

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

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

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

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

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

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

December 31, 2020

Month / Day / Year

5493001MGBDETXD9B285

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

Reporter's Name, Street, and Mailing Address

I, Mickey Faulconer

Name of the Holding Company Director and Official

CEO/Director

Title of the Holding Company Director and Official

I 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.

Legend Bancorp, Inc

Legal Title of Holding Company

P.O. Box 1081

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

Bowie	TX	76230
City	State	Zip Code

101 W. Tarrant Street

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Charlotte McChesney SVP/Controller

Name Title

940-235-1641

Area Code / Phone Number / Extension

940-872-6381

Area Code / FAX Number

charlotte.mcchesney@legend.bank

E-mail Address

None

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

[Signature]
 Signature of Holding Company Director and Official

Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID _____
 C.I. _____

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

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

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

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

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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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)

Report Item 1: _____

Annual Report To Shareholders
enclosed

Report Item 2: Organization Chart

Legend Bancorp, Inc. LEI: 5493001MGBDETXD9B285 Bowie, Tx 76230-1081	Incorporated in USA Owns 100% of Legend Bank & Bankcorp Trust
Legend Bank, N.A., Incorporated in US LEI: 549300GZ7AZQEUEJGU30 Bowie, Tx 76230-1081	Legend Bancorp Trust I LEI: N/A Bowie, Tx 76230-1081

2b Domestic Branch Listing for Legend Bank, N.A.

Bowie Branch LEI: None Date opened - March 1890 101 W. Tarrant Bowie TX Montague County TX, 76230 Full Service	Nocona Branch LEI: None Date opened - March 1989 115 Clay St Nocona TX Montague County TX, 76255 Full Service	Alvord Branch LEI: None Date opened- 1990 110 West Franklin Street Alvord TX Wise County TX, 76225 Full Service	Decatur Branch LEI: None Date opened - Sept 1996 1706 South FM 51 Decatur TX Wise County TX, 76234 Full Service	Fort Worth Branch LEI: None Date opened - Oct. 2008 3001 Western Center Blvd Fort Worth TX Tarrant County TX, 76131 Full Service	North Richland Hills Branch LEI: None Date opened - March 2019 6851 NE Loop 820, Suite 100 North Richland Hills Tarrant County TX, 76180 Full Service	Whitewright Branch LEI: None Date opened - July 2019 201 Grand Street Whitewright Grayson County TX, 75491 Full Service
Henrietta Branch LEI: None Date opened - June 1996 1002 East Omega Henrietta, TX Clay County TX, 76365 Full Service	Wichita Falls Branch LEI: None Date opened- June 2014 3710 Fairway Boulevard Wichita Falls, TX Wichita County TX, 76309 Full Service	Whitesboro Branch LEI: None Date opened - Jan 2006 2500 Hwy. 82 East Whitesboro TX Grayson County TX, 76273 Full Service	Bonham Branch LEI: None Date opened - Oct. 2007 502 North Center Bonham TX Fannin County TX, 75418 Full Service	Bonham Branch LEI: None Date opened - Oct. 2007 2232 North Center Bonham TX Fannin County TX, 75418 Limited Service	Sherman Branch LEI: None Date opened - Sept. 2017 1700 N Travis, Suite E Sherman, TX Grayson County TX, 75092 Full Service	Cooper Branch LEI: None Date opened - May 2019 45 NW 1st Street Cooper TX Delta County TX, 75432 Limited Service

Report Item 3: Shareholders

1: Shareholders with power to vote 5% or more stock

Name	Address	Citizenship	Number of Common Shares	Percentage of Voting Stock
TIM HALL	Bowie Tx [REDACTED]	USA	73,877	8.37%

2: Shareholders not in 5A, who owned at least 5% of voting stock during the fiscal year.

ESOP of Legend Bank	Bowie TX [REDACTED]	USA	116,680	13.22%
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Trustees of ESOP- Todd McMurray, Jay Bearden, Bret Meekins, Toni Lucky, Jeff Brooks
Voting of securities is based on the majority vote including actions in writing taken without a meeting.

LEGEND BANCORP, INC.

P. O. Box 1081 / Bowie, Tx 76230-1081 / (817)872-2221

Form Y-6 Report

Year Ended 12/31/20

Report Item 4: Insiders

(1) Name/ Address/	2 Principal Occupation if other than w Holding Co	3(a) Title & Position w Bank Holding Co	3(b) Title & Position w Subsidiaries & sub name	3 c Title & Position with Other Businesses	4 (a) Percentage of Voting Shares of Holding Co.	4 (b) Percentage of Voting Shares of Subsidiaries	4 (c) List names of other companies if 25% or more of voting securities
Benjamin Brosch Lantana, TX	Director of Finance	Director	Director, Legend Bank, N.A.	Director of Finance Utility Systems Solutions, Inc.	0.02%	N/A	N/A
Erwin Davenport Wichita Falls, Tx USA	Lawyer	Director	Director, Legend Bank, N.A.	Partner Gibson, Hotchkiss, Roach, Davenport	0.03%	N/A	N/A
Steve Gilland Bowie, Tx USA	CPA	Director	Director, Legend Bank, N.A.	Owner Gilland Stephen G, PC CPA	0.66%	N/A	100.00% Gilland Stephen G, PC CPA
Guy O Hill Nocona, Tx USA	Restaurant Manager	Director	Director, Legend Bank, N.A.	Owner Tres Ninos	0.17%	N/A	100.00% Tres Ninos
Larry Ogle Bowie, Tx USA	Rancher	Director	Director, Legend Bank, N.A.	Owner Ogle Cattle Co	1.73%	N/A	100.00% Ogle Cattle
A. Fred Renfro, Jr. Decatur, Tx USA	Dentist	Director	Director, Legend Bank, N.A.	Dentist-Retired Fred Renfro, Jr, DDS	0.62%	N/A	N/A
Todd Brown Bowie, Tx USA	Construction	Director	Director, Legend Bank, N.A.	Owner Ready Mix	1.98%	N/A	100.00% Ready Mix
Mickey Faulconer Bowie, Tx USA	Banker	Director & President	Director, Legend Bank, N.A. President, Legend Bancorp Trust I, Inc.	N/A	0.00%	N/A	N/A
Bret Meekins Bowie, Tx USA	Banker	Treasurer	E.V.P.-Advisory Director Legend Bank, N.A. E.V.P. Legend Bancorp Trust I, Inc.	N/A	0.11%	N/A	N/A
Todd McMurray Bowie, Tx USA	Banker	Secretary	E.V.P.-Advisory Director, Legend Bank, N.A. E.V.P. Legend Bancorp Trust I, Inc.	N/A	0.00%	N/A	N/A
Jay Bearden Decatur, TX USA	Banker	Vice President	E.V.P.-Advisory Director, Legend Bank, N.A. E.V.P. Legend Bancorp Trust I, Inc.	N/A	0.00%	N/A	N/A

Results: A list of branches for your depository institution: **LEGEND BANK, N. A. (ID_RSSD: 100357)**.
 This depository institution is held by **LEGEND_BANCORP, INC. (141.6578)** of **BOWIE, 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	Branch Service Type	Branch ID_RSS	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID	Comments
OK		Full Service (Head Office)	100357	LEGEND BANK, N. A.	101 W TARRANT ST	BOWIE	TX	76230	MONTAGUE	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	1443275	ALVORD BRANCH	110 WEST FRANKLIN STREET	ALVORD	TX	76225	WISE	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	98557	BONHAM BRANCH	502 NORTH CENTER STREET	BONHAM	TX	75418	FANNIN	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Limited Service	1157479	NORTH CENTER BR	2232 NORTH CENTER STREET	BONHAM	TX	75418-2113	FANNIN	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	5390014	COOPER BRANCH	45 NW 1ST STREET	COOPER	TX	75432	DELTA	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	3543245	DECATUR BRANCH	1706 SOUTH FM 51	DECATUR	TX	76234	WISE	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	3824702	FORT WORTH BRANCH	3001 WESTERN CENTER BLVD	FORT WORTH	TX	76131	TARRANT	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	2649999	HENRIETTA BRANCH	1002 EAST OMEGA STREET	HENRIETTA	TX	76365	CLAY	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	1433137	NOCOINA BRANCH	115 CLAY ST	NOCOINA	TX	76255	MONTAGUE	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	5372999	NORTH RICHLAND HILLS BRANCH	6851 NE LOOP 820, SUITE 100	NORTH RICHLAND HILLS	TX	76180	TARRANT	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	5279276	SHERMAN BRANCH	3608 FM 691	SHERMAN	TX	75092	GRAYSON	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	210966	WHITESBORO BRANCH	2500 HIGHWAY 82 EAST	WHITESBORO	TX	76273	GRAYSON	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	620369	WHITEWRIGHT BRANCH	201 WEST GRAND STREET	WHITEWRIGHT	TX	75491	GRAYSON	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	
OK		Full Service	4751551	WICHITA FALLS BRANCH	3710 FAIRWAY BOULEVARD	WICHITA FALLS	TX	76309	WICHITA	UNITED STATES	Not Required	Not Required	LEGEND BANK, N. A.	100357	

LEGEND

The logo features a red heart shape on the left, containing a white stylized 'L' that also forms the start of the word 'Loves'. The word 'Loves' is written in a red, cursive script font to the right of the heart.

LEGEND
Loves

Our Customers

Our Employees

Our Shareholders





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OUR CHIEF EXECUTIVE OFFICER



Remaining Steadfast in 2020

Celebrating our 130th anniversary in 2020 was different than we all imagined it would be. However, it provided us with an opportunity to continue our history and tradition of remaining steadfast during historical, economic, and technological changes. Our bankers worked together to overcome the challenges, limitations and new requirements of the COVID-19 pandemic, to find ways to serve you, as shareholders, and all of our customers in the safest ways we deemed possible. We helped business customers continue to pay their employees and keep their businesses open. It was an outstanding year for Legend Bank with record high growth numbers in many categories. This growth secured another year of solid returns on your investment in Legend Bancorp, increasing the value we provide you as shareholders.

When we could not serve our customers face-to-face in our lobbies, we worked to provide the best service through digital banking options, at our ATMs and in our drive-thrus. These options helped us deliver uninterrupted service while also meeting the social distancing recommendations shared by our government and health officials. We understand at times this meant increased wait times and created inconveniences, especially at certain branches. We apologize for the delays in serving you and appreciate your commitment and continued trust in us. Our goal has always been to show you and all our customers that it is our privilege to serve, even if that couldn't be in-person.

While our 130th anniversary year presented unexpected obstacles, I am proud to share our 2020 financial results with you. I want to assure you that your investment in Legend Bancorp is continuing to produce a solid return, even in an unprecedented time for our communities, state, and our nation. In 2020, we achieved near record high net income, record high deposit growth, and record high loan growth. Our bankers overcame extraordinary

and unforeseen service restrictions to help our customers keep their businesses open and allow them to continue paying their employees with the Paycheck Protection Program (PPP). Since the start of the PPP, we have helped save over 5,600 small business jobs in our communities and we have provided over \$48 million in loans to help our customers keep their dreams alive through continued business operations.

In 2020, this accelerated growth included earnings of \$11,280,756 in our eighth year as a Subchapter S Corporation. This was \$12.77 per average common share. The total distribution for tax purposes for 2020 was \$4,929,151.40 or \$5.58 a share. We also distributed an additional \$706,968.40 or \$.80 a share. The total amount distributed for 2020 was \$5,636,119.80 or \$6.38 a share.

Sincerely,

A handwritten signature in black ink that reads "Mickey Faulconer". The signature is written in a cursive style with a long horizontal line extending to the right.

Mickey B. Faulconer
Chief Executive Officer

It's Our Privilege to Serve You

COVID-19 has changed the way we go about our day-to-day lives, but it didn't change our philosophy that banking is, first and foremost, about the people we serve and that serving others is a privilege.



Legend Loves Nurses and Teachers

We are grateful to the nurses, healthcare workers, educators and school staff members in our communities. They make an impact in countless ways and their sacrifices don't go unnoticed. We loved showing our appreciation and lifting them up throughout the last year!



Granting a Christmas Wish

During the 2020 Christmas season, we were unable to host our employee Christmas celebrations due to social distancing requirements, so we decided to bless a family in need through the 94.9 KLTY Christmas Wish program.

The Christmas Wish program empowers KLTY listeners to nominate friends, family members, co-workers, neighbors... anyone that may have a need. KLTY reviews the wishes, authenticates them and then accepts contributions to make them come true. We are so blessed to have had this special opportunity to fulfill someone's Christmas Wish last year.



SBA Paycheck Protection Program

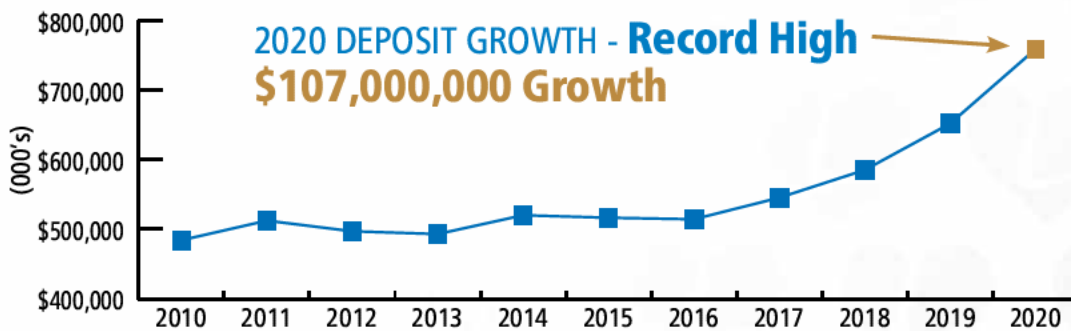
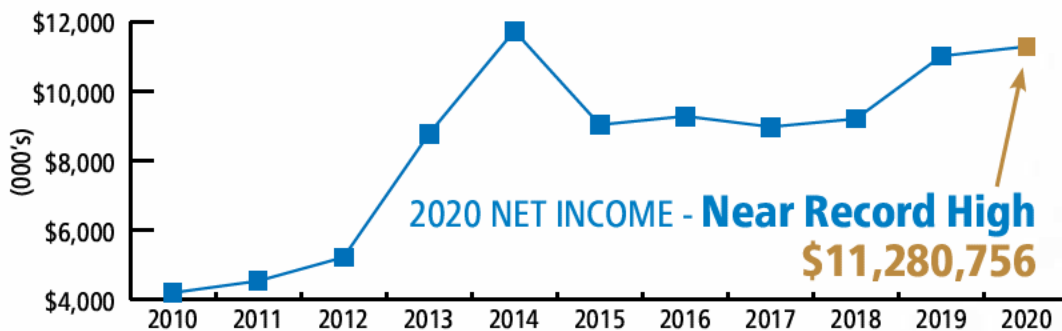
2020 presented challenges and heartache in our communities, impacting the health and financial wellbeing of local families as well as small businesses. That's why we are especially proud of the many ways Legend Bank helped local businesses through the Paycheck Protection Program (PPP). Through this loan program, local business owners were able to keep their dream alive by continuing the operations of their business, serving their customers and paying their employees. Legend Bank has made the following impact in supporting local small businesses through the PPP:

5,618 small business jobs saved	793 loans approved	\$48.3 million in loans
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Totals as of March 1, 2021. Includes both Round 1 and 2.

Success is in The Numbers

We are proud to report spectacular success in the growth of our bank, although it was such a challenging year. In 2020, we achieved near record high net income, record high deposit growth, and record high loan growth, keeping our focus on serving our customers and our communities and helping support small businesses.



Financial Highlights

	S-Corp 2020	S-Corp 2019	S-Corp 2018	S-Corp 2017	S-Corp 2016
EARNINGS					
Net Income	\$11,281	\$11,007	\$9,201	\$8,970	\$9,277
Earnings per Average Common Share	\$12.77	\$12.32	\$10.02	\$9.77	\$10.10
Distributions/Dividends per Common Share	\$6.38	\$6.12	\$4.54	\$4.34	\$4.49
PROFITABILITY AND PERFORMANCE					
Return on Average Assets	1.36%	1.50%	1.38%	1.44%	1.52%
Return on Tangible Equity	13.85%	15.06%	13.84%	13.67%	14.56%
Net Interest Margin (Bank)	4.29%	4.52%	4.48%	4.57%	4.60%
Tier 1 Leverage Ratio (Bank)	9.49%	9.97%	10.02%	10.08%	10.21%
Total Risk-based Capital Ratio (Bank)	14.65%	14.55%	14.13%	14.51%	14.62%
Tangible Book Value per Avg Common Share	\$95.13	\$83.65	\$75.04	\$72.33	\$66.67
AVERAGE BALANCES					
Assets	\$828,330	\$731,756	\$666,800	\$622,473	\$610,554
Loans, Net of Allowance for Loan Losses	\$524,628	\$479,226	\$427,026	\$407,749	\$397,468
Earning Assets	\$774,195	\$679,313	\$609,688	\$568,625	\$558,602
Deposits	\$723,906	\$639,841	\$583,537	\$541,372	\$524,358
Tangible Equity	\$81,430	\$73,069	\$66,476	\$65,628	\$63,710
Common Shares Outstanding	883,711	893,534	918,444	918,444	918,444
PERIOD-END BALANCES					
Assets	\$876,013	\$762,445	\$697,999	\$641,136	\$614,830
Loans, Net of Allowance for Loan Losses	\$545,006	\$506,496	\$455,587	\$411,268	\$407,768
Earning Assets	\$812,231	\$703,948	\$636,105	\$583,331	\$560,965
Deposits	\$759,077	\$652,030	\$585,208	\$545,386	\$514,384
Tangible Equity	\$84,070	\$74,741	\$68,918	\$66,430	\$61,230
Common Shares Outstanding	882,515	885,213	918,444	918,444	918,444

ONLINE & MOBILE APP BANKING



Banking at Your Convenience

The COVID pandemic impacted the way we serve our customers and magnified the importance of convenient banking options that allow our customers to “skip the trip” to the bank. In 2020, we introduced our new robust, full-service online and mobile banking system. This new system provides our customers with all the tools needed to do almost all of their banking from their device, at their convenience.

- Manage accounts
- Monitor transactions
- Manage money
- Receive account and security alerts
- Pay bills
- Pay others
- Transfer money between accounts
- See all activity initiated from Online Banking with Activity Center
- Control debit cards with Card Control
- Deposit checks from device

Legend Pay – The quick and easy way to send money to other Legend Bank customers!

Card Control – Easily control, manage and protect debit cards with the Card Control link in the app.

Cardswap – Keep all accounts on the right card with Cardswap. It’s a single spot to update a card on file for subscription and streaming services, eCommerce merchants and more!

Go Paperless – Receive statements, account notices and documents electronically.

E-Bills – There are even more e-bills in the new mobile app. Search for billers and easily add them to Bill Pay.

Biller Direct – Add bills to easily stay on top of payments, receive real-time updates on balances and payments. Link accounts and sync data so all bills are in one place.

And More!

Wireless carrier charges may apply. Terms and conditions apply. Member FDIC



COMING SOON!

Faster, Touch-Free Transactions With New Contactless Cards!

How To Use

1. Look for the contactless symbol on the debit card reader.
2. Tap card to the front of the debit card reader.
3. Wait for a beep or green light before removing card
4. Follow any instructions on the screen



VISA is a registered trademark of Visa International Service Association and is used by the issuer pursuant to license from Visa U.S.A.

LEGEND BANK AWARDS

IBAT Awards

Legend Bank was honored by the Independent Bankers Association of Texas with two Best of Community Banking Awards.

Gold Eagle in Marketing Don't Bank Alone

"Don't Bank Alone" was Legend Bank's twist on the holiday classic Home Alone! At Legend Bank, we always say we're "More Than Just Bankers", so in our Christmas video, we let our customers and followers see their friendly bankers in a whole new way! This film was a Legend Bank Team family affair - our cast featured only Legend bankers and we even filmed at our CEO's home.

Silver Eagle in Bank Culture Maintain Don't Gain

We developed the "Maintain Don't Gain Holiday Wellness Challenge" to help employees to be mindful of their food choices and exercise programs throughout the holidays. We know at this time of year there are so many temptations and events that it is difficult to focus on healthy choices and find time to exercise. We wanted to encourage our employees with a fun challenge that would be engaging and interactive to build team relations and foster our health and wellness culture.



Film crew with Mickey Faulconer, CEO.

Classic movie cover shot.



Nocona branch employee winners.

Bowie Corporate employee winners.



ICBA 40 Under 40 Award

Matt Brown, our Sherman branch President, SVP was named an Independent Community Bankers of America® 40 Under 40: Emerging Community Bank Leader in 2020. This award recognizes up-and-coming community bank innovators and influencers who represent the future of the industry. Brown served as the chair of the Legend Leaders Committee, a group of emerging leaders within the bank, as well as on numerous boards, including the Grayson Crisis Center, Greater Texoma Utility Authority and the Grayson County Rotary Club.





Our Executive Leadership

BACK ROW FROM LEFT: **Todd McMurray**, Chief Financial Officer, EVP • **Jay Bearden**, President
Bret Meekins, West Regional President, EVP • **Jodie Payne**, Chief Operations Officer • **John Lee**, Chief Credit Officer

FRONT ROW FROM LEFT: **Jeff Brooks**, Chief Lending Officer • **Mickey Faulconer**, CEO
Toni Lucky, Chief Retail Officer • **Mike Rigby**, East Regional President, EVP



Board Of Directors

BACK ROW FROM LEFT: **Erwin Davenport**, Attorney • **Steve Gilland**, CPA • **Guy Hill**, Restaurant Business
C. Todd Brown, Business Owner Construction Industry • **Benjamin Brosch**, Telecommunications

FRONT ROW FROM LEFT: **Mickey Faulconer**, CEO • **Dr. A. Fred Renfro Jr.**, Chairman, Real Estate Investments
Larry Ogle, Land & Cattle

Directors Emeritus

Steve Hamilton • **Ben Hill** • **Paul Lamar**



2020
Financial Audit Report

LEGEND BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

together with

REPORT OF INDEPENDENT AUDITORS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

LEGEND BANCORP, INC. AND SUBSIDIARIES

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Independent Auditor's Report

To the Audit Committee of
The Board of Directors of
Legend Bancorp, Inc. and Subsidiaries
Bowie, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Legend Bancorp, Inc. and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 46 through 52 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Abilene, Texas
February 22, 2021

LEGEND BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

December 31, 2020 and 2019

Assets	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 19,447,597	\$ 12,768,902
Federal funds sold	26,250,000	-
Total cash and cash equivalents	<u>45,697,597</u>	<u>12,768,902</u>
Interest bearing deposits in banks	22,088,440	804,842
Securities available for sale	186,731,928	169,167,490
Securities held to maturity, fair value \$1,895,250 in 2020 and \$1,815,343 in 2019	1,809,491	1,846,533
Loans receivable, net of allowance for loan losses of \$7,676,491 in 2020 and \$6,802,661 in 2019	545,005,774	506,496,496
Accrued interest receivable	5,168,662	5,199,786
Premises and equipment	22,917,379	23,245,936
Foreclosed assets	1,817,011	1,817,011
Goodwill	11,763,655	11,764,016
Other intangible assets	1,311,060	1,537,890
Restricted investment carried at cost	10,421,026	10,075,847
Bank-owned life insurance	19,924,601	16,361,707
Other assets	1,356,684	1,358,358
	<u>\$ 876,013,308</u>	<u>\$ 762,444,814</u>
 Liabilities and Shareholders' Equity		
Noninterest bearing	\$ 194,026,851	\$ 143,029,303
Interest bearing	565,049,670	509,312,514
Total deposits	<u>759,076,521</u>	<u>652,341,817</u>
Accrued expenses and other liabilities	9,482,299	8,750,561
Federal funds purchased	-	3,000,000
Subordinated debentures	10,310,000	10,310,000
Total liabilities	<u>778,868,820</u>	<u>674,402,378</u>
 Shareholders' equity		
Common stock, \$1 par value; 3,000,000 shares authorized; 987,016 issued; 882,515 shares outstanding in 2020; 885,231 shares outstanding in 2019	987,016	987,016
Capital surplus	8,948,615	8,948,615
Retained earnings	92,180,397	86,535,760
Treasury stock, at cost	(8,642,683)	(8,354,787)
Net unrealized appreciation (depreciation) on available for sale securities	3,671,143	(74,168)
Total shareholders' equity	<u>97,144,488</u>	<u>88,042,436</u>
	<u>\$ 876,013,308</u>	<u>\$ 762,444,814</u>

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

LEGEND BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

	2020	2019
Interest income		
Loans, including fees	\$ 30,985,507	\$ 29,303,830
Debt securities		
Taxable	2,386,950	3,064,207
Tax exempt	1,112,711	1,018,316
Federal funds sold	34,240	197,132
Interest bearing deposits	51,218	41,080
Other restricted investments	411,464	519,098
Total interest income	<u>34,982,090</u>	<u>34,143,663</u>
Interest expense		
Deposits	2,630,954	3,672,985
Subordinated debentures	297,195	470,660
Subordinated debt to related parties	-	10,000
Federal funds purchased and advances from Federal Home Loan Bank	4,843	65,631
Total interest expense	<u>2,932,992</u>	<u>4,219,276</u>
Net interest income	32,049,098	29,924,387
Provision for loan losses	<u>1,592,000</u>	<u>1,046,100</u>
Net interest income after provision for loan losses	30,457,098	28,878,287
Noninterest income		
Service charges on deposit accounts	2,408,779	2,685,511
Other service charges and fees	2,456,744	2,197,085
Net realized gain on sales of available for sale securities	236,265	94,313
(Loss)/gain on sale of other assets	(28,358)	2,618
Gain/(loss) on sale of foreclosed assets	1,845	(43,445)
Secondary market income	1,512,550	788,979
Bargain purchase gain	-	516,955
Other income	527,519	594,295
Total noninterest income	<u>7,115,344</u>	<u>6,836,311</u>
Noninterest expenses		
Salaries and employee benefits	16,294,824	14,989,584
Occupancy and equipment expense	2,821,515	2,402,160
IT and data processing	3,567,318	3,252,016
Legal, accounting and examination fees	771,225	755,440
Directors' fees and expenses	694,286	506,287
Acquisition expense	-	292,829
Amortization of intangibles	226,830	99,485
Other expense	1,915,688	2,409,390
Total noninterest expenses	<u>26,291,686</u>	<u>24,707,191</u>
Net income	\$ <u>11,280,756</u>	\$ <u>11,007,407</u>

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

LEGEND BANCORP, INC. AND SUBSIDIARIES
 Consolidated Statements of Comprehensive Income
 Years Ended December 31, 2020 and 2019

	2020	2019
Net income	\$ 11,280,756	\$ 11,007,407
Other items of comprehensive income (loss)		
Change in unrealized appreciation (depreciation) on investment securities available for sale	3,981,576	5,369,239
Reclassification adjustment for realized gain on investment securities included in net income	(236,265)	(94,313)
Total other items of comprehensive income (loss)	3,745,311	5,274,926
Comprehensive income	\$ 15,026,067	\$ 16,282,333

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

LEGEND BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholder's Equity
Years Ended December 31, 2020 and 2019

	<u>Common Stock</u>	<u>Capital Surplus</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Net Unrealized (Depreciation) Appreciation on Available for Sale Securities</u>	<u>Total Shareholders' Equity</u>
Balance at January 1, 2019	\$ 987,016	\$ 8,948,615	\$ 80,875,060	\$ (5,199,762)	\$ (5,349,094)	\$ 80,261,835
Net income for 2019			11,007,407			11,007,407
Dividends paid			(5,346,707)			(5,346,707)
Treasury stock purchased; 33,213 shares				(3,155,025)		(3,155,025)
Net changes in unrealized appreciation on available for sale securities					5,274,926	5,274,926
Balance at December 31, 2019	987,016	8,948,615	86,535,760	(8,354,787)	(74,168)	88,042,436
Net income for 2020			11,280,756			11,280,756
Dividends paid			(5,636,119)			(5,636,119)
Treasury stock purchased; 2,716 shares				(287,896)		(287,896)
Net changes in unrealized appreciation on available for sale securities					3,745,311	3,745,311
Balance at December 31, 2020	<u>\$ 987,016</u>	<u>\$ 8,948,615</u>	<u>\$ 92,180,397</u>	<u>\$ (8,642,683)</u>	<u>\$ 3,671,143</u>	<u>\$ 97,144,488</u>

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

LEGEND BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	\$ 11,280,756	\$ 11,007,407
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,592,000	1,046,100
Bargain purchase gain on acquisition	-	(516,955)
Net amortization of securities	1,300,118	892,016
Depreciation and amortization	1,497,899	1,180,433
(Gain) loss on sale of foreclosed assets	(1,845)	43,445
Loss on disposal of other assets	28,358	-
Net realized gain on sale of available for sale securities	(236,265)	(94,313)
Appreciation in bank-owned life insurance	(475,272)	(408,533)
Net change in		
Accrued interest receivable	31,124	(359,268)
Other assets	1,674	60,995
Accrued expenses and other liabilities	731,738	965,334
Net cash provided by operating activities	15,750,285	13,816,661
Cash flows from investing activities		
Acquisition of Bank and Branch, net of cash acquired	-	51,569,024
Net change in interest bearing deposits in banks	(21,283,598)	-
Activity in available for sale securities		
Sales	34,597,105	23,900,942
Maturities, prepayments and calls	246,829,190	129,557,331
Purchases	(296,308,268)	(150,663,226)
Activity in held-to-maturity securities		
Maturities, prepayments and calls	36,035	5,935
Purchases	-	(1,852,660)
Net change in restricted investment carried at cost	(345,179)	(979,608)
Loan originations and principal collections, net	(40,118,391)	(51,278,575)
Proceeds from BOLI death benefit	112,378	-
Purchase of BOLI	(3,200,000)	-
Proceeds for sales of foreclosed assets	18,958	160,075
Proceeds from sales of other assets	174,880	-
Additions to premises and equipment	(1,145,389)	(3,074,537)
Net cash used in investing activities	(80,632,279)	(2,655,299)
Cash flows from financing activities		
Net increase in deposits	106,734,704	9,271,319
Purchase of treasury stock, at cost	(287,896)	(3,155,025)
Repayment of subordinated debt	-	(1,000,000)
Net change in federal funds purchased	(3,000,000)	(5,500,000)
Net change in advances from Federal Home Loan Bank	-	(5,000,000)
Dividends paid	(5,636,119)	(5,346,707)
Net cash provided by (used in) financing activities	97,810,689	(10,730,413)
Net change in cash and cash equivalents	32,928,695	430,949
Cash and cash equivalents at beginning of year	12,768,902	12,337,953
Cash and cash equivalents at end of year	\$ 45,697,597	\$ 12,768,902
Supplementary cash flow information		
Interest paid	\$ 3,084,066	\$ 4,219,276
Assets acquired through foreclosure	17,113	203,520
Supplemental disclosure of investing and financing activities		
Acquisition of Independent Bank Whitewright Branch and Enloe State Bank		
Interest bearing deposits in banks	\$ -	\$ (804,842)
Securities	-	(2,336,258)
Loans	-	(880,729)
Property, plant and equipment	-	(771,068)
Interest receivable	-	(13,214)
Other assets	-	(13,940)
Goodwill and intangible assets	-	(2,056,838)
Deposits	-	57,862,968
Accrued expenses and other liabilities	-	65,990

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

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations

Legend Bancorp, Inc. (the Company) is a single-bank holding company, which owns all of the capital stock of Legend Bank, N.A. (the Bank) and all the capital stock of OREAL, Inc. (OREAL). The Bank's primary source of revenue is providing loans and banking services to consumers and commercial customers in the Texas cities of Bowie, Alvord, Decatur, Henrietta, Nocona, Whitesboro, Bonham, Fort Worth, Wichita Falls, Sherman, North Richland Hills, Whitewright, Cooper and surrounding area. The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles and to general practices of the banking industry. Policies and practices which materially affect the determination of financial position, results of operations and cash flows are summarized as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, the Bank and OREAL. OREAL has no activity for the years ended December 31, 2020 and 2019. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial position and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the valuation of foreclosed real estate and investment securities.

Acquisition Activities

The Company accounts for business combinations under the acquisition method of accounting. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including identifiable intangible assets. If the fair value of net assets purchased exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Conversely, if the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. Fair values are subject to refinement after the closing date of an acquisition as information relative to closing date fair values becomes available, but not beyond one year from the acquisition.

The determination of the fair value of loans acquired takes into account credit quality deterioration and probability of loss at the acquisition date; therefore, the related allowance for loan losses is not carried forward.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Acquisition Activities – continued

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable. (i.e., capable of being sold, transferred, licensed, rented or exchanged separately from the entity). Deposit liabilities and the related depositor relationship intangible assets may be exchanged in observable exchange transactions. As a result, the depositor relationship intangible asset (the core deposit intangible) is considered identifiable, because the separability criterion has been met.

Significant Group Concentration of Credit Risk

Most of the Company's activities are with customers located within the North Central Texas area. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Company.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold, all of which mature within ninety days.

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. The Company had no required reserves as of December 31, 2020 and 2019.

Interest-Bearing Deposits in Banks

Interest bearing deposits in banks mature within one year and are carried at cost.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. At December 31, 2020, and 2019, the Company had available for sale and held to maturity securities.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Securities – continued

Purchase premiums and discounts are recognized in interest income using the interest method. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary, if any, are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted investments in equity securities are carried at cost. Any changes to the cost basis of these investments are recorded in the statement of income. These investments are reviewed annually to determine if an impairment charge is necessary. As of December 31, 2020 and 2019, no impairment charges were recorded.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate, agricultural and commercial loans throughout the North Central Texas area. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off which are measured at historical cost are generally reported at their outstanding unpaid principal balances net of any unearned income, charge-offs, and unamortized deferred fees and costs on originated loans. Unearned income is amortized to interest income using a level yield methodology.

The Company makes disclosures of loans and other financing receivables and the related allowance in accordance with ASC Topic 310, *Receivables*. The accounting guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. The Company's portfolio segments are real estate, agriculture, commercial, and consumer. The classes of financing receivables within the real estate segment are Construction and Land, Farmland, 1-4 Residential, Multifamily, and Commercial Real Estate. The remaining portfolio segments contain a single class of financing receivables. Under this accounting guidance, the allowance is presented by portfolio segment.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Allowance for Loan Losses

The allowance for credit losses, which includes the allowance for loan losses and the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Company's lending activities. The allowance for loan losses does not include amounts related to accrued interest receivable as accrued interest receivable is reversed when a loan is placed on nonaccrual status.

The allowance for loan losses represents the estimated probable credit losses in funded consumer and commercial loans while the reserve for unfunded lending commitments, including standby letters of credit and binding unfunded loan commitments, represents estimated probable credit losses on these unfunded credit instruments based on utilization assumptions. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged off amounts is recorded as a recovery to these accounts.

Management evaluates the adequacy of the allowance for loan losses based on the combined total of these two components. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and assess the overall collectability of those portfolios. The allowance on certain homogenous loan portfolios is based on aggregated portfolio segment evaluations. Loss forecast models are utilized for these portfolios which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, bankruptcies, economic conditions and credit scores.

The Company's real estate portfolio segment is comprised primarily of homogenous loans secured by residential and commercial real estate. The amount of losses incurred in the homogenous loan pools is estimated based upon how many of the loans will default and the loss in the event of default. Using modeling methodologies, the Company estimates how many of the homogenous loans will default based on the individual loans' attributes aggregated into pools of homogenous loans with similar attributes. The attributes that are most significant to the probability of default and are used to estimate default include the loan-to-value, borrower credit score, months since origination, geography, and present collection status.

The estimate is based on the Company's historical experience with the loan portfolio. The estimate is adjusted to reflect an assessment of environmental factors that are not reflected in the historical data, such as changes in real estate values, local and national economies, underwriting standards and the regulatory environment.

The allowance on the remaining portfolio segments (agriculture, commercial loans, and consumer) is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Allowance for Loan Losses – continued

Nonperforming loans are reviewed in accordance with applicable accounting guidance on impaired loans and troubled debt restructurings (TDRs). If necessary, a specific allowance is established for these loans if they are deemed to be impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers non-classified 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, utilization assumptions, current economic conditions, performance trends within the portfolio and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for credit losses related to the loan portfolio is reported as a part of loans in the consolidated statement of condition whereas the reserve for unfunded lending commitments is reported on the consolidated statement of condition in accrued expenses and other liabilities. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported separately in the consolidated statement of income.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Nonperforming Loans, Charge-Offs and Delinquencies

Nonperforming loans generally include loans that have been placed on nonaccrual status including nonaccrual loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

The entire balance of a loan is contractually delinquent if the minimum payment is not received by the specified due date on the customer's billing statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

The outstanding balance of real estate secured loans, including all classes of financing receivables within the real estate portfolio segment, that is in excess of the estimated property value, less estimated costs to sell, is charged off no later than the end of the month in which the account becomes 180 days past due. The estimated property value, less costs to sell, is determined utilizing appraisals or broker price opinions of the fair value of the collateral.

The outstanding balance of loans within the remaining loan segments (agriculture, commercial loans, and consumer) are charged off no later than the end of the month in which the account becomes 120 days past due. For secured loans, accounts are written down to the collateral value.

The fair value of the collateral is estimated by management based on current financial information, inspections, and appraisals. For unsecured loans, the outstanding balance is written off.

Loans within all portfolio segments are generally placed on nonaccrual status and classified as nonperforming at 90 days past due. Accrued interest receivable is reversed when a loan is placed on nonaccrual status. Interest collections on nonaccruing loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to interest income when received. These loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

Loans whose contractual terms have been modified in a TDR and are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and repayment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, generally six months. TDRs that are on accrual status are reported as performing TDRs through the end of the calendar year in which the restructuring occurred or the year in which the loans are returned to accrual status. In addition, if accruing TDRs bear less than a market rate of interest at the time of modification, they are reported as performing TDRs throughout the remaining lives of the loans.

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

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Nonperforming Loans, Charge-Offs and Delinquencies – Continued

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished and, for loan participations sold, incoming cash flows on the base loan are allocated to all participants on a pro-rata basis. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Financial Instruments

In the ordinary course of business the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Cash Surrender Value of Life Insurance

Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for changes in contract value. The adjustment to contract value increases or decreases the carrying value of the policies and is recorded as income or expense on the consolidated statements of income.

Banking Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated cost to sell at the date of foreclosure. All writedowns based on the asset's fair value at the date of acquisition are charged to the allowance for loan loss. After foreclosure, property held for sale is carried at the lower of the new cost basis or estimated fair value less cost to sell.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Foreclosed Assets-Continued

Impairment losses on property to be held and used are measured at the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs related to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to lower of its costs or fair value less costs to sell.

The Company records gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed asset to the buyer, the Company assesses whether the price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Service Charges on Deposit Accounts

The Company earns fees from its deposit customers for transaction-based, account-maintenance, and overdraft services. Transaction-based fees, which include services related to insufficient funds and stop payment charges and statement rendering are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Other Service Charges and Fees

The Company earns fees from wire and ACH charges that are recognized when the transaction is executed. The Company also earns fees on ATM and credit card transaction when the transaction is executed. Fees and customer awards related to these transactions are netted against the income and shown net in this line item on the consolidated statement of income.

Income Taxes

The Company files a federal income tax return on a calendar-year basis. Effective January 1, 2013, the Company converted to a Sub Chapter S Corporation, and as such will no longer be liable for federal income taxes. All income and losses are passed through to the shareholders of the Company.

In May of 2006, the State of Texas implemented a new tax on taxable margin, effective for years ended after December 31, 2006. For the Company, taxable margin is revenue less interest expense. The margin tax was insignificant for the years ended December 31, 2020 and 2019. This tax is current and does not have a deferred tax component.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Income Taxes- Continued

Based on management's analysis, the Company's income tax returns are subject to examination by relevant taxing authorities as follows: U.S. federal income tax returns for tax years 2017 and forward; Texas income tax margin tax returns for tax years 2016 and forward. The Company did not have any uncertain tax positions at December 31, 2020 and 2019.

The Company recognizes interest accrued on and penalties related to unrecognized tax positions in tax expense. During the year ended December 31, 2020 the Company recognized no interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Texas.

Comprehensive Income

All components of comprehensive income are related to the Company's available of sale portfolio. Reclassifications out of accumulated comprehensive income are the result of realized gains/ losses on sale of securities which are presented separately on the consolidated statement of income.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2020 and 2019 amounted to \$396,471 and \$423,101, respectively.

Troubled Debt Restructured Loans

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

Federal Home Loan Bank Stock

The Company's investment in Federal Home Loan Bank (FHLB) stock is a restricted investment carried at cost (\$100 per share par value), which approximates its fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Company may request redemption at par value of any stock in excess of the amount it is required to hold. Stock redemptions are made at the discretion of FHLB. During the years ending December 31, 2020 and 2019, there were stock purchases of \$0 and \$343,630, respectively. There were no stock redemptions during the years ended December 31, 2020 and 2019.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies – continued

Business Combinations, Goodwill and Other Intangible Assets

Authoritative accounting guidance requires that all business combinations initiated after June 30, 2001 are accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. The guidance addresses the initial recognition and measurement of intangible assets acquired in a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. The guidance provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment.

Goodwill and other intangible assets recorded in the bank acquisition of Enloe State Bank in 2019, Independent Bank Whitewright in 2019, Bonham State Bank in 2007, the branch acquisition of Surety Bank Whitesboro branch in 2006 are subject to the provisions of the guidance.

The goodwill recorded on these acquisitions amounted to \$11,763,655 and \$11,764,016 at December 31, 2020 and 2019, respectively. Goodwill is not subject to amortization. The Company conducted a goodwill impairment test for the years ended December 31, 2020 and 2019. There were no reductions of recorded goodwill resulting from the impairment test.

Other identifiable intangible assets recorded by the Bank represent future benefits associated with the acquisition of core deposits of the Whitewright and Cooper Branch and are being amortized over 10 years, respectively, utilizing a method that approximates the expected attrition of the deposits. \$50,000 is also included in intangible assets as non-amortizing naming rights. The balance of intangible assets at December 31, 2020 and 2019 was \$1,311,060 and \$1,537,890 respectively.

Treasury Stock

Treasury stock is accounted for on the cost method. Treasury stock for the years ended December 31, 2020 and 2019 consist of 104,501 and 101,785 shares, respectively.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 2: Securities

Debt Securities have been classified in the consolidated balance sheet according to Management's intent. The carrying value of debt securities as of December 31, 2020 and 2019 consists of the following:

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

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<u>Available for Sale</u>				
Debt Securities:				
Mortgage-backed	\$ 98,118,784	\$ 1,632,380	\$ (57,800)	\$ 99,693,364
State and municipal	84,941,999	2,151,697	(55,132)	87,038,564
Total securities available for sale	<u>\$ 183,060,783</u>	<u>\$ 3,784,077</u>	<u>\$ (112,932)</u>	<u>\$ 186,731,928</u>
<u>Held-to-Maturity</u>				
Debt Securities:				
Mortgage-backed	\$ 1,809,491	\$ 85,759	\$ -	\$ 1,895,250
Total securities held-to-maturity	<u>\$ 1,809,491</u>	<u>\$ 85,759</u>	<u>\$ -</u>	<u>\$ 1,895,250</u>
	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<u>Available for Sale</u>				
Debt Securities:				
Mortgage-backed	\$ 128,328,380	\$ 507,145	\$ (1,089,256)	\$ 127,746,269
State and municipal	40,913,278	629,019	(121,076)	41,421,221
Total securities available for sale	<u>\$ 169,241,658</u>	<u>\$ 1,136,164</u>	<u>\$ (1,210,332)</u>	<u>\$ 169,167,490</u>
<u>Held-to-Maturity</u>				
Debt Securities:				
Mortgage-backed	\$ 1,846,533	\$ -	\$ (31,190)	\$ 1,815,343
Total securities held-to-maturity	<u>\$ 1,846,533</u>	<u>\$ -</u>	<u>\$ (31,190)</u>	<u>\$ 1,815,343</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 2: Securities – continued

For the years ended December 31, 2020 and 2019, proceeds from sales of securities available for sale amounted to \$34,597,105 and \$23,930,942, respectively. For the years ended December 31, 2020 and 2019, gross realized gains amounted to \$247,827 and \$123,952, respectively. For the years ended December 31, 2020 and 2019, gross realized losses amounted to \$11,562 and \$29,639, respectively.

At December 31, 2020 and 2019, securities with a carrying value of \$106,860,883 and \$94,488,574, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The maturity of securities available for sale as of December 31, 2020 follows:

	December 31, 2020	
	Amortized Cost	Fair Value
Available-for-sale		
Due in one year or less	\$ 1,197,298	\$ 1,198,399
Due from one to five years	15,118,774	15,272,846
Due five to ten years	23,078,323	23,677,060
After ten years	45,547,604	46,890,259
Mortgage-backed	98,118,784	99,693,364
Total	\$ 183,060,783	\$ 186,731,928
Held-to-maturity		
Mortgage-backed	\$ 1,809,491	\$ 1,895,250
Total	\$ 1,809,491	\$ 1,895,250

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 2: Securities – continued

The following table discloses, as of December 31, 2020 and 2019, the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

		December 31, 2020			
		Less than 12 months		12 months or longer	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>Available for Sale</u>					
Debt Securities:					
Mortgage-backed		\$ 26,686,000	\$ (57,329)	\$ 109,019	\$ (471)
State and municipal		13,355,883	(55,132)	-	-
Total		\$ 40,041,883	\$ (112,461)	\$ 109,019	\$ (471)
<u>Held-to-Maturity</u>					
Debt Securities:					
Mortgage-backed		\$ -	\$ -	\$ -	\$ -
Total		\$ -	\$ -	\$ -	\$ -
		December 31, 2019			
		Less than 12 months		12 months or longer	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>Available for Sale</u>					
Debt Securities:					
Mortgage-backed		\$ 35,717,713	\$ (171,498)	\$ 48,874,515	\$ (917,757)
State and municipal		6,942,077	(55,784)	1,941,235	(65,293)
Total		\$ 42,659,790	\$ (227,282)	\$ 50,815,750	\$ (983,050)
<u>Held-to-Maturity</u>					
Debt Securities:					
Mortgage-backed		\$ 1,846,533	\$ (31,190)	-	-
Total		\$ 1,846,533	\$ (31,190)	-	-

Mortgage-backed

The unrealized losses on the Company's investment in mortgage-backed securities were caused by interest rate increases and increases in prepayment speeds. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by agencies of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and increases in prepayment speeds and not credit quality, and because the Company does not intend to sell

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 2: Securities – continued

the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020 and 2019.

State and municipal

The unrealized losses on the Company's investment in state and municipal securities were caused by interest rate increases. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020 and 2019.

Other-than-temporary impairment

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more likely than not the Company will have to sell the debt security prior to recovery. As of December 31, 2020, no investment securities were other-than-temporarily impaired.

NOTE 3: Loans

A summary of the balances of loans follows:

	December 31,	
	2020	2019
Real estate	\$ 374,286,637	\$ 336,882,626
Agriculture	68,717,996	78,701,305
Commercial	102,485,379	90,562,324
Consumer	7,192,253	7,152,902
Subtotal	<u>552,682,265</u>	<u>513,299,157</u>
Less: Allowance for loan losses	<u>(7,676,491)</u>	<u>(6,802,661)</u>
Loans, net	<u>\$ 545,005,774</u>	<u>\$ 506,496,496</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

The following tables set forth information regarding the activity in the allowance for loans losses for the year ended December 31, 2020 (in thousands):

	December 31, 2020				
	Real estate	Agriculture	Commercial	Consumer	Total
<i>Allowance for loan losses:</i>					
Beginning balance	\$ 1,598	\$ 3,838	\$ 792	\$ 575	\$ 6,803
Charge-offs	(360)	(203)	(70)	(293)	(926)
Recoveries	-	9	14	184	207
Provision	1,671	(283)	115	89	1,592
Ending balance	<u>\$ 2,909</u>	<u>\$ 3,361</u>	<u>\$ 851</u>	<u>\$ 555</u>	<u>\$ 7,676</u>
Ending balance allocated to loans individually evaluated for impairment	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 168</u>	<u>\$ 3</u>	<u>\$ 194</u>
Ending balance allocated to loans collectively evaluated for impairment	<u>\$ 2,886</u>	<u>\$ 3,361</u>	<u>\$ 683</u>	<u>\$ 552</u>	<u>\$ 7,482</u>
<i>Loans receivable</i>					
Loans individually evaluated for impairment	\$ 3,496	\$ 345	\$ 2,027	\$ 3	\$ 5,871
Loans collectively evaluated for impairment	<u>370,791</u>	<u>68,373</u>	<u>100,458</u>	<u>7,189</u>	<u>546,811</u>
Ending balance	<u>\$ 374,287</u>	<u>\$ 68,718</u>	<u>\$ 102,485</u>	<u>\$ 7,192</u>	<u>\$ 552,682</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

The following tables set forth information regarding the activity in the allowance for loans losses for the year ended December 31, 2019 (in thousands):

	December 31, 2019				
	Real estate	Agriculture	Commercial	Consumer	Total
<i>Allowance for loan losses:</i>					
Beginning balance	\$ 689	\$ 3,198	\$ 1,478	\$ 267	\$ 5,632
Charge-offs	(218)	(300)	(65)	(421)	(1,004)
Recoveries	189	593	162	185	1,129
Provision	938	347	(783)	544	1,046
Ending balance	<u>\$ 1,598</u>	<u>\$ 3,838</u>	<u>\$ 792</u>	<u>\$ 575</u>	<u>\$ 6,803</u>
Ending balance allocated to loans individually evaluated for impairment	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 53</u>	<u>\$ -</u>	<u>\$ 62</u>
Ending balance allocated to loans collectively evaluated for impairment	<u>\$ 1,589</u>	<u>\$ 3,838</u>	<u>\$ 739</u>	<u>\$ 575</u>	<u>\$ 6,741</u>
<i>Loans receivable</i>					
Loans individually evaluated for impairment	\$ 2,751	\$ 23	\$ 265	\$ -	\$ 3,039
Loans collectively evaluated for impairment	<u>334,132</u>	<u>78,678</u>	<u>90,297</u>	<u>7,153</u>	<u>510,260</u>
Ending balance	<u>\$ 336,883</u>	<u>\$ 78,701</u>	<u>\$ 90,562</u>	<u>\$ 7,153</u>	<u>\$ 513,299</u>

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as special mention, substandard, doubtful or loss. These assets pose an elevated risk and may have a higher probability of default or total loss.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company’s position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

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

Pass rated refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

The following tables set forth information regarding the internal classification of the loan portfolio as of December 31, 2020 and 2019 (in thousands):

	December 31, 2020					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
Construction and land	\$ 32,578	\$ -	20	\$ -	\$ -	\$ 32,598
Farmland	48,173	833	2,678	-	-	51,684
1-4 Residential	103,229	215	756	-	-	104,200
Multifamily	17,076	-	772	-	-	17,848
Commercial real estate	166,004	-	1,953	-	-	167,957
Agriculture	65,449	-	3,187	82	-	68,718
Commercial	98,203	516	3,743	23	-	102,485
Consumer	7,181	8	3	-	-	7,192
Total	<u>\$ 537,893</u>	<u>\$ 1,572</u>	<u>\$ 13,112</u>	<u>\$ 105</u>	<u>\$ -</u>	<u>\$ 552,682</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

	December 31, 2019					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
Construction and land	\$ 31,795	\$ -	20	\$ -	\$ -	\$ 31,815
Farmland	50,129	100	2,865	-	-	53,094
1-4 Residential	100,196	-	609	-	-	100,805
Multifamily	19,302	-	807	-	-	20,109
Commercial real estate	130,758	-	302	-	-	131,060
Agriculture	77,894	500	307	-	-	78,701
Commercial	89,613	15	934	-	-	90,562
Consumer	7,153	-	-	-	-	7,153
Total	<u>\$ 506,840</u>	<u>\$ 615</u>	<u>\$ 5,844</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 513,299</u>

The following table sets forth information regarding the credit risk profile based on payment activity of the loan portfolio (in thousands):

	December 31, 2020			December 31, 2019		
	Performing	Nonperforming	Total	Performing	Nonperforming	Total
Real estate:						
Construction						
and land	\$ 32,598	\$ -	\$ 32,598	\$ 31,815	\$ -	\$ 31,815
Farmland	50,223	1,461	51,684	51,621	1,473	53,094
1-4 Residential	103,675	525	104,200	100,337	468	100,805
Multifamily	17,848	-	17,848	20,109	-	20,109
Commercial						
real estate	167,512	445	167,957	131,060	-	131,060
Agriculture	68,373	345	68,718	78,689	12	78,701
Commercial	101,747	738	102,485	90,469	93	90,562
Consumer	7,189	3	7,192	7,153	-	7,153
Total	<u>\$ 549,165</u>	<u>\$ 3,517</u>	<u>\$ 552,682</u>	<u>\$ 511,253</u>	<u>\$ 2,046</u>	<u>\$ 513,299</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

The following table sets forth information regarding the delinquencies within the loan portfolio (in thousands):

	December 31, 2020					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate:						
Construction and land	\$ 384	\$ -	\$ 384	\$ 32,214	\$ 32,598	\$ -
Farmland	-	1,401	1,401	50,283	51,684	-
1-4 Residential	507	82	589	103,611	104,200	38
Multifamily	-	-	-	17,848	17,848	-
Commercial real estate	81	315	396	167,561	167,957	-
Agriculture	215	-	215	68,503	68,718	-
Commercial	901	184	1,085	101,400	102,485	11
Consumer	25	-	25	7,167	7,192	-
Total	<u>\$ 2,113</u>	<u>\$ 1,982</u>	<u>\$ 4,095</u>	<u>\$ 548,587</u>	<u>\$ 552,682</u>	<u>\$ 49</u>
	December 31, 2019					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate:						
Construction and land	\$ 158	\$ -	\$ 158	\$ 31,657	\$ 31,815	\$ -
Farmland	15	1,401	1,416	51,678	53,094	-
1-4 Residential	984	299	1,283	99,522	100,805	1
Multifamily	-	-	-	20,109	20,109	-
Commercial real estate	6	-	6	131,054	131,060	-
Agriculture	136	-	136	78,565	78,701	-
Commercial	199	-	199	90,363	90,562	-
Consumer	42	-	42	7,111	7,153	-
Total	<u>\$ 1,540</u>	<u>\$ 1,700</u>	<u>\$ 3,240</u>	<u>\$ 510,059</u>	<u>\$ 513,299</u>	<u>\$ 1</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

The following table sets forth information regarding the nonaccrual status within the loan portfolio as of December 31, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Real estate:		
Construction and land	\$ -	\$ -
Farmland	1,461	1,473
1-4 Residential	525	468
Multifamily	-	-
Commercial real estate	445	-
Agriculture	345	12
Commercial	738	93
Consumer	3	-
Total	<u>\$ 3,517</u>	<u>\$ 2,046</u>

A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings when concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Interest payments received on impaired loans are recorded as interest income unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal. There was no interest income recognized on a cash basis on impaired loans during the years ended December 31, 2020 or 2019.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

The following table sets forth information regarding impaired loans as of December 31, 2020:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance:					
Real estate:					
Construction and land	\$ -	\$ -	\$ -	\$ -	\$ -
Farmland	1,461,177	1,641,100	-	1,466,968	4,546
1-4 Residential	503,498	504,128	-	455,523	26,366
Multifamily	-	-	-	404,801	-
Commercial real estate	444,691	763,860	-	222,346	20,927
Agriculture	345,017	2,476,787	-	183,802	18,241
Commercial	585,600	585,600	-	312,799	26,643
Consumer	-	-	-	-	-
With a related allowance:					
Real estate:					
Construction and land	-	-	-	-	-
Farmland	90,734	91,193	281	45,367	13,249
1-4 Residential	223,970	227,637	9,593	142,590	9,157
Multifamily	771,801	774,653	13,344	385,901	38,094
Commercial real estate	-	-	-	-	-
Agriculture	-	-	-	-	-
Commercial	1,441,917	1,447,417	168,263	833,455	87,791
Consumer	2,920	2,920	2,920	1,460	929
Total:					
Real estate:					
Construction and land	-	-	-	-	-
Farmland	1,551,911	1,732,293	281	1,512,335	17,795
1-4 Residential	727,468	731,765	9,593	598,113	35,523
Multifamily	771,801	774,653	13,344	790,701	38,094
Commercial real estate	444,691	763,860	-	222,346	20,927
Agriculture	345,017	2,476,787	-	183,802	18,241
Commercial	2,027,517	2,033,017	168,263	1,146,254	114,434
Consumer	2,920	2,920	2,920	1,460	929
	<u>\$ 5,871,325</u>	<u>\$ 8,515,295</u>	<u>\$ 194,401</u>	<u>\$ 4,455,009</u>	<u>\$ 245,943</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

The following table sets forth information regarding impaired loans as of December 31, 2019:

	<u>Recorded</u> <u>Investment</u>	<u>Unpaid</u> <u>Principal</u> <u>Balance</u>	<u>Related</u> <u>Allowance</u>	<u>Average</u> <u>Recorded</u> <u>Investment</u>	<u>Interest</u> <u>Income</u> <u>Recognized</u>
With no related allowance:					
Real estate:					
Construction and land	\$ -	\$ -	\$ -	\$ -	\$ -
Farmland	1,472,759	1,652,681	-	868,114	5,201
1-4 Residential	407,547	407,547	-	582,228	22,695
Multifamily	809,601	809,601	-	404,801	37,827
Commercial real estate	-	-	-	12,336	-
Agriculture	22,586	2,154,356	-	503,400	2,478
Commercial	39,997	72,658	-	23,707	1,941
Consumer	-	-	-	1,945	-
With a related allowance:					
Real estate:					
Construction and land	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 Residential	61,210	61,210	8,944	83,653	3,505
Multifamily	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Agriculture	-	-	-	-	-
Commercial	224,993	224,993	53,385	136,872	17,337
Consumer	-	-	-	129,136	-
Total:					
Real estate:					
Construction and land	-	-	-	-	-
Farmland	1,472,759	1,652,681	-	868,114	5,201
1-4 Residential	468,757	468,757	8,944	665,881	26,200
Multifamily	809,601	809,601	-	404,801	37,827
Commercial real estate	-	-	-	12,336	-
Agriculture	22,586	2,154,356	-	503,400	2,478
Commercial	264,990	297,651	53,385	160,579	19,278
Consumer	-	-	-	131,081	-
	<u>\$ 3,038,693</u>	<u>\$ 5,383,046</u>	<u>\$ 62,329</u>	<u>\$ 2,746,190</u>	<u>\$ 90,984</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 3: Loans – continued

As of December 31, 2020 and 2019, the Bank has a recorded investment in troubled debt restructuring of \$2,315,744 and \$1,010,528, respectively. The Company has allocated \$71,568 and \$4,635 of specific allowance for those loans at December 31, 2020 and 2019 and has not committed to lend additional amounts.

The Bank had five loans that were modified as trouble debt restructurings during the year ended December 31, 2020. The additional loans resulted in an increase of \$1,401,085 in trouble debt restructurings. The trouble debt restructurings were payment extensions. There were two loans modified as troubled debt restructurings during the year ended December 31, 2019. The additional loans resulted in an increase of \$824,740 in trouble debt restructurings. The troubled debt restructurings were payment extensions.

There were no subsequent payment defaults occurring within 12 months from the date of the restructuring of any of the loans classified as troubled debt restructurings. The Company has no commitments to loan additional funds to borrowers whose loans have been modified. None of the loan modifications are on non-accrual.

None of the loan modifications had a material impact on the calculation of the allowance for loan losses.

In March 2020, the United States government passed a piece of legislation designed to help the nation's economy recover from the coronavirus disease 2019 ("COVID-19") pandemic. This legislation is called the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") which provides economy-wide financial stimulus in the form of financial aid to individuals, businesses, nonprofit entities, states and municipalities. The CARES Act temporarily added a new product titled the "Paycheck Protection Program," (PPP) to the U.S. Small Business Administration's loan program. The CARES Act permits the SBA to guarantee 100 percent of these loans and also provides for forgiveness of up to the full principal amount of these loans. For the year ended December 31, 2020, the Company originated \$38,409,837 in PPP loans of which \$14,531,040 had been forgiven. As of December 31, 2020, the Company had an outstanding balance of \$23,878,797 in PPP loans that were all classified as commercial loans.

NOTE 4: Foreclosed Assets

A summary of the balance of foreclosed assets is presented below:

	December 31,	
	2020	2019
Land under development	\$ 1,817,011	\$ 1,817,011
Total foreclosed assets	\$ 1,817,011	\$ 1,817,011

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 4: Foreclosed Assets - continued

Income (expenses) applicable to foreclosed assets include the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Net gain (loss) on sales of real estate	\$ 1,845	\$ (43,445)
Writedowns	-	-
Operating expenses, net of rental income	-	-
	<u>\$ 1,845</u>	<u>\$ (43,445)</u>

NOTE 5: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 3,841,344	\$ 4,043,548
Buildings and improvements	22,052,433	19,619,181
Furniture, fixtures and equipment	8,275,143	7,546,371
Construction in progress	57,366	2,095,681
	<u>34,226,286</u>	<u>33,304,781</u>
Accumulated depreciation	<u>(11,308,907)</u>	<u>(10,058,845)</u>
	<u>\$ 22,917,379</u>	<u>\$ 23,245,936</u>

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to \$1,270,708 and \$1,080,949, respectively.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 6: Deposits

The aggregate amount of time deposits (including individual retirement accounts) in denominations that meets or exceeds the FDIC limits of \$250,000 or more at December 31, 2020 and 2019 was \$29,416,442 and \$34,282,398, respectively. At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	\$ 129,208,967
2022	21,685,619
2023	4,759,699
2024	2,655,721
2025 and thereafter	<u>1,733,705</u>
Total	<u>\$ 160,043,711</u>

NOTE 7: Subordinated Debt

On August 31, 2007, the Company completed the private placement of \$10,310,000 in subordinated debentures to Legend Bancorp Statutory Trust I (the Trust). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to La Salle National Trust with a liquidation value of \$10,310,000. Distributions of interest are due quarterly.

The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities was fixed at 7.15% until September 15, 2012 then became variable at 3-Month LIBOR plus 2.20%, making the rate 2.42% as of December 31, 2020. Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years.

The preferred securities mature on September 15, 2037 unless the Company elects and obtains regulatory approval to accelerate the maturity date to as early as September 15, 2012.

On May 31, 2012, the Company completed a private placement of up to \$10,000,000 in aggregate principal amount of subordinated promissory notes. The Company issued \$7,350,000 of these notes to related parties of the Bank. Interest payments are due quarterly with a fixed interest rate of 4.0%. The remaining principal was paid on March 31, 2019. As of December 31, 2020 and 2019, there was not any outstanding principal.

For the years ended December 31, 2020 and December 31, 2019, interest expense on the subordinated debt was \$0 and \$10,000, respectively.

Subordinated debt may be included in regulatory Tier 1 capital subject to a limitation that such amounts not exceed 25% of Tier 1 capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 8: Advances from Federal Home Loan Bank and Other Borrowings

Federal Home Loan Advances

The Bank did not have an outstanding balance with Federal Home Loan Bank at December 31, 2020, or 2019, respectively.

Under these agreements, the Company had unused lines of credit amounting to \$217,042,257 and \$219,074,570 at December 31, 2020 and 2019, respectively. Pursuant to a blanket collateral agreement with FHLB, advances were secured by all stock and deposit accounts with FHLB, mortgage collateral, securities collateral, and other collateral. No securities were specifically pledged as of December 31, 2020 and 2019.

Federal Funds Purchased

The Bank has a \$25,000,000 line of credit with Frost Bank. There were \$0 and \$3,000,000 outstanding amounts at December 31, 2020 and 2019, respectively. Frost outstanding balances matured on January 2, 2020 with an interest rate of 1.65%.

The Bank has a \$15,000,000 line of credit with TIB. There were no outstanding amounts at December 31, 2020 or 2019.

NOTE 9: Off-Balance-Sheet Activities

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statement of financial position. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>Contract Amount</u>	
	<u>2020</u>	<u>2019</u>
Commitments to extend credit	\$ 119,642,000	\$ 93,566,000
Commercial and standby letters of credit	\$ 2,983,000	\$ 2,090,000

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

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 9: Off-Balance-Sheet Activities - continued

The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

The Company has a \$3,000,000 commitment related to one of its restricted investments. At December 31, 2020 and 2019, \$1,213,306 and \$1,092,586 of this commitment was funded, respectively. The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

NOTE 10: Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 11: Employee Benefit Plans

KSOP

In 2012 the Company merged its money purchase Employee Stock Ownership Plan (the ESOP) with its 401(k) profit-sharing plan into the Legend Bank Employee Stock Ownership and 401(k) Plan (the KSOP). The KSOP covers substantially all employees of the Company. Company contributions are discretionary. Employees may contribute any portion of their compensation subject to certain limits based on federal laws. The Company's annual contribution to the KSOP is at the discretion of the Company's Board of Directors. Effective January 1, 2013, the Company will contribute a safe harbor matching contribution equal to 100% of the employee's contribution up to 6% of their compensation. In 2020 and 2019, the Company contributed \$524,844 and \$473,227 to the KSOP, respectively. At December 31, 2020 and 2019, the KSOP owned 116,680 and 115,630 shares of the Company's stock, respectively.

Supplemental Executive Retirement Plan

The Company sponsors a supplemental executive retirement plan (SERP) covering three key officers and one former officer of the Bank. The SERP provides for a post retirement annuity benefit. The SERP also guarantees a minimum number of annual benefit payments to the participant's named beneficiary in the event of the participant's death prior to retirement or twenty years thereafter. The obligation under the SERP has been recorded at the present value of the accrued benefit. The balance of the estimated accrual benefit under the SERP at December 31, 2020 and 2019 was \$6,679,185 and \$6,201,201, respectively and is included in other liabilities in the accompanying consolidated statement of financial position.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 11: Employee Benefit Plans - continued

The Company has invested in whole life insurance policies, which accumulate cash values, to offset the SERP benefit obligations. At December 31, 2020 and 2019, the cash surrender values of such insurance policies totaled \$10,554,817 and \$7,218,111, respectively, and are included in total bank-owned life insurance in the accompanying consolidated statement of financial position.

Other Plans

The Company has established a deferred cash incentive plan and a salary continuation plan covering certain key employees. A liability has been recorded for both of these plans in the amount of \$5,561,980 and \$4,997,256 at December 31, 2020 and 2019, respectively.

NOTE 12: Restrictions on Dividends

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. Such regulations generally restrict cash dividends for the year 2020 to the extent of the Bank's earnings for 2020 plus \$15,743,031 of available earnings from prior years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE 13: Minimum Regulatory Capital Requirements

The federal banking agencies published final rules (the Basel III Capital Rules) that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee and certain provisions of the Dodd-Frank Act. The Basel III Capital Rules apply to banking organizations, including the Company and the Bank.

In connection with the effectiveness of Basel III, most banks are required to decide whether to elect to opt-out of the inclusion of Accumulated Other Comprehensive Income (AOCI) in their Common Equity Tier 1 Capital. This is a one-time election and generally irrevocable. If electing to opt-out, most AOCI items will be treated, for regulatory capital purposes, in the same manner in which they were prior to Basel III. Legend Bancorp, Inc. has elected to opt-out of the inclusion.

Among other things, the Basel III Capital Rules: (i) introduce a new capital measure entitled "Common Equity Tier 1" (CET1); (ii) specify that tier 1 capital consist of CET1 and additional financial instruments satisfying specified requirements that permit inclusion in tier 1 capital; (iii) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions or adjustments from capital as compared to the existing regulations.

A minimum leverage ratio (tier 1 capital as a percentage of total assets) of 4.0% is also required under the Basel III Capital Rules (even for highly rated institutions). The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 13: Minimum Regulatory Capital Requirements – continued

organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers.

The Company, on a consolidated basis, and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require Bank to maintain minimum amounts and ratios of CET1, Tier 1 Capital, Total Capital and leverage ratio of Tier 1 Capital. As of January 1, 2015, the requirements are:

- 4.5% based upon CET1
- 6.0% based upon tier 1 capital
- 8.0% based on total regulatory capital
- Leverage ratio of Tier 1 Capital assets equal to 4%

As of December 31, 2020 and 2019, management believes the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2020, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 13: Minimum Regulatory Capital Requirements – continued

The Bank's capital amounts and ratios as of December 31, 2020 are as presented in the following table (in dollars and thousands).

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
Common Equity Tier 1 Risk Weighted Assets Bank	\$ 81,042	13.4%	\$ 27,219	>4.5%	\$ 39,316	>6.5%
Tier I Capital to Risk Weighted Assets Bank	\$ 81,042	13.4%	\$ 36,292	>6.0%	\$ 48,389	>8.0%
Total Capital to Risk Weighted Assets Bank	\$ 88,604	14.6%	\$ 48,389	>8.0%	\$ 60,487	>10.0%
Leverage Ratio Average Total Assets Bank	\$ 81,042	9.5%	\$ 34,174	>4.0%	\$ 42,717	>5.0%

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 13: Minimum Regulatory Capital Requirements – continued

The Bank’s capital amounts and ratios as of December 31, 2019 are as presented in the following table (in dollars and thousands).

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Common Equity Tier 1 Risk Weighted Assets Bank	\$ 74,520	13.3%	\$ 25,194	>4.5%	\$ 36,391	>6.5%
Tier I Capital to Risk Weighted Assets Bank	\$ 74,520	13.3%	\$ 33,592	>6.0%	\$ 44,789	>8.0%
Total Capital to Risk Weighted Assets Bank	\$ 81,323	14.5%	\$ 44,789	>8.0%	\$ 55,986	>10.0%
Leverage Ratio Average Total Assets Bank	\$ 74,520	9.9%	\$ 29,889	>4.0%	\$ 37,361	>5.0%

NOTE 14: Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. The Company has loans outstanding to executive officers, directors, significant shareholders and their affiliates totaling \$4,698,027 and \$3,815,047 at December 31, 2020 and 2019, respectively.

Annual activity consisted of the following:

	December 31,	
	2020	2019
Beginning balance	\$ 3,815,047	\$ 4,470,818
Additions	4,757,107	4,108,960
Repayments	(3,874,127)	(4,764,731)
Ending balance	\$ 4,698,027	\$ 3,815,047

Deposits from related parties held by the Bank at December 31, 2020 and 2019 amounted to \$14,366,636 and \$14,418,835, respectively.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 15: Business Combination

On May 31, 2019, the Company acquired Enloe State Bank for a purchase price of \$153,847. The acquisition provides the Company with an expansion of their geographic footprint. Acquisition related cost of \$144,000 were expensed and are reported as other expenses in the consolidated statements of income.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the acquisition date:

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Fair Value of assets acquired		
Cash and cash equivalents	\$	27,013,603
Fed Funds		351,000
Securities		2,336,258
Loans		89,135
Property, plant and equipment		370,194
Interest receivable		8,713
Other Assets		12,682
Depositor relationship		670,802
Total assets acquired		30,852,387
Fair value of liabilities assumed		
Deposits		30,142,245
Interest payable		36,756
Accrued expenses and other liabilities		2,584
Total liabilities assumed		30,181,585
Net assets acquired		670,802
Purchase consideration		(153,847)
Bargain Purchase Gain created by the transaction	\$	516,955

The fair value of the identifiable assets acquired and liabilities assumed of \$670,802 exceeded the purchase price of the business by \$516,955. Consequently, the Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that the valuation procedures and resulting measures were appropriate. As a result, the Company recognized a gain of \$516,955 associated with the acquisition. The gain is included in the other income in the accompanying consolidated statements of income.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 15: Business Combination - continued

On July 27, 2019, the Company acquired Independent Bank Whitewright Branch for a purchase price of \$1,386,036. The acquisition provides the Company with an expansion of their geographic footprint. Acquisition related cost of \$148,829 were expensed and are reported as other expenses in the consolidated statements of income.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the acquisition date:

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Fair Value of assets acquired		
Cash and cash equivalents	\$	26,549,146
Loans		791,594
Property, plant and equipment		400,874
Interest receivable		4,501
Other Assets		1,258
Depositor relationship		916,573
Total assets acquired		<u>28,663,946</u>
Fair value of liabilities assumed		
Deposits		27,720,723
Interest payable		20,105
Accrued expenses and other liabilities		6,545
Total liabilities assumed		<u>27,747,373</u>
Net assets acquired		<u>916,573</u>
Purchase consideration		<u>(1,386,036)</u>
Goodwill created by the transaction	\$	<u><u>(469,463)</u></u>

Goodwill of \$469,463 arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies. Goodwill recorded is not deductible for tax purposes.

There were no credit impaired loans purchased with either acquisition.

NOTE 16: Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 16: Fair Value Measurements – continued

the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied.

Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 16: Fair Value Measurements – continued

other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Available for Sale Securities - Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service.

The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans - Impaired loans are either reported at the fair value of the underlying collateral if repayment is expected solely from the collateral or reported at the present value of expected cash flows using a discount rate. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

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

	December 31, 2020			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities				
Mortgage-backed	\$ -	\$ 99,693,364	\$ -	\$ 99,693,364
State and municipal securities	-	87,038,564	-	87,038,564
Total financial assets	\$ -	\$ 186,731,928	\$ -	\$ 186,731,928
	December 31, 2019			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities				
Mortgage-backed	\$ -	\$ 127,746,269	\$ -	\$ 127,746,269
State and municipal securities	-	41,421,221	-	41,421,221
Total financial assets	\$ -	\$ 169,167,490	\$ -	\$ 169,167,490

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

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 16: Fair Value Measurements – continued

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

	December 31, 2020			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	\$ -	\$ -	\$ 5,676,924	\$ 5,676,924
Nonfinancial assets:				
Foreclosed assets	-	1,817,011	-	1,817,011
	December 31, 2019			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	\$ -	\$ -	\$ 2,976,364	\$ 2,976,364
Nonfinancial assets:				
Foreclosed assets	-	1,817,011	-	1,817,011

During the years ended December 31, 2020 and 2019, certain impaired loans were re-measured and reported at fair value through a specific valuation allowance allocation of the allowance losses based upon the fair value of the underlying collateral. There was no charge to the provision for loan losses as a result of the valuation allowance for the year ended December 31, 2020.

	2020	2019
Carrying value	\$ 5,871,325	\$ 3,038,693
Valuation allocation	(194,401)	(62,329)
Reported fair value	<u>\$ 5,676,924</u>	<u>\$ 2,976,364</u>

Foreclosed assets are valued at the time the loan is foreclosed upon. The value is based primarily on third party appraisals, less costs to sell. Appraisals based upon comparable sales result in a Level 2 classification while appraisals based upon expected cash flows of the property result in a Level 3 classification.

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements – The following table represents the Company’s Level 3 financial assets and liabilities, the valuation techniques used to measure the fair value of those financial assets and liabilities, and the significant unobservable inputs and the ranges of values for those inputs.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 16: Fair Value Measurements – continued

Those financial instruments subject to FASB ASC Topic 825 are required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. Below are tables that summarize the fair market values of all financial instruments of the Company at December 31, 2020 and 2019, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments.

Instrument	Fair Value at December 31, 2020	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	\$ 3,432,748	Appraisal of collateral (1)	Appraisal adjustment	10-30%
Impaired loans	\$ 2,244,176	Expected cash flows	Discount rate	4.75-7.00%
Instrument	Fair Value at December 31, 2019	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	\$ 2,976,364	Appraisal of collateral (1)	Appraisal adjustment	10-30%

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

LEGEND BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE 17: Other Intangible Assets

Intangible assets as of December 31, 2020 consist of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Depositor relationship- Whitewright	\$ 916,573	\$ (174,586)	\$ 741,987
Depositor relationship- Cooper	670,802	(151,729)	519,073
Brand rights- Indefinite life	<u>50,000</u>	<u>-</u>	<u>50,000</u>
	<u>\$ 1,637,375</u>	<u>\$ (326,315)</u>	<u>\$ 1,311,060</u>

Intangible assets as of December 31, 2019 consist of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Depositor relationship- Whitewright	\$ 916,573	\$ (43,585)	\$ 872,988
Depositor relationship- Cooper	670,802	(55,900)	614,902
Brand rights- Indefinite life	<u>50,000</u>	<u>-</u>	<u>50,000</u>
	<u>\$ 1,637,375</u>	<u>\$ (99,485)</u>	<u>\$ 1,537,890</u>

Amortization expense for the years ended December 31, 2020 and 2019 was \$226,830 and \$99,485, respectively. Estimated future amortization expense related to these intangible assets is as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 226,768
2022	226,768
2023	226,768
2024	226,768
2025	226,768
2026	<u>127,220</u>
Total	<u>\$ 1,261,060</u>

NOTE 18: Subsequent Events

The Company has evaluated all other subsequent events through February 22, 2021, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION – CONSOLIDATING

LEGEND BANCORP, INC. AND SUBSIDIARIES
Consolidating Statement of Financial Condition
December 31, 2020

Assets	Legend Bancorp, Inc.	Legend Bank, N.A.	Eliminations	Consolidated
Cash and cash equivalents	\$ 5,672,703	\$ 19,447,597	\$ (5,672,703)	\$ 19,447,597
Federal funds sold	-	26,250,000	-	26,250,000
Interest bearing deposits in banks	-	22,088,440	-	22,088,440
Securities available for sale	-	186,731,928	-	186,731,928
Securities held to maturity	-	1,809,491	-	1,809,491
Investment in subsidiary	97,787,976	-	(97,787,976)	-
Loans receivable, net of allowance for loan losses	-	545,005,774	-	545,005,774
Accrued interest receivable	-	5,168,662	-	5,168,662
Premises and equipment	-	22,917,379	-	22,917,379
Foreclosed assets	-	1,817,011	-	1,817,011
Goodwill	-	11,763,655	-	11,763,655
Other intangible assets	-	1,311,060	-	1,311,060
Restricted investment carried at cost	3,695,220	6,725,806	-	10,421,026
Bank-owned life insurance	-	19,924,601	-	19,924,601
Other assets	310,000	1,046,684	-	1,356,684
	<u>\$ 107,465,899</u>	<u>\$ 845,758,088</u>	<u>\$ (103,460,679)</u>	<u>\$ 876,013,308</u>
Liabilities and Shareholders' Equity				
Noninterest bearing	\$ -	\$ 199,699,554	\$ (5,672,703)	\$ 194,026,851
Interest bearing	-	565,049,670	-	565,049,670
Total deposits	<u>-</u>	<u>764,749,224</u>	<u>(5,672,703)</u>	<u>759,076,521</u>
Accrued expenses and other liabilities	11,411	9,470,888	-	9,482,299
Subordinated debentures	10,310,000	-	-	10,310,000
Total liabilities	<u>10,321,411</u>	<u>774,220,112</u>	<u>(5,672,703)</u>	<u>778,868,820</u>
Shareholders' equity				
Common stock	987,016	2,000,000	(2,000,000)	987,016
Capital surplus	8,948,615	12,000,000	(12,000,000)	8,948,615
Retained earnings	92,180,397	80,116,833	(80,116,833)	92,180,397
Treasury stock, at cost	(8,642,683)	-	-	(8,642,683)
Net unrealized appreciation on available for sale securities	<u>3,671,143</u>	<u>3,671,143</u>	<u>(3,671,143)</u>	<u>3,671,143</u>
Total shareholders' equity	<u>97,144,488</u>	<u>97,787,976</u>	<u>(97,787,976)</u>	<u>97,144,488</u>
	<u>\$ 107,465,899</u>	<u>\$ 872,008,088</u>	<u>\$ (103,460,679)</u>	<u>\$ 876,013,308</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES

Consolidating Statement of Income

Year Ended December 31, 2020

	Legend Bancorp, Inc.	Legend Bank, N.A.	Eliminations	Consolidated
Interest income				
Loans, including fees	\$ -	\$ 30,985,507	\$ -	\$ 30,985,507
Debt securities				
Taxable	-	2,386,950	-	2,386,950
Tax exempt	-	1,112,711	-	1,112,711
Federal funds sold	-	34,240	-	34,240
Interest bearing deposits	-	51,218	-	51,218
Other restricted investments	213,680	197,784	-	411,464
Total interest income	<u>213,680</u>	<u>34,768,410</u>	-	<u>34,982,090</u>
Interest expense				
Deposits	-	2,630,954	-	2,630,954
Subordinated debentures	297,195	-	-	297,195
Other	-	4,843	-	4,843
Total interest expense	<u>297,195</u>	<u>2,635,797</u>	-	<u>2,932,992</u>
Net interest (expense) income	(83,515)	32,132,613	-	32,049,098
Provision for loan losses	-	1,592,000	-	1,592,000
Net interest (loss) income after provision for loan losses	<u>(83,515)</u>	<u>30,540,613</u>	-	<u>30,457,098</u>
Noninterest income				
Service charges on deposit accounts	-	2,408,779	-	2,408,779
Other service charges and fees	-	2,456,744	-	2,456,744
Net realized gain on sales of available for sale securities	-	236,265	-	236,265
Loss on sale of other assets	-	(28,358)	-	(28,358)
Gain on sale of foreclosed assets	-	1,845	-	1,845
Secondary market income	-	1,512,550	-	1,512,550
Equity in earnings of subsidiary	12,130,822	-	(12,130,822)	-
Other income	12,273	515,246	-	527,519
Total noninterest income	<u>12,143,095</u>	<u>7,103,071</u>	<u>(12,130,822)</u>	<u>7,115,344</u>
Noninterest expenses				
Salaries and employee benefits	34,023	16,260,801	-	16,294,824
Occupancy and equipment expense	-	2,821,515	-	2,821,515
IT and data processing	-	3,567,318	-	3,567,318
Legal, accounting and examination fees	31,189	740,036	-	771,225
Directors' fees and expenses	615,262	79,024	-	694,286
Amortization of intangibles	-	226,830	-	226,830
Other expense	98,350	1,817,338	-	1,915,688
Total noninterest expenses	<u>778,824</u>	<u>25,512,862</u>	-	<u>26,291,686</u>
Net income	\$ <u>11,280,756</u>	\$ <u>12,130,822</u>	\$ <u>(12,130,822)</u>	\$ <u>11,280,756</u>

LEGEND BANCORP, INC. AND SUBSIDIARIES
Consolidating Statement of Cash Flows
Year Ended December 31, 2020

	Legend Bancorp, Inc.	Legend Bank, N.A.	Eliminations	Consolidated
Cash flows from operating activities				
Net income	\$ 11,280,756	\$ 12,130,822	\$ (12,130,822)	\$ 11,280,756
Adjustments to reconcile net income to net cash provided by operating activities				
Provision for loan losses	-	1,592,000	-	1,592,000
Net amortization of securities	-	1,300,118	-	1,300,118
Depreciation and amortization	-	1,497,899	-	1,497,899
Gain on sale of foreclosed assets	-	(1,845)	-	(1,845)
Loss on disposal of other assets	-	28,358	-	28,358
Net realized gain on sale of available for sale securities	-	(236,265)	-	(236,265)
Appreciation in bank-owned life insurance	-	(475,272)	-	(475,272)
Equity in undistributed earnings of subsidiary	(6,294,201)	-	6,294,201	-
Net change in				
Accrued interest receivable	-	31,124	-	31,124
Other assets	-	1,674	-	1,674
Accrued expenses and other liabilities	(6,783)	738,521	-	731,738
Net cash provided by operating activities	<u>4,979,772</u>	<u>16,607,134</u>	<u>(5,836,621)</u>	<u>15,750,285</u>
Cash flows from investing activities				
Net change in interest bearing deposits in banks	-	(21,283,598)	-	(21,283,598)
Activity in available for sale securities				
Sales	-	34,597,105	-	34,597,105
Maturities, prepayments and calls	-	246,829,190	-	246,829,190
Purchases	-	(296,308,268)	-	(296,308,268)
Activity in held-to-maturity securities				
Maturities, prepayments and calls	-	36,035	-	36,035
Net change in restricted investment carried at cost	(213,682)	(131,497)	-	(345,179)
Loan originations and principal collections, net	-	(40,118,391)	-	(40,118,391)
Proceeds from BOLI death benefit	-	112,378	-	112,378
Purchase of BOLI	-	(3,200,000)	-	(3,200,000)
Proceeds from sales of foreclosed assets	-	18,958	-	18,958
Proceeds from sales of other assets	-	174,880	-	174,880
Additions to premises and equipment	-	(1,145,389)	-	(1,145,389)
Net cash used in investing activities	<u>(213,682)</u>	<u>(80,418,597)</u>	<u>-</u>	<u>(80,632,279)</u>
Cash flows from financing activities				
Net increase in deposits	-	105,576,779	1,157,925	106,734,704
Purchase of treasury stock, at cost	(287,896)	-	-	(287,896)
Net change in federal funds purchased	-	(3,000,000)	-	(3,000,000)
Dividends paid	(5,636,119)	(5,836,621)	5,836,621	(5,636,119)
Net cash (used in) provided by financing activities	<u>(5,924,015)</u>	<u>96,740,158</u>	<u>6,994,546</u>	<u>97,810,689</u>
Net change in cash and cash equivalents	<u>(1,157,925)</u>	<u>32,928,695</u>	<u>1,157,925</u>	<u>32,928,695</u>
Cash and cash equivalents at beginning of year	<u>6,830,628</u>	<u>12,768,902</u>	<u>(6,830,628)</u>	<u>12,768,902</u>
Cash and cash equivalents at end of year	<u>\$ 5,672,703</u>	<u>\$ 45,697,597</u>	<u>\$ (5,672,703)</u>	<u>\$ 45,697,597</u>

Our Mission

Be a profitable, sound, responsive, locally-owned community bank that provides ultimate protection for our depositor's funds.

To achieve our mission, we will:

- Provide competitively priced, quality products and services
- Be creative and responsive to our customers' changing needs
- Select, train and maintain a professional team
- Strongly support the continued growth and development of our communities

The foundation of our personal and business practices includes:

- Honesty and Integrity
- Safety and Soundness
- Accuracy and Dependability
- Confidentiality and Professionalism

Our Locations



ALVORD
BONHAM
BOWIE
COOPER
DECATUR

FORT WORTH
HENRIETTA
NOCONA
NORTH RICHLAND HILLS

SHERMAN
WHITESBORO
WHITEWRIGHT
WICHITA FALLS

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