**Board of Governors of the Federal Reserve System**

# Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Mark A. Long
Name of the Holding Company Director and Official

President/CEO/Director
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

3/26/21
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

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

Reporter's Name, Street, and Mailing Address

First Commercial Financial Corp
Legal Title of Holding Company

1336 E. Court Street
(Mailing Address of the Holding Company) Street / P.O. Box

| City | State | Zip Code |
|---|---|---|
| Seguin | Texas | 78155 |

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| Name | Title |
|---|---|
| Sally McBride | VP/Controller |

830-401-6002
Area Code / Phone Number / Extension

830-379-4030
Area Code / FAX Number

sallym@1cb.com
E-mail Address

www.1cb.com
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.

**FR Y- 6**
**First Commercial Financial Corp**
**Seguin, Texas**

**Report Item 1:** Annual report to shareholders is included.

**Report Item 2a:** Organizational chart

First Commercial Financial Corp
Seguin, Texas
December 31, 2020

First Commercial Financial Corp
Texas Holding Company
LEI: None
Seguin, Texas /USA
Incorporated in Texas

First Commercial Bank, National Association
LEI: 549300NFAQXBUC5NPK66
Seguin, Texas/USA
100% Owned Subsidiary of First Commercial Financial Corp

JSB Investments, Inc.
Jourdanton, Texas/USA
LEI: None
100% Owned Subsidiary of First Commercial Bank, National Association

**Report Item 2b:** Domestic branch listing is included

**Results:** A list of branches for your depository institution: FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION (ID_RSSD: 400365).
This depository institution is held by FIRST COMMERCIAL FINANCIAL CORP (2299992) of SEGUIN, 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) | 400365 | FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION | 1336 EAST COURT STREET | SEGUIN | TX | 78155 | GUADALUPE | UNITED STATES | Not Required | Not Required | FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION | 400365 | |
| OK | | Full Service | 602150 | JOURDANTON BRANCH | 1301 OAK STREET | JOURDANTON | TX | 78026 | ATASCOSA | UNITED STATES | Not Required | Not Required | FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION | 400365 | |
| OK | | Full Service | 3651337 | NEW BRAUNFELS 725 BRANCH | 1525 SOUTH SEGUIN AVENUE | NEW BRAUNFELS | TX | 78130 | COMAL | UNITED STATES | Not Required | Not Required | FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION | 400365 | |
| OK | | Full Service | 2649869 | NEW BRAUNFELS BRANCH | 1656 WEST STATE HIGHWAY 46 | NEW BRAUNFELS | TX | 78132-4737 | COMAL | UNITED STATES | Not Required | Not Required | FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION | 400365 | |
| OK | | Full Service | 2899187 | PEARSALL BRANCH | 1837 WEST COMAL STREET | PEARSALL | TX | 78061 | FRIO | UNITED STATES | Not Required | Not Required | FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION | 400365 | |
| OK | | Full Service | 1392980 | BLANCO ROAD BRANCH | 13333 BLANCO ROAD, SUITE 100 | SAN ANTONIO | TX | 78216 | BEXAR | UNITED STATES | Not Required | Not Required | FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION | 400365 | |
| OK | | Full Service | 2724878 | LINCOLN HEIGHTS BRANCH | 120 EAST BASSE ROAD, SUITE 100 | SAN ANTONIO | TX | 78209 | BEXAR | UNITED STATES | Not Required | Not Required | FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION | 400365 | |

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First Commercial Financial Corp
Seguin, Texas
Fiscal Year Ending 12/31/2020

**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 ending 12/31/2020 (but not at fiscal year-end)** | | |
|---|---|---|---|---|---|
| **(1)(a)** Name & Address (City, State, Country) | **(1)(b)** Country of Citizenship or Incorporation | **(1)(c)** Number and Percentage of Each Class of Voting Securities | **(2)(a)** Name & Address (City, State, Country) | **(2)(b)** Country of Citizenship or Incorporation | **(2)(c)** Number and Percentage of Each Class of Voting Securities |
| **1) Steinle Family: Alfred A. Steinle (Primary) TX USA** | USA | 24,590 - 6.95% Common Stock | NA | NA | NA |
| Alfred A. Steinle Director Jourdanton, TX USA | USA | 6,624- -1.87% Common Stock | NA | NA | NA |
| Deana C. Steinle (Wife) Jourdanton, TX USA | USA | 100 - 0.03% Common Stock | NA | NA | NA |
| Don W. Steinle (Brother) Austin, TX USA | USA | 3,500 - .99% Common Stock | NA | NA | NA |
| Dustin D. Steinle (Son) Jourdanton, TX USA | USA | 900 - 0.25% Common Stock | NA | NA | NA |
| Glenn N. Steinle, Jr (Brother) Jourdanton, TX USA | USA | 5,378 - 1.52% Common Stock | NA | NA | NA |
| Joyce M. Steinle (Sister-in-law) Jourdanton, TX USA | USA | 133 - 0.04% Common Stock | NA | NA | NA |
| Marci K. Steinle (Daughter) San Antonio, TX USA | USA | 600 - 0.17% Common Stock | NA | NA | NA |
| Aiden N. Steinle (Grandson) San Antonio, TX USA | USA | 450 - 0.13% Common Stock | NA | NA | NA |
| Marci K. Steinle, Trustee for Owen D. Steinle (Grandson) San Antonio, TX USA | USA | 450 - 0.13% Common Stock | NA | NA | NA |
| Tim and Marci K. Steinle (Son-in-law & Daughter) San Antonio, TX USA | USA | 1,000 - 0.28% Common Stock | NA | NA | NA |
| James R. Andrus (Brother-in-law) Jourdanton, TX USA | USA | 800 - 0.23% Common Stock | NA | NA | NA |
| Jane S. Andrus (Sister) Jourdanton, TX USA | USA | 4,655 - 1.31% Common Stock | NA | NA | NA |

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**First Commercial Financial Corp**
**Seguin, Texas**
**Fiscal Year Ending 12/31/2020**

**Report Item 3: Securities Holders**

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|---|---|---|---|---|---|
| **(1)(a)**<br>**Name & Address (City, State, Country)** | **(1)(b)**<br>**Country of Citizenship or Incorporation** | **(1)(c)**<br>**Number and Percentage of Each Class of Voting Securities** | **(2)(a)**<br>**Name & Address (City, State, Country)** | **(2)(b)**<br>**Country of Citizenship or Incorporation** | **(2)(c)**<br>**Number and Percentage of Each Class of Voting Securities** |
| **2) Long Family:**<br>**Mark A. Long (primary)**<br>**TX USA** | USA | 58,181 - 16.43% | NA | NA | NA |
| Mark A. Long, Trustee<br>First Commercial Financial Corp Employee Stock Ownership Plan<br>Seguin, TX USA | USA | 56,681 - 16.01%<br>Common Stock | NA | NA | NA |
| Margie A. Long<br>(mother)<br>Junction, TX USA | USA | 1,500 - 0.42% | NA | NA | NA |
| **3) Rinn Family:**<br>**Doris Rinn (Primary)**<br>**TX, USA** | USA | 35,542 - 10.02%<br>Common Stock | NA | NA | NA |
| Doris Rinn<br>Seguin, TX USA | USA | 12,270 - 3.46% | NA | NA | NA |
| Donna Rinn<br>(Daughter)<br>Seguin, TX USA | USA | 5,434 - 1.53%<br>Common Stock | NA | NA | NA |
| Hannah Rinn<br>(Granddaughter)<br>San Antonio, TX USA | USA | 1,667 - 0.47%<br>Common Stock | NA | NA | NA |
| Phil Rinn<br>(Son)<br>Seguin, TX USA | USA | 8,333 - 2.35%<br>Common Stock | NA | NA | NA |
| Rebekah Rinn-Varzally<br>(Granddaughter)<br>Yardley, PA USA | USA | 667 - 0.19%<br>Common Stock | NA | NA | NA |
| Russell B. Rinn<br>(Son)<br>Roanoke, IN USA | USA | 5,504 - 1.55%<br>Common Stock | NA | NA | NA |
| Sarah E. Rinn-Posey<br>San Antonio, TX USA | USA | 1,667 - 0.47%<br>Common Stock | NA | NA | NA |
| **4) Nancy C. Seidenberger**<br>**Seguin, TX USA** | USA | 26,762 - 7.56%<br>Common Stock | NA | NA | NA |

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**First Commercial Financial Corp**
**Seguin, Texas**
**Fiscal Year Ending 12/31/2020**

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|---|---|---|---|---|---|
| **(1)(a)** Name & Address (City, State, Country) | **(1)(b)** Country of Citizenship or Incorporation | **(1)(c)** Number and Percentage of Each Class of Voting Securities | **(2)(a)** Name & Address (City, State, Country) | **(2)(b)** Country of Citizenship or Incorporation | **(2)(c)** Number and Percentage of Each Class of Voting Securities |
| **5) Williams Family: Mark E. Williams (Primary) TX. USA** | USA | 18,399 - 5.19% Common Stock | NA | NA | NA |
| Mark E. Williams, Director McQueeney, TX USA | USA | 600 - 0.17% Common Stock | NA | NA | NA |
| Mark E. Williams and Linda B. Williams (Wife) McQueeney, TX USA | USA | 11,525 - 3.25% Common Stock | NA | NA | NA |
| Drew E. Williams (Son) Seguin, TX USA | USA | 2,000 - 0.56% Common Stock | NA | NA | NA |
| Lisa A. Neff (Daughter) Austin, TX USA | USA | 1,343 - 0.38% Common Stock | NA | NA | NA |
| Linda B. Williams (Wife) McQueeney, TX USA | USA | 2,931 - 0.83% Common Stock | NA | NA | NA |

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**First Commercial Financial Corp**
**Seguin, Texas**
**Fiscal Year Ending 12/31/2020**

**Report Item 4: Insiders**

| (1) Name & Address (City, State, Country) | (2) Principal Occupation, if other than with holding company | (3)(a) Title/Position with holding company | (3)(b) Title/Position with Subsidiaries (including subsidiary name) | (3)(c) Title/Position with Other Businesses (including business name) | (4)(a) Percentage of Voting Securities in holding company | (4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name) | (4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25% |
|---|---|---|---|---|---|---|---|
| G.P.Kiel<br>Seguin, TX, USA | Consulting & Teaching | Director | Director, First Commercial Bank, NA | N/A | 0.43% | None | N/A |
| Mark A. Long, Trustee<br>First Commercial Financial Corp Employee Stock Ownership Plan<br>Seguin, TX USA | N/A | Director & President | Director & President, First Commercial Bank, NA<br>Director & President, JSB Investments, Inc. DBA 1st Insurance Group | N/A | 16.01%<br>(Includes ESOP Shares) | None | N/A |
| Margie A. Long<br>(mother)<br>Junction, TX USA | Retired | N/A | N/A | N/A | 0.42% | None | N/A |
| Mark Williams<br>McQueeney, TX, USA | Eng Consultant/ Retired | Director & Chairman | Director & Chairman, First Commercial Bank, NA | HMW FLP Management, LLC-President<br><br>Hattie Mae Williams Family Limited Partnership-Limited Partner<br><br>Williams Gen. Skipping Trust - Trustee<br><br>Williams Family Trust-Trustee | 3.42% | None | HMW FLP Management, LLC(80%)<br><br>Hattie Mae Williams Family LP (90%)<br><br>Williams Gen. Skipping Trust (100%)<br><br>Williams Family Trust (100%) |
| Herman O. Thomson<br>San Antonio,TX,USA | Retired General USAF & Business Consultant | Director | Director, First Commercial Bank, NA | N/A | 2.44% | None | N/A |
| Jeffrey Albrecht<br>New Braunfels, TX,USA | CPA | Director | Director, First Commercial Bank, NA | Sol Schwartz & Assoc. PA-President<br><br>Allevier-President | 0.35% | None | Sol Schwartz & Assoc. PC (20%)<br><br>Allevier (25%) |

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**First Commercial Financial Corp**
**Seguin, Texas**
**Fiscal Year Ending 12/31/2020**

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|---|---|---|---|---|---|---|---|
| Hal Holtman New Braunfels, TX, USA | CPA | Director | Director, First Commercial Bank, NA | Holtman & Co, LLC-Member | 0.40% | None | Holtman & Co, LLC(100%) |
| | | | | Payroll Logic LLC-Member | | | Payroll Logic LLC (50%) |
| | | | | HPSJ LTD-Partner | | | HPSJ LTD (99%) |
| | | | | Holtman Prop,LLC-Member | | | Holtman Prop,LLC (50%) |
| | | | | Liegenschaft LLC-Member | | | Liegenschaft, LLC (50%) |
| | | | | Rancho Holtman LLC - Member | | | Rancho Holtman, LLC (50%) |
| | | | | Harold A Holtman Jr Trust-Trustee | | | Harold A Holtman Jr Trust (100%) |
| Doug Miller New Braunfels, TX, USA | Insurance | Director | Director, First Commercial Bank, NA | Witting & Miller, Inc-President | 0.46% | None | Witting & Miller, Inc (100%) |
| | | | | Lebenhoch, LLC-President | | | Lebenhoch, LLC (100%) |
| | | | | Lebenschoen, LLC-President | | | Lebenschoen, LLC (100%) |
| | | | | Lebenalt, LLC-President | | | Lebenalt, LLC (100%) |
| Robert S. Sillivent Pleasanton, TX, USA | Attorney | Director | Director, First Commercial Bank, NA | Martin Abstract Company, Inc-Co-President | 0.07% | None | Martin Abstract Company, Inc (50%) |
| | | | | Silivent Ranch, Series LLC-Manager | | | Silivent Ranch, Series LLC (100%) |
| | | | | High Altitude Motosports, LLC-Member | | | High Altitude Motosports, LLC (12.5%) |
| | | | | Sillivent & Srp, PLLC-Manager | | | Sillivent & Srp, PLLC (100%) |
| | | | | Shannon Peeler 2018 Irrevocable Trust-Trustee | | | 0.0% |
| Alfred Steinle/Steinle Family Jourdanton, TX, USA | Attorney | Director | Director, First Commercial Bank, NA | Macho Creek Ranch-Partner | 6.95% | None | Macho Creek Ranch (25%) |
| Elizabeth J. Ricks San Antonio, TX USA | N/A | Treasurer/Assistant Secretary | Senior Vice President/Chief Financial Officer, First Commercial Bank, NA Treasurer, JSB Investments, Inc. DBA 1st Insurance Group | N/A | None | None | N/A |

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**First Commercial Financial Corp**
**Seguin, Texas**
**Fiscal Year Ending 12/31/2020**

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|---|---|---|---|---|---|---|---|
| Shawn Martinez<br>Seguin, TX<br>USA | N/A | N/A | Executive Vice President/First Commercial Bank, NA | JVM Industrial Electric, LLC-Treasurer | None | None | JVM Industrial Electric, LLC<br>(26%) |
| Bradley Warrenburg<br>San Antonio, TX<br>USA | N/A | N/A | Senior Vice President/Chief Credit Officer/First Commercial Bank, NA | Warrenburg Group, LLC-Owner | None | None | Warrenburg Group, LLC<br>(50%) |
| Joann Lange<br>New Braunfels, TX<br>USA | N/A | N/A | Senior Vice President/Retail/Marketing/First Commercial Bank, NA | N/A | None | None | N/A |
| Lindsay Wilkinson<br>New Braunfels, TX<br>USA | N/A | N/A | Vice President-Bank Operations &Information Security Officer/First Commercial Bank, NA | N/A | None | None | N/A |

# FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES

## AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

**DECEMBER 31, 2020 AND 2019**

C O N T E N T S

SGA
Stovall Grandey & Allen LLP

500 W. 7th Street
Suite 900
Fort Worth, Texas
76102-4702

Phone 817-632-2500
Fax 817-632-2598

www.sga-cpas.com

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of First Commercial Financial Corporation
Seguin, Texas

We have audited the accompanying consolidated financial statements of First Commercial Financial Corporation and Subsidiaries, which comprise the balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 First Commercial Financial Corporation and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other financial information on pages 40-41 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, L.L.P.
Fort Worth, Texas
March 29, 2021

**FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents: | | |
| Cash and due from banks - Note 2 | $ 7,144,795 | $ 3,504,591 |
| Interest-bearing deposits in financial institutions maturing in less than three months | 87,675,425 | 59,646,524 |
| Total cash and cash equivalents | 94,820,220 | 63,151,115 |
| Interest-bearing deposits in financial institutions maturing in more than three months | 4,000,000 | 7,495,000 |
| Investment securities - Note 3 | 69,055,018 | 57,960,159 |
| Other investments, at cost - Note 1 | 1,210,466 | 1,194,766 |
| Loans held-for-sale - Note 4 | 2,343,399 | 1,490,500 |
| Loans, net of purchase discounts, deferred loan fees and allowance for loan losses - Note 4 | 252,213,509 | 207,700,022 |
| Premises and equipment, net of accumulated depreciation - Note 5 | 9,659,759 | 9,847,792 |
| Bank-owned life insurance - Note 10 | 8,902,501 | 8,707,204 |
| Goodwill - Note 6 | 1,566,807 | 1,566,807 |
| Other intangible assets, net - Note 6 | 119,962 | 171,374 |
| Accrued interest receivable | 1,228,399 | 874,178 |
| Other assets | 415,926 | 452,301 |
| **Total Assets** | $ 445,535,966 | $ 360,611,218 |
| **LIABILITIES** | | |
| Deposits - Note 7 | $ 402,505,756 | $ 320,861,973 |
| Note payable - Note 8 | 6,779,679 | 8,093,781 |
| Other liabilities: | | |
| Accrued interest payable | 143,681 | 192,110 |
| Accrued expenses and other liabilities | 2,604,844 | 2,561,829 |
| Total other liabilities | 2,748,525 | 2,753,939 |
| **Total Liabilities** | 412,033,960 | 331,709,693 |
| Commitments and contingencies - Notes 5, 6, 8, 11, 12, 13, 14 and 15 | | |
| **SHAREHOLDERS' EQUITY** | | |
| Common stock, $1 par value: | | |
| Authorized - 10,000,000 shares | | |
| Issued - 358,663 shares | 358,663 | 358,663 |
| Paid-in capital | 13,923,883 | 13,806,373 |
| Retained earnings | 18,895,557 | 15,158,740 |
| Accumulated other comprehensive income (loss) | 646,622 | (117,838) |
| Treasury stock, at cost - 4,518 and 4,292 shares at December 31, 2020 and 2019, respectively | (322,719) | (304,413) |
| **Total Shareholders' Equity** | 33,502,006 | 28,901,525 |
| **Total Liabilities and Shareholders' Equity** | $ 445,535,966 | $ 360,611,218 |

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

**FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| **Interest income** | | |
| Interest and fees on loans | $ 13,594,071 | $ 12,953,878 |
| Interest on investment securities | 883,809 | 1,177,014 |
| Interest on federal funds sold and deposits in other banks | 532,314 | 941,965 |
| Total interest income | 15,010,194 | 15,072,857 |
| **Interest expense** | | |
| On deposits | 1,120,002 | 1,140,232 |
| On borrowed funds | 330,411 | 471,933 |
| Total interest expense | 1,450,413 | 1,612,165 |
| Net interest income | 13,559,781 | 13,460,692 |
| Provision for loan losses - Note 4 | 250,000 | 750,000 |
| Net interest income after provision for loan losses | 13,309,781 | 12,710,692 |
| **Non-interest income** | | |
| Services charges and fees | 1,511,856 | 1,567,823 |
| Insurance commissions and fees | 731,432 | 827,701 |
| Rental income | 463,441 | 435,917 |
| Loss on disposals of premises and equipment | - | (993) |
| Earnings on bank-owned life insurance - Note 10 | 195,297 | 201,440 |
| Other income | 109,773 | 90,475 |
| Total non-interest income | 3,011,799 | 3,122,363 |
| **Non-interest expense** | | |
| Salaries and employee benefits | 7,568,331 | 7,150,001 |
| Occupancy and equipment expenses | 1,533,125 | 1,419,051 |
| Data processing expenses | 662,033 | 622,675 |
| FDIC insurance assessments | 126,782 | 51,437 |
| Other operating expenses | 1,930,647 | 2,293,114 |
| Total non-interest expense | 11,820,918 | 11,536,278 |
| **Net Income** | $ 4,500,662 | $ 4,296,777 |
| **Earnings per share of common stock** | $ 12.71 | $ 12.07 |
| **Average shares of common stock outstanding** | 354,164 | 355,910 |

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

**FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| **Net Income** | $ 4,500,662 | $ 4,296,777 |
| **Other comprehensive income** | | |
| Securities available-for-sale: | | |
| Change in net unrealized gain/loss during the year | 764,460 | 1,383,655 |
| Other comprehensive income | 764,460 | 1,383,655 |
| **Comprehensive Income** | $ 5,265,122 | $ 5,680,432 |

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

**FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2019** | $ 358,663 | $ 13,688,862 | $ 11,970,519 | $ (1,501,493) | $ (87,434) | $ 24,429,117 |
| Purchases of treasury stock | | | | | (216,979) | (216,979) |
| Stock compensation expense | | 117,511 | | | | 117,511 |
| Comprehensive income for the year ended December 31, 2019 | | | 4,296,777 | 1,383,655 | | 5,680,432 |
| Dividends paid - $3.12 per share | | | (1,108,556) | | | (1,108,556) |
| **Balance at December 31, 2019** | 358,663 | 13,806,373 | 15,158,740 | (117,838) | (304,413) | 28,901,525 |
| Purchases of treasury stock | | | | | (18,306) | (18,306) |
| Stock compensation expense | | 117,510 | | | | 117,510 |
| Comprehensive income for the year ended December 31, 2020 | | | 4,500,662 | 764,460 | | 5,265,122 |
| Dividends paid - $2.16 per share | | | (763,845) | | | (763,845) |
| **Balance at December 31, 2020** | $ 358,663 | $ 13,923,883 | $ 18,895,557 | $ 646,622 | $ (322,719) | $ 33,502,006 |

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

**FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 4,500,662 | $ 4,296,777 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 508,112 | 486,230 |
| Provision for loan losses | 250,000 | 750,000 |
| Net amortization of investment securities | 463,444 | 446,826 |
| Stock dividends | (2,900) | (2,900) |
| Stock compensation expense | 117,510 | 117,511 |
| Amortization of other intangible assets | 51,412 | 51,412 |
| Loss on disposals of premises and equipment | - | 993 |
| Earnings on bank-owned life insurance | (195,297) | (201,440) |
| Originations of loans held-for-sale | (50,945,281) | (26,600,997) |
| Proceeds from sales of loans held-for-sale | 50,092,382 | 27,084,194 |
| (Increase) decrease in accrued income and other assets | 299,438 | (40,702) |
| Increase (decrease) in accrued expenses and other liabilities | (5,414) | 434,801 |
| Total adjustments | 633,406 | 2,525,928 |
| **Net Cash Provided by Operating Activities** | 5,134,068 | 6,822,705 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Decrease in interest-bearing deposits with other financial institutions maturing in more than three months | 3,495,000 | 8,750,000 |
| Purchases of investment securities: | | |
| Available-for-sale | (132,977,523) | (111,033,082) |
| Purchases of Federal Reserve Bank stock | (3,500) | (3,550) |
| Purchases of Federal Home Loan Bank (FHLB) stock | (50,300) | (122,100) |
| Proceeds from maturities and paydowns of investment securities: | | |
| Available-for-sale | 122,183,680 | 126,951,785 |
| Redemptions of FHLB stock | 41,000 | 123,000 |
| Net increase in loans | (45,380,634) | (6,296,093) |
| Purchases of premises and equipment | (320,216) | (380,183) |
| **Net Cash Provided (Used) by Investing Activities** | $ (53,012,493) | $ 17,989,777 |

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

**FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Net increase in deposits | $ 81,643,783 | $ 28,705,245 |
| Principal payments paid on note payable | (1,314,102) | (1,311,799) |
| Purchases of treasury stock | (18,306) | (216,979) |
| Dividends paid | (763,845) | (1,108,556) |
| **Net Cash Provided by Financing Activities** | 79,547,530 | 26,067,911 |
| **Net increase in cash and cash equivalents** | 31,669,105 | 50,880,393 |
| **Cash and cash equivalents at beginning of year** | 63,151,115 | 12,270,722 |
| **Cash and cash equivalents at end of year** | $ 94,820,220 | $ 63,151,115 |
| **SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:** | | |
| Interest paid | $ 1,498,842 | $ 1,547,929 |

## Note 1 History and Summary of Significant Accounting Policies

Effective close of business on April 29, 2016, First Commercial Financial Corporation (the "Company") merged with Jourdanton Bancshares, Inc. ("JBI"). As a result of this merger, JBI merged with the Company which was the surviving entity. JBI's subsidiary bank, Jourdanton State Bank ("JSB") merged with First Commercial Bank, N.A. (the "Bank") which was the surviving entity. JSB Investments, Inc. dba JSB Insurance Agency, a wholly-owned subsidiary of JSB became the wholly-owned subsidiary of the Bank. During 2017, the name of JSB Investments, Inc. was changed to 1st Insurance Group. This acquisition will be referred to as the JSB acquisition throughout this report.

Prior to December 1, 2018, First Commercial Financial Corporation (the "Company") owned one hundred percent (100%) of First Commercial Corporation, a Nevada corporation ("Nevada"). First Commercial Corporation owned one hundred percent (100%) of First Commercial Bank, N.A. ("Bank"). Effective December 1, 2018, Nevada was liquidated into the Company. This resulted in the Company assuming ownership of the Bank. The Bank owns one hundred percent (100%) of 1st Insurance Group. The accounting and reporting policies of these entities are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Following is a summary of the Company's more significant accounting and reporting policies:

### Nature of Operations

The Company provides a variety of financial services to individuals and small businesses through its offices in Seguin, New Braunfels, Jourdanton, Pearsall and San Antonio. Its primary deposit products are demand deposit and money market accounts, and its primary lending products are commercial loans and commercial real estate loans. First Commercial Bank, N.A. operates under a national bank charter and provides full banking services. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of the Currency. The Company is subject to regulation by the Federal Reserve Bank.

### Principles of Consolidation

The consolidated financial statements of the Company include its accounts and those relating to the Bank and 1st Insurance Group. All significant intercompany balances and transactions have been eliminated upon consolidation.

### 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 other real estate owned.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

**Note 1 History and Summary of Significant Accounting Policies, continued**

Estimates, continued

The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. 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. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in cash and amounts due from depository institutions (including cash collection items in process of clearing and cash letters in transit), interest-bearing deposits in other financial institutions maturing in less than three months and federal funds sold.

Investment Securities

The Company accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under the provisions of the FASB authoritative guidance, debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains (losses) on securities available-for-sale are included in other non-interest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss). Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other-than-temporary result in writedowns of the individual securities to their fair value. The related writedowns are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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 1 History and Summary of Significant Accounting Policies, continued

Other Investments

At December 31, 2020 and 2019, the Company had $812,150 and $808,650, respectively, included in other investments that represents stock in the Federal Reserve Bank (Fed). A minimum investment in Fed stock is required. At December 31, 2020 and 2019, the Company had $144,300 and $132,100, respectively, included in other investments that represents stock in the Federal Home Loan Bank (FHLB). A minimum investment in FHLB stock is required for membership. As a result of this, the Fed stock and FHLB stock are classified as restricted investment securities, carried at cost and evaluated annually for impairment. During 2020 and 2019, no impairment expense was recorded.

At December 31, 2020 and 2019, the Company had $254,016 included in other investments that represents equity stock in the Independent Bankers Financial Corporation (IBFC). Equity securities not using the equity method are carried at estimated fair value based on information provided by a third party pricing service with changes in fair value and realized gains or losses reported in non-interest income. If the fair value is not readily determinable, the equity security is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. The Company's shares in IBFC do not have a readily determinable fair value; therefore, these investments are carried at cost and evaluated annually for impairment. During 2020 and 2019, no impairment expense was recorded.

Loans Held-for-Sale

Loans held-for-sale are valued at the lower of cost or market as determined by outstanding commitments from investors. Gains or losses on sales of loans held-for-sale are included in other non-interest income.

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 throughout South Texas. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are stated at the principal amount outstanding less purchase discounts, deferred loan fees and the allowance for loan losses. Interest income on loans is recognized based upon the principal amounts outstanding.

During 2020, the Company collected $969,593 in origination fees from the Small Business Association (SBA) in conjunction with origination of loans under the SBA's Paycheck Protection Program (PPP). These origination fees were deferred and are being recognized over the 24-month term of the PPP loans. Other 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.

**Note 1 History and Summary of Significant Accounting Policies, continued**

Loans, continued

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due 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 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 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due status is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is comprised of amounts charged against income in the form of the provision for loan losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, special mention or watch. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 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. 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.

**Note 1 History and Summary of Significant Accounting Policies, continued**

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method based upon the estimated useful lives of the assets. The estimated useful lives range from one to forty years.

Maintenance and repairs are charged to operating expenses. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. Depreciable assets sold or retired are removed from the asset and related accumulated depreciation accounts and any gain or loss is reflected in the income and expense accounts.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value at the date of foreclosure less estimated selling costs, establishing a new cost basis. At foreclosure, if the fair value less estimated selling costs of the real estate acquired is less than the Company's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate owned are accounted for according to authoritative guidance issued by the FASB.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Company has adopted authoritative guidance issued by the FASB. Under this guidance, goodwill is periodically assessed for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. The Company bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. Refer to Note 6 – Goodwill and Other Intangible Assets for additional information.

Intangibles and Other Long-Lived Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The Company's intangible assets relate to core deposits and customer lists. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets with indefinite useful lives are not amortized until their lives are determined to be definite. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. See Note 6 – Goodwill and Other Intangible Assets for additional information.

## Note 1 History and Summary of Significant Accounting Policies, continued

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) 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 (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Reserve for Unfunded Commitments

The Company has established a reserve for possible losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. At December 31, 2020 and 2019, the recorded liability was $35,000.

Federal Income Taxes

Effective January 1, 2007, the shareholders of the Company elected to be taxed as a Subchapter "S" Corporation under Internal Revenue Service Code Section 1362. In lieu of corporate income taxes, the shareholders of a Subchapter S Corporation are taxed on their proportionate share of the Company's taxable income.

The Company, the Bank and 1st Insurance Group join in filing federal income tax returns.

The Companies maintain their records for both financial reporting and tax purposes on the accrual basis of accounting.

In accordance with authoritative guidance issued by the FASB, the Company performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the consolidated financial statements. No uncertain tax positions were identified. The December 31, 2017 through December 31, 2020 tax years remain subject to examination by the Internal Revenue Service. The Company does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the consolidated financial statements. The Company records incurred penalties and interest in other non-interest expense. There were no penalties and interest assessed by taxing authorities during 2020 or 2019.

Earnings Per Common Share

Earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period.

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 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.

**Note 1 History and Summary of Significant Accounting Policies, continued**

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of $114,928 and $133,890 were expensed during 2020 and 2019, respectively.

Stock-Based Compensation

The Board of Directors of the Company approved a stock-based compensation plan which is more fully described in Note 16. The Company has adopted authoritative guidance issued by the FASB regarding accounting for stock compensation expense. As a result of adopting the FASB authoritative guidance, the Company's net income is $117,510 and $117,511 lower for the years ended December 31, 2020 and 2019, respectively.

Comprehensive Income

The Corporation has adopted authoritative guidance issued by the FASB which establishes standards for reporting and display of comprehensive income and its components. These standards require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investment securities, are reported as a separate component in shareholders' equity. These items, along with net income, are components of comprehensive income. The Company reports comprehensive income in the statement of comprehensive income.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued. The Company has evaluated subsequent events from December 31, 2020 through March 29, 2021, the date the financial statements were available to be issued and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or would require additional disclosure.

Reclassifications

Certain accounts have been reclassified in the financial statements of 2019 to conform to the 2020 presentation.

**Note 1 History and Summary of Significant Accounting Policies, continued**

Accounting Standards Adopted in 2020 and 2019

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, to replace a wide range of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue from contracts with customers. The guidance is codified at FASB ASC 606. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company's revenue is composed of net interest income and non-interest income. The scope of the guidance explicitly excludes net interest income, as well as many other revenues for financial assets and liabilities including loans, leases, securities and derivatives. Accordingly, the majority of the Company's revenues were not affected. Adoption of ASU No. 2014-09, which was effective for the Company on January 1, 2019, did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. This guidance also changes certain disclosure requirements and other aspects of current accounting principles. Adoption of ASU No. 2016-01, which was effective for the Company on January 1, 2019, did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This amendment provides guidance on eight specific cash flow issues, including the following which may affect the Company: (1) debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities and (2) proceeds from the settlement of insurance claims, including proceeds from the settlement of bank-owned life insurance policies, should be classified as cash flows from investing activities. Cash payments for premiums on bank-owned life insurance may be classified as cash flows from investing or operating activities. The amendments in this update are effective for entities other than public business entities for fiscal years beginning after December 15, 2018. Adoption of ASU No. 2014-09, which was effective for the Company on January 1, 2019, did not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For entities other than public business entities, the amendments are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments of this update are applied on a modified retrospective basis through a cumulative effect adjustment directly to retained earnings as of the beginning of the period of adoption. Adoption of ASU No. 2017-08, which was effective for the Company on January 1, 2020, did not have a material impact on the Company's consolidated financial statements.

**Note 1 History and Summary of Significant Accounting Policies, continued**

Accounting Standards Adopted in 2020 and 2019, continued

The FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework− Changes to the Disclosure Requirements for Fair Value Measurement.* The ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. The standard is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Adoption of ASU No. 2018-13, which was effective for the Company on January 1, 2020, did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Pending Adoption

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update were originally effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years beginning after December 15, 2021; however, in July 2020, the FASB voted to delay the effective date of this accounting standard for one year due to the unprecedented challenges of the COVID-19 pandemic. Therefore, the amendments in this update are now effective for fiscal years beginning after December 15, 2021 and interim periods within those fiscal years beginning after December 15, 2022. The Company is evaluating the potential impact of the amendment on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This amendment simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments in this update should be applied on a prospective basis. For non-public business entities, the amendments are effective for fiscal years beginning after December 15, 2021. Implementation of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure 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 determine their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

## Note 1 History and Summary of Significant Accounting Policies, continued

Accounting Standards Pending Adoption, continued

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For non-public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company believes the amendments in this update will have an impact on the Company's consolidated financial statements and is working to evaluate the significance of that impact.

## Note 2 Restrictions on Cash and Due From Banks

During 2020, the Federal Reserve Board announced that the reserve requirement ratios would be reduced to zero percent effective March 26, 2020. This action eliminated the reserve requirements for all depository institutions. Prior to March 26, 2020, the Company was required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2019 was approximately $8,196,000.

## Note 3 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2020 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-Sale** | | | | |
| U.S. Treasury securities | $ 4,008,022 | $ 65,963 | $ - | $ 4,073,985 |
| U.S. government agencies and corporations | 10,013,661 | 46,739 | (2,229) | 10,058,171 |
| U.S. government agency mortgage-backed securities | 28,858,960 | 445,565 | (55,572) | 29,248,953 |
| Collateralized mortgage obligations | 17,361,517 | 60,370 | (33,196) | 17,388,691 |
| Obligations of states and political subdivisions | 8,166,236 | 123,846 | (4,864) | 8,285,218 |
| Totals | $ 68,408,396 | $ 742,483 | $ (95,861) | $ 69,055,018 |

The balance sheet as of December 31, 2020 reflects the fair value of available-for-sale securities of $69,055,018. A net unrealized gain of $646,622 is in the available-for-sale investment securities balance. The unrealized gain is included in shareholders' equity.

**Note 3 Investment Securities, continued**

The amortized cost and fair values of investment securities at December 31, 2019 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-Sale** | | | | |
| U.S. Treasury securities | $ 4,022,120 | $ - | $ (12,237) | $ 4,009,883 |
| U.S. government agencies and corporations | 13,032,271 | 1,874 | (16,970) | 13,017,175 |
| U.S. government agency mortgage-backed securities | 24,114,252 | 74,214 | (188,242) | 24,000,224 |
| Collateralized mortgage obligations | 9,990,777 | 15,473 | (28,690) | 9,977,560 |
| Obligations of states and political subdivisions | 6,918,577 | 38,042 | (1,302) | 6,955,317 |
| Totals | $ 58,077,997 | $ 129,603 | $ (247,441) | $ 57,960,159 |

The balance sheet as of December 31, 2019 reflects the fair value of available-for-sale securities of $57,960,159. A net unrealized loss of $117,838 is in the available-for-sale investment securities balance. The unrealized loss is included in shareholders' equity.

The amortized cost and fair value of available-for-sale securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are shown separately, since they are not due at a single maturity date.

| | Available-for-Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| **Amounts maturing:** | | |
| One year or less | $ 4,841,152 | $ 4,872,818 |
| After one year through five years | 15,121,928 | 15,297,422 |
| After five years through ten years | 2,224,839 | 2,247,134 |
| | 22,187,919 | 22,417,374 |
| Mortgage-backed securities | 28,858,960 | 29,248,953 |
| Collateralized mortgage obligations | 17,361,517 | 17,388,691 |
| Totals | $ 68,408,396 | $ 69,055,018 |

Securities with carrying amounts of $23,417,111 and $15,170,046 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

## Note 3 Investment Securities, continued

There were no sales of investment securities during 2020 and 2019. During 2020 and 2019, proceeds from redemptions of FHLB stock totaled $41,000 and $123,000 for the years ended December 31, 2020 and 2019, respectively, which resulted in no 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, follows:

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** |
| **December 31, 2020:** | | | | | | |
| Federal agencies | $ 14,160,030 | $ (85,059) | $ 2,153,438 | $ (5,938) | $ 16,313,468 | $ (90,997) |
| State and municipal governments | 717,025 | (4,864) | - | - | 717,025 | (4,864) |
| Total | $ 14,877,055 | $ (89,923) | $ 2,153,438 | $ (5,938) | $ 17,030,493 | $ (95,861) |
| **December 31, 2019:** | | | | | | |
| Federal agencies | $ 10,921,022 | $ (41,531) | $ 26,974,627 | $ (204,608) | $ 37,895,649 | $ (246,139) |
| State and municipal governments | 774,384 | (1,302) | - | - | 774,384 | (1,302) |
| Total | $ 11,695,406 | $ (42,833) | $ 26,974,627 | $ (204,608) | $ 38,670,033 | $ (247,441) |

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.

At December 31, 2020, the 17 debt securities with an unrealized loss had depreciated less than 1% from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

## Note 4 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Commercial loans | $ 38,919,598 | $ 18,980,101 |
| Real estate (RE) loans: | | |
| Construction, land and land development | 42,416,435 | 41,245,751 |
| Residential 1-4 family | 60,324,967 | 44,674,106 |
| Commercial RE | 102,109,418 | 91,905,318 |
| Consumer loans | 14,924,989 | 15,293,117 |
| Overdrafts | 18,075 | 49,277 |
| | 258,713,482 | 212,147,670 |
| Less: Deferred loan fees | (617,147) | - |
| Allowance for loan losses | (3,539,427) | (2,957,148) |
| Loans, Net | $ 254,556,908 | $ 209,190,522 |

Mortgage loans held-for-sale are included above in Residential 1-4 family loans in the amount of $2,343,399 and $1,490,500 at December 31, 2020 and 2019, respectively.

Loans as shown above are net of purchase discounts totaling $451,682 and $807,408 at December 31, 2020 and 2019, respectively. These purchase discounts relate to the JSB acquisition which occurred in 2016.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law which introduced the Paycheck Protection Program (PPP). The goal of this program was to prevent job loss and failure of small businesses as a result of the COVID-19 pandemic. If the borrower met certain criteria, PPP loans were eligible for forgiveness under the Small Business Association's (SBA) loan forgiveness program. At December 31, 2020, there were 277 outstanding PPP loans with balances totaling $23,774,500 included in Commercial loans shown above. These loans are 100% guaranteed by the SBA.

## Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2020 are summarized as follows:

| | Commercial | Construction, Land and Land Development | Residential 1-4 Family | Commercial Real Estate | Consumer and Other | Unallocated | 2020 Total |
|---|---|---|---|---|---|---|---|
| **Allowance for Loan Losses:** | | | | | | | |
| Balance, beginning of year | $ 383,857 | $ 379,335 | $ 321,578 | $ 1,035,325 | $ 101,194 | $ 735,859 | $ 2,957,148 |
| Provisions, charged (credited) to income | (331,992) | 26,089 | 325,077 | 714,461 | 13,576 | (497,211) | 250,000 |
| | 51,865 | 405,424 | 646,655 | 1,749,786 | 114,770 | 238,648 | 3,207,148 |
| Loans charged-off | - | - | - | - | (9,479) | - | (9,479) |
| Recoveries of loans previously charged-off | 339,288 | - | - | 475 | 1,995 | - | 341,758 |
| Net (charge-offs) recoveries | 339,288 | - | - | 475 | (7,484) | - | 332,279 |
| Balance, end of year | $ 391,153 | $ 405,424 | $ 646,655 | $ 1,750,261 | $ 107,286 | $ 238,648 | $ 3,539,427 |
| Ending balance: Individually evaluated for impairment | $ 190,000 | $ - | $ 726 | $ - | $ 49 | $ - | $ 190,775 |
| Ending balance: Collectively evaluated for impairment | 201,153 | 405,424 | 645,929 | 1,750,261 | 107,237 | 238,648 | 3,348,652 |
| Balance, end of year | $ 391,153 | $ 405,424 | $ 646,655 | $ 1,750,261 | $ 107,286 | $ 238,648 | $ 3,539,427 |
| **Loans:** | | | | | | | |
| Ending balance: Individually evaluated for impairment | $ 266,328 | $ 2,291,949 | $ 18,150 | $ 350,693 | $ 1,218 | | $ 2,928,338 |
| Ending balance: Collectively evaluated for impairment | 38,653,270 | 40,124,486 | 60,306,817 | 101,758,725 | 14,941,846 | | 255,785,144 |
| Ending balance total loans | $ 38,919,598 | $ 42,416,435 | $ 60,324,967 | $ 102,109,418 | $ 14,943,064 | | $ 258,713,482 |

## Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2019 are summarized as follows:

| | Commercial | Construction, Land and Land Development | Residential 1-4 Family | Commercial Real Estate | Consumer and Other | Unallocated | 2019 Total |
|---|---|---|---|---|---|---|---|
| **Allowance for Loan Losses:** | | | | | | | |
| Balance, beginning of year | $ 617,859 | $ 225,199 | $ 270,050 | $ 769,330 | $ 90,900 | $ 122,385 | $ 2,095,723 |
| Provisions, charged (credited) to income | (99,807) | 154,136 | 51,528 | 18,300 | 12,369 | 613,474 | 750,000 |
| | 518,052 | 379,335 | 321,578 | 787,630 | 103,269 | 735,859 | 2,845,723 |
| Loans charged-off | (182,111) | - | - | - | (8,742) | - | (190,853) |
| Recoveries of loans previously charged-off | 47,916 | - | - | 247,695 | 6,667 | - | 302,278 |
| Net (charge-offs) recoveries | (134,195) | - | - | 247,695 | (2,075) | - | 111,425 |
| Balance, end of year | $ 383,857 | $ 379,335 | $ 321,578 | $ 1,035,325 | $ 101,194 | $ 735,859 | $ 2,957,148 |
| Ending balance: Individually evaluated for impairment | $ 220,499 | $ - | $ 689 | $ 32,356 | $ 58 | $ - | $ 253,602 |
| Ending balance: Collectively evaluated for impairment | 163,358 | 379,335 | 320,889 | 1,002,969 | 101,136 | 735,859 | 2,703,546 |
| Balance, end of year | $ 383,857 | $ 379,335 | $ 321,578 | $ 1,035,325 | $ 101,194 | $ 735,859 | $ 2,957,148 |
| **Loans:** | | | | | | | |
| Ending balance: Individually evaluated for impairment | $ 1,065,515 | $ - | $ 22,949 | $ 1,426,828 | $ 1,922 | | $ 2,517,214 |
| Ending balance: Collectively evaluated for impairment | 17,914,586 | 41,245,751 | 44,651,157 | 90,478,490 | 15,340,472 | | 209,630,456 |
| Ending balance total loans | $ 18,980,101 | $ 41,245,751 | $ 44,674,106 | $ 91,905,318 | $ 15,342,394 | | $ 212,147,670 |

Federal regulations require that the Company periodically evaluate the risks inherent in its loan portfolio. In addition, the Company's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for loan losses, thereby reducing that reserve. The Company also classifies some loans as "Watch" or "Other Loans Especially Mentioned" ("OLEM"). Loans classified as "Watch" are performing assets and classified as pass credits but have elements of risk that require more monitoring

**Note 4 Loans and Allowance for Loan Losses, continued**

than other performing loans. Loans classified as "OLEM" are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Loans by credit quality risk rating at December 31, 2020 and 2019 are as follows:

| | Pass | Other Loans Especially Mentioned | Sub-Standard | Doubtful | Total |
|---|---|---|---|---|---|
| **December 31, 2020:** | | | | | |
| Commercial loans | $ 38,653,270 | $ - | $ 266,328 | $ - | $ 38,919,598 |
| Real estate (RE) loans: | | | | | |
| Construction, land and land development | 40,031,677 | 92,809 | 2,291,949 | - | 42,416,435 |
| Residential 1-4 family | 59,471,169 | 775,368 | 78,430 | - | 60,324,967 |
| Commercial RE | 92,622,965 | 6,292,430 | 3,194,023 | - | 102,109,418 |
| Consumer and other loans | 14,915,078 | 13,457 | 14,529 | - | 14,943,064 |
| Subtotal | $ 245,694,159 | $ 7,174,064 | $ 5,845,259 | $ - | 258,713,482 |
| Less: Deferred loan fees | | | | | (617,147) |
| Total loans | | | | | $258,096,335 |
| **December 31, 2019:** | | | | | |
| Commercial loans | $ 17,894,786 | $ - | $ 1,085,315 | $ - | $ 18,980,101 |
| Real estate (RE) loans: | | | | | |
| Construction, land and land development | 41,132,083 | 113,668 | - | - | 41,245,751 |
| Residential 1-4 family | 44,255,040 | 261,236 | 157,830 | - | 44,674,106 |
| Commercial RE | 86,737,214 | 4,064,754 | 1,103,350 | - | 91,905,318 |
| Consumer and other loans | 15,321,581 | 18,891 | 1,922 | - | 15,342,394 |
| Total loans | $ 205,340,704 | $ 4,458,549 | $ 2,348,417 | $ - | $212,147,670 |

An analysis of nonaccrual loans by category at December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Commercial loans | $ 240,300 | $ 978,521 |
| Real estate (RE) loans: | | |
| Construction, land and land development | 2,291,949 | - |
| Residential 1-4 family | 18,150 | 22,949 |
| Commercial RE | - | 1,078,546 |
| Consumer and other loans | 1,218 | 1,922 |
| Total nonaccrual loans | $ 2,551,617 | $ 2,081,938 |

## Note 4 Loans and Allowance for Loan Losses, continued

At December 31, 2020 and 2019, a summary of information pertaining to impaired loans is as follows:

| | Unpaid Contractual Principal Balance | Recorded Investment with No Allowance | Recorded Investment with Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| **December 31, 2020:** | | | | | | | |
| Commercial loans | $ 345,910 | $ - | $ 266,328 | $ 266,328 | $ 190,000 | $ 665,921 | $ 4,034 |
| Real estate (RE) loans: | | | | | | | |
| Construction, land and land development | 2,291,949 | 2,291,949 | - | 2,291,949 | - | 1,145,975 | - |
| Residential 1-4 family | 21,113 | - | 18,150 | 18,150 | 726 | 20,549 | - |
| Commercial RE | 802,375 | 350,693 | - | 350,693 | - | 888,761 | 41,810 |
| Consumer and other loans | 2,742 | - | 1,218 | 1,218 | 49 | 1,570 | - |
| Total | $ 3,464,089 | $ 2,642,642 | $ 285,696 | $ 2,928,338 | $ 190,775 | $ 2,722,776 | $ 45,844 |
| **December 31, 2019:** | | | | | | | |
| Commercial loans | $ 1,080,048 | $ - | $ 1,065,515 | $ 1,065,515 | $ 220,499 | $ 866,593 | $ 7,461 |
| Real estate (RE) loans: | | | | | | | |
| Construction, land and land development | - | - | - | - | - | 6,337 | - |
| Residential 1-4 family | 24,425 | - | 22,949 | 22,949 | 689 | 11,474 | - |
| Commercial RE | 1,930,640 | 348,282 | 1,078,546 | 1,426,828 | 32,356 | 1,522,113 | 44,131 |
| Consumer and other loans | 2,955 | - | 1,922 | 1,922 | 58 | 4,828 | - |
| Total | $ 3,038,068 | $ 348,282 | $ 2,168,932 | $ 2,517,214 | $ 253,602 | $ 2,411,345 | $ 51,592 |

The Company has no commitments to loan additional funds to borrowers whose loans are impaired.

At December 31, 2020 and 2019, there were no Residential 1-4 Family loans in process of foreclosure.

There were no troubled debts restructured during 2020 and 2019. At December 31, 2020 and 2019, there were no troubled debts outstanding that were restructured in prior years.

At December 31, 2020, there were six loans with outstanding balances totaling $5,312,686 which were modified under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the 2020 CARES Act.

**Note 4 Loans and Allowance for Loan Losses, continued**

The following table illustrates an age analysis of past due loans as of December 31, 2020 and 2019:

| December 31, 2020: | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans | Recorded Investment 90 Days or More Past Due and Still Accruing |
|---|---|---|---|---|---|---|
| Commercial loans | $ - | $ - | $ - | $ 38,919,598 | $ 38,919,598 | $ - |
| Real estate (RE) loans: | | | | | | |
| Construction, land and land development | 134,923 | - | 134,923 | 42,281,512 | 42,416,435 | - |
| Residential 1-4 family | 1,245,250 | - | 1,245,250 | 59,079,717 | 60,324,967 | - |
| Commercial RE | - | - | - | 102,109,418 | 102,109,418 | - |
| Consumer and other loans | 846 | 3,644 | 4,490 | 14,938,574 | 14,943,064 | 3,644 |
| Less: Deferred loan fees | - | - | - | - | (617,147) | - |
| Total | $1,381,019 | $ 3,644 | $1,384,663 | $257,328,819 | $258,096,335 | $ 3,644 |

| December 31, 2019: | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans | Recorded Investment 90 Days or More Past Due and Still Accruing |
|---|---|---|---|---|---|---|
| Commercial loans | $ - | $ 978,521 | $ 978,521 | $ 18,001,580 | $ 18,980,101 | $ - |
| Real estate (RE) loans: | | | | | | |
| Construction, land and land development | 24,407 | - | 24,407 | 41,221,344 | 41,245,751 | - |
| Residential 1-4 family | 272,695 | - | 272,695 | 44,401,411 | 44,674,106 | - |
| Commercial RE | - | 1,078,546 | 1,078,546 | 90,826,772 | 91,905,318 | - |
| Consumer and other loans | 20,756 | - | 20,756 | 15,321,638 | 15,342,394 | - |
| Total | $ 317,858 | $ 2,057,067 | $2,374,925 | $209,772,745 | $212,147,670 | $ - |

## Note 5 Premises and Equipment

The investment in premises and equipment at December 31, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Land | $ 3,360,262 | $ 3,360,261 |
| Buildings and improvements | 9,433,966 | 9,195,553 |
| Furniture and equipment | 3,053,851 | 3,000,456 |
| Automobile | 88,719 | 95,456 |
| | 15,936,798 | 15,651,726 |
| Less accumulated depreciation | (6,277,039) | (5,803,934) |
| Premises and equipment, net | $ 9,659,759 | $ 9,847,792 |

Depreciation on premises and equipment charged to expense totaled $508,112 and $486,230 for the years ended December 31, 2020 and 2019, respectively.

Pursuant to the terms of a noncancellable lease agreement pertaining to bank premises in Seguin, which is effective through February 28, 2038, future rent commitments at December 31, 2020 under the operating lease are as follows:

| | |
|---|---|
| 2021 | $ 38,880 |
| 2022 | 38,880 |
| 2023 | 38,880 |
| 2024 | 38,880 |
| 2025 | 38,880 |
| Thereafter | 550,800 |
| Totals | $ 745,200 |

The lease gives the Company a first refusal option to purchase or lease the premises in the event the landlord decides to sell or lease any premises to a third party.

Total rent expense for the years ended December 31, 2020 and 2019 was $44,772.

The Company leases to others various office spaces at its Lincoln Heights and Blanco Road locations that were part of the JSB acquisition. There are 17 tenants in these buildings obligated under operating leases as of December 31, 2020. The remainder of the tenants of these buildings are operating under month-to-month leases. Future minimum rental income under these leases at December 31, 2020 is as follows:

| | |
|---|---|
| 2021 | $ 356,483 |
| 2022 | 205,296 |
| 2023 | 145,451 |
| 2024 | 114,056 |
| 2025 | 59,399 |
| Totals | $ 880,685 |

Total rental income recorded during 2020 and 2019 was $463,441 and $435,917, respectively.

## Note 6 Goodwill and Other Intangible Assets

As discussed in Note 1, the Company completed the JSB acquisition during 2016. A premium of $2,027,094 was paid by the Company, of which $460,287 was identified as other intangible assets. The other intangible assets consist of $359,885 relating to core deposit intangibles and $100,402 relating to customer lists for the insurance agency. The remaining $1,566,807 has been recorded as goodwill. In accordance with authoritative guidance issued by the FASB, the goodwill will not be amortized and will be evaluated for impairment at least annually. No impairment of goodwill was identified during 2020 or 2019. The core deposit intangibles are being amortized using a straight-line method over their estimated useful life of seven years. The other intangible assets relating to the customer lists for the insurance agency were amortized using a straight-line method over their estimated useful life of two years and became fully amortized during 2018. Amortization expense on the other intangible assets was $51,412 in 2020 and 2019. The carrying amount of other intangible assets totaling $119,962 and $171,374 at December 31, 2020 and 2019, respectively, is net of accumulated amortization totaling $340,325 and $288,913, respectively. The estimated future amortization expense for other intangible assets remaining as of December 31, 2020 is as follows:

| | |
|---|---|
| 2021 | $ 51,412 |
| 2022 | 51,412 |
| 2023 | 17,138 |
| 2024 | - |
| 2025 | - |
| Total | $ 119,962 |

## Note 7 Deposits

The carrying amount of deposits at December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Demand | $ 199,325,190 | $ 148,927,305 |
| Interest-bearing transaction accounts | 153,626,456 | 126,762,528 |
| Savings | 27,352,232 | 23,765,393 |
| Certificates of deposit less than $100,000 | 9,182,981 | 9,612,475 |
| Certificates of deposit $100,000 and over | 13,018,897 | 11,794,272 |
| Total deposits | $ 402,505,756 | $ 320,861,973 |

At December 31, 2020, maturities of certificates of deposit for each of the next five years are:

| | |
|---|---|
| 2021 | $ 14,585,940 |
| 2022 | 6,393,278 |
| 2023 | 1,222,660 |
| 2024 | - |
| 2025 | - |
| Total | $ 22,201,878 |

There were no brokered deposits at December 31, 2020 and 2019. At December 31, 2020 and 2019, time deposits in amounts of $250,000 or more totaled $5,455,920 and $5,584,714, respectively.

## Note 8 Note Payable

On December 31, 2015, the Company executed a loan agreement from another financial institution in the amount of $14,000,000. The outstanding balance on this loan as of December 31, 2020 and 2019 was $6,779,679 and $8,093,781, respectively. The initial interest rate on this loan was a variable rate based upon the published prime rate plus .50% which is adjustable annually on the anniversary date of the loan. On June 29, 2018, the interest rate changed to a variable rate based upon the published prime rate which is adjustable annually on the anniversary date of the loan. The interest rate on this note was 3.25% and 5.50% as of December 31, 2020 and 2019, respectively. This agreement provides for quarterly interest only payments that begin three months from the date of the first advance for a period of one year, then quarterly principal and interest payments will be due based on a 10-year amortization through the December 31, 2018 maturity date. On June 29, 2018, this loan was renewed to extend the maturity date to June 29, 2023 and provide for quarterly principal and interest payments in the amount of $344,851 beginning August 9, 2018. The funds of this loan were used to pay off the outstanding balance on an existing loan and provide funds for the JSB acquisition. This note is secured by 100% of the outstanding stock of First Commercial Bank, N.A.

The loan agreement contains multiple loan covenants which relate to the Bank's Capital levels, return on average assets and classified assets. As of December 31, 2020 and 2019, the Company was in compliance with all loan covenants.

Following are annual principal payments due as of December 31, 2020 on the outstanding note payable for each of the next five years:

| | |
|---|---|
| 2021 | $ 1,170,415 |
| 2022 | 1,209,461 |
| 2023 | 4,399,803 |
| 2024 | - |
| 2025 | - |
| Total | $ 6,779,679 |

## Note 9 Related Party Transactions

During 2020 and 2019, the Company had transactions made in the ordinary course of business with certain of its officers, directors and principal shareholders. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

A summary of these transactions follows:

| | Balance Beginning of Year | Additions | Amounts Collected | Balance End of Year |
|---|---|---|---|---|
| For the year ended **December 31, 2020** | $ 2,397,195 | $ 318,213 | $ (441,158) | $ 2,274,250 |
| For the year ended **December 31, 2019** | $ 2,397,107 | $ 294,974 | $ (294,886) | $ 2,397,195 |

## Note 9 Related Party Transactions, continued

Deposits from related parties held by the Company at December 31, 2020 and 2019 totaled $2,475,308 and $2,181,818, respectively.

## Note 10 Employee Benefit Plans

The Company has adopted a profit sharing plan for the benefit of substantially all employees which includes a 401(k) retirement plan feature. Employees are allowed to make contributions to the plan. The Company's contribution is determined annually by the Board of Directors. During 2020 and 2019, the Company made contributions totaling $127,174 and $105,334, respectively, to this plan.

Officers and other employees of the Company are eligible for participation in an Employee Stock Ownership Plan (the "ESOP"). The ESOP is a noncontributory, qualified stock plan under which the Company makes contributions at the discretion of the Board of Directors. Contributions to the ESOP were $300,000 for the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, the non-leveraged ESOP held stock in the Company totaling 56,681 shares.

The Company has salary continuation agreements with certain officers of the Company. These agreements are funded with life insurance policies owned by the Company. The cash surrender values of these policies totaled $8,902,501 and $8,707,204 at December 31, 2020 and 2019, respectively. Earnings on these life insurance policies totaled $195,297 and $201,440 at December 31, 2020 and 2019, respectively. These earnings are included in other non-interest income. During 2016, the Company acquired life insurance policies and assumed a related deferred death benefit liability as part of the JSB acquisition. During 2020 and 2019, accruals totaling $312,466 and $206,147, respectively, were expensed and included in salary and employee benefits related to these plans. At December 31, 2020 and 2019, liabilities under these agreements in the amount of $1,582,504 and $1,271,110, respectively, are included in accrued expenses and other liabilities in the consolidated balance sheets.

## Note 11 Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk were approximately as follows:

| | 2020 | 2019 |
|---|---|---|
| Commitments to extend credit | $ 24,540,000 | $ 27,919,000 |
| Standby letters of credit | 396,600 | 396,600 |

## Note 11 Financial Instruments with Off-Balance-Sheet Risk, continued

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Unfunded commitments under lines of credit include revolving credit lines, straight credit lines and interim construction loans, 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. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit generally 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's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Company has not been required to perform on any financial guarantees during the past two years. The Company has not incurred any losses on its commitments in either 2020 or 2019.

## Note 12 Commitments and Contingent Liabilities

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

## Note 13 Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when actually paid to employees.

## Note 14 Lines of Credit

The Company has established an unsecured line of credit for overnight purchase of federal funds totaling $7,500,000. This line may be cancelled without any prior notification. At December 31, 2020 and 2019, there were no outstanding balances on this line of credit.

The Company also has a line of credit with the Federal Home Loan Bank. Amounts available under this line vary depending on the collateral that is pledged to secure the borrowings. At December 31, 2020, the Company had available approximately $12,610,000 for future borrowings under this line of credit. This line is secured by specific eligible loans with a carrying amount of approximately $22,379,000 at December 31, 2020. There are no outstanding borrowings on this line at December 31, 2020 and 2019.

## Note 15 Concentrations of Credit Risk

The Company maintains its cash accounts with several correspondent banks. Generally, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. At December 31, 2020 and 2019, uninsured deposits in other financial institutions totaled approximately $58,395,000 and $36,369,000, respectively. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

The Company's loans, commitments and standby letters of credit have generally been granted to customers in the Company's market area. Such customers are normally also depositors of the Company. The concentrations of credit by type of loan are set forth in Note 4. Generally those loans are collateralized and are expected to be repaid from cash flows or proceeds from sale of selected assets of the borrowers. Standby letters of credit are granted primarily to commercial borrowers.

## Note 16 Stock Option Plan

Effective December 21, 2017, the Company's Board of Directors approved the First Commercial Financial Corporation 2017 Stock Option Plan ("the Plan"). The Plan allows for the grant of incentive stock options and nonqualified stock options. During 2018, the Company's shareholders approved this Plan. The Plan allows for a maximum of 50,000 options to be granted. Effective January 1, 2018, the Company granted 14,444 and 12,500 of nonqualified and incentive stock options, respectively. The exercise price of the nonqualified stock options is $60 per share. The exercise price of the incentive stock options is $64 per share. The nonqualified stock options vest 20% ratably each year on December 31. The incentive stock options vest 12.5% ratably each year on December 31. Both the nonqualified and incentive stock options expire on December 31, 2027. At December 31, 2020, there were 23,056 shares available for grant under this Plan.

The compensation cost that has been charged against income for this Plan was $117,510 and $117,511 for the years ended December 31, 2020 and 2019, respectively. Since the Company made the Subchapter S election effective January 1, 2007, there is no tax benefit recognized in the income statement for share-based compensation arrangements for the years ended December 31, 2020 and 2019.

The Company accounts for stock-based awards to employees using the fair value method, in accordance with accounting guidance issued by the FASB. The Company uses the Black-Scholes valuation model to estimate the fair value of stock option awards. The following assumptions are used in the Black-Scholes model: expected volatility, expected dividends, expected term and risk-free rate. Expected volatilities are based on the historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the model. The expected term of options granted is determined from the output of the option valuation model and management's experience and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions are determined at the date of grant and are not subsequently adjusted for actual.

**Note 16 Stock Option Plan, continued**

There were no options granted during 2020 and 2019.

A summary of option activity under the Plan as of December 31, 2020 and 2019, and changes during the years then ended, are presented below:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term |
|---|---|---|---|
| Outstanding at January 1, 2019 | 26,944 | $ 61.86 | |
| Granted | - | - | |
| Exercised | - | - | |
| Forfeited or expired | - | - | |
| Outstanding at December 31, 2019 | 26,944 | $ 61.86 | 8.00 |
| Vested or expected to vest at December 31, 2019 | 26,944 | $ 61.86 | 8.00 |
| Exercisable at December 31, 2019 | 8,903 | $ 61.40 | 8.00 |
| Outstanding at January 1, 2020 | 26,944 | $ 61.86 | |
| Granted | - | - | |
| Exercised | - | - | |
| Forfeited or expired | - | - | |
| Outstanding at December 31, 2020 | 26,944 | $ 61.86 | 7.00 |
| Vested or expected to vest at December 31, 2020 | 26,944 | $ 61.86 | 7.00 |
| Exercisable at December 31, 2020 | 13,354 | $ 61.40 | 7.00 |

During 2020 and 2019, there were no options granted and no options exercised.

## Note 16 Stock Option Plan, continued

A summary of the status of the Company's nonvested shares related to stock options as of December 31, 2020, and changes during the year then ended, is presented below:

| Nonvested Shares | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2020 | 18,041 | $ 25.99 |
| Granted | - | - |
| Vested | (4,451) | 25.09 |
| Forfeited | - | - |
| Nonvested at December 31, 2020 | 13,590 | $ 25.49 |

As of December 31, 2020, there was $328,830 of total unrecognized compensation cost related to nonvested shares of stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 4.25 years.

## Note 17 Restrictions on Dividends

In the ordinary course of business, the Company is dependent upon dividends from First Commercial Bank, N.A. to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of First Commercial Bank, N.A. to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years.

## Note 18 Regulatory Capital

Banks are subject to various regulatory capital requirements administered by state and 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 material effect on the Bank's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table on page 36) of total Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject.

## Note 18 Regulatory Capital, continued

In addition to these requirements, banking organizations must maintain a 2.50% capital conservation buffer consisting of common Tier 1 equity, subject to a transition schedule with a full phase-in by 2019. Effective January 1, 2019, the Bank was required to establish a capital conservation buffer of 2.50%, increasing the minimum required total risk-based capital, Tier 1 risk-based and common equity Tier 1 capital to risk-weighted assets it must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

As of December 31, 2020, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum common equity risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table on the following page. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale, goodwill and other intangible assets.

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule adopted by federal banking agencies (commonly referred to as Basel III). The new rule establishes a new regulatory capital framework that incorporates revisions to the Basel capital framework, strengthens the definition of regulatory capital, increases risk-based capital requirements and amends the methodologies for determining risk-weighted assets. These changes are expected to increase the amount of capital required by community banking organizations. Basel III includes a multiyear transition period from January 1, 2015 through December 31, 2019 and is now fully in effect.

**Note 18 Regulatory Capital, continued**

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

| | Actual | | Minimum Required for Capital Adequacy Purposes | | Required to be Well Capitalized under the Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2020:** | | | | | | |
| Total Risk-based Capital (to Risk-weighted Assets) | $ 38,825 | 15.33% | $ 20,263 | 8.00% | $ 25,329 | 10.00% |
| Tier 1 Capital (to Risk-weighted Assets) | $ 35,654 | 14.08% | $ 15,197 | 6.00% | $ 20,263 | 8.00% |
| Common Equity Tier 1 Capital (to Risk-weighted Assets) | $ 35,654 | 14.08% | $ 11,398 | 4.50% | $ 16,464 | 6.50% |
| Leverage Capital (to Adjusted Total Assets) | $ 35,654 | 8.20% | $ 17,387 | 4.00% | $ 21,734 | 5.00% |
| **As of December 31, 2019:** | | | | | | |
| Total Risk-based Capital (to Risk-weighted Assets) | $ 36,034 | 15.14% | $ 19,042 | 8.00% | $ 23,803 | 10.00% |
| Tier 1 Capital (to Risk-weighted Assets) | $ 33,059 | 13.89% | $ 14,282 | 6.00% | $ 19,042 | 8.00% |
| Common Equity Tier 1 Capital (to Risk-weighted Assets) | $ 33,059 | 13.89% | $ 10,711 | 4.50% | $ 15,472 | 6.50% |
| Leverage Capital (to Adjusted Total Assets) | $ 33,059 | 9.19% | $ 14,383 | 4.00% | $ 17,979 | 5.00% |

**Note 19 Fair Value Measurements**

The Company has adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

The authoritative guidance issued by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

**Note 19 Fair Value Measurements, continued**

The authoritative guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- ***Level 1 Inputs*:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- ***Level 2 Inputs:*** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from, or corroborated by, market data by correlation or other means.

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

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Note 19 Fair Value Measurements, continued**

***Securities Available-for-Sale:*** U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

***Impaired Loans:*** Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

***Other Real Estate Owned:*** Other real estate owned represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value. At December 31, 2020 and 2019, there were no financial liabilities measured at fair value on a recurring basis.

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| **December 31, 2020:** | | | | |
| Available-for-Sale | | | | |
| U.S. Treasury securities | $ 4,073,985 | $ - | $ - | $ 4,073,985 |
| U.S. government agencies and corporations | - | 10,058,171 | - | 10,058,171 |
| U.S. government agency mortgage-backed securities | - | 29,248,953 | - | 29,248,953 |
| Collateralized mortgage obligations | - | 17,388,691 | - | 17,388,691 |
| Obligations of states and political subdivisions | - | 8,285,218 | - | 8,285,218 |
| Totals | $ 4,073,985 | $ 64,981,033 | $ - | $ 69,055,018 |
| **December 31, 2019:** | | | | |
| Available-for-Sale | | | | |
| U.S. Treasury securities | $ 4,009,883 | $ - | $ - | $ 4,009,883 |
| U.S. government agencies and corporations | - | 13,017,175 | - | 13,017,175 |
| U.S. government agency mortgage-backed securities | - | 24,000,224 | - | 24,000,224 |
| Collateralized mortgage obligations | - | 9,977,560 | - | 9,977,560 |
| Obligations of states and political subdivisions | - | 6,955,317 | - | 6,955,317 |
| Totals | $ 4,009,883 | $ 53,950,276 | $ - | $ 57,960,159 |

## Note 19 Fair Value Measurements, continued

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

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

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| **December 31, 2019:** | | | | |
| Impaired loans | $ - | $ 2,928,338 | $ - | $ 2,928,338 |
| Less specific valuation allowance for possible loan losses | - | (190,775) | - | (190,775) |
| Impaired loans, net | $ - | $ 2,737,563 | $ - | $ 2,737,563 |
| **December 31, 2019:** | | | | |
| Impaired loans | $ - | $ 2,517,214 | $ - | $ 2,517,214 |
| Less specific valuation allowance for possible loan losses | - | (253,602) | - | (253,602) |
| Impaired loans, net | $ - | $ 2,263,612 | $ - | $ 2,263,612 |

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate owned which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate owned, which subsequent to their initial recognition, were remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate owned is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2020 and 2019, there was no other real estate owned held by the Company. There were no charge-offs recorded at foreclosure of other real estate owned during 2020 and 2019. During 2020 and 2019, there were no writedowns recorded subsequent to foreclosure on other real estate owned.

Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Company's provision for loan losses. Regulatory guidelines require the Company to re-evaluate the fair value of other real estate owned on at least an annual basis.

# OTHER FINANCIAL INFORMATION

## FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
## CONSOLIDATING BALANCE SHEET
## DECEMBER 31, 2020

| | FIRST COMMERCIAL FINANCIAL CORPORATION | FIRST COMMERCIAL BANK, N.A. | 1ST INSURANCE GROUP | ELIMINATIONS | CONSOLIDATED BALANCES 2020 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and due from banks | $ 1,523,888 | $ 7,144,795 | $ 676,543 | $ (2,200,431) | $ 7,144,795 |
| Interest-bearing deposits in financial institutions maturing in less than three months | - | 87,675,425 | - | - | 87,675,425 |
| Interest-bearing deposits in financial institutions maturing in more than three months | - | 4,000,000 | - | - | 4,000,000 |
| Investment in subsidiary | 38,787,173 | 855,797 | - | (39,642,970) | - |
| Investment securities | - | 69,055,018 | - | - | 69,055,018 |
| Other investments, at cost | - | 1,210,466 | - | - | 1,210,466 |
| Loans held-for-sale | - | 2,343,399 | - | - | 2,343,399 |
| Loans, net of purchase discounts, deferred loan fees and allowance for loan losses | - | 252,213,509 | - | - | 252,213,509 |
| Premises and equipment, net of accumulated depreciation | - | 9,644,433 | 15,326 | - | 9,659,759 |
| Bank-owned life insurance | - | 8,902,501 | - | - | 8,902,501 |
| Goodwill | - | 1,510,850 | 55,957 | - | 1,566,807 |
| Other intangible assets, net | - | 119,962 | - | - | 119,962 |
| Accrued interest receivable | - | 1,228,399 | - | - | 1,228,399 |
| Other assets | - | 260,426 | 155,500 | - | 415,926 |
| **Total Assets** | $ 40,311,061 | $ 446,164,980 | $ 903,326 | $ (41,843,401) | $ 445,535,966 |
| **LIABILITIES** | | | | | |
| Deposits | $ - | $ 404,706,187 | $ - | $ (2,200,431) | $ 402,505,756 |
| Note payable | 6,779,679 | - | - | - | 6,779,679 |
| Other liabilities: | | | | | |
| Accrued interest payable | 29,376 | 114,305 | - | - | 143,681 |
| Accrued expenses and other liabilities | - | 2,557,315 | 47,529 | - | 2,604,844 |
| Total other liabilities | 29,376 | 2,671,620 | 47,529 | - | 2,748,525 |
| **Total Liabilities** | 6,809,055 | 407,377,807 | 47,529 | (2,200,431) | 412,033,960 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Common stock, $1 par value: | | | | | |
| Authorized - 10,000,000 shares | | | | | |
| Issued and outstanding - 358,663 shares | 358,663 | 485,866 | 1,000 | (486,866) | 358,663 |
| Paid-in capital | 13,923,883 | 26,702,677 | 510,229 | (27,212,906) | 13,923,883 |
| Retained earnings | 18,895,557 | 10,952,008 | 344,568 | (11,296,576) | 18,895,557 |
| Accumulated other comprehensive income | 646,622 | 646,622 | - | (646,622) | 646,622 |
| Treasury stock, at cost - 4,518 shares | (322,719) | - | - | - | (322,719) |
| **Total Shareholders' Equity** | 33,502,006 | 38,787,173 | 855,797 | (39,642,970) | 33,502,006 |
| **Total Liabilities and Shareholders' Equity** | $ 40,311,061 | $ 446,164,980 | $ 903,326 | $ (41,843,401) | $ 445,535,966 |

See Independent Auditor's Report.

**FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATING STATEMENT OF INCOME**
**FOR THE YEAR ENDED DECEMBER 31, 2020**

| | FIRST COMMERCIAL FINANCIAL CORPORATION | FIRST COMMERCIAL BANK, N.A. | 1ST INSURANCE GROUP | ELIMINATIONS | CONSOLIDATED BALANCES 2020 |
|---|---|---|---|---|---|
| **Interest income** | | | | | |
| Interest and fees on loans | $ - | $ 13,594,071 | $ - | $ - | $ 13,594,071 |
| Interest on investment securities | - | 883,809 | - | - | 883,809 |
| Interest on federal funds sold and deposits in other banks | - | 532,314 | - | - | 532,314 |
| Total interest income | - | 15,010,194 | - | - | 15,010,194 |
| **Interest expense** | | | | | |
| On deposits | - | 1,120,002 | - | - | 1,120,002 |
| On borrowed funds | 330,378 | 33 | - | - | 330,411 |
| Total interest expense | 330,378 | 1,120,035 | - | - | 1,450,413 |
| Net interest income (expense) | (330,378) | 13,890,159 | - | - | 13,559,781 |
| Provision for loan losses | - | 250,000 | - | - | 250,000 |
| Net interest income (expense) after provision for loan losses | (330,378) | 13,640,159 | - | - | 13,309,781 |
| **Non-interest income** | | | | | |
| Service charges and fees | - | 1,511,856 | - | - | 1,511,856 |
| Insurance commissions and fees | - | - | 731,432 | - | 731,432 |
| Rental income | - | 481,441 | - | (18,000) | 463,441 |
| Equity in undistributed income of subsidiary | 2,585,817 | 159,530 | - | (2,745,347) | - |
| Dividend income from subsidiary | 2,250,000 | - | - | (2,250,000) | - |
| Earnings on bank-owned life insurance | - | 195,297 | - | - | 195,297 |
| Other income | - | 109,773 | - | - | 109,773 |
| Total non-interest income | 4,835,817 | 2,457,897 | 731,432 | (5,013,347) | 3,011,799 |
| **Non-interest expense** | | | | | |
| Salaries and employee benefits | - | 7,092,369 | 475,962 | - | 7,568,331 |
| Occupancy and equipment expenses | - | 1,528,393 | 22,732 | (18,000) | 1,533,125 |
| Data processing expenses | - | 662,033 | - | - | 662,033 |
| FDIC insurance assessments | - | 126,782 | - | - | 126,782 |
| Other operating expenses | 4,777 | 1,852,662 | 73,208 | - | 1,930,647 |
| Total non-interest expense | 4,777 | 11,262,239 | 571,902 | (18,000) | 11,820,918 |
| **Net Income** | $ 4,500,662 | $ 4,835,817 | $ 159,530 | $ (4,995,347) | $ 4,500,662 |

See Independent Auditor's Report.