FR Y-6 Annual Report of Bank Holding Companies

Prepared for:
MESA FINANCIAL CORPORATION

P.O. Box 510
SWEETWATER, TEXAS 79556

December 31, 2020

Hamby & Hengeli LLC
2909 Sherwood Way, Suite 204
San Angelo, Texas 76901-3558
(325) 949-2567

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, Mike Fernandez
Name of the Holding Company Director and Official

President, Secretary and Treasurer
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.*

Mike Fernandez
Signature of Holding Company Director and Official

3·16·2021
Date of Signature

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. ________

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

Mesa Financial Corporation
Legal Title of Holding Company

PO Box 510
(Mailing Address of the Holding Company) Street / P.O. Box

Sweetwater	TX	79556
City	State	Zip Code

400 East Broadway, Sweetwater, TX 79556
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Robert L Hamby	CPA
Name	Title

325 949-2567
Area Code / Phone Number / Extension

325 949-2567
Area Code / FAX Number

Robert@hambyhengeli.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."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

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.

NONE
Legal Title of Subsidiary Holding Company

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

City | State | Zip Code

Physical Location (if different from mailing address)

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MESA FINANCIAL CORPORTATION
Sweetwater, Texas

Fiscal Year Ending December 31, 2020

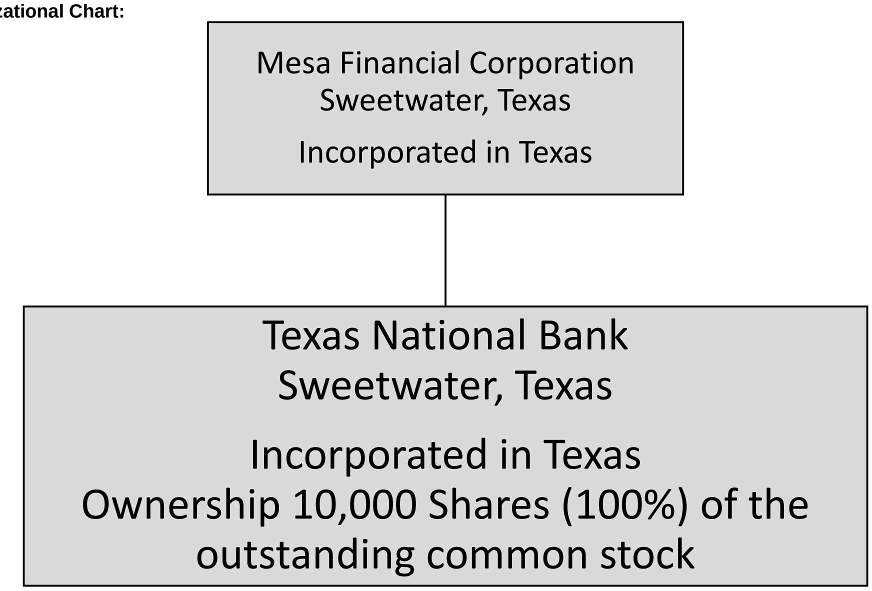
Report Item

Texas National Bank has a Legal Entity Identifier Number: 254900PZ1UVRMYRJ9O68
Mesa Financial Corporation does not have a Legal Entity Identifier Number

1 : a **The BHC is not registered with the SEC.**

1 : b **The BHC does prepare an annual report for its security holders and 1 copy is enclosed after Report item 4.**

2 : **Organizational Chart:**



2 : b **Domestic branch listing included in this report.**

Results: A list of branches for your depository institution: TEXAS NATIONAL BANK (ID_RSSD: 1435092).
This depository institution is held by MESA FINANCIAL CORPORATION (2299040) of SWEETWATER, 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	12/31/2020	Full Service (Head Office)	1435092	TEXAS NATIONAL BANK	400 E BROADWAY	SWEETWATER	TX	79556	NOLAN	UNITED STATES	Not Required	Not Required	TEXAS NATIONAL BANK	1435092	
OK	12/31/2020	Full Service	1427770	TUSCOLA BRANCH	533 GARZA AVENUE	TUSCOLA	TX	79562	TAYLOR	UNITED STATES	Not Required	Not Required	TEXAS NATIONAL BANK	1435092	

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MESA FINANCIAL CORPORATION
Sweetwater, Texas

Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year, or principal securities holders ending 12-31-2020		
(1)(a) Name & Address	**(1)(b) Country of Citizenship**	**(1)(c) Number and Percentage of Each Class of Voting Securities**	**(2)(a) Name & Address**	**(2)(b) Country of Citizenship**	**(2)(c) Number and Percentage of Each Class of Voting Securities**
Bill Johnson Sweetwater, Texas	USA	19,788 shares--23.43% Common Stock	n/a	n/a	n/a
James M. Johnson Hamlin, Texas	USA	19,684 shares--23.31% Common Stock	n/a	n/a	n/a
Margaret A. Scharlach Little Elm, Texas	USA	19,684 shares--23.31% Common Stock	n/a	n/a	n/a
Amy Catherine Snell Leander, Texas	USA	19,684 shares--23.31% Common Stock	n/a	n/a	n/a

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MESA FINANCIAL CORPORATION
Sweetwater, Texas
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1) Names & Address	(2) Principal Occupation	(3)(a) Title & Position with BHC	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with Other Businesses	(4)(a) Percentage of Voting Securities in BHC	(4)(b) Percentage of Voting Securities in Subsidiaries	(4)(c) Names of other companies 25% or more of voting securities are held
Bill Johnson Sweetwater, Texas	N/A	Director, Chairman	Director, Chairman, CEO and COB Texas National Bank	N/A	23.43%	None Texas National Bank	JHRM Resources, LLC 25.00%
James M. Johnson Hamlin, Texas	Farmer and Rancher	Director	Director Texas National Bank	Owner James Johnson Partner Johnson & Johnson	23.31%	None Texas National Bank	Johnson & Johnson 100%
Margaret A. Schariach Little Elm, Texas	Retired Teacher	Director	Director Texas National Bank	None	23.31%	None Texas National Bank	None
Amy Catherine Snell Leander, Texas	None	Principal Securities Holder	None Texas National Bank	None	23.31%	None Texas National Bank	None
Mike Fernandez Abilene, Texas	N/A	President, Secretary and Treasurer	Director, President Texas National Bank	None	1.01%	None Texas National Bank	None
Lloyd F. Harris Sweetwater, Texas	Retired Banker	Director and Vice President	Director Texas National Bank	None	1.92%	None Texas National Bank	None
Joel Terry Tuscola, Texas	N/A	Director	Director and Tuscola Market President Texas National Bank	None	1.01%	None Texas National Bank	None
Chris Bibb Sweetwater, Texas	N/A	Director	Director and Senior Vice President Texas National Bank	None	0.79%	None Texas National Bank	None

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

**MESA FINANCIAL CORPORATION
AND SUBSIDIARY**

December 31, 2020 and 2019

MESA FINANCIAL CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

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HAMBY & HENGELI LLC
accountants and advisors

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mesa Financial Corporation
Sweetwater, Texas

We have audited the accompanying consolidated financial statements of Mesa Financial Corporation 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 Mesa Financial Corporation 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.

Hamby & Hengeli LLC

San Angelo, Texas
February 23, 2021

MESA FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	Years ended December 31, 2020	2019
ASSETS		
Cash and cash equivalents	$ 9,703,054	$ 10,371,104
Certificates of deposit in banks	11,526,000	13,267,000
Debt securities available for sale	86,810,976	79,357,031
Equity securities	52,562	52,562
Loans, net	39,942,162	35,270,736
Premises and equipment, net	2,000,523	2,149,599
Bank owned life insurance	2,900,048	2,827,947
Goodwill and other intangibles, net	727,733	774,983
Accrued interest receivable	928,118	886,113
Other assets	274,560	346,242
	$ 154,865,736	$ 145,303,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 44,671,744	$ 38,983,072
Interest-bearing	91,156,773	90,270,575
Total deposits	135,828,517	129,253,647
Accrued interest payable	10,261	20,783
Other liabilities	671,572	563,673
Total liabilities	136,510,350	129,838,103
Commitments (Notes E, H and J)		
Stockholders' equity		
Common stock - 1,000,000 shares, $1 par value stock authorized; 102,400 shares issued	102,400	102,400
Surplus	3,872,060	3,872,060
Treasury stock, at cost (17,960 shares)	(1,478,641)	(1,478,641)
Retained earnings	12,886,742	12,386,083
Accumulated other comprehensive income	2,972,825	583,312
Total stockholders' equity	18,355,386	15,465,214
	$ 154,865,736	$ 145,303,317

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

MESA FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED INCOME STATMENTS

	Years ended December 31, 2020	Years ended December 31, 2019
Interest income		
Loans, including fees	$ 2,332,577	$ 2,231,679
Debt securities		
Taxable	1,274,624	1,341,788
Tax-exempt	511,798	480,336
Other interest and dividends	371,398	572,457
Total interest income	4,490,397	4,626,260
Interest expense		
Deposits	334,008	772,796
Total interest expense	334,008	772,796
Provision for loan losses	110,000	50,000
Net interest income after provision for loan losses	4,046,389	3,803,464
Noninterest income		
Service charges on deposit accounts	315,186	425,410
Net gain (loss) on sale of assets[1]	(10,088)	21,749
Interchange income	320,917	302,013
Other income	111,377	115,567
Total noninterest income	737,392	864,739
Noninterest expense		
Salaries and employee benefits	2,130,364	1,992,212
Occupancy and equipment	521,587	497,968
Data processing	136,483	129,558
Regulatory fees and assessments	90,636	65,016
Other general and administrative	986,074	995,805
Total noninterest expense	3,865,144	3,680,559
NET INCOME	$ 918,637	$ 987,644

[1] Net gain (loss) on sale of assets includes accumulated other comprehensive income reclassifications for unrealized net gains (losses) on available for sale debt securities in the amount of $(12,282) for 2020 and $(2,480) for 2019.

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

MESA FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,	
	2020	2019
Net income	$ 918,637	$ 987,644
Other comprehensive income		
Gross unrealized gains on securities available for sale	2,377,231	2,431,324
Reclassification adjustment for losses realized in net income	12,282	2,480
Total other comprehensive income	2,389,513	2,433,804
TOTAL OTHER COMPREHENSIVE INCOME	$ 3,308,150	$ 3,421,448

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

MESA FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2020 and 2019

	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2018	$102,400	$3,872,060	$(1,478,641)	$11,951,521	$ (1,850,492)	$12,596,848
Net income	-	-	-	987,644	-	987,644
Other comprehensive income	-	-	-	-	2,433,804	2,433,804
Cash dividends paid	-	-	-	(553,082)	-	(553,082)
Balance at December 31, 2019	102,400	3,872,060	(1,478,641)	12,386,083	583,312	15,465,214
Net income	-	-	-	918,637	-	918,637
Other comprehensive income	-	-	-	-	2,389,513	2,389,513
Cash dividends paid	-	-	-	(417,978)	-	(417,978)
Balance at December 31, 2020	$102,400	$3,872,060	$(1,478,641)	$12,886,742	$ 2,972,825	$18,355,386

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

MESA FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2020	Years ended December 31, 2019
Cash flows from operating activities		
Net income	$ 918,637	$ 987,644
Adjustments to reconcile net income to cash provided by operating activities		
Net amortization of premium on investment securities	814,237	640,360
Loss on sale of investment securities	12,282	2,480
Provision for loan losses	110,000	50,000
Depreciation and amortization expense	220,021	221,481
Increase in cash surrender value of bank owned life insurance	(72,101)	(73,464)
Gain on sale of foreclosed real estate	(2,194)	(24,229)
Net change in:		
Accrued interest receivable and other assets	29,677	197,535
Accrued interest payable and other liabilities	97,377	(4,801)
Cash provided by operating activities	2,127,936	1,997,006
Cash flows from investing activities		
Proceeds from maturities, calls and paydowns of securities available for sale	19,948,835	9,257,980
Proceeds from sale of securities available for sale	1,920,498	2,278,560
Purchases of securities available for sale	(27,760,284)	(17,672,291)
Net change in certificates of deposits in banks	1,741,000	(744,000)
Loans originated, net of principal collections	(4,803,615)	(84,331)
Additions to premises and equipment	(23,695)	(220,352)
Proceeds from sales of foreclosed real estate	24,383	49,229
Cash used for investing activities	(8,952,878)	(7,135,205)
Cash flows from financing activities		
Net change in deposits	6,574,870	7,341,873
Cash dividends paid on common stock	(417,978)	(553,082)
Cash provided by financing activities	6,156,892	6,788,791
Net change in cash and cash equivalents	(668,050)	1,650,592
Cash and cash equivalents, beginning of year	10,371,104	8,720,512
Cash and cash equivalents, end of year	$ 9,703,054	$ 10,371,104
Supplemental disclosure of cash flow information		
Cash paid during the year for interest on deposits and borrowed funds	$ 344,530	$ 766,407
Supplemental disclosure of non-cash transactions		
Loan balances transferred to foreclosed real estate	$ 22,189	$ -

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 Mesa Financial Corporation 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

Mesa Financial Corporation is a bank holding company which owns 100% of the common stock of Texas National Bank ("the Bank"). The entities are collectively referred to as "the Company".

The accompanying consolidated financial statements include the consolidated totals of 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 Sweetwater and Tuscola, Texas. The Company also has a loan production office in Abilene, Texas. Their primary deposit products are checking, savings and term deposit accounts. Their primary lending products are real estate, commercial, agricultural and installment 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 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 Deposits 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. Debt securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

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

The Company maintains an investment in the capital stock of TIB – The Independent BankersBank. 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

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 deferred loan fees and costs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on 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. Loans are charged off at 120 days past due to the extent principal or interest is deemed uncollectible. 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 and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate and commercial loans principally in the Nolan and Taylor counties. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customer's ability to honor their contracts is dependent on the real estate and general economic conditions in the 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 uncollectability 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 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 substandard or doubtful; and the trends in the collateral on the loans included within these classifications.

The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Under GAAP, the unallocated portion of the allowance should be recaptured through income, however, the Bank believes that the unallocated portion is necessary to account for any margin of error resulting from the allowance calculation.

The following portfolio segments have been identified by management:

Real Estate

Real estate loans include the purchase or construction of both business and residential structures and for farming activities. 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.

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.

Foreclosed Real Estate

Foreclosed real estate, also known as Other Real Estate Owned (OREO), is 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. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

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.

Restricted 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. At December 31, 2020 and 2019, the Company had $222,700 in Federal Reserve Bank stock included in Other Assets. Both cash and stock dividends are reported as income.

Goodwill and Intangible Assets

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interest in the acquisition, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet. At December 31, 2020 and 2019, the Company had $676,545 in goodwill.

Intangible assets consist of the core deposit intangible of acquired deposits. These assets are amortized over their estimated useful life of 8 years. At December 31, 2020 and 2019, the Company had $51,188 and $98,438, respectively in core deposit intangible.

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.

Income Taxes

The Company, with the consent of its stockholders, elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company neither pays corporate income taxes on its taxable income nor is allowed a net operating loss carryover or carryback as a deduction. Instead, the stockholders of the Company include their respective shares of the Company's net operating income or loss in their individual income tax returns. Accordingly, no income taxes are reflected in the consolidated financial statements.

Because the Company's stockholders will be obligated to pay income taxes on the earnings of the Company, the Company expects to declare cash dividends sufficient to fund the stockholders' tax payments as they come due.

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 and supplemental retirement 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.

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 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.

Reclassification

Certain reclassifications have been made to the prior year financial statement amounts to conform to the current year presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through February 23, 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	$ 2,338,000
2022	2,979,000
2023	4,713,000
2024	498,000
2025	998,000
Thereafter	-
	$11,526,000

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. Agency	$ 3,914,735	$ 133,992	$ (8,751)	$ 4,039,976
Corporate Securities	5,524,134	153,651	(18,495)	5,659,290
Municipal Securities	32,011,746	1,499,309	(35,594)	33,475,461
Mortgage-backed	30,881,526	820,218	(111,868)	31,589,876
Agency CMOs	3,516,008	117,486	-	3,633,494
SBA Security Pools	7,990,002	423,560	(683)	8,412,879
	$ 83,838,151	$ 3,148,216	$ (175,391)	$ 86,810,976

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
U.S. Agency	$ 5,446,450	$ 57,865	$ (20,529)	$ 5,483,786
Corporate Securities	5,034,585	101,105	-	5,135,690
Municipal Securities	22,402,631	451,526	(38,627)	22,815,530
Mortgage-backed	33,044,488	153,096	(150,439)	33,047,145
Agency CMOs	4,142,648	5,788	(34,785)	4,113,651
SBA Security Pools	8,702,917	75,941	(17,629)	8,761,229
	$ 78,773,719	$ 845,321	$ (262,009)	$ 79,357,031

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	$ 1,756,029	$ 1,767,840
Due after one year through five years	12,416,725	12,992,830
Due after five years through ten years	10,102,498	10,440,762
Due after ten years	17,175,363	17,973,295
	41,450,615	43,174,727
Securities without fixed maturities	42,387,536	43,636,249
	$ 83,838,151	$ 86,810,976

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 $33,914,345 and $36,173,809 were pledged to secure public deposits, and for other purposes.

During 2020, there were no gross realized gains and gross realized losses of $(12,282) on the sale of investment securities. During 2019, there were gross realized gains of $35,383 and gross realized losses of $(37,863) on the sale of investment securities.

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 I Capital.

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				
U.S. Agency	$ 8,751	$ 1,006,790	$ -	$ -
Corporate Securities	18,495	1,981,505	-	-
Municipal Securities	35,594	2,215,735	-	-
Mortgage-backed	92,338	2,877,869	19,530	1,183,993
SBA Security Pools	-	-	683	24,630
	$ 155,178	$ 8,081,899	$ 20,213	$ 1,208,623

	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. Agency	$ 20,529	$ 996,290	$ -	$ -
Municipal Securities	18,443	2,056,167	20,184	2,371,666
Mortgage-backed	44,801	9,337,480	105,638	10,457,292
Agency CMOs	9,784	976,326	25,001	1,584,749
SBA Security Pools	13,345	2,139,354	4,284	304,992
	$ 106,902	$ 15,505,617	$ 155,107	$ 14,718,699

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	$ 19,628,547	$ 19,989,998
Commercial	12,002,383	8,311,875
Agricultural Production	6,400,120	5,161,385
Consumer and Other	2,469,631	2,219,767
	40,500,681	35,683,025
Net Deferred Loan (Fees) Costs	(52,685)	30,223
Allowance For Loan Losses	(505,834)	(442,512)
Total Loans	$ 39,942,162	$ 35,270,736

Transactions in the allowance for loan losses are as follows:

Year Ended December 31, 2020	Real Estate	Commercial	Agricultural Production	Consumer and Other	Unallocated	Total
Balance at December 31, 2019	$ 201,330	$ 123,431	$ 46,891	$ 39,697	$ 31,163	$ 442,512
Provision for loan losses	58,968	8,160	13,797	12,818	16,257	110,000
Charge-offs	(48,758)	-	-	-	-	(48,758)
Recoveries	-	800	-	1,280	-	2,080
Net (charge-offs) recoveries	(48,758)	800	-	1,280	-	(46,678)
Balance at December 31, 2020	$ 211,540	$ 132,391	$ 60,688	$ 53,795	$ 47,420	$ 505,834

Year Ended December 31, 2019	Real Estate	Commercial	Agricultural Production	Consumer and Other	Unallocated	Total
Balance at December 31, 2018	$ 162,982	$ 110,751	$ 62,590	$ 41,290	$ 12,579	$ 390,192
Provision for loan losses	38,348	12,519	(15,699)	(3,752)	18,584	50,000
Charge-offs	-	-	-	(1,213)	-	(1,213)
Recoveries	-	161	-	3,372	-	3,533
Net (charge-offs) recoveries	-	161	-	2,159	-	2,320
Balance at December 31, 2019	$ 201,330	$ 123,431	$ 46,891	$ 39,697	$ 31,163	$ 442,512

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	211,540	132,391	60,688	53,795	47,420	505,834
	$ 211,540	$ 132,391	$ 60,688	$ 53,795	$ 47,420	$ 505,834
Recorded Investment In:						
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	-	-	-	-	-
Total impaired loans	-	-	-	-	-	-
Unimpaired loans - evaluated collectively	19,628,547	12,002,383	6,400,120	2,469,631	-	40,500,681
	$ 19,628,547	$ 12,002,383	$ 6,400,120	$ 2,469,631	$ -	$ 40,500,681

	Year Ended December 31, 2019					
	Real Estate	Commercial	Agricultural Production	Consumer and Other	Unallocated	Total
Allocation of Allowance To:						
Impaired loans - evaluated individually	$ 32,280	$ -	$ -	$ -	$ -	$ 32,280
Impaired loans - evaluated collectively	-	-	-	-	-	-
Total impaired loans	32,280	-	-	-	-	32,280
Unimpaired loans - evaluated collectively	169,050	123,431	46,891	39,697	31,163	410,232
	$ 201,330	$ 123,431	$ 46,891	$ 39,697	$ 31,163	$ 442,512
Recorded Investment In:						
Impaired loans - evaluated individually	$ 62,936	$ -	$ -	$ 1,717	$ -	$ 64,653
Impaired loans - evaluated collectively	-	-	-	-	-	-
Total impaired loans	62,936	-	-	1,717	-	64,653
Unimpaired loans - evaluated collectively	19,927,062	8,311,875	5,161,385	2,218,050	-	35,618,372
	$ 19,989,998	$ 8,311,875	$ 5,161,385	$ 2,219,767	$ -	$ 35,683,025

Information relative to impaired loans is as follows:

	December 31, 2019				Year Ended December 31, 2019
	Recorded Investment In Impaired Loans With No Valuation Allowance	Recorded Investment In Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Average Impaired Loans
Real Estate	$ -	$ 62,936	$ 62,936	$ 32,280	$ 25,174
Commercial	-	-	-	-	-
Agricultural Production	-	-	-	-	-
Consumer and Other	1,717	-	1,717	-	2,686
Total Loans	$ 1,717	$ 62,936	$ 64,653	$ 32,280	$ 27,860

The Company did not have any impaired loans at December 31, 2020. Average impaired loans for the year ended December 31, 2020 was $12,930. There were no commitments to extend credit on impaired loans at December 31, 2020. The recorded investment in loans excludes accrued interest receivable and loan origination fees, net, due to immateriality. Interest income recognized on impaired loans was immaterial for the years ended December 31, 2020 and 2019.

At December 31, 2020 and 2019, the Company has a recorded investment in troubled debt restructurings of $-0- and $1,717, respectively. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for a new debt with similar risk; or a permanent reduction of the recorded investment in the loan. The Company did not allocate any amounts of the allowance to these loans.

Additionally, the Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferrals. 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 modified 25 loans consisting of mostly commercial and real estate loan types with outstanding balances of $1,295,742 at December 31, 2020.

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	$ 19,533,546	$ 95,001	$ -	$ -	$ 19,628,547
Commercial	12,002,383	-	-	-	12,002,383
Agricultural Production	6,296,120	104,000	-	-	6,400,120
Consumer and Other	2,469,631	-	-	-	2,469,631
Total	$ 40,301,680	$ 199,001	$ -	$ -	$ 40,500,681

	December 31, 2019				
		Accruing Loans			
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans
Real Estate	$ 19,892,076	$ 34,986	$ -	$ 62,936	$ 19,989,998
Commercial	8,290,189	21,686	-	-	8,311,875
Agricultural Production	5,161,385	-	-	-	5,161,385
Consumer and Other	2,219,767	-	-	-	2,219,767
Total	$ 35,563,417	$ 56,672	$ -	$ 62,936	$ 35,683,025

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.

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	Special Mention	Substandard	Doubtful	Total Loans
Real Estate	$ 18,862,141	$ 635,988	$ 130,418	$ -	$ 19,628,547
Commercial	11,720,268	249,329	32,786	-	12,002,383
Agricultural Production	5,956,255	388,357	55,508	-	6,400,120
Consumer and Other	2,469,631	-	-	-	2,469,631
Total Loans	$ 39,008,295	$ 1,273,674	$ 218,712	$ -	$ 40,500,681

	December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real Estate	$ 19,884,889	$ 42,173	$ -	$ 62,936	$ 19,989,998
Commercial	8,121,896	134,239	55,740	-	8,311,875
Agricultural Production	5,055,881	-	105,504	-	5,161,385
Consumer and Other	2,219,767	-	-	-	2,219,767
Total Loans	$ 35,282,433	$ 176,412	$ 161,244	$ 62,936	$ 35,683,025

NOTE E – PREMISES AND EQUIPMENT

Premises and equipment are as follows:

	December 31,	
	2020	2019
Land	$ 209,845	$ 209,845
Buildings and improvements	1,961,347	1,961,347
Furniture, fixtures and equipment	1,831,608	1,821,875
	4,002,800	3,993,067
Accumulated depreciation	(2,002,277)	(1,843,468)
	$ 2,000,523	$ 2,149,599

The Company leases office space in Abilene under a long-term lease. Rent expense was $19,452 and $19,452 for the year ended December 31, 2020 and 2019, respectively.

Rent commitments, before considering renewal options that generally are present were as follows:

Year Ending December 31,	
2021	$ 17,831

NOTE F - DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2020 and 2019 were $4,061,617 and $4,326,873, respectively.

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

Year Ending December 31,	
2021	$18,878,018
2022	566,550
2023	11,895
2024	148,188
2025	-
Thereafter	-
	$19,604,651

NOTE G – FEDERAL FUNDS LINE

The Company has an unsecured federal funds line at The Independent BankersBank with an aggregate available credit limit of $4,000,000 at December 31, 2020. There were no amounts outstanding under this line as of December 31, 2020 and 2019. Federal funds lines are uncommitted and funding requests made by the Company are subject to the lending institutions' approval and funding availability at the time of request.

NOTE H – 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.

The contractual amounts of financial instruments with off-balance sheet risk at December 31, 2020 and 2019, were as follows:

	2020	2019
Unfunded commitments to extend credit	$ 7,417,071	$ 7,815,985
Commercial and standby letters of credit	188,974	65,674

NOTE I – 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)	$ 15,127	24.1%	$ 5,013	8.0%	$ 6,266	10.0%
Tier 1 capital (to risk weighted assets)	14,565	23.2%	3,760	6.0%	5,013	8.0%
Common Tier 1 capital (to risk weighted assets)	14,565	23.2%	2,820	4.5%	4,073	6.5%
Tier 1 capital (to average assets)	14,565	9.4%	6,169	4.0%	7,711	5.0%
As of December 31, 2019						
Total capital (to risk weighted assets)	$ 14,490	22.9%	$ 5,056	8.0%	$ 6,320	10.0%
Tier 1 capital (to risk weighted assets)	13,992	22.1%	3,792	6.0%	5,056	8.0%
Common Tier 1 capital (to risk weighted assets)	13,992	22.1%	2,844	4.5%	4,108	6.5%
Tier 1 capital (to average assets)	13,992	9.9%	5,664	4.0%	7,081	5.0%

NOTE J – EMPLOYEE BENEFIT PLANS

401(k) Plan

The Company has a 401(k) plan in which substantially all eligible employees participate. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. Under this plan, the Company is allowed an annual contribution at the discretion of the Board of Directors. For the years ended December 31, 2020 and 2019, expense related to the plan amounted to $53,000 and $51,000, respectively.

Deferred Cash Incentive Plan

The Company has a deferred compensation plan that covers three officers. Under the plan, the Company contributes a predetermined percentage of the officers' current compensation to the deferral account based on individual annual performance objectives being met. The deferral account accrues interest at 6% and distributions are paid annually after four years. The benefit is payable to the employee or their beneficiary in a one-time lump sum payment triggered by the individual's final distribution age, termination of service, death, disability or change in control. A liability is accrued for the obligation under this plan. The expense incurred for the deferred cash incentive plan for the years ended December 31, 2020 and 2019 was $42,623 and $32,929, respectively. This resulted in a deferred compensation liability of $149,342 and $115,313 as of December 31, 2020 and 2019, respectively. Deferred bonuses paid from the plan for the year ended December 31, 2020 and 2019 amounted to $8,594 and $-0-, respectively. The deferred compensation liability is included in other liabilities on the balance sheet.

Salary Continuation Plan

The Company has a salary continuation agreement with one key executive. Under the agreement, the Company pays the participant, or their beneficiary, an annual benefit of $45,055 over 10 years beginning with the individual's retirement. If a qualifying event, other than death, occurs prior to retirement, the benefit payment will be made as a one-time lump sum. A liability is accrued for the obligation under this plan. In 2020 and 2019, compensation expense in the amount of $40,591 and $38,614 was recorded in connection with the agreement, which brought the ending balance for the salary continuation accrual to $194,855 and $154,264. The salary continuation liability is included in other liabilities on the balance sheet.

NOTE K – 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 $1,450,296 and $1,470,381 at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, deposits from insiders totaled $6,059,718 and $6,067,947 respectively.

NOTE L – 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 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).

Impaired Loans – The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants (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. Agency	$ -	$ 4,039,976	$ -	$ 4,039,976
Corporate Securities	-	5,659,290	-	5,659,290
Municipal Securities	-	33,475,461	-	33,475,461
Mortgage-backed	-	31,589,876	-	31,589,876
Agency CMOs	-	3,633,494	-	3,633,494
SBA Security Pools	-	8,412,879	-	8,412,879
	$ -	$ 86,810,976	$ -	$ 86,810,976

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
U.S. Agency	$ -	$ 5,483,786	$ -	$ 5,483,786
Corporate Securities	-	5,135,690	-	5,135,690
Municipal Securities	-	22,815,530	-	22,815,530
Mortgage-backed	-	33,047,145	-	33,047,145
Agency CMOs	-	4,113,651	-	4,113,651
SBA Security Pools	-	8,761,229	-	8,761,229
	$ -	$ 79,357,031	$ -	$ 79,357,031

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, 2019			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 64,653	$ 64,653

Impaired loans, which are measured for impairment using the fair value of collateral for collateral dependent loans, had a carrying amount of $64,653 at with no valuation allowance at December 31, 2019.