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, Gilbert Narvaez, Jr.
Name of the Holding Company Director and Official

Director/Vice President/Secretary
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/31/2021
Date of Signature

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

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

Reporter's Name, Street, and Mailing Address

Falcon Bancshares Incorporated
Legal Title of Holding Company

5219 McPherson Rd.
(Mailing Address of the Holding Company) Street / P.O. Box

Laredo	TX	78041
City	State	Zip Code

7718 McPherson Rd. Building F, Laredo, TX 78045
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Rita Ancira	N/A
Name	Title

956-794-9721
Area Code / Phone Number / Extension

956-794-9748
Area Code / FAX Number

rita@falconbank.com
E-mail Address

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

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

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

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

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

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

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

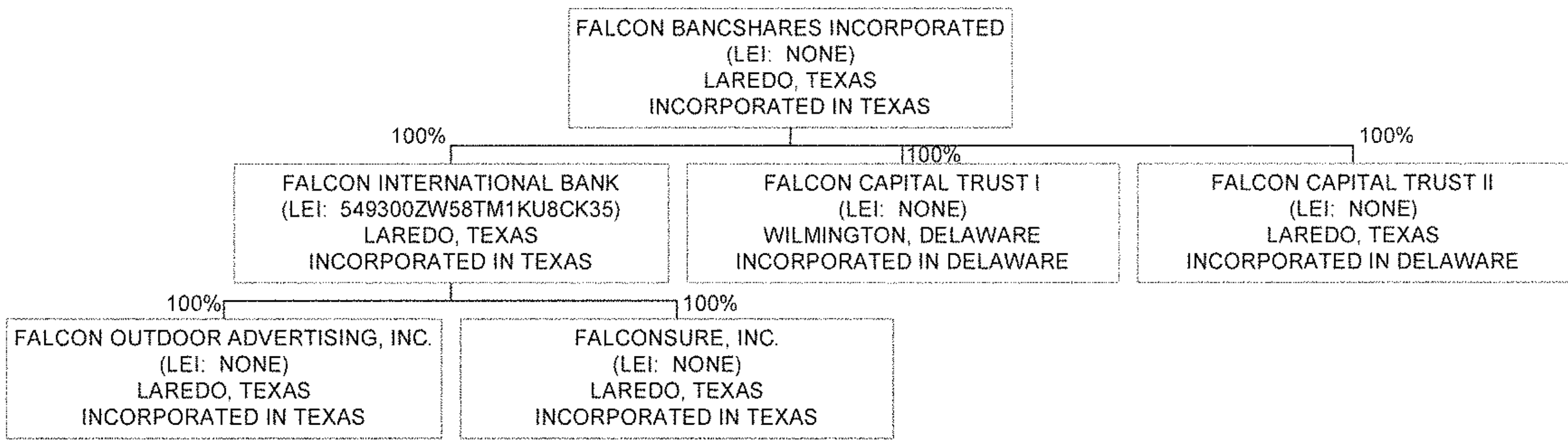
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

FR Y-6 REPORT ITEM 1: ANNUAL REPORT TO SHAREHOLDERS

The BHC does prepare an annual report for its shareholders.

Annual report is included with FRY-6 report

FRY-6 REPORT ITEM 2a: ORGANIZATION CHART



FR Y-6 REPORT ITEM 2b: DOMESTIC BRANCH LISTING

The Branch Verification Report is included with FRY-6 report.

Results: A list of branches for your depository institution: FALCON INTERNATIONAL BANK (ID_RSSD: 564557).
This depository institution is held by FALCON BANCSHARES INCORPORATED (2270254) of LAREDO, TX.
The data are as of 12/31/2020. Data reflects information that was received and processed through 01/05/2021.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	564557	FALCON INTERNATIONAL BANK	7718 MCPHERSON ROAD, BLDG F	LAREDO	TX	78045	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	5088487	BROWNSVILLE MAIN BRANCH	1805 NORTH EXPRESSWAY	BROWNSVILLE	TX	78520	CAMERON	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3378719	BUDA BRANCH	1005 N LOOP 4	BUDA	TX	78610-3319	HAYS	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3461554	DEL RIO CHEVROLET DRIVE BRANCH	110 CHEVROLET DR	DEL RIO	TX	78840-3139	VAL VERDE	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3392836	DEL RIO MAIN STREET BRANCH	504 S MAIN ST	DEL RIO	TX	78840-5860	VAL VERDE	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3586439	BIBB AVENUE BRANCH	476 SOUTH BIBB AVENUE	EAGLE PASS	TX	78852-5063	MAVERICK	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3192782	EAGLE PASS MAIN BRANCH	275 S BIBB AVE	EAGLE PASS	TX	78852	MAVERICK	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3783902	BANDERA ROAD BRANCH	12002 BANDERA ROAD	HELOTES	TX	78023	BEXAR	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Limited Service	3297593	CALLE DEL NORTE BRANCH	6002 N MCPHERSON	LAREDO	TX	78041	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	2978336	DOWNTOWN BRANCH	801 MATAMOROS STREET	LAREDO	TX	78040	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	2978345	EAST BRANCH	204 BOB BULLOCK LOOP	LAREDO	TX	78043	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3036514	HILLSIDE BRANCH	5219 MCPHERSON ROAD	LAREDO	TX	78041	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3622243	MCPHERSON BRANCH	10511 MCPHERSON ROAD	LAREDO	TX	78045	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3383807	SAN DARIO BRANCH	6625 SAN DARIO AVE	LAREDO	TX	78041	WEBB	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3656293	HIGHWAY 83 BRANCH	500 EAST HIGHWAY 83	MCALLEN	TX	78501-8938	HIDALGO	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	3724839	MCALLEN 6301 10TH STREET BRANCH	6301 NORTH 10TH STREET	MCALLEN	TX	78504-3234	HIDALGO	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	
OK		Full Service	2994206	STONE OAK BRANCH	19230 STONE OAK PARKWAY	SAN ANTONIO	TX	78258	BEXAR	UNITED STATES	Not Required	Not Required	FALCON INTERNATIONAL BANK	564557	

FR Y-6 REPORT ITEM 3(1):
FALCON BANCSHARES INCORPORATED
SHAREHOLDERS

NAME & ADDRESS	COUNTRY OF CITIZENSHIP OR INCORPORATION	NO. SHARES COMMON STOCK	OWNERSHIP PERCENT
GUTIERREZ FAMILY LAREDO/SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,280,063	82.90%
ADOLFO E. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	1,334,407	48.52%
MARY K. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	911	0.03%
ADOLFO E. GUTIERREZ, JR. LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	9,551	0.35%
AMANDA L. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	5,282	0.19%
MARY KATHRYN GUTIERREZ, TRUSTEE OF THE MARY KATHRYN GUTIERREZ TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	138,194	5.03%
ADOLFO EDUARDO GUTIERREZ, JR., TRUSTEE OF THE ADOLFO EDUARDO GUTIERREZ, JR. TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	144,444	5.25%
AMANDA LEIGH GUTIERREZ, TRUSTEE OF THE AMANDA LEIGH GUTIERREZ TRUST UNDER TRUST AGREEMENT DATED DEC. 24, 2012 LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	144,444	5.25%
HUGO A. GUTIERREZ, JR. SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	16,597	0.60%
HUGO A. GUTIERREZ III, TRUSTEE OF THE HUGO A. GUTIERREZ, III TRUST SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	81,857	2.98%
SELINA MICHELLE GUTIERREZ, TRUSTEE OF THE SELINA MICHELLE GUTIERREZ TRUST SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	82,919	3.02%
CARLO E. GUTIERREZ SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	121,870	4.43%

FR Y-6 REPORT ITEM 3(1):
FALCON BANCSHARES INCORPORATED
SHAREHOLDERS

NAME & ADDRESS	COUNTRY OF CITIZENSHIP OR INCORPORATION	NO. SHARES COMMON STOCK	OWNERSHIP PERCENT
HUGO A. GUTIERREZ, III SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	26,561	0.97%
SELINA M. GUTIERREZ SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
SHELBY A. URIBE SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	121,871	4.43%
RICARDO X. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	21,441	0.78%
RICARDO X. GUTIERREZ, TRUSTEE FOR RICARDO X. GUTIERREZ, JR. LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	1,857	0.07%
RICARDO X. GUTIERREZ, TRUSTEE FOR ANGELIQUE R. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	1,125	0.04%
ROBERTO G. GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	18,732	0.68%
ROBERTO G. GUTIERREZ, TRUSTEE FOR ANALEA GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
ROBERTO G. GUTIERREZ, TRUSTEE FOR ALEJANDRA GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%
ROBERTO G. GUTIERREZ, TRUSTEE FOR ANDREA GUTIERREZ LAREDO, TEXAS UNITED STATES OF AMERICA	UNITED STATES OF AMERICA	2,000	0.07%

FR Y-6 REPORT ITEM 3(1):
FALCON BANCSHARES INCORPORATED
SHAREHOLDERS

NAME & ADDRESS	COUNTRY OF CITIZENSHIP OR INCORPORATION	NO. SHARES COMMON STOCK	OWNERSHIP PERCENT
VILLANUEVA FAMILY SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	MEXICO	304,683	11.08%
PABLO VILLANUEVA SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	MEXICO	152,342	5.54%
SANTIAGO VILLANUEVA SAN ANTONIO, TEXAS UNITED STATES OF AMERICA	MEXICO	152,341	5.54%

FR Y-6 REPORT ITEM 3(2):
FALCON BANCSHARES INCORPORATED
SHAREHOLDERS

NAME & ADDRESS	COUNTRY OF CITIZENSHIP OR INCORPORATION	NO. SHARES COMMON STOCK	OWNERSHIP PERCENT
N/A			

FR Y-6 REPORT ITEM 4: FALCON BANCSHARES INCORPORATED

INSIDERS

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION			% OWNERSHIP		
		BHCs	SUBSIDIARY	OTHER BUSINESS	BHC	SUBSIDIARY	OTHER BUSINESS
GUTIERREZ FAMILY: ADOLFO E. GUTIERREZ LAREDO, TX USA	N/A	DIRECTOR, PRESIDENT, & TREASURER- FALCON BANCSHARES, INC.	DIRECTOR - FALCON INT'L BANK	OWNER - A&M DEVELOPMENT CO (A&M DEV)	48.52%	N/A	A&M DEV. - 100%
				PRESIDENT - 3-G ELECTRIC SUPPLY, INC. (3G)			3G - 100%
				PARTNER - LOS VETERANOS (LV)			LV - 66.6%
				PRESIDENT - VETLAND INC. (VET)			VET - 100%
				PARTNER - TALLEY-HO VENTURES, LTD. (THV)			THV - 99%
				PARTNER - TALLEY-HO MANAGEMENT, LLC. (THM)			THM - 50%
				LTD PARTNER - KAMARY INVESTMENTS, LTD. (KILTD)			KILTD - 49.5%
				PARTNER - AEG-MAG MANAGEMENT, LC. (AMM)			AMM - 50%
				PARTNER - AEG MANAGEMENT, LC. (AMLC)			AMLC - 50%
				LTD PARTNER - LAREDO KAMARY PROPERTIES, LTD. (LKP)			LKP - 49.5%
				PARTNER - GEA-GAM MANAGEMENT, LC. (GGM)			GGM - 50%
				PARTNER - TALLEY-HO 220 VENTURE, LTD. (TH2V)			TH2V - 99%
				PARTNER - TALLEY-HO 220 MANAGEMENT, LC. (TH2M)			TH2M - 50%
				PARTNER - MAG MANAGEMENT, LC. (MMLC)			MMLC - 50%
				PARTNER - SHOWCASE LIGHTING BY 3G, LTD. (SLB3G)			SLB3G - 49.5%
				OWNER - DOMINION 900, LTD. (D9LTD)			D9LTD - 99%
				OWNER - DOMINION 900, MANAGEMENT, LC (D9MLC)			D9MLC - 50%
				MEMBER - PEREGRINE FINANCIAL INVESTMENTS, LLC (PFILLC)			PFILLC - 48.3%

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION			% OWNERSHIP		
		BHCs	SUBSIDIARY	OTHER BUSINESS	BHC	SUBSIDIARY	OTHER BUSINESS
MARY K. GUTIERREZ LAREDO, TEXAS USA	FREELANCE WRITER	PRINCIPAL SECURITIES HOLDER	N/A	N/A	5.06%	N/A	N/A
ADOLFO E. GUTIERREZ, JR LAREDO, TEXAS USA	ATTORNEY	PRINCIPAL SECURITIES HOLDER	ADVISORY DIRECTOR, CORPORATE COUNSEL - FALCON INT'L BANK	MEMBER - ELEPHANT HEART INVESTMENTS, LLC. (EHILLC) MEMBER - ELEPHALCON G HOLDINGS, LLC. (EGHLLC) PRESIDENT - ELEPHANT HEART DEVELOPMENT CORP (EHDC) MANAGING MEMBER - DEAD AWAKE, THE MOVIE LLC. (DATMLLC) OWNER - THE LAW OFFICE OF AJ GUTIERREZ (TLOAJG) LIMITED PARTNER - KAMARY DEVELOPMENT LTD. (KDLTD)	5.60%	N/A	EHILLC - 33% EGHLLC - 25% EHDC - 33% DATMLLC - 25% TLOAJG - 100% KDLTD - 33%
AMANDA L. GUTIERREZ LAREDO, TEXAS USA	ELECTRICAL SHOWROOM MANAGER	PRINCIPAL SECURITIES HOLDER	N/A	N/A	5.44%	N/A	N/A
HUGO A. GUTIERREZ, JR. SAN ANTONIO, TX USA	REAL ESTATE DEVELOPER	DIRECTOR - FALCON BANCSHARES, INC.	DIRECTOR - FALCON INT'L BANK	OWNER - BECKER CREEK ESTATES LC. (BCELC) OWNER - BRAUNING RANCH LC BRLC) PARTNER - CAMPBELTON ROAD LTD (CRL) MANAGING PARTNER - SAN-HAG MANAGEMENT L.C. (SHAG) MANAGING PARTNER - SAN MARCOS SHK LTD. (SMS) MANAGING PARTNER - SPH CULEBRA LTD. (SPHC) MANAGING PARTNER - VISE OAKS I LTD. (VOLTD) OWNER - 359 PAPALOTE LTD. (359PLTD) OWNER - EAST PAPALOTE, LC (EPLC) OWNER - H.A. GUTIERREZ, JR. LTD - (HAGLTD) OWNER - H.A. GUTIERREZ, JR. OPERATING INVESTMENTS LTD. (HAGOI) LTD PARTNER - S.A. TRIO HOMES, LTD. - (SATH)	0.60%	N/A	BCELC - 33% BRLC - 50% CRL - 25% SHAG - 50% SMS - 25% SPHC - 50% VOLTD - 25% 359PLTD - 25% ELPLC - 25% HAGLTD - 100% HAGOI - 100% SATH - 75%

FR Y-6 REPORT ITEM 4: FALCON BANCSHARES INCORPORATED
INSIDERS

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION BHCs	SUBSIDIARY	OTHER BUSINESS	% OWNERSHIP BHC	SUBSIDIARY	OTHER BUSINESS
				OWNER - SOUTHTON DEVELOPMENTS, LTD (SDLTD)			SDLTD - 25%
				OWNER - SOUTHTON MANAGEMENT LC (SMLC)			SMLC - 25%
				PARTNER - SOUTHTON RANCH LTD (SRLTD)			SRLTD - 25%
				OWNER - THE GREEN MINES RANCH LTD. (GMR)			GMR - 100%
				OWNER - PEOPLE'S MANAGEMENT LTD. (PML)			PML - 100%
				OWNER - PEOPLE'S MGNT OF NEVADA INC. (PMON)			PMON - 100%
				OWNER - PEOPLE'S MNGMT OF SOUTH TX INC (PMS)			PMS - 100%
				OWNER - PEOPLES MGMT OF TX 1, INC. (PMOTI)			PMOTI - 100%
				OWNER - PEOPLE'S MNGMT OF TX, 1 LTD (PMOTL)			PMOTL - 100%
				OWNER - PEOPLE'S VERDES RANCH HOLDING CO. LTD - (PVRH)			PVRH - 100%
				OWNER - VERDES MINES LC. (VM)			VM - 100%
				MANAGING PARTNER - HUGOCELLR (HCR)			HCR - 25%
				OWNER - COTULLA VACUUM SERVICES, LTD - (CVS)			CVS - 100%
				OWNER - COTULLA ENERGY RESOURCES, LTD - (CER)			CER - 100%
				OWNER - HAGCO ENERGY LLC - (HELLC)			HELLC - 100%
HUGO A. GUTIERREZ, III SAN ANTONIO, TEXAS USA	BANKER	PRINCIPAL SECURITIES HOLDER	VICE PRESIDENT - FALCON INT'L BANK	N/A	3.95%	N/A	N/A
SELINA M. GUTIERREZ SAN ANTONIO, TEXAS USA	REALTOR	PRINCIPAL SECURITIES HOLDER	N/A	N/A	3.09%	N/A	N/A
SHELBY A. URIBE SAN ANTONIO, TEXAS USA	ATTORNEY	PRINCIPAL SECURITIES HOLDER	N/A	N/A	4.43%	N/A	N/A
CARLO E. GUTIERREZ SAN ANTONIO, TEXAS USA	REAL ESTATE DEVELOPER	PRINCIPAL SECURITIES HOLDER	ADVISORY DIRECTOR - FALCON INT'L BANK	N/A	4.43%	N/A	N/A
RICARDO X. GUTIERREZ LAREDO, TEXAS USA	ELECTRIAL CONTRACTOR	PRINCIPAL SECURITIES HOLDER	N/A	N/A	0.89%	N/A	N/A

FR Y-6 REPORT ITEM 4: FALCON BANCSHARES INCORPORATED
INSIDERS

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION BHCs	SUBSIDIARY	OTHER BUSINESS	% OWNERSHIP BHC	SUBSIDIARY	OTHER BUSINESS
ROBERTO G. GUTIERREZ LAREDO, TEXAS USA	CONTRACTOR	PRINCIPAL SECURITIES HOLDER	N/A	N/A	0.89%	N/A	N/A
JOHN J. HILL LAREDO, TX USA	MATERIALS INSTALLER	DIRECTOR - FALCON BANCSHARES, INC.	DIRECTOR - FALCON INT'L BANK	N/A	0.29%	N/A	N/A
GILBERT NARVAEZ, JR. LAREDO, TX USA	N/A	DIRECTOR, VICE PRES., & SECRETARY - FALCON BANCSHARES, INC	DIRECTOR, PRESIDENT, & CEO - FALCON INT'L BANK	N/A	1.12%	N/A	N/A
RAY A. GONZALES LAREDO, TX USA	N/A	DIRECTOR - FALCON BANCSHARES, INC.	DIRECTOR, SR. EXEC. VICE PRESIDENT - FALCON INT'L BANK	MANAGER - TAGNR INVESTMENTS (TAGNR)	0.73%	N/A	TAGNR - 40%
				PARTNER - HANGG INVESTMENTS, LLC. (HILLC)			HILLC - 40%
EDUARDO A. GARZA LAREDO, TX USA	FORWARDER	DIRECTOR - FALCON BANCSHARES, INC.	DIRECTOR - FALCON INT'L BANK	MANAGER - ED-SAL INVESTMENTS LTD (ESILTD)	1.40%	N/A	ESILTD - 50%
				MANAGER - LAS TIENDAS INVESTMENTS LTD (LTILTD)			LSTILTD - 75%
				OWNER - GAR-RAM INVESTMENTS LTD (GRILTD)			GRILTD - 100%
				PRESIDENT - 4-G INVESTMENTS LLC (4GILLC)			4GILLC - 55%
				PRESIDENT - CONSORTIUM PROPERTIES, LLC (CPLLC)			CPLLC - 51%
				PRESIDENT - LAR-TEX INVESTMENTS LLC (LTILLC)			LTILLC - 50%
				PRESIDENT - UNI-TRADE FORWARDING LC (UTFLC)			UTFLC - 75%
				PRESIDENT - UNI-TRADE LOGISTICS LC (UTLLC)			UTLLC - 80%
				PRESIDENT - UNI-TRADE BROKERS LC (UTBLC)			UTBLC - 61%
				MANAGER - IMPORT AUTO MEX LC (IAMLC)			IAMLC - 55%
				MANAGER - COTULLA PARTNERS LTD (CPL)			CPL - 50%
				MANAGER - EL NOPAL DEVELOPMENT LTD (ENDLTD)			ENDLTD - 50%
				MANAGER - GARROS SERVICES, LLC (GSLLC)			GSLLC - 60%
				MANAGER - GARROS DEVELOPMENT INC (GDINC)			GDINC - 50%
				MANAGER - AIR TRADE LAREDO LC (ATLLC)			ATLLC - 50%

NAME & ADDRESS	PRINCIPAL OCCUPATION IF OTHER THAN BHC	TITLE OR POSITION			% OWNERSHIP		
		BHCs	SUBSIDIARY	OTHER BUSINESS	BHC	SUBSIDIARY	OTHER BUSINESS
				MANAGER - UTF FINANCIAL LLC (UTFFLLC)			UTFFLLC - 55%
				MANAGER - EGR ENTERPRISES LLC (EGRE)			EGRE - 70%
				MANAGER - NU-TECH IMAGE, INC. (NUTIINC)			NUTIINC - 60%
				MANAGER - EXPRESS SOLUTION INTERNATIONAL LLC (ESILLC)			ESILLC - 60%
VILLANUEVA FAMILY: PABLO VILLANUEVA SAN ANTONIO, TX USA	REAL ESTATE DEVELOPER	DIRECTOR - FALCON BANCSHARES, INC.	DIRECTOR - FALCON INT'L BANK	OWNER - LAREDO FINANCIAL COMPANY, LLC (LFCLLC)	5.54%	N/A	LFCLLC - 100%
				MANAGING PARTNER - WESTPOINT AIR LC (WPALC)			WPALC - 50%
				PARTNER - CAMPBELTON ROAD LTD (CRL)			CRL - 75%
				MANAGING PARTNER - VISE OAKS 1, LTD. (VOLTD)			VOLTD - 75%
				MANAGING PARTNER - SPV FINANCIAL CORP. (SPVFC)			SPVFC - 50%
				CHAIRMAN OF THE BOARD - IMPULSORA DE GUANAJUATO (IDG)			IDG - 50%
				PARTNER - SPH CULEBRA LTD. (SPHC)			SPHC - 25%
				MANAGING PARTNER - SAN-HAG INVESTMENTS LTD (SHILTD)			SHILTD - 33%
				MANAGING PARTNER - VISE LION LTD (VLLTD)			VLLTD - 50%
SANTIAGO VILLANUEVA SAN ANTONIO, TX USA	REAL ESTATE DEVELOPER	PRINCIPAL SECURITIES HOLDER	N/A	N/A	5.54%	N/A	N/A

Falcon Bancshares, Inc.
and Subsidiary

Annual Financial Report

December 31, 2020

Falcon Bancshares, Inc. and Subsidiary

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RSM US LLP

Independent Auditor's Report

Board of Directors
Falcon Bancshares, Inc. and Subsidiary

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Falcon Bancshares, Inc. and Subsidiary (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019; 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 (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Falcon Bancshares, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have also audited, in accordance with auditing standards generally accepted in the United States of America, Falcon Bancshares, Inc. and Subsidiary's internal control over financial reporting, as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated April 9, 2021, expressed an unqualified opinion on the effectiveness of Falcon Bancshares, Inc. and Subsidiary's internal control over financial reporting.

RSM US LLP

San Antonio, Texas
April 9, 2021

Falcon Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2020 and 2019
(Dollars in Thousands, Except Share Data)

	2020	2019
Assets		
Cash and due from banks	$ **215,808**	$ 97,292
Federal funds sold	**12,363**	26,056
Cash and cash equivalents	**228,171**	123,348
Interest-bearing time deposits in banks	**13,929**	15,978
Equity Securities	**24,762**	13,495
Securities available for sale	**306,175**	222,352
Restricted investment security	**816**	809
Loans – net of allowance for loan losses of $12,896 ($10,346 in 2019)	**911,299**	837,979
Bank premises and equipment – net	**51,934**	51,671
Accrued interest receivable	**4,589**	3,254
Foreclosed assets – net	**3,595**	4,630
Cash surrender value of life insurance	**15,939**	17,533
Prepaid expenses and other assets	**2,461**	3,809
Total assets	$ **1,563,670**	$ 1,294,858
Liabilities		
Deposits:		
Noninterest-bearing	$ **328,683**	$ 234,596
Interest-bearing	**1,048,322**	890,472
Total deposits	**1,377,005**	1,125,068
Federal Home Loan Bank borrowings	**1,612**	1,858
Junior subordinated debentures	**15,465**	15,465
Accrued interest payable and other liabilities	**1,889**	4,489
Total liabilities	**1,395,971**	1,146,880
Commitments and contingencies		
Stockholders' Equity		
Common stock – $0.05 par value; 4,000,000 shares authorized; 2,750,072 shares outstanding (2,749,848 shares outstanding in 2019)	**138**	138
Surplus	**8,436**	8,390
Retained earnings	**156,286**	139,693
Accumulated other comprehensive income	**3,352**	241
Treasury stock – at cost (11,805 shares in 2020; 12,029 in 2019)	**(513)**	(484)
Total stockholders' equity	**167,699**	147,978
Total liabilities and stockholders' equity	$ **1,563,670**	$ 1,294,858

Notes to the consolidated financial statements form an integral part of these statements.

Falcon Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Interest income:		
Loans – including fees	**$ 48,006**	$ 48,251
Securities available for sale	**5,457**	4,385
Federal funds sold	**64**	425
Interest-bearing time deposits in banks	**1,393**	3,589
Other	**18**	25
Total interest income	**54,938**	56,675
Interest expense:		
Deposits	**7,146**	9,266
Federal Home Loan Bank borrowings	**33**	41
Junior subordinated debentures	**574**	818
Total interest expense	**7,753**	10,125
Net interest income	**47,185**	46,551
Provision for loan losses	**2,500**	-
Net interest income after provision for loan losses	**44,685**	46,551
Noninterest income:		
Service charges	**2,429**	3,208
Fees	**8,082**	6,909
Rental income	**1,287**	1,458
Foreign income	**1,113**	961
Net realized gains on sales of assets and market adjustment on equity securities	**2,150**	2,773
Total noninterest income	**15,061**	15,309
Noninterest expense:		
Salaries and employee benefits	**21,673**	21,688
Occupancy and equipment expenses	**5,803**	5,994
Other operating expenses	**8,692**	8,862
Total noninterest expense	**36,168**	36,544
Income before income taxes	**23,578**	25,316
Income tax expense	**4,511**	5,119
Net income	**$ 19,067**	$ 20,197

Notes to the consolidated financial statements form an integral part of these statements.

Falcon Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Net income	$ 19,067	$ 20,197
Other items of comprehensive income:		
Unrealized holding gain on securities available for sale arising during the period	4,113	2,912
Less: reclassification adjustment for gains included in net income	(175)	-
Total other items of comprehensive income	3,938	2,912
Comprehensive income before income tax expense	23,005	23,109
Income tax expense related to other items of comprehensive income	827	612
Comprehensive income after income tax expense	$ 22,178	$ 22,497

Notes to the consolidated financial statements form an integral part of these statements.

Falcon Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2018	$ 138	$ 8,368	$ 122,886	$ (2,059)	$ (372)	$ 128,961
Net income – year ended December 31, 2019	-	-	20,197	-	-	20,197
Purchase of treasury stock	-	-	-	-	(161)	(161)
Treasury stock sold	-	22	-	-	49	71
Cash dividends declared	-	-	(3,025)	-	-	(3,025)
Effect of adoption of ASU 2016-01 on equity securities accounting	-	-	(365)	365	-	-
Change in other comprehensive income – net of tax	-	-	-	1,935	-	1,935
Balance at December 31, 2019	$ 138	$ 8,390	$ 139,693	$ 241	$ (484)	$ 147,978
Net income – year ended December 31, 2020	-	-	19,067	-	-	19,067
Purchase of treasury stock	-	-	-	-	(98)	(98)
Treasury stock sold	-	46	-	-	69	115
Cash dividends declared	-	-	(2,474)	-	-	(2,474)
Change in other comprehensive income – net of tax	-	-	-	3,111	-	3,111
Balance at December 31, 2020	**$ 138**	**$ 8,436**	**$ 156,286**	**$ 3,352**	**$ (513)**	**$ 167,699**

Notes to the consolidated financial statements form an integral part of these statements.

Falcon Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2020 and 2019
(Dollars in Thousands)
Increase (Decrease) in Cash and Cash Equivalents

	2020	2019
Cash Flows From Operating Activities		
Net income	$ 19,067	$ 20,197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,239	2,147
Gain on sale of bank premises and equipment	-	(2)
Premium amortization and discount accretion of securities, net	1,281	198
Provision for loan losses	2,500	-
Net realized gains on sales of securities available for sale, and foreclosed assets	(2,279)	(2,676)
Write-downs on foreclosed assets	394	266
Market adjustment on equity securities	(265)	(361)
Deferred income tax expense (benefit)	(520)	255
Increase (decrease) in cash surrender value of life insurance	1,594	(480)
Net change in:		
Accrued interest receivable	(1,335)	(508)
Prepaid expenses and other assets	1,040	(539)
Accrued interest payable and other liabilities	(2,600)	1,133
Net cash provided by operating activities	21,116	19,630
Cash Flows From Investing Activities		
Net change in:		
Loans	(75,457)	(51,309)
Interest-bearing time deposits in banks	2,049	(5,236)
Proceeds from sales of securities available for sale	63,992	0
Recoveries of loans previously charged off	409	510
Proceeds from payments and maturities of investment securities	93,130	125,969
Purchases of investment securities	(249,119)	(240,716)
Capital expenditures	(2,503)	(2,559)
Proceeds from sales of bank premises and equipment and other assets	-	2
Proceeds from sales of foreclosed assets	1,971	3,071
Net cash used in investing activities	(165,528)	(170,268)
Cash Flows From Financing Activities		
Net change in deposits	251,937	124,015
Purchase of treasury stock	(98)	(161)
Sale of treasury stock	115	71
Repayment on Federal Home Loan Bank borrowings	(245)	(668)
Cash dividends paid	(2,474)	(3,025)
Net cash provided by financing activities	249,235	120,232
Net increase (decrease) in cash and cash equivalents	104,823	(30,406)
Cash and cash equivalents at beginning of year	123,348	153,754
Cash and cash equivalents at end of year	$ 228,171	$ 123,348
Schedules of Other Cash Flow Information		
Interest paid	$ 8,750	$ 9,585
Schedules of Noncash Activities		
Foreclosed assets financed by the Bank	$ 3,207	$ 1,092
Other real estate acquired by foreclosure on loans	$ 2,435	$ 702

Notes to the consolidated financial statements form an integral part of these statements.

1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Falcon Bancshares, Inc., its wholly owned subsidiary, Falcon International Bank (the "Bank"), and the Bank's wholly owned subsidiaries, Falconsure, Inc. and Falcon Outdoor Advertising, Inc. (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a variety of financial services to individuals and small businesses through its main bank and branches in the Texas cities of Laredo, San Antonio, McAllen, Del Rio, Buda, Eagle Pass, and Brownsville. Its primary deposit products are savings and term certificate accounts, and its primary lending products are real estate loans.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of foreclosed assets.

ASU 2016-02, *Leases* - The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for non-public business entities in fiscal years beginning after December 15, 2021 and interim periods with fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

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

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Webb, Bexar, Hidalgo, Val Verde, Hays, Maverick, and Cameron Counties and their surrounding areas, including the border region of Mexico. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations in any one industry or customer. Commercial real estate; including land development, vacant land, and other construction loans; represented 69% of the total loan portfolio as December 31, 2020 and 2019, respectively.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of related deferred taxes. During the years ended December 31, 2020 and 2019, the Company had no securities classified as trading securities or held to maturity.

Equity securities with readily determinable fair value are carried at fair value, with changes in fair value reported in net income.

Purchase premiums are recognized in interest income using interest method to first call date. Discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to, (1) the length of time and the extent to which the fair value has been less than the amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions; and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

Restricted Investment Security

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

Loans

The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans within Webb, Bexar, Hidalgo, Val Verde, Hays, Maverick, and Cameron Counties. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

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

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

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

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal adjusted for any charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Loan origination fees are recognized as income and loan origination costs are expensed as incurred, as management has determined that capitalization of these items would be immaterial to the consolidated financial statements.

A loan is considered delinquent when principal and/or interest amounts are not current, in accordance with the contractual loan agreement.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all 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 shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, if the loan is collateral-dependent.

Loans are fully or partially charged down to the fair value of the collateral securing the loan, less estimated costs to sell, when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy, or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance, or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for Loan Losses
The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with Accounting Standards Codification ("ASC"), *Receivables*, and ASC, *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools, and specific loss allocations, with adjustments for current events and conditions.

The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations, and loan quality trends, including trends in nonaccrual, past-due, and classified loans; current period loan charge-offs; and recoveries. The determination also includes qualitative aspects, such as changes in local, regional, or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement. The Company has an internal loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade, and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with the ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with the ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is recognized on the straight-line method over the estimated useful lives of the assets which range from 5 to 39 years. Depreciation on leasehold improvements is recognized on the straight-line method over the shorter of the related lease term or the estimated useful lives of the assets.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Expenses from operations and changes in the valuation allowance are included in other operating expenses.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

The Company is subject to the Texas gross margin tax.

Off-Balance Sheet Credit-Related Financial Instruments

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

Cash and Cash Equivalents
For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing), and federal funds sold. The Company maintains its cash in bank deposit accounts which, at times may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At December 31, 2020 and 2019, the Company had approximately $201.0 and $44.3 million in excess of FDIC insured limits, respectively. The Company has not experienced any losses in such accounts.

Interest-Bearing Time Deposits in Banks
Interest-bearing time deposits in banks are carried at cost and mature in 2020.

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

Subsequent Events
The Company has evaluated subsequent events through April 9, 2021, the date the consolidated financial statements were available to be issued.

Reclassifications
Certain amounts have been reclassified from prior presentation at December 31, 2019 to conform to classifications at December 31, 2020. There is no effect on previously reported net income or retained earnings.

2. Fair Value Measurements

The Company follows the provisions of the ASC, *Fair Value Measurements and Disclosures.* The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a “class” basis rather than a major category basis for assets and liabilities; and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

- Level 2 – Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities.

Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

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

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

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

	Total Fair Value Measurement at December 31, 2020	Level 1	Level 2	Level 3
Assets:				
United States government agency securities	**$ 10,008**	**$ -**	**$ 10,008**	**$ -**
Mortgage-backed securities	**270,513**	**-**	**270,513**	**-**
Municipals	**25,654**	**-**	**25,654**	**-**
Other equity investments	**24,762**	**24,762**	**-**	**-**
	$ 330,937	**$ 24,762**	**$ 306,175**	**$ -**

	Total Fair Value Measurement at December 31, 2019	Level 1	Level 2	Level 3
Assets:				
United States government agency securities	$ 12,631	$ -	$ 12,631	$ -
Mortgage-backed securities	209,721	-	209,721	-
Other equity investments	13,495	13,495	-	-
	$ 235,847	$ 13,495	$ 222,352	$ -

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

Foreclosed Assets

Foreclosed assets consist mainly of other real estate owned, but may include other types of assets repossessed by the Company. Foreclosed assets are adjusted to the lower of carrying value or fair value less the cost of disposal upon transfer of the loans to foreclosed assets. Fair value is generally based upon independent market prices or appraised values of the collateral.

Impaired Loans

The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with ASC Topic 310. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral, less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

There were no impaired loans that were measured at fair value as of December 31, 2020 or 2019.

The following table summarizes assets with fair value changes during the years ended December 31, 2020 and 2019 that are measured at fair value by class on a nonrecurring basis, as follows (dollars in thousands):

	Total Fair Value Measurement at December 31, 2020	Level 1	Level 2	Level 3
Assets:				
Foreclosed assets	$ **2,105**	$ -	$ -	$ **2,105**

	Total Fair Value Measurement at December 31, 2019	Level 1	Level 2	Level 3
Assets:				
Foreclosed assets	$ **3,603**	$ -	$ -	$ **3,603**

Write-downs during the year ended December 31, 2020 related to the above foreclosed assets totaled $394 thousand and are included in other operating expenses in the consolidated statements of income ($266 thousand in 2019).

3. Restrictions on Cash and Amounts Due From Banks

Effective on March 26, 2020, the Board of Governors of the Federal Reserve System reduced the reserve requirement ratios to 0%. This action eliminated reserve requirements for all depository institutions. Prior to this decision, depository institutions were required by law to maintain reserves against their transaction deposits. At December 31, 2019, the required reserve balance was $40 million.

4. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2020				
United States government agency securities	$ 10,000	$ 8	$ -	$ 10,008
Mortgage-backed securities	266,582	4,776	845	270,513
Municipals	25,350	306	2	25,654
Total debt securities	$ 301,932	$ 5,090	$ 847	$ 306,175

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2019				
United States government agency securities	$ 12,597	$ 34	$ -	$ 12,631
Mortgage-backed securities	209,450	930	659	209,721
Total debt securities	$ 222,047	$ 964	$ 659	$ 222,352

Investment securities carried at $109.2 and $88.8 million at December 31, 2020 and 2019, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

The fair value of debt securities by contractual maturity at December 31, 2020 were as follows (dollars in thousands):

	Amortized Cost	Fair Value
Securities available for sale:		
Within one year	$ 10,000	$ 10,008
	10,000	10,008
Mortgage-backed securities	266,582	270,513
Municipals	25,350	25,654
	$ 301,932	$ 306,175

For the year ended December 31, 2020 there were sales of securities with a gross realized gains of $231 thousand and gross realized losses of $56 thousand. There were no sales of securities in December 31, 2019 therefore, no gross realized gains or losses.

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, are as follows (dollars in thousands):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale at December 31, 2020						
United States government agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securites	**134,658**	**842**	**1,721**	**3**	**136,379**	**845**
Municipals	**1,107**	**2**	-	-	**1,107**	**2**
	$ 135,765	**$ 844**	**$ 1,721**	**$ 3**	**$ 137,486**	**$ 847**
Securities Available for Sale at December 31, 2019						
United States government agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securites	**15,008**	**156**	**85,026**	**503**	**100,034**	**659**
	$ 15,008	$ 156	$ 85,026	$ 503	$ 100,034	$ 659

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2020 and 2019, the Company did not have any securities with other-than-temporary impairment.

At December 31, 2020 there are 19 securities with unrealized losses (21 in 2019). The Company believes the unrealized loss position in securities is temporary, as the Company intends to hold these securities until maturity, at which time the investments are expected to pay face value. In addition, the Company does not believe there to be any deterioration in the credit quality of the securities that would indicate other-than-temporary impairment, but rather, the unrealized losses are consistent with changes in market interest rates over the past year and are considered temporary. As of December 31, 2020 and 2019, the Company did not have any securities with other-than-temporary impairment.

5. Loans and Allowance for Loan Losses

The components of loans in the consolidated balance sheets were as follows (dollars in thousands):

	December 31, 2020	December 31, 2019
Real estate:		
Commercial	**$ 457,784**	$ 445,758
Residential	**113,932**	111,437
Land development, vacant land, and other construction	**181,511**	139,705
Commercial	**139,944**	115,290
Consumer	**19,512**	25,485
Other	**11,512**	10,650
	924,195	848,325
Allowance for loan losses	**12,896**	10,346
	$ 911,299	$ 837,979

During the year ending December 31, 2020 the Company did not purchase any significant amount of loans from other nonrelated banks. In 2019, the Company purchased loans from other nonrelated banks totaling $15 million. During the years ended December 31, 2020 and 2019, the Company did not sell any significant amount of loans to other nonrelated banks.

The Coronavirus Aid, Relief and Economic Security (CARES) Act created funding for the Small Business Administration's SBA loan program providing forgiveness of up to the full principal amount of qualifying loans guaranteed under the new program called the Paycheck Protection Program (PPP). The intent of the PPP is to provide loans to small businesses in order to keep their employees on the payroll and make certain other eligible payments. Loans granted under the PPP are guaranteed by the SBA and are fully forgivable if used for qualifying expenses, such as payroll, rent and utilities. If the loans are not forgiven, they must be repaid over a term not to exceed five years. Under the PPP, through December 31, 2020, the Company funded $25.5 million in loans to more than 363 borrowers and deferred approximately $186.9 thousand of SBA processing fees that will be recognized as interest income over the term of the loans. As of December 31, 2020, $22.9 million of principal remained outstanding of these PPP loans.

As part of its on-going monitoring of the credit quality of the Company's loan portfolio, management assigns risk grades to loans as follows:

- ***Pass*** – loans to borrowers with acceptable credit quality and risk.

- ***Pass/Watch*** – loans to borrowers having potential weaknesses that deserve management's close attention, which, if left uncorrected, will likely result in the asset becoming inadequately protected. A loan can be rated as "Pass/Watch" even though the performance is adequate.

- ***Substandard*** – loans to borrowers with well-defined credit quality weaknesses, which make payment default or principal exposure possible, but not yet certain. Such loans are individually evaluated for a specific valuation allowance.

- ***Doubtful*** – loans to borrowers in which payment default or principal exposure is probable. Such loans are individually evaluated for a specific valuation allowance.

At December 31, 2020 and 2019, the Company's loan portfolio risk grades by loan segment were as follows (dollars in thousands):

	Pass	Pass/ Watch	Substandard	Doubtful	Total Loans
December 31, 2020					
Real estate:					
Commercial	**$ 395,040**	**$ 44,950**	**$ 17,794**	**$ -**	**$ 457,784**
Residential	**112,426**	**127**	**1,379**	**-**	**113,932**
Land development, vacant land, and other construction	**174,143**	**1,240**	**6,128**	**-**	**181,511**
Commercial	**139,868**	**-**	**76**	**-**	**139,944**
Consumer	**19,512**	**-**	**-**	**-**	**19,512**
Other	**11,512**	**-**	**-**	**-**	**11,512**
	$ 852,501	**$ 46,317**	**$ 25,377**	**$ -**	**$ 924,195**
December 31, 2019					
Real estate:					
Commercial	$ 395,444	$ 30,059	$ 20,255	$ -	$ 445,758
Residential	108,038	-	3,399	-	111,437
Land development, vacant land, and other construction	136,152	2,938	615	-	139,705
Commercial	115,190	-	100	-	115,290
Consumer	25,485	-	-	-	25,485
Other	10,650	-	-	-	10,650
	$ 790,959	$ 32,997	$ 24,369	$ -	$ 848,325

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2020 and 2019 is as follows (dollars in thousands):

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
December 31, 2020						
Real estate:						
Commercial	**$ 378**	**$ 697**	**$ 1,075**	**$ 456,709**	**$ 457,784**	**$ -**
Residential	**746**	**94**	**840**	**113,092**	**113,932**	**-**
Land development, vacant land, and other construction	**-**	**-**	**-**	**181,511**	**181,511**	**-**
Commercial	**14**	**70**	**84**	**139,860**	**139,944**	**-**
Consumer	**118**	**18**	**136**	**19,376**	**19,512**	**18**
Other	**20**	**3**	**23**	**11,489**	**11,512**	**3**
	$ 1,276	**$ 882**	**$ 2,158**	**$ 922,037**	**$ 924,195**	**$ 21**
December 31, 2019						
Real estate:						
Commercial	$ 3,098	$ -	$ 3,098	$ 442,660	$ 445,758	$ -
Residential	1,245	151	1,396	110,041	111,437	-
Land development, vacant land, and other construction	257	-	257	139,448	139,705	-
Commercial	293	35	328	114,962	115,290	-
Consumer	296	20	316	25,169	25,485	20
Other	21	3	24	10,626	10,650	2
	$ 5,210	$ 209	$ 5,419	$ 842,906	$ 848,325	$ 22

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2020 and 2019 is as follows (dollars in thousands):

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
December 31, 2020					
Real estate:					
Commercial	**$ 17,433**	**$ -**	**$ 17,433**	**$ -**	**$ 12,101**
Residential	**857**	**-**	**857**	**-**	**1,076**
Land development, vacant land, and other construction	**888**	**-**	**888**	**-**	**1,068**
Commercial	**77**	**-**	**77**	**-**	**92**
Consumer	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**
	$ 19,255	**$ -**	**$ 19,255**	**$ -**	**$ 14,337**
December 31, 2019					
Real estate:					
Commercial	$ 6,768	$ -	$ 6,768	$ -	$ 7,362
Residential	1,294	-	1,294	-	1,797
Land development, vacant land, and other construction	1,248	-	1,248	-	841
Commercial	95	13	108	13	63
Consumer	-	-	-	-	-
Other	-	-	-	-	-
	$ 9,405	$ 13	$ 9,418	$ 13	$ 10,063

During the years ended December 31, 2020 and 2019, the Company recognized no interest income on impaired and nonaccrual loans.

Included in the impaired loan table above are loans totaling $18.4 million and $8.8 million at December 31, 2020 and 2019, respectively, that have been modified in a troubled debt restructuring (“TDR”), of which $18 million are considered performing TDRs and $410 thousand are past due and on nonaccrual at December 31, 2020 ($7.1 million are considered performing and $1.7 million are considered past due and on nonaccrual in 2019) and mainly consist of other construction, land development, and other land loans. There are no specific reserves related to these loans at December 31, 2020 and 2019. These loans are generally modified by allowing the borrower concessions that delay the payment of principal or interest beyond contractual requirements, but not the forgiveness of either principal or interest.

In 2020, the Company elected to work with borrowers impacted by COVID-19 by providing temporary payment modifications. If certain conditions are met, these modifications are excluded from classification as a troubled debt restructuring under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of

December 31, 2020, the outstanding balance of loans modified under Section 4013 of the CARES Act was $27.7 million.

The Bank has evaluated any possible impairment loss on such loans consistent with its accounting for impaired loans and recognized such loss through a charge-off to the allowance for loan loss account.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2020 and 2019 were as follows (dollars in thousands):

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Year Ended December 31, 2020							
Balance at beginning of year	**$ 5,794**	**$ 1,451**	**$ 2,022**	**$ 686**	**$ 351**	**$ 42**	**$ 10,346**
Provision (credit) for loan losses	**1,009**	**345**	**1,203**	**(81)**	**22**	**2**	**2,500**
Charge-offs	**-**	**-**	**-**	**(63)**	**(296)**	**-**	**(359)**
Recoveries	**3**	**3**	**-**	**239**	**164**	**-**	**409**
Net (charge-offs) recoveries	**3**	**3**	**-**	**176**	**(132)**	**-**	**50**
Balance at end of year	**$ 6,806**	**$ 1,799**	**$ 3,225**	**$ 781**	**$ 241**	**$ 44**	**$ 12,896**
Allocation:							
Individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Collectively evaluated for impairment	**$ 6,806**	**$ 1,799**	**$ 3,225**	**$ 781**	**$ 241**	**$ 44**	**$ 12,896**

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Year Ended December 31, 2019							
Balance at beginning of year	$ 5,567	$ 1,664	$ 2,265	$ 625	$ 189	$ 4	$ 10,314
Provision (credit) for loan losses	202	(216)	(256)	(266)	498	38	-
Charge-offs	-	-	(10)	(55)	(413)	-	(478)
Recoveries	25	3	23	382	77	-	510
Net (charge-offs) recoveries	25	3	13	327	(336)	-	32
Balance at end of year	$ 5,794	$ 1,451	$ 2,022	$ 686	$ 351	$ 42	$ 10,346
Allocation:							
Individually evaluated for impairment	$ -	$ -	$ -	$ 13	$ -	$ -	$ 13
Collectively evaluated for impairment	$ 5,794	$ 1,451	$ 2,022	$ 673	$ 351	$ 42	$ 10,333

During the year ended December 31, 2020, the Company did not implement any significant changes to its allowance for loan loss methodology.

The Company's recorded investment in loans as of December 31, 2020 and 2019 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows:

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Years Ended December 31, 2020							
Loans individually evaluated for impairment	**$ 17,433**	**$ 857**	**$ 888**	**$ 77**	**$ -**	**$ -**	**$ 19,255**
Loans collectively evaluated for impairment	**440,351**	**113,074**	**180,623**	**139,868**	**19,512**	**11,512**	**904,940**
Ending balance	**$ 457,784**	**$ 113,931**	**$ 181,511**	**$ 139,945**	**$ 19,512**	**$ 11,512**	**$ 924,195**

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Years Ended December 31, 2019							
Loans individually evaluated for impairment	$ 6,768	$ 1,294	$ 1,248	$ 108	$ -	$ -	$ 9,418
Loans collectively evaluated for impairment	438,990	110,143	138,457	115,182	25,485	10,650	838,907
Ending balance	$ 445,758	$ 111,437	$ 139,705	$ 115,290	$ 25,485	$ 10,650	$ 848,325

6. Premises and Equipment

Components of premises and equipment included in the consolidated balance sheets were as follows (dollars in thousands):

	December 31, 2020	December 31, 2019
Land	**$ 21,426**	$ 21,426
Equipment and furniture	**15,124**	14,152
Building	**36,262**	34,811
Building improvements	**4,121**	3,888
Leasehold improvements	**1,088**	1,076
Computer software	**2,839**	2,680
Construction in progress	**504**	838
	81,364	78,871
Less accumulated depreciation	**29,430**	27,200
	$ 51,934	$ 51,671

Depreciation expense for the years ended December 31, 2020 and 2019 totaled $2.2 and $2.1 million respectively.

The Company has several noncancellable lease agreements in effect at December 31, 2020 and 2019 pertaining to Company premises. The operating leases vary from a one-year term to a five-year term with an option for additional years.

In 2012, the Bank also entered into additional lease agreements that included its wholly owned subsidiary, Falcon Outdoor Advertising, Inc. These lease agreements were obtained for the sole purpose of erecting, placing, and maintaining outdoor advertising sign structures on specified premises. The initial terms of the leases are five years, and each automatically renews for successive like terms unless terminated.

The future minimum rental commitments under these leases are as follows (dollars in thousands):

Year ending December 31,	
2021	$ 284
2022	227
2023	224
2024	19
	$ 754

Rental expense for the years ended December 31, 2020 and 2019 totaled $350 and $338 thousand, respectively.

7. Deposits

The following table summarizes total deposits by type as of December 31, 2020 and 2019. (dollars in thousands):

	December 31, 2020	December 31, 2019
Demand	**$ 393,793**	$ 292,188
Now & Savings	**499,021**	368,547
Money Market	**98,055**	82,936
Certificates of Deposit	**386,136**	381,397
	$ 1,377,005	$ 1,125,068

The aggregate amount of certificates of deposit ("CDs") in denominations of $250 thousand or more was approximately $212 million at December 31, 2020.

At December 31, 2020, the scheduled maturities of CDs are as follows (dollars in thousands):

Year ending December 31,	
2021	$ 324,819
2022	27,745
2023	32,671
2024	420
2025	481
	$ 386,136

Included in total deposits on the consolidated balance sheets are $332.3 million and $317.3 million of foreign deposits at December 31, 2020 and 2019, respectively.

At December 31, 2020, the Bank held deposits for two customers totaling $267.1 million, or approximately 19.4% of total deposits ($188 million, or 16.7% of total deposits in 2019).

8. Federal Home Loan Bank Borrowings

The Bank executed fixed rate long-term borrowings with the Federal Home Loan Bank ("FHLB") of Dallas. Advances are received pursuant to a collateral pledge and security agreements giving FHLB a lien in certain of the Bank's loans, including 1-4 family mortgage loans; multifamily mortgage loans; home equity loans; and other commercial real estate loans with a carrying value of approximately $14.2 million at December 31, 2020 ($15.7 million in 2019). Repayments in 2020 and 2019 totaled $245 thousand and $668 thousand, respectively.

FHLB borrowings totaled $1.6 million at December 31, 2020 ($1.9 million in 2019). Advances on the debt were made with a rate of 1.93%.

The contractual maturities of FHLB borrowings are as follows (dollars in thousands):

Year ending December 31,	
2021	$ 149
2022	1,463
	$ 1,612

At December 31, 2020, the Bank had been issued $270 million in standby letters of credit from FHLB ($180 million in 2019). These letters of credit expired in January 2021 and are renewed monthly as needed. There were no funds advanced on these letters of credit during 2020 and 2019. The letters of credit are secured by the same collateral as the long-term borrowings indicated above. The FHLB letters of credit were obtained to secure public fund deposits that are over the FDIC insurance limit.

9. Junior Subordinated Debentures

On March 28, 2003, the Company established the Falcon Capital Trust I ("Trust I") with capital of $310 thousand. Trust I issued $10.0 million in Floating Capital Securities ("Trust Preferred Securities") to private market investors. The Trust Preferred Securities bear interest at a floating rate equal to the three-month LIBOR, plus 3.25%. The Trust Preferred Securities mature and are payable on April 24, 2033.

On May 23, 2005, the Company established the Falcon Capital Trust II ("Trust II") with capital of $155 thousand. Trust II issued $5.0 million in Trust Preferred Securities to private market investors. The Trust Preferred Securities bear interest at a floating rate equal to the three-month LIBOR, plus 1.90%. The Trust Preferred Securities mature and are payable on August 23, 2035.

The Company issued the Trust Preferred Securities as a method of increasing regulatory capital. Trust Preferred Securities are includable in regulatory capital, with certain limitations.

The Company entered into guarantee agreements to pay in full investors of the Trust Preferred Securities.

In connection with the transactions, the Company issued Floating Rate Junior Subordinated Deferrable Interest Debentures ("Debentures") to Trust I for $10.3 million and to Trust II for $5.1 million with interest and maturity terms identical to the Trust Preferred Securities.

The Company incurred issuance costs of $300 thousand for Trust I and $155 thousand for Trust II, which have been capitalized and are being amortized over the term of the Trust Preferred Securities.

In accordance with the ASC, the Trusts are not consolidated in the accompanying consolidated financial statements. Instead, the investments in the Trust are included in "prepaid expenses and other assets" and the Debentures are shown as "junior subordinated debentures" on the consolidated balances sheets. Interest expense on the Debentures is reported in the consolidated statements of income.

10. Federal Income Taxes

The provision (benefit) for federal income taxes consists of and represents the tax effect of the following (dollars in thousands):

	Years Ended December 31,	
	2020	2019
Currently paid or payable	**$ 5,031**	$ 4,864
Deferred income tax expense (benefit)	**(520)**	255
	$ 4,511	$ 5,119

The provision (benefit) for federal income tax differs from the amount which would be provided by applying the statutory federal income tax rates as indicated in the following analysis (dollars in thousands):

	Years Ended December 31,	
	2020	2019
Computed at the expected statutory rate of 21%	**$ 4,947**	$ 5,311
Effect of tax-exempt income	**(646)**	(150)
Interest and other nondeductible expenses	**58**	56
Other	**152**	(98)
	$ 4,511	$ 5,119

Cash paid for federal income taxes was $4.6 million for the year ended December 31, 2020 ($4.8 million for 2019).

Management believes it is more likely than not the full tax benefit of deferred tax assets will be realized; therefore no valuation allowance was and considered necessary at December 31, 2020 and 2019. The tax effects of temporary differences that give rise to the significant portions of deferred tax assets and deferred tax liabilities are presented below (dollars in thousands):

	December 31,	
	2020	2019
Deferred tax assets related to:		
Allowance for loan losses	**$ 2,724**	$ 2,170
Nonaccrual loan interest	**56**	100
Foreclosed assets	**69**	149
Accrued compensation	**7**	48
Total deferred tax assets	**2,856**	**2,467**
Deferred tax liabilities related to:		
Depreciation	**(1,247)**	(1,287)
Prepaid expenses	**(171)**	(217)
Deferred gain on sale of other real estate	**(350)**	(350)
Net unrealized appreciation on securities available for sale	**(891)**	(63)
Other	**(33)**	(78)
Total deferred tax liabilities	**(2,692)**	**(1,995)**
Net deferred tax asset	**$ 164**	$ **472**

11. Off-Balance Sheet Activities

Credit-Related Financial Instruments

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unfunded commitments under lines of credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

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

The following financial instruments, whose contract amounts represent credit risk, were outstanding (dollars in thousands):

	Contract Amount	
	December 31,	
	2020	2019
Unfunded commitments under lines of credit	**$ 132,042**	$ 125,901
Unfunded commitments under credit card arrangements	**2,301**	2,442
Commitments to extend credit	**35,436**	33,238
Commercial and standby letters of credit	**1,355**	2,382

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

Unfunded commitments under lines of credit include revolving credit lines, straight credit lines, interim construction loans, and overdraft protection agreements, which are commitments for possible future extensions of credit to existing customers. These lines of credit may not be drawn upon to the total extent to which the Company is committed.

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

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

12. Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. Loans from related parties granted by the Company totaled $18.7 and $18.2 million at December 31, 2020 and 2019, respectively.

Deposits from related parties held by the Company totaled $41 and $21.6 million at December 31, 2020 and 2019, respectively.

13. Employee Benefits

The Company has a 401(k) plan (the "Plan") designed to benefit substantially all its employees. Annual matching and profit sharing contributions are at the Company's discretion and are determined by the Board of Directors each year. For the year ended December 31, 2020, the Company's expense under the plan was $84 thousand ($224 thousand in 2019). On May 2020 matching contributions were temporarily suspended due to the economic hardships caused by the Covid-19 pandemic.

The Company has adopted a partially self-funded medical insurance plan for its full-time employees that is administered by a third party. Included in accrued interest payable and other liabilities is an accrual of $55 and $227 thousand at December 31, 2020 and 2019, respectively. During 2020, there were premiums collected of $4.3 million ($3.3 million in 2019) and payments of $4.5 million ($3.1 million in 2019). The Bank also has stop-loss insurance for additional coverage.

The Company has purchased life insurance policies for certain officers in an effort to offset benefit costs and obligations, including health insurance. These policies had an aggregate cash surrender value of $15.9 million at December 31, 2020 ($17.5 million at 2019).

14. Legal Contingencies

The Company is party to litigation arising in the normal course of business. Management, after consultation with legal counsel, believes the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

15. Capital and Regulatory Matters

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

The Basel III capital rules became effective for the Bank on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital to Risk-Weighted Assets, and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, FIB elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

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

The following table presents actual and required capital ratios as of December 31, 2020 for FIB under the Basel III capital rules. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

	Actual		Minimum Required to be Adequately Capitalized		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
Common Equity Tier 1 Capital to Risk-Weighted Assets						
FIB	**$178,872**	**17.9%**	**$69,900**	**7.0%**	**$64,907**	**6.5%**
Tier 1 Capital to Risk-Weighted Assets						
FIB	**$178,872**	**17.9%**	**$84,878**	**8.5%**	**$79,886**	**8.0%**
Total Capital to Risk-Weighted Assets						
FIB	**$191,359**	**19.2%**	**$104,850**	**10.5%**	**$99,857**	**10.0%**
Tier 1 Capital to Average Assets						
FIB	**$178,872**	**11.8%**	**$60,639**	**4.0%**	**$75,799**	**5.0%**

The following table presents actual and required capital ratios as of December 31, 2018 for the Bank under regulatory capital rules then in effect:

	Actual		Minimum Required to be Adequately Capitalized		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Common Equity Tier 1 Capital to Risk-Weighted Assets						
FIB	**$162,220**	**18.2%**	**$62,393**	**7.0%**	**$57,937**	**6.5%**
Tier 1 Capital to Risk-Weighted Assets						
FIB	**$162,220**	**18.2%**	**$75,763**	**8.5%**	**$71,307**	**8.0%**
Total Capital to Risk-Weighted Assets						
FIB	**$172,566**	**19.4%**	**$93,590**	**10.5%**	**$89,133**	**10.0%**
Tier 1 Capital to Average Assets						
FIB	**$162,220**	**12.7%**	**$50,962**	**4.0%**	**$63,702**	**5.0%**