not done this to date as these fees and costs are not material to the financial statements.

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method. The Bank had no residential real estate or consumer purchased loans during 2020 and 2019.

For impaired loans, accrual of interest is discontinued on a loan when management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected.

A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is 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.

Each segment of loans has specific risks associated based on the nature of the loan. Loans secured by real estate are influenced by real estate market conditions in the area in which the property is located as well as the type of property the loan is secured by. Agriculture loans are subject to market prices as well as the local weather conditions in determining future repayment and value of collateral. Commercial and consumer loans are also subject to the local and national economic atmosphere, and the industry in which the Bank conducts business.

**Allowance for Loan Losses** – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses related to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examination.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as either special mention, substandard, or doubtful. For such loans that are also 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.

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The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. This methodology is consistent among all classes of loans.

A loan is impaired when it is probable, based on current information and events, the Bank will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured on an individual basis for commercial and construction loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

From time-to-time, the Bank modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when the borrower is experiencing financial difficulty and concessions are made by the Bank that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. For all impaired loans, including the Bank's troubled debt restructurings, the Bank performs a periodic well-documented credit evaluation of the borrower's financial condition and prospects for repayment to assess the likelihood that all principal and interest payments required under the terms of the agreement will be collected in full. When doubt exists about the ultimate collectability of principal and interest, the troubled debt restructuring remains on nonaccrual status and payments received are applied to reduce principal to the extent necessary to eliminate such doubt. This determination of accrual status is judgmental and is based on facts and circumstances related to each troubled debt restructuring. Each of these loans are individually evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral, modified loan terms and cash flow. As of December 31, 2020 and 2019, all of the Bank's troubled debt restructured loans are included in the nonaccrual totals.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

The Bank has not made any significant changes in accounting policies during 2020.

**Foreclosed Assets** – Assets acquired through foreclosure or other proceedings are initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. After foreclosure, valuations are periodically performed by management and foreclosed assets held for sale are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose of are recorded as necessary. Net revenue and expenses from the operations of foreclosed assets and changes in the valuation allowance are included in other expenses in the statements of income.

**Transfers of Assets** – The Bank accounts for transfers of financial assets by recognizing the financial assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. The Bank also distinguishes transfers of financial assets that are sales from transfers of financial assets that are secured borrowings.

**Premises and Equipment** – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation for financial reporting and income tax purposes is computed primarily on the modified accelerated cost recovery system, which approximates results from methods using GAAP.

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The estimated useful lives of premises and equipment are:

<u>Premises and Equipment</u>	<u>Estimated Useful Lives</u>
Bank premises	7 - 39 years
Furniture and equipment	3 -10 years
Automobiles	5 years

**Federal Home Loan Bank (FHLB) and Federal Reserve Bank Stock** – The Bank, as a member of the FHLB system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding home loans or 5% of advances from the FHLB. No ready market exists for the FHLB stock, and it has no quoted market value. The stock is carried at \$1,475,400 and \$1,081,900 as of December 31, 2020 and 2019, respectively, and is included in other assets in the balance sheets.

The Bank also holds Federal Reserve Bank stock totaling \$57,650 as of December 31, 2020 and 2019. There is no readily determinable fair value and there are contractual restrictions on the sale or transfer of the stocks. The stocks are carried at cost in other assets in the balance sheets.

**401(k) Plan** – In June 2000, the Bank adopted the First National Bank Albany/Breckenridge 401(k) Plan (the “Plan”), to help supplement employee income upon retirement. The Plan is a defined contribution plan covering substantially all employees of the Bank. A participant in the Plan may elect to contribute up to the maximum percentage allowed by law each Plan year. The Bank may make discretionary contributions to the Plan each year, to be determined by the Board of Directors, for those participants who have completed a year of service. A participant becomes 100% vested in the employer discretionary contribution after completing seven years of service. During 2020 and 2019, the Bank contributed \$135,629 and \$125,478, respectively, in discretionary contributions.

**Accumulated Other Comprehensive Income** – Unrealized gains or losses on the Bank’s available-for-sale securities are included in accumulated other comprehensive income.

**Income Taxes** – The Bank elected by unanimous consent of its stockholders to be taxed under the provisions of subchapter S of the Internal Revenue Code. Under such election, the Bank’s federal taxable income or loss is passed through to the individual stockholders. Since the Bank has maintained its subchapter S status, management has not identified any instances where an adjustment to the financial statements would be necessary in order to comply with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Accounting for Uncertainty in Income Taxes*. With few exceptions, the Bank is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2017.

**State Margin Tax** – The state margin tax applies to legal entities conducting business in Texas. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and, therefore, has the characteristics of an income tax. The state margin tax is included in taxes other than income taxes and franchise taxes and not as an income tax expense. Franchise tax totaled \$37,831 and \$29,208 for 2020 and 2019, respectively.

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

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**Revenue Recognition** – 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 Bank’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 the Bank’s 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 the Bank’s revenue-generating activities that are within the scope of ASC 606, which are presented in the 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 the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations is generally received at the time the performance obligations are satisfied.

*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.

**Recent Accounting Pronouncements** – In February 2016, the FASB issued Accounting Standards Update (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 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 statements of income. These ASU’s are effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2021. The adoption of this ASU is not expected to have a significant impact on the Bank’s financial statements and related disclosures.

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. The amendments are effective for nonpublic companies for fiscal years beginning after December 15, 2022. The effect of the amendment is not readily determinable but could cause the allowance for loan and lease losses to increase upon implementation.

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). 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 Bank will depend on the outcomes of future goodwill impairment tests.



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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 Bank is currently evaluating the impact that adopting this guidance would have on the financial statements and related disclosures.

Other recent accounting pronouncements issued by the FASB including its Emerging Issues Task Force and the AICPA did not, or are not, believed by management to have a material impact on the Bank's present or future financial statements.

**NOTE 2 – DEBT INVESTMENT SECURITIES**

Debt investment securities have been classified in the balance sheets according to management's intent. The carrying amount of securities and their approximate fair values were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<b>December 31, 2020</b>				
Available-for-sale securities:				
State and political subdivisions	\$ 61,272,663	\$ 3,697,671	\$ -	\$ 64,970,334
U.S. government agencies	12,558,623	135,842	-	12,694,465
Mortgage-backed securities	30,994,937	1,881,662	(25)	32,876,574
U.S. corporate debt securities	<u>3,977,662</u>	<u>-</u>	<u>-</u>	<u>3,977,662</u>
Totals	<u>\$ 108,803,885</u>	<u>\$ 5,715,175</u>	<u>\$ (25)</u>	<u>\$ 114,519,035</u>
<b>December 31, 2019</b>				
Available-for-sale securities:				
State and political subdivisions	\$ 51,163,668	\$ 2,457,226	\$ -	\$ 53,620,894
U.S. government agencies	10,783,963	146,616	(64,749)	10,865,830
Mortgage-backed securities	40,003,531	2,319,521	-	42,323,052
U.S. corporate debt securities	<u>3,971,594</u>	<u>6,706</u>	<u>(65,100)</u>	<u>3,913,200</u>
Totals	<u>\$ 105,922,756</u>	<u>\$ 4,930,069</u>	<u>\$ (129,849)</u>	<u>\$ 110,722,976</u>

The amortized cost and fair value of securities as of December 31, 2020 by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties.

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The scheduled maturities of securities available-for-sale at December 31, 2020 were as follows:

	Available-for-Sale Securities	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 9,287,124	\$ 9,374,084
Due from one year to five years	32,141,861	33,507,333
Due from five years to ten years	21,350,892	22,562,830
Due after ten years	46,024,008	49,074,788
Totals	<u>\$ 108,803,885</u>	<u>\$ 114,519,035</u>

Securities carried at \$41,588,118 and \$34,332,707 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The Bank held the following investments with a continuous unrealized loss position at:

	Less Than 12 Months		12 Months or Longer		Totals	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
<b>December 31, 2020</b>						
Total temporarily impaired securities, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,156</u>	<u>\$ (25)</u>	<u>\$ 189,156</u>	<u>\$ (25)</u>
<b>December 31, 2019</b>						
State and political subdivisions	\$ 9,724,617	\$ (13,849)	\$ 5,060,656	\$ (50,900)	\$ 14,785,273	\$ (64,749)
U.S corporate debt securities	<u>-</u>	<u>-</u>	<u>2,934,901</u>	<u>(65,100)</u>	<u>2,934,901</u>	<u>(65,100)</u>
Total temporarily impaired securities, net	<u>\$ 9,724,617</u>	<u>\$ (13,849)</u>	<u>\$ 7,995,557</u>	<u>\$ (116,000)</u>	<u>\$ 17,720,174</u>	<u>\$ (129,849)</u>

**Other-Than-Temporary Impairment** – Management evaluates securities for other-than-temporary impairment at least quarterly, 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) evaluation by the Bank of (a) its intent to sell a debt security prior to recovery and (b) whether it is more-likely-than-not the Bank will have to sell the debt security prior to recovery. As of December 31, 2020 and 2019, no investment securities were other-than-temporarily impaired.

**Investment Securities Structure** – Included within the Bank’s investment securities are mortgage-backed securities with variable interest rates with a carrying value of \$20,723,908 and \$26,500,316 as of December 31, 2020 and 2019, respectively.

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**NOTE 3 – LOANS RECEIVABLE**

The components of loans in the balance sheets were as follows at December 31:

	<u>2020</u>	<u>2019</u>
Commercial	\$ 134,333,546	\$ 126,968,800
Consumer	12,383,591	14,134,567
Real estate	256,442,690	247,950,598
Agriculture	8,608,812	12,530,058
Overdrafts	42,393	21,265
Subtotal	<u>411,811,032</u>	<u>401,605,288</u>
Less: allowance for loan losses	<u>(11,938,700)</u>	<u>(7,667,959)</u>
Total loans receivable, net	<u>\$ 399,872,332</u>	<u>\$ 393,937,329</u>

Outstanding participations purchased totaled \$25,712,917 at December 31, 2020, of which \$14,821,584 was considered real estate and \$10,891,333 was considered commercial. Outstanding participations purchased totaled \$16,382,915 at December 31, 2019, all of which was considered real estate.

Outstanding participations sold totaled \$9,953,765 at December 31, 2020, of which \$7,664,340 was considered real estate and \$2,289,425 was considered commercial. Outstanding participations sold totaled \$14,144,594 at December 31, 2019, of which \$7,355,553 was considered real estate and \$6,789,041 was considered commercial.

**Allowance for Loan Losses** – An analysis of the change in the allowance for loan losses follows at December 31:

	<u>Beginning Balance</u>	<u>Charge-Offs</u>	<u>Recoveries</u>	<u>Provision for Loan Losses</u>	<u>Total</u>
<b>December 31, 2020</b>					
Commercial	\$ 5,266,352	\$ (464,361)	\$ 429,470	\$ 3,906,816	\$ 9,138,277
Consumer	328,446	(54,041)	97,186	396,475	768,066
Real estate	1,073,737	(35,668)	73,375	261,681	1,373,125
Agriculture	<u>999,424</u>	<u>(25,220)</u>	<u>-</u>	<u>(314,972)</u>	<u>659,232</u>
Totals	<u>\$ 7,667,959</u>	<u>\$ (579,290)</u>	<u>\$ 600,031</u>	<u>\$ 4,250,000</u>	<u>\$ 11,938,700</u>
<b>December 31, 2019</b>					
Commercial	\$ 4,318,674	\$ (367,659)	\$ 263,600	\$ 1,051,737	\$ 5,266,352
Consumer	63,255	(235,902)	147,081	354,012	328,446
Real estate	1,033,043	(1,155)	40,116	1,733	1,073,737
Agriculture	<u>801,291</u>	<u>(1,394,385)</u>	<u>-</u>	<u>1,592,518</u>	<u>999,424</u>
Totals	<u>\$ 6,216,263</u>	<u>\$ (1,999,101)</u>	<u>\$ 450,797</u>	<u>\$ 3,000,000</u>	<u>\$ 7,667,959</u>

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The allowance for loan losses consisted of the following components:

	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality
<b>December 31, 2020</b>				
Commercial	\$ 9,138,277	\$ 6,239,921	\$ 2,898,356	\$ -
Consumer	768,066	322	767,744	-
Real estate	1,373,125	444,788	928,337	-
Agriculture	<u>659,232</u>	<u>166,298</u>	<u>492,934</u>	-
Totals	<u>\$ 11,938,700</u>	<u>\$ 6,851,329</u>	<u>\$ 5,087,371</u>	<u>\$ -</u>
December 31, 2019				
Commercial	\$ 5,266,352	\$ 1,406,614	\$ 3,859,738	\$ -
Consumer	328,446	-	328,446	-
Real estate	1,073,737	255,069	818,668	-
Agriculture	<u>999,424</u>	<u>974,310</u>	<u>25,114</u>	-
Totals	<u>\$ 7,667,959</u>	<u>\$ 2,635,993</u>	<u>\$ 5,031,966</u>	<u>\$ -</u>

Financing receivables were evaluated for the allowance for loan losses as follows:

	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired With Deteriorated Credit Quality
<b>December 31, 2020</b>				
Commercial	\$ 134,333,546	\$ 29,396,325	\$ 104,937,221	\$ -
Consumer	12,383,591	55,269	12,328,322	-
Real estate	256,442,690	26,887,205	229,555,485	-
Agriculture	8,608,812	212,390	8,396,422	-
Overdrafts	<u>42,393</u>	-	<u>42,393</u>	-
Totals	<u>\$ 411,811,032</u>	<u>\$ 56,551,189</u>	<u>\$ 355,259,843</u>	<u>\$ -</u>
December 31, 2019				
Commercial	\$ 126,968,800	\$ 6,007,717	\$ 120,961,083	\$ -
Consumer	14,134,567	28,019	14,106,548	-
Real estate	247,950,598	1,974,264	245,976,334	-
Agriculture	12,530,058	1,422,266	11,107,792	-
Overdrafts	<u>21,265</u>	-	<u>21,265</u>	-
Totals	<u>\$ 401,605,288</u>	<u>\$ 9,432,266</u>	<u>\$ 392,173,022</u>	<u>\$ -</u>

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Certain credit quality indicators as used to develop the Bank's allowance for loan losses by class of financing receivables were as follows:

	Pass	Watch	Substandard	Total Financing Receivables
<b>December 31, 2020</b>				
Commercial	\$ 103,798,170	\$ 1,139,051	\$ 29,396,325	\$ 134,333,546
Consumer	12,328,322	-	55,269	12,383,591
Real estate	224,749,864	4,805,621	26,887,205	256,442,690
Agriculture	8,396,422	-	212,390	8,608,812
Other	<u>42,393</u>	<u>-</u>	<u>-</u>	<u>42,393</u>
Totals	<u>\$ 349,315,171</u>	<u>\$ 5,944,672</u>	<u>\$ 56,551,189</u>	<u>\$ 411,811,032</u>
<b>December 31, 2019</b>				
Commercial	\$ 115,160,937	\$ 5,800,146	\$ 6,007,717	\$ 126,968,800
Consumer	14,106,548	-	28,019	14,134,567
Real estate	245,976,334	-	1,974,264	247,950,598
Agriculture	11,107,792	-	1,422,266	12,530,058
Other	<u>21,265</u>	<u>-</u>	<u>-</u>	<u>21,265</u>
Totals	<u>\$ 386,372,876</u>	<u>\$ 5,800,146</u>	<u>\$ 9,432,266</u>	<u>\$ 401,605,288</u>

The Bank utilizes an asset quality rating system in order to assess credit quality. The following ratings are used for criticized and classified assets. All remaining assets are referred to as pass.

- **Pass** – Strong loan with no existing or known potential weaknesses deserving of management's close attention.
- **Watch** – Credits which may have one or some of the following characteristics: collateral documentation deficiencies, marginal collateral support, weak or unsupported collateral valuations, lack of current or complete financial data and/or analysis, needs additional monitoring, recent changes in management or operations, terms beyond policy guidelines, variations in balance sheet or cash flow/operating components or trends from prior periods or forecasts, past credit problems, high leverage, or untested performance under repayment terms, among others.
- **Special Mention** – Credits which have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.
- **Substandard** – Credits that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- **Doubtful** – Credits that have all of the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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- **Loss** – Credits that are considered uncollectible and of such little value that their continuance as bankable assets are not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though practical recovery may be affected in the future. Amounts classified as loss should be promptly charged off.

The Bank had no special mention, loss, or doubtful assets as of December 31, 2020 and 2019; therefore, they were not included in the detail above.

The Bank had the following investments in impaired loans:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>December 31,</b>					
<b>2020</b>					
Commercial	\$ 2,186,127	\$ 8,426,048	\$ 6,239,921	\$ 3,320,244	\$ 252,058
Consumer	149,761	150,083	322	74,881	1,799
Real estate	12,387,373	12,832,161	444,788	6,439,671	35,056
Agriculture	<u>46,092</u>	<u>212,390</u>	<u>166,298</u>	<u>85,033</u>	<u>72,680</u>
Totals	<u>\$ 14,769,353</u>	<u>\$ 21,620,682</u>	<u>\$ 6,851,329</u>	<u>\$ 9,919,828</u>	<u>\$ 361,593</u>
December 31,					
2019					
Commercial	\$ 4,454,360	\$ 5,860,974	\$ 1,406,614	\$ 2,494,208	\$ 252,058
Consumer	-	-	-	21,543	1,799
Real estate	491,969	747,038	255,069	368,668	35,056
Agriculture	<u>123,974</u>	<u>1,098,284</u>	<u>974,310</u>	<u>341,114</u>	<u>72,680</u>
Total	<u>\$ 5,070,303</u>	<u>\$ 7,706,296</u>	<u>\$ 2,635,993</u>	<u>\$ 3,225,533</u>	<u>\$ 361,593</u>

Loans on nonaccrual status totaled \$8,109,767 at December 31, 2020, of which \$212,390 is considered agriculture, \$1,390,702 is considered real estate, and \$6,506,675 is considered commercial. Loans on nonaccrual status totaled \$3,336,848 at December 31, 2019, of which \$19,996 is considered consumer, \$947,484 is considered real estate, and \$2,369,368 is considered commercial.

**Troubled Debt Restructurings (TDR)** – The Bank is working with borrowers impacted by COVID-19 and providing modifications to include interest-only deferral or principal, and interest deferral. These modifications are excluded from TDR classification under Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, the Company had 57 commercial, four consumer, 23 agriculture and four single-family residential real estate loan modifications outstanding with balances of \$48,869,711.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank’s internal underwriting policy.

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The following represents the amount of restructured debt at December 31, 2020 and 2019.

	<u>Number of Contracts</u>	<u>Pre-Modification Recorded Investment</u>	<u>Post-Modification Recorded Investment</u>
<b>December 31, 2020</b>			
Agriculture	<u>1</u>	<u>\$ 308,431</u>	<u>\$ 308,431</u>
Total	<u>1</u>	<u>\$ 308,431</u>	<u>\$ 308,431</u>
<b>December 31, 2019</b>			
Commercial	5	\$ 851,836	\$ 851,836
Agriculture	<u>1</u>	<u>308,978</u>	<u>308,978</u>
Total	<u>6</u>	<u>\$ 1,160,814</u>	<u>\$ 1,160,814</u>

All modifications related to placing the loans on nonaccrual status. The Bank is not committed to lend additional funds to debtors whose loans have been modified.

There were no troubled debt restructurings with a payment default within 12 months following the modification during 2020.

The age analysis of past due financing receivables were as follows:

	<u>Days Past Due</u>			<u>Total Past Due</u>	<u>Current</u>	<u>Total Financing Receivables</u>
	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>Greater than 90 Days</u>			
<b>December 31, 2020</b>						
Commercial	\$ 616,690	\$ 79,266	\$ -	\$ 695,956	\$ 133,637,590	\$ 134,333,546
Consumer	52,245	4,444	14,271	70,960	12,312,631	12,383,591
Real estate	790,992	20,058	243,932	1,054,982	255,387,708	256,442,690
Agriculture	15,172	-	-	15,172	8,593,640	8,608,812
Other	<u>129,405</u>	<u>28,091</u>	<u>39,953</u>	<u>197,449</u>	<u>(155,056)</u>	<u>42,393</u>
Total	<u>\$ 1,604,504</u>	<u>\$ 131,859</u>	<u>\$ 298,156</u>	<u>\$ 2,034,519</u>	<u>\$ 409,776,513</u>	<u>\$ 411,811,032</u>
<b>December 31, 2019</b>						
Commercial	\$ 126,535	\$ 24,075	\$ 15,248	\$ 165,858	\$ 126,802,942	\$ 126,968,800
Consumer	127,430	62,440	204	190,074	13,944,493	14,134,567
Real estate	477,665	416,429	-	894,094	247,056,504	247,950,598
Agriculture	15,006	-	-	15,006	12,515,052	12,530,058
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,265</u>	<u>21,265</u>
Total	<u>\$ 746,636</u>	<u>\$ 502,944</u>	<u>\$ 15,452</u>	<u>\$ 1,265,032</u>	<u>\$ 400,340,256</u>	<u>\$ 401,605,288</u>

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As of December 31, 2020, \$298,156 of past due loans in excess of 90 days were still accruing interest, which \$243,932 is considered real estate, \$14,271 is considered consumer, and \$39,953 is considered other. As of December 31, 2019, \$204 of past due loans in excess of 90 days were still accruing interest all of which is considered consumer.

**Paycheck Protection Program** – The Bank is participating in the Paycheck Protection Program (PPP), which is a loan program that originated from the CARES Act and was subsequently expanded by the PPP 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 U.S. 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 Bank 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 Bank had approximately 111 PPP loans with outstanding balances totaling \$13,293,900. As compensation for originating the loans, the Bank received lender processing fees from the SBA, which was recognized immediately.

**NOTE 4 – PREMISES AND EQUIPMENT**

Components of premises and equipment included in the balance sheets were as follows at December 31:

	<u>2020</u>	<u>2019</u>
Cost		
Land	\$ 580,960	\$ 568,422
Bank premises	3,234,090	3,234,090
Furniture and equipment	1,496,948	1,531,589
Automobiles	169,851	169,851
Construction in progress	<u>2,710,585</u>	<u>1,146,210</u>
	8,192,434	6,650,162
Less: accumulated depreciation	<u>(4,030,975)</u>	<u>(3,925,027)</u>
Total premises and equipment, net	<u>\$ 4,161,459</u>	<u>\$ 2,725,135</u>

The construction in progress relates to the construction of the expansion of the full-service banking center in Abilene, Texas. The construction of the Abilene branch was completed and opened in January 2021.

Depreciation expense for 2020 and 2019, totaled \$202,019 and \$245,937, respectively.

**NOTE 5 – DEPOSITS**

Interest-bearing time deposits outstanding totaled \$218,236,674 as of December 31, 2020. The following are maturities of time deposits at December 31, 2020:



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For the Year Ending December 31,	Amount
2021	\$ 140,658,853
2022	33,353,490
2023	16,177,848
2024	12,710,284
2025	<u>15,336,199</u>
Total	<u>\$ 218,236,674</u>

Interest-bearing time deposits of \$100,000 or more at December 31, 2020 and 2019, totaled \$87,188,383 and \$89,326,083, respectively. Interest expense related to these deposits was \$1,297,540 in 2020 and \$1,240,423 in 2019.

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 at December 31, 2020 and 2019 were \$55,042,121 and \$61,190,318, respectively.

The Bank entered into a Deposit Reclassification Program (the “Program”) in order to reduce Federal Reserve cash requirements. The Program software analyzes customer activity on transaction accounts and previous history to determine the amount needed in the transaction account to handle expected activity. The remaining balance is transferred into a savings subaccount not subject to reserve requirements. The reclassification amount as of December 31, 2020 and 2019 was \$161,401,052 and \$143,800,903, respectively, and was reflected in regulatory reporting. No reclassification was made in the accompanying balance sheets in accordance with GAAP. See *Note 10* for minimum reserve requirements.

The Bank began utilizing brokered deposit programs during 2015. The aggregate amount of Certificate of Deposit Account Registry Service (CDARS) deposits were \$-0- and \$13,004,107 as of December 31, 2020 and 2019, respectively. The aggregate amount of other brokered certificates of deposit was \$96,581,000 and \$55,000,000 at December 31, 2020 and 2019, respectively.

#### **NOTE 6 – BORROWING AGREEMENTS AND OTHER BORROWINGS**

The Bank had a total funding capacity of approximately \$139,526,163 available at the FHLB at December 31, 2020. The December 31, 2020 and 2019 outstanding balance, including accrued interest, in the amount of \$-0- and \$5,000,000, respectively, is presented on the balance sheets as FHLB borrowings.

The unsecured lines in the amount of \$15,000,000 with The Bankers Bank, and \$10,000,000 with The Independent BankersBank, N.A. are also available for liquidity purposes as of December 31, 2020.

#### **NOTE 7 – OFF-BALANCE-SHEET RISK, COMMITMENTS AND CONTINGENCIES**

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract or notional amount of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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The Bank’s exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

Financial instruments whose contract amounts represent off-balance-sheet credit risk are as follows at December 31:

	<u>Contractual or Notional Amounts</u>	
	<u>2020</u>	<u>2019</u>
Commitments to extend credit	\$ 80,200,534	\$ 53,489,443
Standby letters of credit	7,130,661	7,046,339

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

The Bank evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation of the party. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements including commercial paper, bond financing and similar transactions. The majority of the guarantees are considered short-term (one year or less). The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

**Contingencies** – In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Bank’s financial statements.

**NOTE 8 – FAIR VALUE MEASUREMENTS**

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Bank uses various methods including market, income, and cost approaches. Based on these approaches, the Bank often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique.

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These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Bank utilized valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Bank is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- **Level 1** – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- **Level 2** – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- **Level 3** – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The estimated fair value amounts of the financial instruments have been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a current market exchange.

For 2020 and 2019, the application of valuation techniques applied to similar assets has been consistent.

**Financial Assets and Financial Liabilities** – Financial assets and financial liabilities measured at fair value on a recurring and nonrecurring basis include the following:

*Available-for-Sale Securities* – Valued at the close price reported on the active market on which the individual securities are traded. If listed prices or quotes are not available, fair value is based upon externally developed models from a pricing service that use unobservable inputs to the limited market activity of the instrument.

*Impaired Loans* – Based on fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based upon internally discounted criteria.

*Foreclosed and Repossessed Assets* – Fair value is based on periodic valuations performed by management or an outside appraiser with significant unobservable inputs. Foreclosed assets are initially reported at fair value at the date of foreclosure less estimated costs of disposal which establishes a new cost. After foreclosure, valuations are periodically performed by management and foreclosed assets held for sale are carried at the lower of costs or fair value less estimated costs of disposal. Unobservable inputs include estimated selling costs of the properties, which are valued by an appraiser or tax appraisal listing. Foreclosed and repossessed assets are not considered to be significant to the financial statements.

The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

The following sets forth by level, within the fair value hierarchy, the Bank's assets at fair value.

Description	December 31, 2020	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements:				
Available-for-sale securities				
State and political subdivisions	\$ 64,970,334	\$ -	\$ 64,970,334	\$ -
U.S. government agencies	12,694,465	-	12,694,465	-
Mortgage-backed securities	32,876,574	-	32,876,574	-
U.S. corporate debt securities	3,977,662	-	3,977,662	-
Nonrecurring fair value measurements:				
Impaired loans, net	14,769,353	-	-	14,769,353
Totals	\$ 129,288,388	\$ -	\$ 114,519,035	\$ 14,769,353

Description	December 31, 2019	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements:				
Available-for-sale securities				
State and political subdivisions	\$ 53,620,894	\$ -	\$ 53,620,894	\$ -
U.S. government agencies	10,865,830	-	10,865,830	-

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Description	December 31, 2019	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage-backed securities	42,323,052	-	42,323,052	-
U.S. corporate debt securities	3,913,200	-	3,913,200	-
Nonrecurring fair value measurements:				
Foreclosed and repossessed assets	16,061	-	-	16,061
Impaired loans, net	<u>5,070,303</u>	-	-	<u>5,070,303</u>
Totals	<u>\$ 115,809,340</u>	<u>\$ -</u>	<u>\$ 110,722,976</u>	<u>\$ 5,086,364</u>

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a nonrecurring basis.

	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range (Weighted-Average)
<b>December 31, 2020</b>				
Impaired loans, net	<u>\$ 14,769,353</u>	Sales Comparison Approach	Discounted for marketability	15 - 90% (65%)
December 31, 2019				
Impaired loans, net	<u>\$ 5,070,303</u>	Sales Comparison Approach	Discounted for marketability	15 - 90% (65%)

**NOTE 9 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK**

Substantially all of the Bank’s loans and commitments have been granted to customers in the Bank’s market area. Although the Bank’s loan portfolio is diversified, there is dependence in this region on the agricultural and oil and gas economy. Letters of credit were primarily granted to commercial borrowers.

The Bank has a concentration of funds on deposit at correspondent banks in excess of insured amounts as follows at December 31:

	2020	2019
Federal funds sold		
Frost National Bank	\$ -	\$ 1,000,000
The Independent BankersBank, N.A.	<u>2,000,000</u>	<u>1,000,000</u>
Total federal funds sold	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

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The nature of the Bank’s business requires that it maintain amounts due from banks which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts. The Bank held deposits with the Federal Reserve Bank of Dallas in the amount of \$62,210,555 and \$41,370,462 as of December 31, 2020 and 2019, respectively. These deposits are backed by the full faith of the U.S. government and are not subject to federal deposit insurance.

The Bank held no deposits from depositors in excess of 5% of total deposits as of December 31, 2020. The Bank held deposits from one depositor in excess of 5% of total deposits as of December 31, 2019. The balance of the customer’s related accounts totaled \$29,502,346.

**NOTE 10 – REGULATORY RESTRICTIONS**

The Bank is required to maintain a minimum balance of cash and noninterest-bearing deposits with the Federal Reserve System based on regulatory guidelines. At December 31, 2020 and 2019, this required balance was \$-0- as a result of the Deposit Reclassification Program discussed in *Note 5*.

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

In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was passed. Included in the provision was the Community Bank Leverage Ratio (CBLR) which is an alternative capital framework designed to reduce regulatory burden by removing the requirements for calculating and reporting risk-based capital ratios for banking organizations holding less than \$10 billion in assets and meeting certain criteria.

The Bank opted in to the framework for 2020. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% are considered to have satisfied the risk-based and leverage capital requirement in the agencies' generally applicable capital rule.

In response to the global pandemic caused by COVID-19, the CARES Act was passed on March 27, 2020. As a result of this legislation, the agencies issued two interim final rules that modified the CBLR framework so that, beginning in the second quarter of 2020 and until December 31, 2020, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework. Additionally, said organization will have until January 1, 2022, before the CBLR requirement is re-established at greater than 9%. The original requirement will be phased-in as follows: 8.5% for calendar-year 2021 and 9% thereafter.

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 Bank’s capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank’s actual capital amounts and ratios are also presented as follows:

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2020:</b> (in thousands)				
Tier 1 Capital (to Average Total Assets)	\$ 70,249	12.30%	\$ 68,344	≥ 12.000%

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	Actual		Minimum Capital Required Under Basel III Phase-in		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019: (in thousands)						
Total Capital (to Risk-Weighted Assets)	\$ 72,357	16.65%	\$ 45,622	≥ 10.50%	\$ 43,450	≥ 10.00%
Tier 1 Capital (to Risk-Weighted Assets)	\$ 66,899	15.40%	\$ 39,932	≥ 8.50%	\$ 34,760	≥ 8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	\$ 66,899	15.40%	\$ 30,415	≥ 7.00%	\$ 28,242	≥ 6.50%
Tier 1 Capital (to Average Total Assets)	\$ 66,899	11.72%	\$ 22,826	≥ 4.00%	\$ 28,533	≥ 5.00%

The amount of the Bank's retained earnings available for the payment of dividends without regulatory approval at December 31, 2020 and 2019 was approximately \$14,707,915 and \$11,358,400, respectively.

**NOTE 11 – SALARY CONTINUATION PLAN**

In 1998, the Bank entered into a nonqualified salary continuation plan in which the Bank agreed to pay certain executives future retirement income benefits. In conjunction with the salary continuation plan, the Bank purchased life insurance for the covered executives to offset the Bank's contractual obligation to pay pre-retirement death benefits and to recover the Bank's cost of providing the contractual future retirement income benefits. The Bank is the sole owner and beneficiary of the life insurance policies. The salary continuation benefits vest over the period of future services provided to the Bank by the executives. At December 31, 2020 and 2019, the deferred salary continuation plan is \$2,206,154 and \$2,109,060, respectively, and the cash surrender value of the Bank-owned life insurance is \$6,467,336 and \$3,945,378, respectively.

**NOTE 12 – RELATED PARTIES**

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these loans and transactions were on the same terms as those for comparable loans and transactions with nonrelated parties.

Aggregate loan transactions with related parties were as follows for December 31:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 4,315,986	\$ 3,032,081
New loans	9,688,873	6,773,485
Repayments	<u>(7,772,872)</u>	<u>(5,489,580)</u>
Balance, end of year	<u>\$ 6,231,987</u>	<u>\$ 4,315,986</u>

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**NOTE 13 – PENSION PLAN**

The Bank has a noncontributory defined benefit pension plan covering substantially all employees. The Bank adopted the recognition provisions of the FASB ASC 715, *Compensation Retirement Benefits*, as of December 31, 2007, which requires the funded status of defined benefit pension and other postretirement plans be fully recognized in the balance sheets. The implementation of ASC 715 is not material to the financial statements; therefore, it was not recorded on the balance sheets. The status of the Bank’s pension plan and the effect of ASC 715 entries were made based on the latest actuarial valuation dated and extrapolated to December 31, 2020 and 2019, and are as follows, and a reconciliation of the benefit obligation and the fair value of plan assets:

	<u>2020</u>	<u>2019</u>
Reconciliation of benefit obligation		
Benefit obligation at January 1	\$ 5,031,667	\$ 3,869,806
Service cost	219,445	170,248
Interest cost	154,760	139,651
Benefits paid	(81,788)	(132,023)
Actuarial loss	728,763	983,985
Benefit obligation at December 31	<u>6,052,847</u>	<u>5,031,667</u>
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	3,556,046	2,891,640
Actual return on plan assets	(18,493)	546,429
Employer contributions	800,000	250,000
Benefits paid	(81,788)	(132,023)
Fair value of plan assets at December 31	<u>4,255,765</u>	<u>3,556,046</u>
Funded status	<u>(1,797,082)</u>	<u>(1,475,621)</u>
Accumulated other comprehensive loss	<u>(2,533,651)</u>	<u>(1,711,908)</u>
Net amount recognized on balance sheet	<u>\$ (2,533,651)</u>	<u>\$ (1,711,908)</u>
Aggregate accumulated benefit obligation for defined benefit pension plan	<u>\$ 5,024,019</u>	<u>\$ 4,481,040</u>
Net periodic benefit cost		
Service cost	\$ 219,445	\$ 170,248
Interest cost on projected benefit obligation	154,760	139,651
Expected return on assets	(141,313)	(97,447)
Amortization of net gain	66,826	48,939
Net periodic pension cost	<u>\$ 299,718</u>	<u>\$ 261,391</u>



**FIRST NATIONAL BANK ALBANY/BRECKENRIDGE**  
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	<u>2020</u>	<u>2019</u>
Assumptions		
Weighted-average assumptions used:		
Discount rate	2.31%	3.09%
Rate of compensation increase	2.00%	2.00%
Expected long-term rate of return of plan assets	4.00%	4.00%
Average remaining service (years)	17.5	18.1
Plan assets		
Common trust – mutual funds	0.00%	0.00%
Common trust – debt securities	99.89%	99.35%
\$2\$	0.11%	0.65%

Investment decisions are determined based on consultations between management and the broker assigned to the account. For 2020 and 2019, plan assets in the amount of \$4,642 and \$23,252, respectively, were invested in cash, and \$4,251,835 and \$0-, respectively, were invested in mutual funds-balanced and are considered to be Level 1 investments in accordance with ASC 820-10. The remaining investments in the amount of \$2,414,344 and \$3,532,794 were considered to be Level 2 investments in accordance with ASC 820-10 for 2020 and 2019, respectively. Level 2 investments were invested within common trust funds that are valued on the basis of the relative interest of each participating investor in the fair value of the underlying assets which are valued based on the net asset value as provided by the investment account manager. All plan assets are held in funds of one investment firm representing a concentration of credit risk.

There was no minimum contribution required for 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid at December 31, 2020:

<u>For the Year Ending December 31,</u>	<u>Amounts</u>
2021	\$ 1,587,962
2022	176,663
2023	859,234
2024	121,566
2025	44,239
Thereafter	<u>3,143,430</u>
Total	<u>\$ 5,933,094</u>

**NOTE 14 – RISKS AND UNCERTAINTIES**

The COVID-19 pandemic, starting in March 2020 in the united states, has created economic uncertainties that may impact future operations. The Company functions did not change over the period from the beginning of the pandemic through year end, but the location of the Bank has increased levels of precaution in regards to social distancing. The Bank does not expect any significant financial change due to the pandemic subsequent to year end.

**NOTE 15 – SUBSEQUENT EVENTS**

The Bank entered into a formal written agreement with the Office of the Comptroller of the Currency in January 2021. The agreement requires the Bank to address controls and processes related to classified and special mention assets, problem loan identification, the Bank Secrecy Act, and staffing.

Management has evaluated subsequent events through April 28, 2021, the date which the financial statements were available to be issued.

**FIRST NATIONAL BANK ALBANY/BRECKENRIDGE**  
**SCHEDULE I – STATISTICAL INFORMATION**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**

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	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net interest income	\$ 24,144,555	\$ 23,747,639	\$ 19,857,948
Net income	\$ 10,540,415	\$ 11,590,265	\$ 9,157,790
Net income per common share	\$ 2,108	\$ 1,931	\$ 1,832
Average common shares outstanding	5,000	5,000	5,000
Return on average assets	1.80%	1.72%	1.75%
Return on average stockholder's equity	14.28%	14.58%	13.97%
Net book value per common share at year-end	\$ 15,193	\$ 13,167	\$ 13,323