Board of Governors of the Federal Reserve System

# Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Mark W. Sheffiled
Name of the Holding Company Director and Official

President, Director
Title of the Holding Company Director and Official

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

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

Mark Sheffield
Signature of Holding Company Director and Official

3/26/21
Date of Signature

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

**For Federal Reserve Bank Use Only**

RSSD ID ______
C.I. ______

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

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

Reporter's Name, Street, and Mailing Address

Lockhart Bankshares, Inc.
Legal Title of Holding Company

P.O. Box 600
(Mailing Address of the Holding Company) Street / P.O. Box

| Lockhart | TX | 78644 |
|---|---|---|
| City | State | Zip Code |

111 S. Main St
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| Randall Till | Treasurer |
|---|---|
| Name | Title |

512-620-9140
Area Code / Phone Number / Extension

512-398-7357
Area Code / FAX Number

rtill@firstlockhart.com
E-mail Address

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

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

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

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

# For Use By Tiered Holding Companies

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

Legal Ti le 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 Ti le of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

Physical Location (if different from mailing address)

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

City State Zip Code

Physical Location (if different from mailing address)

## Lockhart Bankshares, Inc

Form FR Y-6

December 31, 2020

**Responses to Report Items**

| | |
|---|---|
| Item No. 1a | Not registered with Securities Exchanged Commision, Consolidated financial statements, which have been audited by the Holding Company's CPA firm, are attached. |
| Item No. 2 | An organization chart is presented in Exhibit A. |
| Item No. 2b. | Submitted via e-mail on 03/26/2021 |
| Item No. 3 Part (1) | |

**Fred A. Moore**

| | |
|---|---|
| Voting percentage: | 13.930% |
| Shares owned: | 21,161 |

Lockhart, Texas-US [redacted]
Citizenship: USA

**Laura Moore**

| | |
|---|---|
| Voting percentage: | 2.254% |
| Shares owned: | 3,426 |

Lockhart, Texas-US [redacted]
Citizenship: USA

* **Margaret K. Dailey**

| | |
|---|---|
| Shares owned : | 8,914 |
| Voting percentage: | 5.866% |

College Station, TX-USA [redacted]
Citizenship: USA

* This includes the shares held for Custodial for Sophia K. Dailey Under TUTMA

| | |
|---|---|
| Shares owned : | 283 |
| Voting percentage: | 0.186% |

* This includes shares held by Christopher R. Dailey

| | |
|---|---|
| Shares owned : | 1,795 |
| Voting Percentage: | 1.18% |

**Lockhart Bankshares, Inc**

Form FR Y-6

December 31, 2020

Continued)

Item No. 3 Part (1)

**Glen C. Moore, Trustee of the Glen C. Moore**
Revocable Trust
Lockhart, Texas-US [redacted]
Citizenship: USA

| | |
|---|---|
| Shares owned: | 11,000 |
| Voting percentage: | 7.238% |

**Conrad C. Ohlendorf & Geraldine Ohlendorf**

| | |
|---|---|
| Shares Owned: | 9,961 |
| Voting percentage: | 6.550% |

Lockhart, Texas-US [redacted]
Citizenship: USA

**Geraldine Ohlendorf**

| | |
|---|---|
| Shares Owned: | 906 |
| Voting percentage: | 0.596% |

Lockhart, Texas-US [redacted]
Citizenship: USA

**William Clifton or Patricia Kay McCrury**
Stephenville, Texas-USA [redacted]
Citizenship: USA

| | |
|---|---|
| Shares owned: | 9,624 |
| Voting percentage: | 6.333% |

Item No. 3 Part (2)

None

Item No. 4

Principal shareholders, directors, and executive officers of Lockhart Bankshares, Inc. are presented in Exhibit B.

Exhibit A

# **Lockhart Bankshares, Inc.**

Organization Chart

December 31, 2020

Lockhart Bankshares, Inc.
LEI#: N/A
Lockhart, Texas, USA
Incorporated in Texas
100% Ownership of

First-Lockhart National Bank
LEI # 549300RZIWJWJ035S336
Lockhart, Texas, USA
Incorporated in United States

There are no Bank Holding Company investments from debts previously contracted, fiduciary relationships, or in non-voting equity shares.

Exhibit B

**Lockhart Bankshares,Inc.**

Principal Shareholders, Directors, and Executive Officers

December 31, 2020

| (1)Name and Address | (2) Occupation | (3)Title & Position w/Holding Co. | (3)(b) Title & Position with Subs (include name of sub) | (3)(c) Title & Postion w/Other Businesses (include names of businesses) | (4)(a)Voting Percentage in Bank Holding Company | (4)(b) Percentage of Voting Shares in Subs (include names of Subs) | (4)(c) List names of other companies (including partnerships) if 25% or more of voting securites are held (List names of companies & percentage of voting Securites) | % |
|---|---|---|---|---|---|---|---|---|
| Mark W. Sheffield<br>Lockhart, Texas-US | Banker | Director and President | Director & President/CEO<br>First-Lockhart National Bank | Member<br>Chisos Investment, LLC | 0.454% | None | Chisos Investment, LLC | 100% |
| Alan C. Fielder<br>Lockhart, Texas-US | Attorney | Vice Chairman | Director & Vice Chairman<br>First-Lockhart National Bank | Owner<br>Alan C. Fielder-Attorney At Law | 1.432% | None | Alan C. Fielder-Attorney at Law | 100% |
| Jeffry Y. Michelson<br>Lockhart, Texas-US | Automobile Dealer | Director | Director<br>First-Lockhart National Bank | President<br>Michelson Investments LLC | 0.875% | None | Michelson Investments, LLC | 60.00% |
| Laura Moore<br>Lockhart, Texas-US | Retired Teacher | Director | Director<br>First-Lockhart National Bank | N/A | 2.254% | None | None | N/A |
| Fred Moore<br>Lockhart, Texas-US | Retired Judge | Principal Shareholder | None | N/A | 13 930% | None | None | N/A |
| Carl R. Ohlendorf<br>Lockhart, Texas-US | Insurance Agent | Director | Director<br>First-Lockhart National Bank | Owner<br>Carl Ohlendorf Ins<br>dba Rucker-Ohlendorf Ins. | 0.742% | None | Carl Ohlendorf Ins.<br>dba Rucker-Ohlendorf Ins. | 100% |

Exhibit B

**Lockhart Bankshares,Inc.**

Principal Shareholders, Directors, and Executive Officers

December 31, 2020

| (1)Name and Address | (2) Occupation | (3)Title & Position w/Holding Co. | (3)(b) Title & Position with Subs (include name of sub) | (3)(c) Title & Postion w/Other Businesses (include names of businesses) | (4)(a)Voting Percentage in Bank Holding Company | (4)(b) Percentage of Voting Shares in Subs (include names of Subs) | (4)(c) List names of other companies (including partnerships) if 25% or more of voting securites are held (List names of companies & percentage of voting Securites) | % |
|---|---|---|---|---|---|---|---|---|
| Amelia P. Smith | Realtor | Director | Director | Owner/Broker | 2.109% | None | Countywide Realty, L.P. | 49.50% |
| Lockhart, Texas -US | | | First-Lockhart National Bank | Countywide Realty | | | Countywide, L P. | 49.50% |
| | | | | | | | Smith Pearce Investments, LP | 49.50% |
| | | | | | | | Smith Inventory, LLC | 49.50% |
| | | | | | | | Jim Smith Rental. LLC | 49.50% |
| | | | | | | | Jack Pearce, LLC | 49.50% |
| | | | | | | | 200 Colorado, LLC | 49.50% |
| | | | | | | | 300 Commerce, LLC | 49.50% |
| | | | | | | | Smith Pearce Management, LLC | 49.50% |
| | | | | | | | James W Smith Jr. Ins Trust | 100.00% |
| | | | | | | | Five Oaks, LLC | 49.50% |
| Margaret K. Dailey | Education Consultant | Chairman | Director | President | 5.866% | None | | |
| College Station, Texas-US | | | First-Lockhart National Bank | Dailey Services, Inc. | | | Tradition Prop, LLC | 50% |
| | | | | | | | 8330 Jones Rd. | 50% |
| | | | | | | | West Mersea, LLC | 100% |
| | | | | | | | Dailey Company, Inc | 50% |
| Randall Till | Banker | Treasurer | Exec Vice Pres/COO | N/A | 0 00% | None | N/A | N/A |
| Lockhart, Texas-US | | | First-Lockhart National Bank | | | | | |
| Natalie Cain | | | | | | | | |
| Seguin, Texas-US | Banker | Secretary | Vice Pres/HR | N/A | 0 00% | None | N/A | N/A |
| | | | First-Lockhart National Bank | | | | | |

**Resu ts** A l st of b anches fo you depos to y nst tut on F RST-LOCKHART NAT ONAL BANK (ID_RSSD 631150).
Th s depos to y nst tut on s held by LOCKHART BANKSHARES, INC. (1995998) of LOCKHART, TX.
The data a e as of 12/31/2020. Data eflects nfo mat on that was ece ved and p ocessed th ough 01/05/2021.

**Reconciliation and Verification Steps**
1. In the **Data Action** column of each b anch ow, ente one o mo e of the act ons spec f ed below
2. If equ ed, ente the date n the **E fective Date** column

**Actions**
**OK** f the b anch nfo mat on s co ect, ente OK' n the **Data Act on** column.
**Change** f the b anch nfo mat on s nco ect o ncomplete, ev se the data, ente 'Change' n the **Data Act on** column and the date when th s nfo mat on f st became val d n the **Effect ve Date** column.
**Close** If a b anch l sted was sold o closed, ente Close' n the **Data Action** column and the sale o closu e date n the **Effective Date** column.
**Delete** f a b anch l sted was neve owned by th s depos to y nst tut on, ente 'Delete' n the **Data Act on** column.
**Add** If a epo table b anch s m ss ng, nse t a ow, add the b anch data, and ente 'Add' n the **Data Action** column and the open ng o acqu s t on date n the **Effect ve Date** column.

f p nt ng th s l st, you may need to ad ust you page setup n MS Excel. T y us ng landscape o entat on, page scal ng, and/o legal s zed pape .

**Submission Procedure**
When you a e f n shed, send a saved copy to you FRB contact. See the deta led nst uct ons on th s s te fo mo e nfo mat on.
f you a e e-ma l ng th s to you FRB contact, put you nst tut on name, c ty and state n the subject l ne of the e-ma l.

Note
To sat sfy the **FR Y-10 report ng requirement** , you must also subm t FR Y-10 Domest c B anch Schedules fo each b anch w th a **Data Act on** of Change, Close, Delete, o Add.
The FR Y-10 epo t may be subm tted n a ha dcopy fo mat o v a the FR Y-10 Onl ne appl cat on - https //y10onl ne.fede al ese ve.gov.

* FDIC UNINUM, Off ce Numbe , and D_RSSD columns a e fo efe ence only. Ve f cat on of these values s not equ ed.

| Data Action | Effect ve Date | Branch Service Type | B anch ID RSSD* | Popular Name | Street Address | C ty | State | Z p Code | County | Country | FD C UN NUM* | Office Number* | Head Off ce | Head Off ce ID RSSD* | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OK | 12/31 2020 | Full Se v ce (Head Off ce) | 631150 | FIRST-LOCKHART NATIONAL BANK | 111 SOUTH MAIN STREET | OCKHART | TX | 78644 | CALDWELL | UNITED STATES | Not Requ ed | Not Requ ed | FIRST-LOCKHART NATIONAL BANK | 631150 | |
| OK | 12/31 2020 | Full Se v ce | 4642716 | AUSTIN BANKING CENTER | 319 W SLAUGHTER LANE | AUSTIN | TX | 78748 | TRAVIS | UNITED STATES | Not Requ ed | Not Requ ed | FIRST-LOCKHART NATIONAL BANK | 631150 | |
| OK | 12/31 2020 | Full Se v ce | 4462950 | K LE BRA CH | 800 WES FM 150 | LE | X | 78640 | HA S | UNI ED S A ES | Not Requ ed | Not Requ ed | FIRS LOCKHAR NA IO AL BANK | 631150 | |
| OK | 12/31/2020 | L m ted Se v ce | 4395469 | 120 WEST SAN ANTON O STREET DRIVE THRU | 120 WEST SAN ANTONIO STREET | OCKHART | TX | 78644 | CALDWELL | UNITED STATES | Not Requ ed | Not Requ ed | FIRST-LOCKHART NATIONAL BANK | 631150 | |
| OK | 12/31/2020 | L m ted Se v ce | 4395450 | 207 WEST SAN ANTON O STREET DRIVE THRU | 207 WEST SAN ANTONIO STREET | OCKHART | TX | 78644 | CALDWELL | UNITED STATES | Not Requ ed | Not Requ ed | FIRST-LOCKHART NATIONAL BANK | 631150 | |
| OK | 12/31/2020 | Full Se v ce | 5423006 | SAN MARCOS BANKING CENTER | 2507 HUNTER ROAD | AN MARCOS | TX | 78666 | HAYS | UNITED STATES | Not Requ ed | Not Requ ed | FIRST-LOCKHART NATIONAL BANK | 631150 | |

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

December 31, 2020 and 2019

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

December 31, 2020 and 2019

TABLE OF CONTENTS


| | |
|---|---|
| Independent Auditor's Report | 1 |
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Income | 4 |
| Consolidated Statements of Comprehensive Income | 5 |
| Consolidated Statements of Changes in Stockholders' Equity | 6 |
| Consolidated Statements of Cash Flows | 7 |
| Notes to Consolidated Financial Statements | 9 |
| Supplemental Information | |
| Consolidating Schedules | 34 |

## INDEPENDENT AUDITOR'S REPORT

Audit Committee
Lockhart Bankshares, Inc.
Lockhart, Texas

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

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

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

**Auditor's Responsibility**

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

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

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

**Opinion**

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

**Report on Consolidating Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 34 through 37 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and it 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 supplemental consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the consolidated financial statements and 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 supplemental consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Hamby & Hengeli LLC

San Angelo, Texas
March 19, 2021

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

CONSOLIDATED BALANCE SHEETS

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 65,689,352 | $ 42,588,663 |
| Certificates of deposit in banks | 992,000 | 1,240,000 |
| Debt securities available for sale | 55,244,757 | 49,964,193 |
| Equity securities | 64,897 | 64,897 |
| Loans held for sale | 547,243 | 929,611 |
| Loans, net | 182,576,328 | 191,660,169 |
| Premises and equipment, net | 13,122,641 | 8,805,164 |
| Deferred tax asset, net | 421,214 | 742,949 |
| Federal Home Loan Bank stock | 423,000 | 419,400 |
| Federal Reserve Bank stock | 178,100 | 178,100 |
| Bank owned life insurance | 5,580,183 | 5,438,244 |
| Other real estate owned | - | 324,000 |
| Accrued interest receivable | 704,816 | 784,333 |
| Other assets | 786,352 | 786,529 |
| | $ 326,330,883 | $ 303,926,252 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | $ 71,292,770 | $ 60,777,181 |
| Interest-bearing | 222,591,585 | 213,081,034 |
| Total deposits | 293,884,355 | 273,858,215 |
| Note payable | 517,500 | 607,500 |
| Accrued interest payable | 64,669 | 107,887 |
| Other liabilities | 2,238,535 | 2,357,718 |
| Total liabilities | 296,705,059 | 276,931,320 |
| Commitments (Notes E, I and K) | | |
| Stockholders' equity | | |
| Common stock - $1 par value, 300,000 shares authorized, 154,592 shares issued | 154,592 | 154,592 |
| Capital surplus | 2,508,916 | 2,508,916 |
| Treasury stock, at cost - 2,628 shares | (307,600) | (307,600) |
| Retained earnings | 26,183,646 | 24,528,814 |
| Accumulated other comprehensive income | 1,086,270 | 110,210 |
| Total stockholders' equity | 29,625,824 | 26,994,932 |
| | $ 326,330,883 | $ 303,926,252 |

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

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF INCOME

| | Years ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Interest income | | |
| Loans, including fees | $ 10,338,559 | $ 10,675,336 |
| Debt securities: | | |
| Taxable | 845,248 | 799,613 |
| Tax-exempt | 158,978 | 180,051 |
| Other interest and dividends | 217,714 | 392,939 |
| Total interest income | 11,560,499 | 12,047,939 |
| Interest expense | | |
| Deposits | 1,869,672 | 2,525,665 |
| Borrowed funds and other | 20,518 | 35,267 |
| Total interest expense | 1,890,190 | 2,560,932 |
| Provision for loan losses | - | 80,000 |
| Net interest income after provision for loan losses | 9,670,309 | 9,407,007 |
| Noninterest income | | |
| Service charges on deposit accounts | 859,227 | 1,070,087 |
| Net gain on sale of loans | 291,804 | 325,024 |
| Net gain on sale of securities [1] | - | 2,892 |
| Net gain (loss) on sale of other assets | (958) | 16,060 |
| Net gain on sale of other real estate owned | 440 | - |
| Other income | 487,110 | 433,162 |
| Total noninterest income | 1,637,623 | 1,847,225 |
| Noninterest expense | | |
| Salaries and employee benefits | 4,416,553 | 4,628,961 |
| Occupancy and equipment | 1,089,827 | 1,024,658 |
| Other general and administrative | 2,653,791 | 2,781,003 |
| Total noninterest expense | 8,160,171 | 8,434,622 |
| Income before income taxes | 3,147,761 | 2,819,610 |
| Income tax expense | 597,861 | 529,632 |
| NET INCOME | $ 2,549,900 | $ 2,289,978 |

[1] Net gain on sale of securities includes $-0- and $2,892 accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities for 2020 and 2019, respectively.

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

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Net income | $ 2,549,900 | $ 2,289,978 |
| Other comprehensive income | | |
| Gross unrealized gains on securities available for sale | 1,235,519 | 1,518,963 |
| Reclassification adjustment for gains realized in net income | - | (2,892) |
| Net unrealized gains | 1,235,519 | 1,516,071 |
| Tax effect | (259,459) | (318,375) |
| Total other comprehensive income | 976,060 | 1,197,696 |
| TOTAL COMPREHENSIVE INCOME | $ 3,525,960 | $ 3,487,674 |

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

**LOCKHART BANKSHARES, INC. SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2020 and 2019

| | Common Stock | Capital Surplus | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2018 | $ 154,592 | $ 2,508,916 | $ (307,600) | $ 23,056,402 | $ (1,087,486) | $ 24,324,824 |
| Net income | - | - | - | 2,289,978 | - | 2,289,978 |
| Other comprehensive income | - | - | - | - | 1,197,696 | 1,197,696 |
| Cash dividends paid | - | - | - | (817,566) | - | (817,566) |
| Balance at December 31, 2019 | 154,592 | 2,508,916 | (307,600) | 24,528,814 | 110,210 | 26,994,932 |
| Net income | - | - | - | 2,549,900 | - | 2,549,900 |
| Other comprehensive income | - | - | - | - | 976,060 | 976,060 |
| Cash dividends paid | - | - | - | (895,068) | - | (895,068) |
| Balance at December 31, 2020 | $ 154,592 | $ 2,508,916 | $ (307,600) | $ 26,183,646 | $ 1,086,270 | $ 29,625,824 |

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

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended December 31, 2020 | 2019 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $ 2,549,900 | $ 2,289,978 |
| Adjustments to reconcile net income to cash provided by operating activities | | |
| Net amortization of discount on investment securities | 459,013 | 288,021 |
| Provision for loan losses | - | 80,000 |
| Depreciation and amortization expense | 419,887 | 421,786 |
| Gain on sale of premises and equipment | 958 | (16,060) |
| Gain on sale of investment securities | - | (2,892) |
| Gain on sale of other real estate owned | (440) | - |
| Federal Home Loan Bank stock dividend | (3,600) | (9,700) |
| Deferred income tax provision | 62,276 | 105,500 |
| Increase in cash surrender value of bank owned life insurance | (141,939) | (141,990) |
| Net change in: | | |
| Loans held for sale | 382,368 | (870,789) |
| Accrued interest receivable | 79,517 | 52,627 |
| Accrued interest payable | (43,218) | (19,118) |
| Other assets and other liabilities | (119,006) | (710,063) |
| Cash provided by operating activities | 3,645,716 | 1,467,300 |
| | | |
| Cash flows from investing activities | | |
| Proceeds from securities available for sale: | | |
| Sales | - | 3,438,323 |
| Maturities and calls | 49,890,000 | 44,460,000 |
| Principal paydowns | 10,335,302 | 4,345,483 |
| Purchases of securities available for sale | (64,729,360) | (50,892,661) |
| Net change in certificate of deposit in banks | 248,000 | 1,488,000 |
| Proceeds from sale of other real estate | 324,440 | - |
| Proceeds from sales of premises and equipment | 10,000 | 30,000 |
| Insurance proceeds received for damage to equipment | 43,156 | - |
| Loans originated, net of principal collections | 9,083,841 | 725,829 |
| Additions to premises and equipment | (4,791,478) | (1,837,447) |
| Cash provided by investing activities | 413,901 | 1,757,527 |

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

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

| | Years ended December 31, 2020 | 2019 |
|---|---|---|
| Cash flows from financing activities | | |
| Net change in deposits | 20,026,140 | 29,016,012 |
| Repayments on debt | (90,000) | (90,000) |
| Cash dividends paid | (895,068) | (817,566) |
| Cash provided by financing activities | 19,041,072 | 28,108,446 |
| Net change in cash and cash equivalents | 23,100,689 | 31,333,273 |
| Cash and cash equivalents, beginning of year | 42,588,663 | 11,255,390 |
| Cash and cash equivalents, end of year | $ 65,689,352 | $ 42,588,663 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period for: | | |
| Interest on deposits and borrowed funds | $ 1,933,408 | $ 1,894,106 |
| Income taxes | 580,000 | 407,500 |

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

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Lockhart Bankshares, Inc. and Subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

### Nature of Operations and Principles of Consolidation

Lockhart Bankshares, Inc. is a bank holding company which owns 100% of the common stock of First-Lockhart National Bank ("the Bank"). The entities are collectively referred to as "the Company". Significant intercompany accounts and transactions have been eliminated in consolidation.

The Company provides a variety of banking services to individuals and businesses through their locations in Lockhart, Austin, San Marcos and Kyle, Texas. Their primary deposit products are checking, savings and term deposit accounts. Their primary lending products are real estate, commercial and consumer loans. The Bank is subject to competition from other financial institutions and to regulation by certain federal agencies. The Bank undergoes periodic examinations by these regulatory authorities.

### Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

### Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased.

Balances in transaction accounts at other financial institutions and at the Federal Home Loan Bank may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

### Certificates of Deposit in Banks

Certificates of deposit in banks are carried at cost, and are fully covered by federal deposit insurance.

### Debt Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For debt securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a debt security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment charge to earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized as an impairment charge to earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Equity Securities

Marketable equity securities with readily determinable fair values are measured at fair value and changes in fair value are recognized in other income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. For the years ended December 31, 2020 and 2019, the Company maintained an investment in the capital stock of TIB – The Independent BankersBank. This is the Company's only equity security and management determined it does not have a readily determinable fair value.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recognized through a valuation allowance charged to earnings. Income from sales of loans is recognized at the time of sale, and consists of origination fees, service release premiums, yield spread premiums and certain miscellaneous fees. All loans are sold with recourse limited to certain events of default occurring within 120 days of the loans' origination dates. The Company does not retain servicing rights on loans sold.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances, net of the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Interest income on agricultural and commercial loans is discontinued and placed on non-accrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Real estate and consumer loans are put on non-accrual at the time the loan is 120 days past due. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk

The Company grants real estate, commercial, agricultural production and consumer loans to customers. Substantially all loans are secured by specific items of collateral including business assets, consumer asset, and commercial and residential real estate. A substantial portion of the loan portfolio is comprised of real estate loans throughout Central Texas, however there are no significant concentrations of loans to any one industry or customer. The ability of the Company's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgement, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired when, based on current information and events, it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and are classified as impaired.

Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the probability of collecting scheduled principal and interest payments when due and the borrower's financial condition and overall loan quality as determined by an internal loan grading system. Included in impaired loans are all nonaccrual loans and all accruing troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded by allocating a portion of the allowance to the impaired loan.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covers loans that are collectively evaluated for impairment. The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of economic factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies and impaired loans; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; national and local economic trends and conditions; and effects of changes in credit concentrations. Due to the added risks associated with loans which are graded as special mention or substandard that are not classified as impaired, an additional analysis is performed to determine whether an allowance is needed that is not fully captured by the historical loss experience. While historical loss experience by loan segment and migration of loans to higher risk classifications are considered, the following factors are also considered in determining the level of needed allowance on such loans: the historical loss rates (or severity) of loans specifically classified as special mention, substandard or doubtful; and the trends in the collateral on the loans included within these classifications.

The following portfolio segments have been identified by management:

| | |
|---|---|
| *Real Estate (Commercial and Consumer)* | The Commercial and consumer real estate loan segments include the purchase or construction of both business and residential structures and real estate development loans. Commercial real estate (CRE) lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. CRE loans may be more adversely affected by conditions in the real estate markets or in the general economy. Generally, the Company avoids financing special use projects unless strong secondary support is present to help mitigate risk. |
| *Construction (Commercial and Consumer)* | With respect to loans to builders, the Company generally requires the borrower to have a proven record of success and an expertise in the building industry. Construction loans are underwritten using feasibility studies, independent appraisal reviews and financial analysis of the property owners. |

Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

*Commercial & Industrial*

Commercial loans are subject to underwriting standards and processes similar to real estate loans. Commercial loans are primarily based on the credit quality and cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee to add strength to the credit. Some short-term loans may be made on an unsecured basis to the most creditworthy borrowers.

*Agricultural Production*

Agricultural loans are made to sound and prudent farmers and ranchers within the Company's market area. Agricultural loans are underwritten based on the value of the collateral offered, the performance history of the borrower and anticipated cash flow from a given farming or ranching operation. All agricultural loan applications require cash flow projection for the coming farming season, and the projection must show a margin between income and expense that is sufficient to repay the loan from normal farm operations. All agricultural loans will be supported by a perfected first security interest in the products being produced.

*Consumer & Other*

The Company originates non-real estate consumer loans based on the borrower's ability to repay. This includes loans secured by automobiles and recreational equipment, the borrowers' deposits, etc. This segment also includes unsecured loans. The Company monitors payment performance periodically to identify any deterioration in the borrower's financial strength.

Determination of the allowance is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

### 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. Maintenance and repairs, which do not extend the useful lives of buildings and equipment, are charged to expense as incurred.

### Other Real Estate Owned

Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

Also included in other real estate is property originally acquired for future expansion but no longer intended to be used for that purpose.

Subsequent to classification as other real estate, valuations are periodically performed by management and the assets are carried at the lower of the initial carrying amount or fair value less estimated costs to sell. If fair value declines subsequent to classification as other real estate, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

### Federal Reserve Bank Stock

The Company is a member of its regional Federal Reserve Bank. The stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

### Federal Home Loan Bank (FHLB) Stock

The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

### Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

### Revenue Recognition

For revenue not associated with financial instruments, guarantees and lease contracts, the Company follows the framework established by Accounting Standards Codification Topic 606 (ASC 606) *Revenue from Contracts with Customers*. All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following items fall within the scope of ASC 606:

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 such as ATM use fees, stop payment charges, statement rendering, and ACH fees, 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 relate 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.

Interchange Income - The Company earns interchange fees from debit/credit cardholder transactions conducted through the Visa/Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gains (Losses) on Sale of OREO - The Company records a gain or loss from the sale of OREO 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 OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO 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.

Investment Brokerage Fees (Net): The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service providers on a monthly basis based upon customer activity for the month. The fees are recognized monthly. Because the Company (i) acts as an agent in arranging the relationship between the customer and the third-part service provide and (ii) does not control the services rendered to the customers, investment brokerage fees are presented net of related costs. Investment Brokerage Fees, net, are included in Other Income on the Consolidated Statements of Income.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company is no longer subject to examination by taxing authorities for years before 2017.

Retirement Plans

Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation plan expense allocates the benefits over years of service.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. 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.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value Measurements

Fair values of financial instruments are estimated using the relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Comprehensive Income

Components of comprehensive income are net income and all other non-owner changes in equity. The only component of other comprehensive income consists of net unrealized holding gains and losses on available-for-sale securities, net of tax.

Newly Issued and Not Yet Effective Accounting Standards

The following paragraphs provide a description of newly issued but not yet effective ASUs that could have a material effect on the Company's consolidated financial statements.

*ASU 2016-02 "Leases" (Topic 842).* In February 2016, the FASB amended existing guidance that will require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and *Topic 606 - Revenue from Contracts with Customers.* The new guidance also requires enhanced disclosure about an entity's leasing arrangements. The Company will adopt Topic 842 in the first quarter of 2022, as required for non-public business entities. An entity may adopt the new guidance by either restating prior periods and recording a cumulative effect adjustment at the beginning of the earliest comparative period presented, or by recording a cumulative effect adjustment at the beginning of the period of adoption. The Company plans to record a cumulative effect adjustment at the beginning of the period of adoption. The Company is currently evaluating the overall effect that the guidance will have on its consolidated financial statements and disclosures.

*ASU 2016-13 "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" (Topic 326).* In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the guidance amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Company will adopt Topic 326 in the first quarter of 2023, as required for non-public business entities. The Company has formed a CECL committee that is assessing data and system needs in order to evaluate the impact of adopting the new guidance. The Company may recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. The cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. At this time, the impact to the allowance for loan losses balance is being evaluated.

*ASU 2018-15 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40).* In August 2018, the FASB issued this Update to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. These amendments are effective for annual reporting periods beginning after December 15, 2020 and for interim periods in annual periods beginning after December 15, 2021. Early adoption is permitted. The amendments in this Update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 19, 2021 which is the date the financial statements were available to be issued.

## NOTE B – CERTIFICATES OF DEPOSIT IN BANKS

Scheduled maturities of certificates of deposit in banks are as follows at December 31, 2020:

| | |
|---|---|
| Year ending December 31, | |
| 2021 | $ - |
| 2022 | 496,000 |
| 2023 | 496,000 |
| 2024 | - |
| 2025 | - |
| Thereafter | - |
| | $ 992,000 |

## NOTE C – DEBT SECURITIES

The following presents information related to the Company's portfolio of debt securities:

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities available for sale | | | | |
| U.S. Treasuries | $ 4,010,700 | $ 23,987 | $ - | $ 4,034,687 |
| U.S. Government agencies | 6,020,285 | 155,066 | - | 6,175,351 |
| Obligations of state and political subdivisions | 6,621,549 | 383,507 | - | 7,005,056 |
| Mortgage-backed | 35,738,345 | 700,125 | (2,175) | 36,436,295 |
| Other asset-backed | 1,478,852 | 114,516 | - | 1,593,368 |
| | $ 53,869,731 | $ 1,377,201 | $ (2,175) | $ 55,244,757 |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities available for sale | | | | |
| U.S. Treasuries | $ 4,041,680 | $ 3,711 | $ - | $ 4,045,391 |
| U.S. Government agencies | 10,030,479 | 60,122 | (5,497) | 10,085,104 |
| Obligations of state and political subdivisions | 7,606,014 | 193,517 | - | 7,799,531 |
| Mortgage-backed | 26,342,016 | 57,146 | (213,465) | 26,185,697 |
| Other asset-backed | 1,804,497 | 43,973 | - | 1,848,470 |
| | $ 49,824,686 | $ 358,469 | $ (218,962) | $ 49,964,193 |

The amortized cost and estimated market value of debt securities at December 31, 2020, by contractual maturity are as follows:

| | Available for Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due in one year or less | $ 7,215,602 | $ 7,294,884 |
| Due after one year through five years | 4,605,007 | 4,747,364 |
| Due after five years through ten years | 3,060,518 | 3,224,033 |
| Due after ten years | 1,771,407 | 1,948,813 |
| | 16,652,534 | 17,215,094 |
| Securities without fixed maturities | 37,217,197 | 38,029,663 |
| | $ 53,869,731 | $ 55,244,757 |

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

At December 31, 2020 and 2019, investment securities with carrying values of $30,856,734 and $28,480,491, respectively, were pledged to secure public deposits and for other purposes.

At year-end 2020 and 2019, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of Tier 1 Capital.

During 2020 there were no sale of debt securities. During 2019 there were gross realized gains of $18,927 and gross realized losses of $16,035 on the sale of debt securities.

Information pertaining to securities with gross unrealized losses, at December 31, 2020 and 2019 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Less than 12 months | | Over 12 months | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| Securities available for sale | | | | |
| Mortgage-backed | $ 2,175 | $ 5,237,519 | $ - | $ - |
| | $ 2,175 | $ 5,237,519 | $ - | $ - |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Less than 12 months | | Over 12 months | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| Securities available for sale | | | | |
| U.S. Government agencies | $ - | $ - | $ 5,497 | $ 1,994,503 |
| Mortgage-backed | 40,432 | 4,894,116 | 173,033 | 13,453,454 |
| | $ 40,432 | $ 4,894,116 | $ 178,530 | $ 15,447,957 |

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

## NOTE D – LOANS

Major classifications of loans are as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Real Estate | | |
| Construction & Development | $ 15,884,224 | $ 14,220,994 |
| Owner Occupied Commercial Real Estate (CRE) | 43,119,036 | 50,576,826 |
| Non-Owner Occupied Commercial Real Estate (CRE) | 60,936,081 | 56,304,609 |
| 1-4 Family | 51,178,380 | 61,037,248 |
| Farmland | 2,934,794 | 3,422,579 |
| Real Estate - Other | 1,274,321 | 1,419,914 |
| Commercial & Industrial | 8,356,585 | 5,420,834 |
| Agricultural Production | 192,186 | 326,812 |
| Consumer and Other | 1,716,604 | 1,961,847 |
| | 185,592,211 | 194,691,663 |
| Less: Allowance For Loan Losses | (3,015,883) | (3,031,494) |
| Total Loans | $ 182,576,328 | $ 191,660,169 |

Transactions for the years ended December 31, 2020 and 2019 in the allowance for loan losses were as follows:

| Year Ended December 31, 2020 | Real Estate | Commercial | Agricultural Production | Consumer and Other | Unallocated | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2019 | $ 2,480,038 | $ 107,029 | $ 1,144 | $ 51,322 | $ 391,961 | $ 3,031,494 |
| Provision for loan losses | (95,917) | 70,193 | (471) | 2,051 | 24,144 | - |
| Charge-offs | - | (16,109) | - | (7,862) | - | (23,971) |
| Recoveries | - | 6,451 | - | 1,909 | - | 8,360 |
| Net (charge-offs) recoveries | - | (9,658) | - | (5,953) | - | (15,611) |
| Balance at December 31, 2020 | $ 2,384,121 | $ 167,564 | $ 673 | $ 47,420 | $ 416,105 | $ 3,015,883 |

| | Year Ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Real Estate | Commercial | Agricultural Production | Consumer and Other | Unallocated | Total |
| Balance at December 31, 2018 | $ 2,457,338 | $ 157,094 | $ 3,403 | $ 88,191 | $ 256,453 | $ 2,962,479 |
| Provision for loan losses | 12,700 | (33,021) | (2,259) | (32,928) | 135,508 | 80,000 |
| Charge-offs | - | (24,085) | - | (4,894) | - | (28,979) |
| Recoveries | 10,000 | 7,041 | - | 953 | - | 17,994 |
| Net (charge-offs) recoveries | 10,000 | (17,044) | - | (3,941) | - | (10,985) |
| Balance at December 31, 2019 | $ 2,480,038 | $ 107,029 | $ 1,144 | $ 51,322 | $ 391,961 | $ 3,031,494 |

Components of the allowance for loan losses, and the related carrying amounts of loans for which the allowance is determined, are as follows:

| | Year Ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Real Estate | Commercial | Agricultural Production | Consumer and Other | Unallocated | Total |
| **Allocation of Allowance To:** | | | | | | |
| Impaired loans - evaluated individually | $ - | $ - | $ - | $ - | $ - | $ - |
| Impaired loans - evaluated collectively | - | - | - | - | - | - |
| Total impaired loans | - | - | - | - | - | - |
| Unimpaired loans - evaluated collectively | 2,384,121 | 167,564 | 673 | 47,420 | 416,105 | 3,015,883 |
| | $ 2,384,121 | $ 167,564 | $ 673 | $ 47,420 | $ 416,105 | $ 3,015,883 |
| **Recorded Investment In:** | | | | | | |
| Impaired loans - evaluated individually | $ - | $ - | $ - | $ - | $ - | $ - |
| Impaired loans - evaluated collectively | - | - | - | - | - | - |
| Total impaired loans | - | - | - | - | - | - |
| Unimpaired loans - evaluated collectively | 175,326,836 | 8,356,585 | 192,186 | 1,716,604 | - | $ 185,592,211 |
| | $ 175,326,836 | $ 8,356,585 | $ 192,186 | $ 1,716,604 | $ - | $ 185,592,211 |

| | Year Ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Real Estate | Commercial | Agricultural Production | Consumer and Other | Unallocated | Total |
| **Allocation of Allowance To:** | | | | | | |
| Impaired loans - evaluated individually | $ - | $ - | $ - | $ - | $ - | $ - |
| Impaired loans - evaluated collectively | - | - | - | - | - | - |
| Total impaired loans | - | - | - | - | - | - |
| Unimpaired loans - evaluated collectively | 2,480,038 | 107,029 | 1,144 | 51,322 | 391,961 | 3,031,494 |
| | $ 2,480,038 | $ 107,029 | $ 1,144 | $ 51,322 | $ 391,961 | $ 3,031,494 |
| **Recorded Investment In:** | | | | | | |
| Impaired loans - evaluated individually | $ - | $ - | $ - | $ - | $ - | $ - |
| Impaired loans - evaluated collectively | - | - | - | - | - | - |
| Total impaired loans | - | - | - | - | - | - |
| Unimpaired loans - evaluated collectively | 186,982,170 | 5,420,834 | 326,812 | 1,961,847 | - | 194,691,663 |
| | $ 186,982,170 | $ 5,420,834 | $ 326,812 | $ 1,961,847 | $ - | $ 194,691,663 |

The recorded investment in loans excludes accrued interest receivable due to immateriality. There were no impaired loans at December 31, 2020 and 2019. There was no valuation allowance on these loans. Interest income recognized on impaired loans was immaterial for the years ended December 31, 2020 and 2019. Also, the Company did not have any troubled debt restructurings at December 31, 2020 and 2019.

The Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral on a case-by-case basis. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, the Company did not have any loans outstanding with modifications due to COVID-19.

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

The carrying amounts of loans by performance status are as follows:

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Accruing Loans | | | | |
| | Current | 30-89 Days Past Due | 90 Days or More Past Due | Nonaccrual Loans | Total Loans |
| Real Estate | | | | | |
| Construction & Development | $ 14,095,300 | $ 1,788,924 | $ - | $ - | $ 15,884,224 |
| Owner Occupied CRE | 43,119,036 | - | - | - | 43,119,036 |
| Non-Owner Occupied CRE | 59,923,352 | 1,012,729 | - | - | 60,936,081 |
| 1-4 Family | 50,964,040 | - | 214,340 | - | 51,178,380 |
| Farmland | 2,934,794 | - | - | - | 2,934,794 |
| Real Estate - Other | 1,274,321 | - | - | - | 1,274,321 |
| Commercial & Industrial | 8,356,585 | - | - | - | 8,356,585 |
| Agricultural | 192,186 | - | - | - | 192,186 |
| Consumer and Other | 1,716,063 | 541 | - | - | 1,716,604 |
| Total | $ 182,575,677 | $ 2,802,194 | $ 214,340 | $ - | $ 185,592,211 |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Accruing Loans | | | | |
| | Current | 30-89 Days Past Due | 90 Days or More Past Due | Nonaccrual Loans | Total Loans |
| Real Estate | | | | | |
| Construction & Development | $ 14,220,994 | $ - | $ - | $ - | $ 14,220,994 |
| Owner Occupied CRE | 50,576,826 | - | - | - | 50,576,826 |
| Non-Owner Occupied CRE | 56,304,609 | - | - | - | 56,304,609 |
| 1-4 Family | 60,691,846 | 345,402 | - | - | 61,037,248 |
| Farmland | 2,815,074 | 607,505 | - | - | 3,422,579 |
| Real Estate - Other | 1,419,914 | - | - | - | 1,419,914 |
| Commercial & Industrial | 5,419,775 | 1,059 | - | - | 5,420,834 |
| Agricultural | 326,812 | - | - | - | 326,812 |
| Consumer and Other | 1,955,720 | 6,127 | - | - | 1,961,847 |
| Total | $ 193,731,570 | $ 960,093 | $ - | $ - | $ 194,691,663 |

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

| | |
|---|---|
| *Pass* | Loans classified as pass are those loans with minimal identified credit risk. |
| *Pass-Watch* | Loans classified as pass-watch include loans with minor credit quality issues identified since the loan was originated, as well as any loans with a perceived potential for, or with recently occurring, payment deterioration. |
| *Special Mention* | Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. |
| *Substandard* | Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. |
| *Doubtful* | Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans rated doubtful are generally also placed on nonaccrual and considered impaired. |

The carrying amounts of loans by credit quality indicator are as follows:

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Pass | Pass-Watch | Special Mention | Substandard | Total Loans |
| Real Estate | | | | | |
| Construction & Development | $ 15,884,224 | $ - | $ - | $ - | $ 15,884,224 |
| Owner Occupied CRE | 43,046,836 | 72,200 | - | - | 43,119,036 |
| Non-Owner Occupied CRE | 58,412,843 | 2,523,238 | - | - | 60,936,081 |
| 1-4 Family | 48,342,185 | 2,592,633 | 243,562 | - | 51,178,380 |
| Farmland | 2,934,794 | - | - | - | 2,934,794 |
| Real Estate - Other | 1,274,321 | - | - | - | 1,274,321 |
| Commercial | 8,356,585 | - | - | - | 8,356,585 |
| Agricultural | 192,186 | - | - | - | 192,186 |
| Consumer and Other | 1,716,604 | - | - | - | 1,716,604 |
| Total Loans | $ 180,160,578 | $ 5,188,071 | $ 243,562 | $ - | $ 185,592,211 |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Pass | Pass-Watch | Special Mention | Substandard | Total Loans |
| Real Estate | | | | | |
| Construction & Development | $ 14,220,994 | $ - | $ - | $ - | $ 14,220,994 |
| Owner Occupied CRE | 50,498,353 | 78,473 | - | - | 50,576,826 |
| Non-Owner Occupied CRE | 53,677,378 | 2,627,231 | - | - | 56,304,609 |
| 1-4 Family | 57,521,225 | 2,201,149 | 1,314,874 | - | 61,037,248 |
| Farmland | 3,422,579 | - | - | - | 3,422,579 |
| Real Estate - Other | 1,419,914 | - | - | - | 1,419,914 |
| Commercial | 5,346,764 | 68,672 | - | 5,398 | 5,420,834 |
| Agricultural | 326,812 | - | - | - | 326,812 |
| Consumer and Other | 1,955,095 | 6,752 | - | - | 1,961,847 |
| Total Loans | $ 188,389,114 | $ 4,982,277 | $ 1,314,874 | $ 5,398 | $ 194,691,663 |

## NOTE E – PREMISES AND EQUIPMENT

Premises and equipment are as follows:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Land | $ 3,134,498 | $ 3,134,498 |
| Buildings and improvements | 6,813,012 | 6,522,812 |
| Furniture, fixtures and equipment | 3,828,652 | 3,568,131 |
| Vehicles | 150,495 | 123,627 |
| Construction in progress | 5,336,988 | 1,712,462 |
| | 19,263,645 | 15,061,530 |
| Accumulated depreciation | (6,141,004) | (6,256,366) |
| | $ 13,122,641 | $ 8,805,164 |

Operating Leases

The Company leases office space in one of their branch locations to another business. Rental income, net of certain operating expenses, under this lease amounted to $47,059 and $44,208 for 2020 and 2019, respectively.

Future minimum rental income to be received in connection with the long-term operating lease at December 31, 2020 is as follows:

| Year Ending December 31, | |
|---|---|
| 2021 | $ 47,059 |

## NOTE F - DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2020 and 2019 was $10,904,403 and $13,612,579, respectively.

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

| Year Ending December 31, | |
|---|---|
| 2021 | $38,903,139 |
| 2022 | 3,679,348 |
| 2023 | 643,069 |
| 2024 | 1,478,226 |
| 2025 | - |
| | $44,703,782 |

## NOTE G - BORROWINGS

Note Payable

The Company has an amortizing note payable with one of its correspondent banks that is set to mature on September 1, 2022. Principal payments of $22,500, plus all accrued interest are due quarterly, with the balance due at maturity. Interest accrues at the Wall Street Journal Prime rate, resulting in a rate of 3.25% at December 31, 2020, and 4.75% at December 31, 2019. The note is secured by the common stock of the Bank. At December 31, 2020 and 2019, $517,500 and $607,500 was outstanding, respectively.

Federal Home Loan Bank Borrowings

The Company periodically utilizes the Federal Home Loan Bank for short-term borrowings. There were no advances outstanding at December 31, 2020 or 2019. However, the Company has entered into a blanket lien agreement with the Federal Home Loan Bank in which certain mortgage loans and investment securities can be used as collateral for future advances. Based on the value of the collateral as well as Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of $106.1 million at December 31, 2020.

Lines of Credit

The Company has a $2,100,000 line of credit with one of its correspondent banks. The line is collateralized by the common stock of the Bank and matures September 1, 2022. Interest accrues at the Wall Street Journal Prime rate resulting in a rate of 3.25% at December 31, 2020 and 4.75% at December 31, 2019. No amounts were outstanding under the line at December 31, 2020 and 2019.

The Company also has an unsecured federal funds lines of credit with one of its correspondent banks. At December 31, 2020, the Company was eligible to borrow $7,500,000. No amounts were outstanding under this line at December 31, 2020 and 2019. Federal funds lines are uncommitted and funding requests made by the Company are subject to the lending institution's approval and funding availability at the time of request.

## NOTE H – INCOME TAXES

Allocation of federal income taxes between current and deferred positions is as follows:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Current federal provision | $ 535,585 | $ 424,132 |
| Deferred provision (benefit) | 62,276 | 105,500 |
| | $ 597,861 | $ 529,632 |

The differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| Statutory federal tax rate | 21.0% | 21.0% |
| Increase (decrease) in tax resulting from | | |
| Tax-exempt interest income | (2.1) | (2.5) |
| Other | 0.1 | 0.3 |
| Effective tax rate | 19.0% | 18.8% |

Listed below are the components of the net deferred tax asset:

| | 2020 | 2019 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for loan losses | $ 633,335 | $ 636,614 |
| Deferred compensation | 323,049 | 346,787 |
| Other real estate owned | - | 9,984 |
| | 956,384 | 993,385 |
| Deferred tax liabilities | | |
| Depreciation | (225,527) | (196,833) |
| Federal Home Loan Bank stock | (5,145) | (4,389) |
| Investment in Valesco Commerce Street Capital LP | (15,742) | (18,542) |
| Unrealized gains on securities available for sale | (288,756) | (29,297) |
| Other | - | (1,375) |
| | (535,170) | (250,436) |
| Net deferred tax asset | $ 421,214 | $ 742,949 |

## NOTE I – LOAN COMMITMENTS AND OTHER RELATED ACTIVITY

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

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

| | 2020 | 2019 |
|---|---|---|
| Unfunded commitments to extend credit | $ 9,022,268 | $ 7,937,443 |
| Commercial and standby letters of credit | 542,681 | 540,389 |

## NOTE J – MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the 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. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

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

The Bank's actual and required capital amounts and ratios as of December 31, 2020 and 2019 are presented in the following table.

| | Actual | | Minimum capital requirement | | Minimum to be well capitalized under prompt corrective action provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (dollars in thousands) | | | |
| As of December 31, 2020 | | | | | | |
| Total capital (to risk weighted assets) | $ 31,381 | 16.6% | $ 15,140 | 8.0% | $ 18,925 | 10.0% |
| Tier 1 capital (to risk weighted assets) | 29,007 | 15.3% | 11,355 | 6.0% | 15,140 | 8.0% |
| Common tier 1 capital (to risk weighted assets) | 29,007 | 15.3% | 8,516 | 4.5% | 12,301 | 6.5% |
| Tier 1 capital (to average assets) | 29,007 | 9.0% | 12,893 | 4.0% | 16,116 | 5.0% |
| As of December 31, 2019 | | | | | | |
| Total capital (to risk weighted assets) | $ 29,864 | 15.3% | $ 15,565 | 8.0% | $ 19,456 | 10.0% |
| Tier 1 capital (to risk weighted assets) | 27,425 | 14.1% | 11,673 | 6.0% | 15,565 | 8.0% |
| Common tier 1 capital (to risk weighted assets) | 27,425 | 14.1% | 8,755 | 4.5% | 12,646 | 6.5% |
| Tier 1 capital (to average assets) | 27,425 | 9.4% | 11,619 | 4.0% | 14,524 | 5.0% |

## NOTE K – EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan in which substantially all eligible employees may participate. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions at the discretion of the Board of Directors. The matching contribution made to the 401(k) retirement plan for the years ended December 31, 2020 and 2019 totaled $112,699 and $106,342, respectively.

The Company has an Incentive Compensation Plan for key members of management, which includes both a cash and a deferred compensation component. Payments under this plan are based upon the performance of the Company as well as the individual's ability to meet specific goals each year. The deferred portion of the employee's bonus is paid out five years after it was contributed to the Plan. As of December 31, 2020 and 2019, the Company has accrued $328,245 and $216,097, respectively for cash bonus payments to be paid the following January. Additionally, the Company has recorded a deferred compensation payable totaling $673,662 and $660,830, at December 31, 2020 and 2019, respectively. This has been included in "Other Liabilities" on the Balance Sheet.

The Company also has several former employees which receive payments for compensation previously deferred. As of December 31, 2020 and 2019, the Company has recorded a liability of $798,703 and $901,901, related to these payments. This has been included in "Other Liabilities" on the Balance Sheet.

The Company has a Phantom Stock Plan in which two executives participated. One of the executives terminated employment with the Company in 2019 and cashed out his plan balance. As of December 31, 2020 and 2019, the Company has $65,964 and $88,637, respectively accrued for liabilities under the phantom stock option plan. This has been included in "Other Liabilities" on the Balance Sheet.

## NOTE L – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to executive officers, principal shareholders and directors and parties affiliated with those persons (collectively, "insiders"). The Company has loans to insiders aggregating $266,073 and $1,508,719 at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, deposits from insiders totaled $3,705,020 and $2,837,808, respectively.

## NOTE M – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

- *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* - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

The Company used the following methods and significant assumptions to estimate fair value:

*Securities Available for Sale* – Securities are recorded at fair value on a recurring basis based upon measurements obtained from an independent pricing service. The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things (Level 2).

*Mortgage Loans Held for Sale* – The Company does not record loans held for sale at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect declines in value based on commitments in hand from investors or prevailing investor yield requirements (Level 2).

*Other Real Estate Owned* – The Company does not record other real estate at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these properties to reflect the current appraised value (less an estimate of cost to sell). In some cases, the properties for which appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for real estate held for sale are obtained from independent appraisers (Level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a recurring basis:

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Securities available for sale | | | | |
| U.S Treasuries | $ 4,034,687 | $ - | $ - | $ 4,034,687 |
| U.S. Government agencies | - | 6,175,351 | - | 6,175,351 |
| Obligations of state and political subdivisions | - | 7,005,056 | - | 7,005,056 |
| Mortgage-backed | - | 36,436,295 | - | 36,436,295 |
| Other asset-backed | - | 1,593,368 | - | 1,593,368 |
| | $ 4,034,687 | $ 51,210,070 | $ - | $ 55,244,757 |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Securities available for sale | | | | |
| U.S Treasuries | $ 4,045,391 | $ - | $ - | $ 4,045,391 |
| U.S. Government agencies | - | 10,085,104 | - | 10,085,104 |
| Obligations of state and political subdivisions | - | 7,799,531 | - | 7,799,531 |
| Mortgage-backed | - | 26,185,697 | - | 26,185,697 |
| Other asset-backed | - | 1,848,470 | - | 1,848,470 |
| | $ 4,045,391 | $ 45,918,802 | $ - | $ 49,964,193 |

During 2020 and 2019, there were no Level 3 assets or liabilities measured at fair value on a recurring basis.

Assets and liabilities recorded at fair value on a non-recurring basis are summarized below.

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Loans held for sale | $ - | $ 547,243 | $ - | $ 547,243 |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Loans held for sale | $ - | $ 929,611 | $ - | $ 929,611 |
| Other real estate owned | - | - | 324,000 | 324,000 |

During 2019, other real estate owned had an initial basis of $324,000 with a valuation allowance of $0.

# SUPPLEMENTAL CONSOLIDATING SCHEDULES

## LOCKHART BANKSHARES, INC. AND SUBSIDIARY

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

December 31, 2020

| | Lockhart Bankshares, Inc. | First-Lockhart National Bank | Eliminations | Consolidated |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and due from banks | $ 51,327 | $ 65,689,352 | $ (51,327) | $ 65,689,352 |
| Certificates of deposit in banks | - | 992,000 | - | 992,000 |
| Debt securities available for sale | - | 55,244,757 | - | 55,244,757 |
| Equity securities | - | 64,897 | - | 64,897 |
| Investment in First-Lockhart National Bank | 30,093,428 | - | (30,093,428) | - |
| Loans held for sale | - | 547,243 | - | 547,243 |
| Loans, net | - | 182,576,328 | - | 182,576,328 |
| Premises and equipment, net | - | 13,122,641 | - | 13,122,641 |
| Deferred tax asset | - | 421,214 | - | 421,214 |
| Federal Home Loan Bank stock | - | 423,000 | - | 423,000 |
| Federal Reserve Bank stock | - | 178,100 | - | 178,100 |
| Bank owned life insurance | - | 5,580,183 | - | 5,580,183 |
| Accrued interest receivable | - | 704,816 | - | 704,816 |
| Other assets | 19 | 786,333 | - | 786,352 |
| | $ 30,144,774 | $326,330,864 | $ (30,144,755) | $326,330,883 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Liabilities | | | | |
| Deposits | | | | |
| Noninterest-bearing | $ - | $ 71,344,097 | $ (51,327) | $ 71,292,770 |
| Interest-bearing | - | 222,591,585 | - | 222,591,585 |
| Total deposits | - | 293,935,682 | (51,327) | 293,884,355 |
| Note payable | 517,500 | - | - | 517,500 |
| Accrued interest payable | 1,450 | 63,219 | - | 64,669 |
| Other liabilities | - | 2,238,535 | - | 2,238,535 |
| Total liabilities | 518,950 | 296,237,436 | (51,327) | 296,705,059 |
| Stockholders' equity | | | | |
| Common stock | 154,592 | 240,000 | (240,000) | 154,592 |
| Capital surplus | 2,508,916 | 5,696,433 | (5,696,433) | 2,508,916 |
| Treasury stock, at cost | (307,600) | - | - | (307,600) |
| Retained earnings | 26,183,646 | 23,070,725 | (23,070,725) | 26,183,646 |
| Accumulated other comprehensive income | 1,086,270 | 1,086,270 | (1,086,270) | 1,086,270 |
| Total stockholders' equity | 29,625,824 | 30,093,428 | (30,093,428) | 29,625,824 |
| | $ 30,144,774 | $326,330,864 | $ (30,144,755) | $326,330,883 |

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

SUPPLEMENTAL CONSOLIDATING STATEMENT OF INCOME

Year Ended December 31, 2020

| | Lockhart Bankshares, Inc. | First-Lockhart National Bank | Eliminations | Consolidated |
|---|---|---|---|---|
| Interest income | | | | |
| Loans, including fees | $ - | $10,338,559 | $ - | $10,338,559 |
| Debt securities: | | | | |
| Taxable | - | 845,248 | - | 845,248 |
| Tax-exempt | - | 158,978 | - | 158,978 |
| Other interest and dividends | - | 217,714 | - | 217,714 |
| Total interest income | - | 11,560,499 | - | 11,560,499 |
| Interest expense | | | | |
| Deposits | - | 1,869,672 | - | 1,869,672 |
| Borrowed funds and other | 20,476 | 42 | - | 20,518 |
| Total interest expense | 20,476 | 1,869,714 | - | 1,890,190 |
| Provision for loan losses | - | 0 | - | - |
| Net interest income after provision for loan losses | (20,476) | 9,690,785 | - | 9,670,309 |
| Noninterest income | | | | |
| Service charges on deposit accounts | - | 859,227 | - | 859,227 |
| Dividends from subsidiary | 987,702 | - | (987,702) | - |
| Net gain on sale of loans | - | 291,804 | - | 291,804 |
| Net loss on sale of other assets | - | (958) | - | (958) |
| Net gain on sale of other real estate owned | - | 440 | - | 440 |
| Other income | - | 487,110 | - | 487,110 |
| Total noninterest income | 987,702 | 1,637,623 | (987,702) | 1,637,623 |
| Noninterest expense | | | | |
| Salaries and employee benefits | - | 4,416,553 | - | 4,416,553 |
| Occupancy and equipment | - | 1,089,827 | - | 1,089,827 |
| Other general and administrative | 4,335 | 2,649,456 | - | 2,653,791 |
| Total noninterest expense | 4,335 | 8,155,836 | - | 8,160,171 |
| Income before equity in undistributed net income of subsidiary | 962,891 | 3,172,572 | (987,702) | 3,147,761 |
| Equity in undistributed net income of bank subsidiary | 1,582,620 | - | (1,582,620) | - |
| Income before income taxes | 2,545,511 | 3,172,572 | (2,570,322) | 3,147,761 |
| Income tax expense (benefit) | (4,389) | 602,250 | - | 597,861 |
| NET INCOME | $ 2,549,900 | $ 2,570,322 | $ (2,570,322) | $ 2,549,900 |

**LOCKHART BANKSHARES, INC. AND SUBSIDIARY**

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

December 31, 2019

| | Lockhart Bankshares, Inc. | First-Lockhart National Bank | Eliminations | Consolidated |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and due from banks | $ 70,150 | $ 42,588,663 | $ (70,150) | $ 42,588,663 |
| Certificates of deposit in banks | - | 1,240,000 | - | 1,240,000 |
| Debt securities available for sale | - | 49,964,193 | - | 49,964,193 |
| Equity securities | - | 64,897 | - | 64,897 |
| Investment in First-Lockhart National Bank | 27,534,748 | - | (27,534,748) | - |
| Loans held for sale | - | 929,611 | - | 929,611 |
| Loans, net | - | 191,660,169 | - | 191,660,169 |
| Premises and equipment, net | - | 8,805,164 | - | 8,805,164 |
| Deferred tax asset | - | 742,949 | - | 742,949 |
| Federal Home Loan Bank stock | - | 419,400 | - | 419,400 |
| Federal Reserve Bank stock | - | 178,100 | - | 178,100 |
| Bank owned life insurance | - | 5,438,244 | - | 5,438,244 |
| Other real estate owned | - | 324,000 | - | 324,000 |
| Accrued interest receivable | - | 784,333 | - | 784,333 |
| Other assets | - | 786,529 | - | 786,529 |
| | $ 27,604,898 | $ 303,926,252 | $ (27,604,898) | $ 303,926,252 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Liabilities | | | | |
| Deposits | | | | |
| Noninterest-bearing | $ - | $ 60,847,331 | $ (70,150) | $ 60,777,181 |
| Interest-bearing | - | 213,081,034 | - | 213,081,034 |
| Total deposits | - | 273,928,365 | (70,150) | 273,858,215 |
| Note payable | 607,500 | - | - | 607,500 |
| Accrued interest payable | 2,485 | 105,402 | - | 107,887 |
| Other liabilities | (19) | 2,357,737 | - | 2,357,718 |
| Total liabilities | 609,966 | 276,391,504 | (70,150) | 276,931,320 |
| Stockholders' equity | | | | |
| Common stock | 154,592 | 240,000 | (240,000) | 154,592 |
| Capital surplus | 2,508,916 | 5,696,433 | (5,696,433) | 2,508,916 |
| Treasury stock, at cost | (307,600) | - | - | (307,600) |
| Retained earnings | 24,528,814 | 21,488,105 | (21,488,105) | 24,528,814 |
| Accumulated other comprehensive loss | 110,210 | 110,210 | (110,210) | 110,210 |
| Total stockholders' equity | 26,994,932 | 27,534,748 | (27,534,748) | 26,994,932 |
| | $ 27,604,898 | $ 303,926,252 | $ (27,604,898) | $ 303,926,252 |

# LOCKHART BANKSHARES, INC. AND SUBSIDIARY

## SUPPLEMENTAL CONSOLIDATING STATEMENT OF INCOME

Year Ended December 31, 2019

| | Lockhart Bankshares, Inc. | First-Lockhart National Bank | Eliminations | Consolidated |
|---|---|---|---|---|
| Interest income | | | | |
| Loans, including fees | $ - | $10,675,336 | $ - | $10,675,336 |
| Debt securities: | | | | |
| Taxable | - | 799,613 | - | 799,613 |
| Tax-exempt | - | 180,051 | - | 180,051 |
| Other interest and dividends | - | 392,939 | - | 392,939 |
| Total interest income | - | 12,047,939 | - | 12,047,939 |
| Interest expense | | | | |
| Deposits | - | 2,525,665 | - | 2,525,665 |
| Borrowed funds and other | 35,195 | 72 | - | 35,267 |
| Total interest expense | 35,195 | 2,525,737 | - | 2,560,932 |
| Provision for loan losses | - | 80,000 | - | 80,000 |
| Net interest income after provision for loan losses | (35,195) | 9,442,202 | - | 9,407,007 |
| Noninterest income | | | | |
| Service charges on deposit accounts | - | 1,070,087 | - | 1,070,087 |
| Dividends from subsidiary | 947,970 | - | (947,970) | - |
| Net gain on sale of loans | - | 325,024 | - | 325,024 |
| Net gain on sale of securities | - | 2,892 | - | 2,892 |
| Net gain on sale of other assets | - | 16,060 | - | 16,060 |
| Other income | - | 433,162 | - | 433,162 |
| Total noninterest income | 947,970 | 1,847,225 | (947,970) | 1,847,225 |
| Noninterest expense | | | | |
| Salaries and employee benefits | - | 4,628,961 | - | 4,628,961 |
| Occupancy and equipment | - | 1,024,658 | - | 1,024,658 |
| Other general and administrative | 5,680 | 2,775,323 | - | 2,781,003 |
| Total noninterest expense | 5,680 | 8,428,942 | - | 8,434,622 |
| Income before equity in undistributed net income of subsidiary | 907,095 | 2,860,485 | (947,970) | 2,819,610 |
| Equity in undistributed net income of bank subsidiary | 1,374,296 | - | (1,374,296) | - |
| Income before income taxes | 2,281,391 | 2,860,485 | (2,322,266) | 2,819,610 |
| Income tax expense (benefit) | (8,587) | 538,219 | - | 529,632 |
| NET INCOME | $ 2,289,978 | $ 2,322,266 | $ (2,322,266) | $ 2,289,978 |