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, A. C. Evans, Jr.
Name of the Holding Company Director and Official

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

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

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

Corky Evans
Signature of Holding Company Director and Official

2/25/2021
Date of Signature

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

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

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

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

Reporter's Name, Street, and Mailing Address

FNB Company
Legal Title of Holding Company

P O Box 671
(Mailing Address of the Holding Company) Street / P.O. Box

Livingston	TX	77351
City	State	Zip Code

2121 Highway 190 West
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Danielle Marsh	N/A
Name	Title

936-328-5581
Area Code / Phone Number / Extension

936-328-5497
Area Code / FAX Number

dmarsh@fnblivingston.com
E-mail Address

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

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

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

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

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

FNB COMPANY AND SUBSIDIARIES
Livingston, Texas

December 31, 2020 and 2019

<u>C O N T E N T S</u>

AXLEY&RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
FNB Company and Subsidiaries
Livingston, Texas

We have audited the accompanying consolidated financial statements of FNB Company and Subsidiaries (an S corporation), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, 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 consolidated 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 consolidated financial position of FNB Company and Subsidiaries as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
February 11, 2021

FNB COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash on hand and in banks	$ 3 878 682	$ 5 714 393
Interest bearing demand accounts in banks	23 729 380	7 974 874
CASH AND CASH EQUIVALENTS	27 608 062	13 689 267
Interest-bearing time deposits in banks	60 820 000	62 085 000
Securities available for sale - At fair value	198 753 022	163 613 543
Securities held-to-maturity	1 391 035	1 653 161
Restricted equity securities	588 620	587 320
Loans, net of allowance for loan losses of $2,299,136 in 2020 and $2,231,282 in 2019	137 351 258	123 517 438
Bank premises and equipment, net	8 275 515	8 547 468
Accrued interest receivable	1 584 512	1 437 879
Goodwill, net	3 031 499	3 031 499
Other assets	968 404	768 564
TOTAL ASSETS	$ 440 371 927	$ 378 931 139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing deposits	$ 174 443 707	$ 141 779 719
Interest-bearing deposits	200 363 093	178 160 111
TOTAL DEPOSITS	374 806 800	319 939 830
Accrued interest and other liabilities	1 311 823	1 462 704
TOTAL LIABILITIES	376 118 623	321 402 534
Stockholders' Equity:		
Common stock, $1 par value; 5,000,000 shares authorized; 130,028 issued, 128,368 outstanding	130 028	130 028
Surplus	21 401 004	21 401 004
Retained earnings	38 443 803	36 660 399
Treasury stock (1,660 shares at cost)	(482 225)	(482 225)
Accumulated other comprehensive income (loss)	4 760 694	(180 601)
TOTAL STOCKHOLDERS' EQUITY	64 253 304	57 528 605
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 440 371 927	$ 378 931 139

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

FNB COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2020 and 2019

	2020	2019
Interest Income:		
Interest and fees on loans	$ 7 198 995	$ 6 683 491
Interest on Investment Securities:		
Taxable	2 053 435	2 748 965
Exempt from Federal income tax	706 117	602 909
Interest on deposits in banks	1 250 634	1 602 300
TOTAL INTEREST INCOME	11 209 181	11 637 665
Interest expense on deposits	475 962	576 450
Interest on Federal funds purchased	1 425	3 942
NET INTEREST INCOME	10 731 794	11 057 273
Provision for loan losses	355 000	240 000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10 376 794	10 817 273
Other Income:		
Service charges on deposit accounts	1 649 443	1 794 199
Other service charges and fees	1 925 513	1 801 091
Insurance commissions	921 887	892 813
Brokerage and advisory fees (net)	2 153 642	2 170 502
Gain/(loss) other	-	(3 640)
Other income	96 234	45 802
TOTAL OTHER INCOME	6 746 719	6 700 767
Other Expenses:		
Salaries and employee benefits	6 669 954	6 881 658
Occupancy, insurance and equipment expense	1 303 395	1 376 200
ATM processing	963 128	909 487
Deposit insurance expense	76 500	30 000
Data processing	1 391 827	1 311 255
Directors fees	209 339	198 158
Postage and freight	106 520	119 787
Printing and office supplies	194 615	203 350
Legal and professional services	282 192	267 492
Telephone	105 790	102 252
Marketing	130 032	176 393
Other operating expenses	705 319	939 691
TOTAL OTHER EXPENSES	12 138 611	12 515 723
NET INCOME	$ 4 984 902	$ 5 002 317

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

FNB COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019

	2020	2019
Net income	$ 4 984 902	$ 5 002 317
Other Comprehensive Income:		
Unrealized gains (losses) on available for sale securities arising during the period	4 941 295	3 613 933
TOTAL OTHER COMPREHENSIVE INCOME	4 941 295	3 613 933
COMPREHENSIVE INCOME	$ 9 926 197	$ 8 616 250

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

FNB COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2020 and 2019

	COMMON STOCK												
	SHARES		AMOUNT		CAPITAL SURPLUS		RETAINED EARNINGS		TREASURY STOCK		ACCUMULATED COMPREHENSIVE INCOME/(LOSS)		TOTAL EQUITY
Balance, December 31, 2018	130 028	$	130 028	$	21 401 004	$	35 123 268	$	(482 225)	$	(3 794 534)	$	52 377 541
Net income	-		-		-		5 002 317		-		-		5 002 317
Other comprehensive income	-		-		-		-		-		3 613 933		3 613 933
Distributions	-		-		-		(3 465 186)		-		-		(3 465 186)
Balance, December 31, 2019	130 028		130 028		21 401 004		36 660 399		(482 225)		(180 601)		57 528 605
Net income	-		-		-		4 984 902		-		-		4 984 902
Other comprehensive income	-		-		-		-		-		4 941 295		4 941 295
Distributions	-		-		-		(3 201 498)		-		-		(3 201 498)
Balance, December 31, 2020	130 028	$	130 028	$	21 401 004	$	38 443 803	$	(482 225)	$	4 760 694	$	64 253 304

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

FNB COMPANY 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	$ 4 984 902	$ 5 002 317
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for loan losses	355 000	240 000
Provision for depreciation	522 305	534 857
(Gain)/loss on retirement of premises and equipment	-	1 341
Loss on impairment of other real estate	-	912
FHLB dividends paid in stock	(1 300)	(3 500)
Net amortization (accretion) on investment securities	1 220 464	607 332
(Increase) decrease in accrued interest receivable	(146 633)	(20 448)
(Increase) decrease in other assets	(199 840)	290 311
Increase (decrease) in accrued interest and other liabilities	41 671	(10 930)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6 776 569	6 642 192
Cash Flows from Investing Activities:		
Purchases of interest-bearing time deposit in banks	(18 911 000)	(13 684 000)
Maturities of interest-bearing time deposit in banks	20 176 000	18 050 020
Purchases of available-for-sale securities	(112 480 806)	(79 912 878)
Payments received on mortgage backed securities	9 825 284	4 567 163
Proceeds from maturities/calls/sales of available-for-sale securities	71 249 000	64 605 000
Proceeds from maturities/calls of held-to-maturity securities	250 000	245 000
Net decrease/(increase) in loans	(14 188 820)	(623 628)
Purchases of premises and equipment	(250 352)	(492 786)
Proceeds from sale of other real estate	-	51 191
NET CASH USED BY INVESTING ACTIVITIES	(44 330 694)	(7 194 918)
Cash Flows from Financing Activities:		
Net increase (decrease) in noninterest-bearing deposits	32 663 988	(6 157 171)
Net (decrease) increase in interest bearing deposits	22 202 982	2 032 522
Distributions paid	(3 394 050)	(3 337 598)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	51 472 920	(7 462 247)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13 918 795	(8 014 973)
Cash and cash equivalents at beginning of year	13 689 267	21 704 240
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 27 608 062	$ 13 689 267
Supplemental Information:		
Cash Paid During the Year for:		
Interest	$ 488 765	$ 573 820
Non-Cash Investing and Financing Activities:		
Distributions declared but not paid	$ 706 024	$ 898 576
Increase (decrease) in securities available for sale due to unrealized gains/losses	$ 4 941 295	$ 3 613 933
Transfer of loans to other real estate	$ -	$ -

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

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

FNB Company (the "Company"), is a holding company that owns all of the capital stock of The First National Bank of Livingston (the "Bank"). The Bank owns all the capital stock of Church Street Financial, ("Church") and Polk County Title Company, Inc., ("Polk") (Note 14). "Bank", "Church", and "Polk" are referred to as the subsidiaries in these statements. The Bank's main office is located in Livingston, Texas with branches located in Livingston, Texas, and Onalaska, Texas. The Bank represents approximately 87% of the total gross revenues on the consolidated statements of income at December 31, 2020 and 2019.

The Company provides a variety of financial services to individuals and corporate customers through its subsidiaries in Polk County, Texas. The subsidiary Bank's primary deposit products are demand deposits and certificates of deposit. Its primary lending products are consumer, commercial, real estate and single family residential loans. Church provides investment services through its location in Livingston Texas.

Additionally, the Bank maintains correspondent banking relationships and transacts daily federal fund sales on an unsecured basis with regional correspondent banks. Note 2 discusses the types of securities in which the Bank invests. Note 4 discusses the types of lending in which the Bank engages. The Bank does not have any significant concentrations to any one industry or customer.

The accounting and reporting policies of the Company and its subsidiaries conform significantly to accounting principles generally accepted in the United States of American (GAAP) and practices within the banking industry. The following is a description of the more significant of those policies.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 relate to the determination of the fair value of securities available for sale, the allowance for losses on loans and the valuation of other real estate owned. In connection with the determination of the allowances for losses on loans and valuation of other real estate owned, management may obtain independent appraisals.

While management uses available information to recognize losses on loans and other real estate owned, future additions to the allowances may be necessary based on changes in local economic conditions, other risk characteristics applicable to portfolio segments or borrowers' circumstances. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

As a result of the changes inherent in the estimation process, management's estimate of the fair value of securities available for sale, the allowance for losses on loans and the valuation of other real estate owned may change in the near term.

Cash and Cash Equivalents:

Cash and cash equivalents, for purposes of the statement of cash flows, include cash and due from banks, Federal funds sold and certain investment securities and interest bearing deposits in banks with original maturities of three months or less.

Investment Securities:

Debt securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

Debt securities classified as available-for-sale are debt securities with readily determinable fair values and those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with an unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders' equity.

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Gains and losses realized on sales of investments securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things, (i) the length of time and extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Company does not intend to sell these securities, and (iv) it is more likely than not that the Company will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted stock consists of stock from the Federal Reserve Bank, Texas Independent Bank and the Federal Home Loan Bank, which are restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank's investment in these stocks are carried at cost. The Bank is required to maintain certain stock balances in the Federal Reserve Bank and the Federal Home Loan Bank.

Loans:

Loans are carried at the amount of unpaid principal, reduced by the undisbursed portion of construction loans (construction loans in process), unearned discount and an allowance for loan losses. The major loan portfolio segments include Commercial, Real Estate, Installment, Overdrafts, Consumer and Other. Within these categories, loans are secured most significantly by real estate, but are also secured by account receivables, inventory, income producing commercial properties, personal properties such as vehicles and boats and other items of property, plant and equipment. A small segment of consumer loans are unsecured. In 2020, the Bank issued Payroll Protection Plan (PPP) loans under the Cares Act. These loans are unsecured and guaranteed by the Small Business Administration (SBA).

Interest on loans is calculated by using the simple interest method on the daily balances of the principal amounts outstanding. The recognition of income on a loan is discontinued, and previously accrued interest is reversed when, in the opinion of management, it is probable that the borrower will be unable to meet payments as they become due. This generally occurs when the loan becomes 90 days delinquent, but may occur sooner should borrower circumstance dictate.

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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan origination and commitment fees are recognized as income when received. Direct loan origination costs are expensed when paid. Financial Accounting Standards Board Codification Section 310.20 *Non-Refundable Fees and Costs* requires the net effect of loan origination and commitment fees and certain direct loan origination costs to be deferred and recognized over the life of the related loan as an adjustment of yield. FNB Company and Subsidiaries do not feel the application of this standard would have a material effect on the Bank's financial position or results of operations.

In 2020, the Bank deferred the loan origination fees and the estimated direct loan origination costs associated with the Payroll Protection Plan loans. The net deferred origination fee remaining at December 31, 2020 was $193,664 which is expected to be recognized as income in 2021.

Allowance for Loan Losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Company has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and borrower, including the length of 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 owned.

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Company's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Company's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available form financial guarantors and the fair value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Company's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, real estate, installment, overdrafts, and consumer and other). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity, and size of the individual loans within the particular loan category. Classified loans are assigned higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentration of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgements of collectability based on information available to them at the time of their examination.

Management considers loans impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Company's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

The Company's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Company's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged off as follows: (a) closed end loans are charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Company is an unsecured creditor, are charged-off within 60 days of receipt of notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of borrower will cause a charge-off to be incurred at such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognized loss.

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Other Real Estate Owned and Other Assets Acquired in Settlement of Loans:

Other real estate owned and other assets are properties that have been acquired in complete or partial satisfaction of a debt. These properties are initially recorded at fair value on the date of acquisition. Any write-downs at the time of acquisition are charged to the allowance for loan loss. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of (a) fair value minus estimated costs to sell or (b) cost. Gains and losses realized on the sale, and any adjustments resulting from periodic reevaluation of the property are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred. Other assets acquired in settlement of loans consist primarily of reacquired personal property.

During the years ended December 31, 2020 and 2019, investments in mortgage loans secured by residential real estate properties where formal foreclosure procedures were in process totaled $51,199 and $-0-, respectively.

Insignificant amounts of other assets acquired in settlement of loans were repossessed during 2020 and 2019.

Bank Premises and Equipment:

Bank premises and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed using the straight-line method based on estimated useful lives of the assets. Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over asset's remaining useful life. Gains or losses realized on the disposition of properties and equipment are reflected in the statements of income. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

Off-Balance Sheet Financial Instruments:

In the ordinary course of business the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, standby letters of credit and overdraft lines of credit. Such financial instruments are recorded in the financial statements when they are funded and at that time become subject to management's evaluation related to collectability.

Self-Insurance:

Prior to December 2019, the Company was primarily self-insured for costs related to employee health care benefits, of which a portion is paid by the employees. Liabilities associated with these risks are estimated in part by considering historical claims experience and other assumptions. The Company has purchased stop loss coverage to limit exposure to claims. At December 31, 2019, the Company had recorded approximately $141,000, respectively, as an accrual for this liability.

The assumptions underlying the ultimate costs of existing claim losses are unpredictable, which can affect the liability recorded for such claims. Although the Company's estimates of liabilities incurred do not anticipate significant changes in historical trends for these variables, any changes could have a significant impact on future claim costs and current recorded liabilities.

In December 2019, the Company moved to a fully insured employee health care plan.

Income Taxes:

Effective January 1, 2010, the Company elected to become a subchapter S corporation. Under subchapter S guidelines, all federal taxable income is attributable to the Company shareholders individually.

The Company is required to pay tax to the State of Texas based on gross margin (as defined). This tax has been deemed an income tax by the Financial Accounting Standards Board and consequently requires accrual in the year the taxable gross margin is earned. For the years presented, the Consolidated Statements of Income reflects approximately $10,800 and $7,000 as state income tax expense (benefit) included in "Other Operating Expenses".

Sales Taxes:

Sales and use taxes and other such pass through state taxes are not recorded in the consolidated statements of income, but are instead collected and remitted through a liability account.

Goodwill:

Under the acquisition method of accounting, the net assets of entities acquired are recorded at their estimated fair value at date of acquisition. The excess of consideration paid over the fair value of the net assets acquired is recorded as goodwill. Goodwill is evaluated for impairment on an annual basis at December 31 of each year or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company does not believe any impairment of goodwill exists at December 31, 2020, based on its evaluation.

Brokerage and Advisory Fees:

Brokerage and advisory fees paid to Bank from its broker-dealer are net of various fees (see Note 16).

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Values of Financial Instruments:

The Company follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies the fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

Comprehensive Income:

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

Revenue Recognition - Noninterest Income:

The Company recognizes revenue when the performance obligations related to the transfer of goods and services under the terms of the contract are satisfied. Some obligations are satisfied at a point in time while others are satisfied over a period of time. Revenue is recognized as the amount of consideration to which the Company expects to be entitled to in exchange for transferring goods or services to a customer. When consideration includes a variable component, the amount of consideration attributable to variability is included in the transaction price only to the extent it is probable that significant revenue recognized will not be reversed when uncertainty associated with the variable consideration is subsequently resolved. Generally, the variability relating to the consideration is explicitly stated in the contracts, but may also arise from the Company's customer business practices, for example, waiving certain fees related to customer's deposit accounts such as NSF fees. The Company's contracts generally do not contain terms that require significant judgement to determine the variability impacting the transaction price.

Revenue is segregated based on the nature of product and services offered as part of contractual arrangements. Revenue from contracts with customers is broadly segregated as follows:

Service charges on deposit accounts includes fees and other charges the Company receives to provide various services, including but not limited to, maintaining an account with a customer, providing overdraft services, wire transfer, transferring funds, and accepting and executing stop-payment orders. The consideration includes both fixed (e.g. account maintenance fee) and transaction fees (e.g. wire-transfer fee). The fixed fee is recognized over a period of time while the transaction fee is recognized when specific service (e.g. execution of wire-transfer) is rendered to the customer. The Company may, from time to time waive certain fees (e.g. NSF fee) for customers but generally does not reduce the transaction price to reflect variability for future reversals due to the insignificance of the amounts. Waiver of fees reduces the revenue in the period the waiver is granted to the customer.

Other service charges and fees include, but not limited to, interchange fees earned on debit cards and credit cards. All other fees (e.g. annual fees) and interest income are recognized in accordance with ASC 310. The Company recognized interchange fees for services performed related to authorization and settlement of a cardholder's transaction with a merchant. Revenue is recognized when cardholder's transaction is approved and settled. The revenue may be constrained due to inherent uncertainty related to cardholder's right to return goods and services but as the uncertainty is resolved within a short period of time (generally within 30 days) interchange revenue is reduced by the amount of returns in the period the return is made by the customer.

Insurance commissions includes agency commissions that are recognized when the Company sells insurance policies to customers. The Company is also entitled to renewal commissions and, is some cases, profit sharing which are recognized in subsequent periods. The initial commission is recognized when the insurance policy is sold to a customer. Renewal commission is variable consideration and is recognized in subsequent periods when the uncertainty around the variable consideration is subsequently resolved (i.e. when customer renews the policy). Profit sharing is also variable consideration that is not recognized until the variability surrounding realization of revenue is resolved (i.e. The Company has reached a minimum volume of sales). Another source of variability is the ability of the policy holder to cancel the policy anytime. In such case, the Company may be required, under the terms of the contract, to return part of the commission received. A policy cancellation reserve is established for such expected cancellations.

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Brokerage fees includes fees and commissions charged when the Company arranges for another party to transfer brokerage services to a customer. The fees and commissions under this agent relationship are based upon stated fee schedules based upon the type of transaction, volume and value of services provided. Revenue is recognized when the service has been provided which is when the transaction settles.

Advisory fees includes fees and commissions from investment management, administrative and advisory services primarily for individuals and to a lesser extent, partnerships and corporations. Revenue is recognized on an accrual basis at the time the services are performed and when the Company has right to invoice and are based on either the market value of the assets managed or the services provided.

Other noninterest income includes a variety of other revenue streams. Revenue is recognized when, or as, a performance obligation is satisfied. Inherent variability in the transaction price is not recognized until the uncertainty affecting the variability is resolved.

Control is transferred to a customer either at a point in time or over time. A performance obligation is deemed satisfied when the control over goods or services is transferred to the customer. To determine when control is transferred at a point in time, the Company considers indicators, including but not limited to the right to payment for the asset, transfer of significant risk and rewards of ownership of the asset and acceptance of the asset by the customer. When control is transferred over a period of time, for different performance obligations, either the input or output method is used to determine the progress. The measure of progress used to assess completion of the performance obligations varies between performance obligations and may be based on time throughout the period of service or on the value of goods and services transferred to the customer. As each distinct service or activity is performed, the Company transfers control to the customer based on the services performed as the customer simultaneously receives the benefits of those services. This timing of revenue recognition aligns with the resolution of any uncertainty related to variable consideration. Costs to obtain a revenue producing contract are expensed when incurred as a practical expedient as the contractual period for majority of contracts is one year or less.

Uncertain Tax Positions:

FASB Codification Section 740 requires recognition, measurement and disclosure of uncertain tax positions. The Company currently accounts for uncertain tax positions based on the estimated likelihood of assessment and has determined that no tax positions (for interest, penalties or otherwise) require an accrual based on current standards of accounting. The Company is generally no longer subject to Federal tax examinations for tax years before 2017.

Advertising:

The Company expenses all advertising costs as incurred. These are included on the Consolidated Statements of Income as marketing expenses.

Reclassifications:

Certain reclassifications have been made to the prior period's financial statements in order to conform to the classifications used for the current year. These reclassifications had no effect on the capital, net income or net cash flows of the Bank.

Subsequent Events:

Management has evaluated subsequent events through February 11, 2021, the date the financial statements were available to be issued.

Accounting Standards Adopted in 2020

In March 2017, the FASB issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities*. This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. Under current GAAP, premiums on callable debt securities are generally amortized over the contractual life of the security. The standard will take effect for nonpublic entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Adoption of ASU 2017-08, which was effective for the Company on January 1, 2020, did not have a material impact on the Company's financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvement to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, Issue 4B*: Held-to-Maturity securities fair value disclosures. This guidance amends certain paragraphs and clarifies the exemption of entities together than public business entities from fair value disclosure requirements for financial instruments not measured at fair value on the balance sheet. Adoption of ASU 2019-04, which was effective for the Company on January 1, 2020, did not have a material impact on the Company's financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Authoritative Accounting Guidance:

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* as amended in July 2018 by ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842)*, *Targeted Improvements*, that replace existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the consolidated balance sheets. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statements of income. These ASU's are effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2020. The Company is currently evaluating the impact of the provisions of these ASUs and anticipates recognition of additional assets and corresponding liabilities relating to these leases on the consolidated balance sheets, but does not expect the adjustment to be material assuming no changes in lease activity.

The FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Current GAAP requires and *incurred loss* methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Users of financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the *probable* threshold. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for financial institutions other than public entities for fiscal years beginning after December 15, 2022, and interim periods within fiscal years beginning after December 15, 2021. At this time, the Company has not determined the impact on its financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The amendments in this guidance eliminates the requirement to calculate the implied fair value of goodwill to measure goodwill impairment charge (Step 2). As a result, an impairment charge will equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis. The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021, for nonpublic companies. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The impact of this guidance for the Company will depend on the outcomes of future goodwill impairment tests.

ASU 2019-01, *Leases (Topic 842): Codification Improvements,* addresses several issues regarding the application of FASB ASC 842, *Leases*. Under the extant guidance in FASB ASC 840, *Leases*, lessors that are financial institutions or captive finance companies may determine the fair value of any underlying leased asset at cost, adjusted for any volume or trade discounts, rather than fair value as defined in FASB ASC 820, *Fair Value Measurement.* The amendments in ASU 2019-01 allow these lessors to continue using this same method to determine the fair value of an underlying leased asset under FASB ASC 842, unless a significant amount of time has occurred between the commencement of the lease and the acquisition of the underlying asset. In addition, ASU 2019-01 clarifies that lessors within the scope of FASB ASC 942, *Financial Services - Depository and lending*, must present principal payments received from sales-type and direct financing leases as investing activities in the statement of cash flows, rather than as operating activities as required for all other lessors. The ASU also clarifies that all entities that are lessors or lessees are exempted from making certain transition disclosures in interim periods after the date of adoption. For all entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2021 and interim periods beginning after December 15, 2022. Early adoption is allowed. The Company does not expect the guidance to have a material impact on its financial statements.

In December 2018, the FASB issued ASU 2018-20, Narrow-Scope Improvements for Lessors. The ASU creates a lessor practical expedient applicable to sales and other similar taxes incurred in connection with a lease, and simplifies lessor accounting for lessor costs paid by the lessee. The ASU permits lessors, as an entity-wide accounting policy election, to present sales and other similar taxes that arise from specific leasing transaction on a net basis. The guidance requires lessors to present lessor costs paid by the lessee directly to a third party on a net basis - regardless of whether the lessor knows, can determine or can reliably estimate those costs. The guidance requires lessors to present lessor costs paid by the lessee to the lessor (e.g. though direct reimbursement or as part of the fixed lease payments) on a gross basis. The effective date is the same as the effective date of ASU 2016-02. At this time the Company is has not determined the impact of the Update on its financial statements.

In May 2019, the FASB issued ASU 2019-05, Financial Instruments - Credit Loss (Topic 826): Targeted Transition Relief. The ASU provides entities that have certain instruments within the scope of ASC Subtopic 326-20 with an option to irrevocably elect fair value option applied on instrument-by-instrument basis. The fair value option does not apply to held-to-maturity securities. The effective date is the same as the effective date of ASU 2016-13. The Company is currently evaluating the impact of the adoption of this standard would have on the financial statements and related disclosures.

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In November 2019, the FASB issued ASU 2019-11, Financial Instruments - Credit Losses (Topic 326): Codification Improvements to Topic 326. This ASU clarifies or addresses the stakeholder's specific issues related to ASU 2016-13 as described below:

- Clarifies that the allowance for purchased financial assets with credit deterioration should include expected recoveries. If a method other than a discounted cash flow method is used to calculate allowance, expected recoveries should not result in an acceleration of the noncredit discount.
- Provides transition relief by permitting entities an accounting policy election to adjust the effective interest rate on existing TDRs using prepayment assumptions on the date of adoption of Topic 326 rather than the prepayment assumptions in effect immediately before the restructuring.
- Extends the disclosure relief for accrued interest receivable balances to additional relevant disclosures involving amortized cost basis.
- Clarifies that an entity should assess whether it reasonably expects the borrower will be able to continually replenish collateral securing the financial asset to apply the practical expedient related to collateral maintenance provision.

The effective date is the same as the effective date of ASU 2016-13. The Company is currently evaluating the impact of the adoption of this standard would have on the financial statements and related disclosures.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair value of available-for-sale securities with gross unrealized gains and losses, are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSSES	ESTMATED FAIR VALUE
Securities Available for Sale:				
December 31, 2020:				
U.S. agency securities	$ 119 727 612	$ 3 063 846	$ (61 212)	$ 122 730 246
State and municipal securities	47 724 002	1 234 090	(34 197)	48 923 895
Residential mortgage backed securities	24 809 714	471 746	(18 551)	25 262 909
Other securities	1 731 000	104 972	-	1 835 972
	$ 193 992 328	$ 4 874 654	$ (113 960)	$ 198 753 022

	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities Available for Sale:				
December 31, 2019:				
U.S. agency securities	$ 95 318 525	$ 408 004	$ (698 397)	$ 95 028 132
State and municipal securities	38 092 887	333 254	(101 021)	38 325 120
Residential mortgage backed securities	28 402 733	101 334	(250 947)	28 253 120
Other securities	1 980 000	34 128	(6 957)	2 007 171
	$ 163 794 145	$ 876 720	$ (1 057 322)	$ 163 613 543

The amortized cost and carrying value of held-to-maturity securities are as follows:

	Amortized Cost December 31, 2020	Amortized Cost December 31, 2019
Securities held-to-maturity:		
State and municipal securities	$ 1 391 035	$ 1 653 161
Totals	$ 1 391 035	$ 1 653 161

No securities were sold in either period presented.

The carrying amount and fair value of investment 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.

NOTE 2 - INVESTMENT SECURITIES - CONTINUED

The scheduled maturities of debt securities at December 31, 2020, were as follows:

	AVAILABLE-FOR-SALE SECURITIES		HELD-TO-MATURITY SECURITIES
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST
Due in one year or less	$ 4 220 637	$ 4 238 777	$ 260 392
Due from one to five years	65 746 417	67 221 647	1 130 643
Due from five to ten years	96 260 325	99 058 003	-
Over ten years	2 955 235	2 971 686	-
Mortgage-backed securities	24 809 714	25 262 909	-
	$ 193 992 328	$ 198 753 022	$ 1 391 035

Investment securities with a fair value of approximately $44,061,000 and $53,117,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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	
Description of Securities:	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2020						
Available-for-Sale Securities:						
U.S. agency securities	$ 24 353 788	$ (61 212)	$ -	$ -	$ 24 353 788	$ (61 212)
State and municipal	$ 3 317 010	$ (34 197)	$ -	$ -	$ 3 317 010	$ (34 197)
Mortgage-backed securities	$ 1 542 560	$ (18 263)	$ 71 249	$ (288)	$ 1 613 809	$ (18 551)
December 31, 2019						
Available-for-Sale Securities:						
U.S. agency securities	$ 38 243 413	$ (529 660)	$ 40 124 921	$ (168 737)	$ 78 368 334	$ (698 397)
State and municipal	$ 10 840 468	$ (92 176)	$ 3 988 492	$ (8 845)	$ 14 828 960	$ (101 021)
Mortgage-backed securities	$ 12 125 006	$ (114 285)	$ 8 887 924	$ (136 662)	$ 21 012 930	$ (250 947)
Other securities	$ 989 043	$ (6 957)	$ -	$ -	$ 989 043	$ (6 957)

Management evaluates securities for other-than-temporary impairment on a periodic basis. 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.

Debt securities with unrealized losses have depreciated 0.39% and 0.91% from the Company's amortized cost basis at December 31, 2020 and 2019, respectively. These securities are guaranteed by the U.S. Government, agencies thereof or municipalities. 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 3 - RESTRICTED EQUITY SECURITIES

Restricted equity securities consist of the following at December 31:

	2020	2019
Federal Reserve Bank of Dallas	$ 392 800	$ 392 800
Federal Home Loan Bank	159 800	158 500
The Independent Bankers Bank	36 020	36 020
TOTAL	$ 588 620	$ 587 320

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company's goal is to mitigate risk from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based on credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

As of December 31, 2020 and 2019, the real estate loan portfolio constituted 72% and 78%, respectively, of the total loan portfolio. This can be broken down further into the following categories: 48.90% and 54.22% residential real estate, respectively, 15.91% and 16.49%, commercial real estate, respectively, and 7.47% and 7.40% land development loans, respectively, as a percentage of total loans.

The Company's construction and land development loans are secured by real property where the loans funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.20 to 1.00. These loans are generally underwritten with a term not greater than 20 years or the remaining useful life of the property, whichever is lower.

Residential real estate loans are secured by improved real property of the borrower and are underwritten with terms up to 30 years.

The Company also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and account receivable financing. This category represents 10% of the loan portfolio at December 31, 2020. Loans in this category generally carry a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

Outstanding Loans:

The tables below present an aged analysis of the Bank's loan portfolio by major loan classification as of December 31, 2020 and December 31, 2019.

	0-59 DAYS PAST DUE	60-89 DAYS PAST DUE	GREATER THAN 90 DAYS PAST DUE	TOTAL PAST DUE	CURRENT	BALANCE DECEMBER 31, 2020
Commercial	$ 108 094	$ -	$ -	$ 108 094	$ 10 675 267	$ 10 783 361
Commercial SBA PPP	-	-	-	-	16 705 190	16 705 190
Real estate	4 073 462	10 989	51 199	4 135 650	99 742 412	103 878 062
Installment	-	-	-	-	1 515	1 515
Overdrafts	-	-	-	-	131 821	131 821
Consumer and other	715 903	51 391	-	767 294	10 550 266	11 317 560
	$ 4 897 459	$ 62 380	$ 51 199	$ 5 011 038	$ 137 806 471	142 817 509
Construction loans in process						(2 973 451)
Deferred loan fees						(193 664)
						139 650 394
Allowance for loan losses						(2 299 136)
						$ 137 351 258

	0-59 DAYS PAST DUE	60-89 DAYS PAST DUE	GREATER THAN 90 DAYS PAST DUE	TOTAL PAST DUE	CURRENT	BALANCE DECEMBER 31, 2019
Commercial	$ 320 068	$ 54 048	$ -	$ 374 116	$ 13 298 716	$ 13 672 832
Real estate	3 799 743	28 486	217 696	4 045 925	94 794 552	98 840 477
Installment	-	-	-	-	-	-
Overdrafts	-	-	-	-	265 036	265 036
Consumer and other	651 334	-	90 569	741 903	13 142 123	13 884 026
	$ 4 771 145	$ 82 534	$ 308 265	$ 5 161 944	$ 121 500 427	126 662 371
Construction loans in process						(913 651)
						125 748 720
Allowance for loan losses						(2 231 282)
						$ 123 517 438

Past due real estate loans consist of residential (72% in 2020 and 75% in 2019) and commercial (28% in 2020 and 25% in 2019).

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

Nonaccrual Loans:

The table below includes the Bank's nonaccrual loans, including nonperforming trouble debt restructures and loans past due 90 days, or more at December 31, 2020 and 2019.

	NONACCRUAL LOANS DECEMBER 31,		ACCRUING PAST DUE 90 DAYS OR MORE DECEMBER 31,	
	2020	2019	2020	2019
Commercial	$ 47 895	$ 78 422	$ -	$ -
Real estate	352 582	423 966	-	-
Consumer	53 693	110 584	-	-
TOTAL	$ 454 170	$ 612 972	$ -	$ -

The difference between interest income that would have been recorded under the original terms of such loans and that which was recorded is not significant to these financial statements.

Credit Quality Indicators:

The Bank monitors credit quality within its major loan classifications. The results of this classification process is a factor in the risk characteristics used in establishing the allowance for loan losses. These loans are evaluated and internally classified by the Bank as pass, special mention, substandard, doubtful or loss.

Pass - An asset classified pass is one that does not possess any weaknesses by management sufficient to warrant a more adverse classification.

Special Mention - A *special mention* asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard - A *substandard* asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful - An asset classified *doubtful* has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss - Assets classified *loss* are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future. Amounts classified as loss are generally charged off to the allowance for loan losses upon such classification.

The remaining loans are classified as pass. The following presents the Bank's loan classification as of December 31, 2020 and 2019 by its major loan classifications.

	2020					
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS	TOTAL
Commercial	$ 10 535 126	$ -	$ 54 571	$ -	$ -	$ 10 589 697
Commercial SBA PPP	16 705 190	-	-	-	-	16 705 190
Real estate	97 143 817	253 272	3 507 522	-	-	100 904 611
Installment	1 515	-	-	-	-	1 515
Overdrafts	131 821	-	-	-	-	131 821
Consumer and other	11 097 029	40 082	177 298	3 151	-	11 317 560
TOTAL	$ 135 614 498	$ 293 354	$ 3 739 391	$ 3 151	$ -	$ 139 650 394

	2019					
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS	TOTAL
Commercial	$ 13 316 860	$ -	$ 355 972	$ -	$ -	$ 13 672 832
Real estate	94 558 680	66 422	3 301 724	-	-	97 926 826
Installment	-	-	-	-	-	-
Overdrafts	265 036	-	-	-	-	265 036
Consumer and other	13 637 631	-	149 888	96 507	-	13 884 026
TOTAL	$ 121 778 207	$ 66 422	$ 3 807 584	$ 96 507	$ -	$ 125 748 720

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

Allowance for Credit Loss:

The detail below reflects the changes in the allowance for loan losses by the Bank's major loan classifications for the years ended December 31, 2020 and 2019:

	COM-MERCIAL	REAL ESTATE	OVER-DRAFTS	CONSUMER AND OTHER	UN-ALLOCATED	TOTAL
ALLOWANCE FOR LOAN LOSSES DECEMBER 31, 2018	$ 225 283	$ 1 238 822	$ 144 028	$ 320 887	$ 262 531	$ 2 191 551
Loans charged off	(15 915)	(38 303)	(163 098)	(56 554)	-	(273 870)
Recoveries of loans previously charged off	-	-	45 001	28 600	-	73 601
NET CHARGE OFFS	(15 915)	(38 303)	(118 097)	(27 954)	-	(200 269)
Provision for loan and lease losses	17 801	92 597	139 567	43 262	(53 227)	240 000
ALLOWANCE FOR LOAN LOSSES DECEMBER 31, 2019	227 169	1 293 116	165 498	336 195	209 304	2 231 282
Loans charged off	(127 232)	(4 237)	(134 058)	(102 589)	-	(368 116)
Recoveries of loans previously charged off	815	4 275	57 450	18 430	-	80 970
NET CHARGE OFFS	(126 417)	38	(76 608)	(84 159)	-	(287 146)
Provision for loan and lease losses	281 139	(157 866)	89 754	14 240	127 733	355 000
ALLOWANCE FOR LOAN LOSSES DECEMBER 31, 2020	$ 381 891	$ 1 135 288	$ 178 644	$ 266 276	$ 337 037	$ 2 299 136

The table below represents the allowance and the carrying value of outstanding loans and leases by portfolio segment at December 31, 2020 and 2019:

DECEMBER 31, 2020	COM-MERCIAL	REAL ESTATE	INSTALL-MENT	CONSUMER AND OTHER	OVER-DRAFTS	TOTAL
Impaired Loans and Trouble Debt Restructurings:						
Allowance for loans and lease losses	$ 16 293	$ 65 699	$ -	$ 76 116	$ -	$ 158 108
Unpaid principal balance	$ 47 895	$ 352 582	$ -	$ 134 409	$ -	$ 534 886
Allowance as a percentage of unpaid principal balance	34.02%	18.63%	- %	56.63%	- %	29.56%
Collectively Evaluated for Impairment:						
Allowance for loans and lease losses	$ 365 598	$ 1 069 589	$ -	$ 190 160	$ 178 644	$ 1 803 991
Unpaid principal balance	$ 27 246 992	$ 100 552 029	$ 1 515	$ 11 183 151	$ 131 821	$ 139 115 508
Allowance as a percentage of unpaid principal balance	1.34%	1.06%	- %	1.70%	135.52%	1.30%
Total:						
Allowance for loans and lease losses	$ 381 891	$ 1 135 288	$ -	$ 266 276	$ 178 644	$ 1 962 099
Unallocated portion						337 037
Total allowance						2 299 136
Unpaid principal balance	$ 27 294 887	$ 100 904 611	$ 1 515	$ 11 317 560	$ 131 821	$ 139 650 394
Allowance as a percentage of unpaid principal balance	1.40%	1.13%	- %	2.35%	135.52%	1.65%

DECEMBER 31, 2019	COM-MERCIAL	REAL ESTATE	INSTALL-MENT	CONSUMER AND OTHER	OVER-DRAFTS	TOTAL
Impaired Loans and Trouble Debt Restructurings:						
Allowance for loans and lease losses	$ 42 586	$ 49 445	$ -	$ 79 341	$ -	$ 171 372
Unpaid principal balance	$ 104 471	$ 570 948	$ -	$ 205 986	$ -	$ 881 405
Allowance as a percentage of unpaid principal balance	40.76%	8.66%	- %	38.52%	- %	19.44%
Collectively Evaluated for Impairment:						
Allowance for loans and lease losses	$ 184 583	$ 1 243 671	$ -	$ 256 854	$ 165 498	$ 1 850 606
Unpaid principal balance	$ 13 568 361	$ 97 355 878	$ -	$ 13 678 040	$ 265 036	$ 124 867 315
Allowance as a percentage of unpaid principal balance	1.36%	1.28%	- %	1.88%	62.44%	1.48%
Total:						
Allowance for loans and lease losses	$ 227 169	$ 1 293 116	$ -	$ 336 195	$ 165 498	$ 2 021 978
Unallocated portion						209 304
Total allowance						2 231 282
Unpaid principal balance	$ 13 672 832	$ 97 926 826	$ -	$ 13 884 026	$ 265 036	$ 125 748 720
Allowance as a percentage of unpaid principal balance	1.66%	1.32%	- %	2.42%	62.44%	1.77%

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED

Impaired Loans and Trouble Debt Restructurings:

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Information on impaired loans for the years ended December 31, 2020 and 2019 are as follows:

	DECEMBER 31, 2020			
	UNPAID PRINCIPAL BALANCE	CARRYING VALUE	RELATED ALLOWANCE	AVERAGE CARRYING AMOUNT
With no Related Allowance Recorded:				
Commercial	$ -	$ -	$ -	$ 6 281
Real estate	211 883	211 883	-	245 702
Consumer and other	-	-	-	-
TOTAL	211 883	211 883	-	251 983
With an Allowance Recorded:				
Commercial	47 895	31 603	16 292	40 464
Real estate	140 699	75 000	65 699	158 491
Consumer and other	134 409	58 293	76 116	92 469
TOTAL	323 003	164 896	158 107	291 424
Total:				
Commercial	47 895	31 603	16 292	46 745
Real estate	352 582	286 883	65 699	404 193
Consumer and other	134 409	58 293	76 116	92 469
TOTAL	$ 534 886	$ 376 779	$ 158 107	$ 543 407

	DECEMBER 31, 2019			
	UNPAID PRINCIPAL BALANCE	CARRYING VALUE	RELATED ALLOWANCE	AVERAGE CARRYING AMOUNT
With no Related Allowance Recorded:				
Commercial	$ 12 561	$ 12 561	$ -	$ 6 281
Real estate	279 521	279 521	-	236 239
Consumer and other	-	-	-	6 432
TOTAL	292 082	292 082	-	248 952
With an Allowance Recorded:				
Commercial	91 910	49 324	42 586	95 128
Real estate	291 427	241 982	49 445	248 467
Consumer and other	205 986	126 645	79 341	123 978
TOTAL	589 323	417 951	171 372	467 573
Total:				
Commercial	104 471	61 885	42 586	101 409
Real estate	570 948	521 503	49 445	484 706
Consumer and other	205 986	126 645	79 341	130 410
TOTAL	$ 881 405	$ 710 033	$ 171 372	$ 716 525

Income recognized during the periods presented related to impaired loans is not considered significant for separate disclosure.

The Bank is not committed to lend additional funds to debtors whose loans have been modified.

The aggregate amount of loans owed to the Bank by employees, directors and executive officers of the Bank and its subsidiaries and directors, executive officers and principal holders of the Company and their related entities totaled approximately $3,544,000 and $4,730,000 at December 31, 2020 and 2019, respectively. Activity during the years presented for these loans are approximately as follows:

	2020	2019
Balance, beginning of year	$ 4 730 000	$ 5 081 000
Advances	1 515 000	1 128 000
Repayments	(2 375 000)	(1 462 000)
Additions - Hires with existing loans	-	128 000
Reductions - No longer employed	(326 000)	(145 000)
BALANCE END OF YEAR	$ 3 544 000	$ 4 730 000

NOTE 5 - BANK PREMISES AND EQUIPMENT

Major classifications of these assets as of December 31 are summarized as follows:

	2020	2019	USEFUL LIVES IN YEARS
Land	$ 2 959 635	$ 2 959 635	-
Building and improvements	9 813 236	9 763 618	5-40
Furniture and equipment	3 151 413	3 110 271	3-10
Computer software	746 426	670 370	3-5
Automobiles	135 508	135 508	3-4
Equipment in process	83 566	-	
TOTAL COST	16 889 784	16 639 402	
Accumulated depreciation	(8 614 269)	(8 091 934)	
NET BOOK VALUE	$ 8 275 515	$ 8 547 468	

Depreciation expense amounted to $522,305 and $534,857 in 2020 and 2019, respectively and is included as a component of occupancy and equipment expense on the consolidated statements of income.

NOTE 6 - DEPOSITS

Certificates of deposits and other time deposits issued in denominations that meet or exceed FDIC insurance limit of $250,000 or more totaled approximately $2,663,000 and $2,103,000 at December 31, 2020 and 2019, respectively, and are included in interest-bearing deposits in the consolidated balance sheet.

Certificates of deposit and other time deposits maturing in years ending December 31, are as follows:

2021	$ 31 731 001
2022	2 651 901
2023	1 854 627
2024	1 779 736
2025	1 006 014
Thereafter	-
TOTAL	$ 39 023 279

Deposits due to directors, officers, significant shareholders and their affiliates approximated $12,994,000 and $10,590,000 at December 31, 2020 and 2019, respectively.

Interest on deposits for the years ended December 31, 2020 and 2019 consists of the following:

	2020	2019
Now accounts	$ 16 471	$ 27 766
Savings accounts	68 646	102 778
Money market accounts	25 452	39 000
Certificates of deposit	365 393	406 906
TOTAL	$ 475 962	$ 576 450

Overdraft demand deposits of $131,821 and $265,036 respectively have been classified as loans in the accompanying financial statements.

NOTE 7 - LINE OF CREDIT

The Bank has two lines of credit to purchase Federal funds in the amount of $11,000,000 unsecured and $9,000,000 secured by certain investment securities that expires upon cancellation. The Bank had $-0- and $-0- of Federal funds purchased drawn at December 31, 2020 and 2019, respectively.

NOTE 8 - RETIREMENT PLANS

The Company sponsors a 401(k) Retirement Plan ("Plan") for the Company and its subsidiaries, which is in effect for substantially all full-time employees (if they elect to be covered). The Company, at its discretion, may match a portion of each employee's contribution. The Company, at its discretion, may make an additional contribution as of each December 31. Contributions to the plan amounted to approximately $462,000 and $490,000 for 2020 and 2019, respectively and are included in salaries and employee benefits on the consolidated statements of income.

NOTE 9 - FINANCIAL INSTRUMENTS

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Company had financial instruments whose contract or notional amounts represent credit risk of approximately the following:

	DECEMBER 31,	
	2020	2019
Commitments to extend credit	$ 3 206 000	$ 1 660 000
Standby letters of credit	$ 69 000	$ 63 000
Overdraft lines of credit (unfunded)	$ 5 326 000	$ 5 382 000
Unfunded portion of construction loans	$ 2 973 000	$ 907 000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses, are generally variable rate in nature 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. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include real estate; accounts receivable; inventory; property, plant, and equipment; and income-producing commercial properties. Of the commitments to extend credit, approximately $110,000 and $148,000 were to related party borrowers at December 31, 2020 and 2019, respectively.

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. Standby letters of credit generally have fixed expiration dates and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held for the standby letters of credit primarily consists of certificates of deposit.

Overdraft lines of credit represent amounts available for deposit customers to overdraft deposit accounts. Outstanding overdrafts as of December 31, 2020 and 2019 were approximately $132,000 and $265,000, respectively. Of these outstanding overdrafts, approximately $91,000 and $196,000 were amounts drawn on overdraft lines of credit as of December 31, 2020 and 2019.

FASB ASC 820, *Fair Value Measurement*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurement are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below:

- Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 - Valuations for assets or liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable asset or liabilities which use observable inputs other than Level 1 prices, such as quoted prices from similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE 9 - FINANCIAL INSTRUMENTS - CONTINUED

Fair values of assets and liabilities are presented on the consolidated balances sheets measured on a recurring basis at December 31, 2020 and 2019 are as follows:

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2020				
Available-for-Sale Securities:				
U. S. agency securities	$ 122 730 246	$ -	$ 122 730 246	$ -
State and municipal securities	48 923 896	-	48 923 896	-
Residential mortgage backed securities	25 262 908	-	25 262 908	-
Other securities	1 835 972	-	1 835 972	-
	$ 198 753 022	$ -	$ 198 753 022	$ -

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2019				
Available-for-Sale Securities:				
U. S. agency securities	$ 95 028 132	$ -	$ 95 028 132	$ -
State and municipal securities	38 325 120	-	38 325 120	-
Residential mortgage backed securities	28 253 120	-	28 253 120	-
Other securities	2 007 171	-	2 007 171	-
	$ 163 613 543	$ -	$ 163 613 543	$ -

Fair value of available for sale securities is based on discounted cash flow analysis based on observable inputs reflective of Level 2 inputs. These inputs include market quotes for similar instruments, current market yields and offering sheets.

The following tables set forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2020 and 2019:

		FAIR VALUE MEASUREMENTS USING		
	DECEMBER 31, 2020	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Impaired Loans:				
Commercial	$ 47 895	$ -	$ -	$ 47 895
Real estate	352 582	-	-	352 582
Consumer	134 409	-	-	134 409
TOTAL IMPAIRED LOANS	$ 534 886	$ -	$ -	$ 534 886
Other Real Estate Owned:				
Residential real estate	$ -	$ -	$ -	$ -
TOTAL OTHER REAL ESTATE OWNED	$ -	$ -	$ -	$ -
Goodwill	$ 3 031 499	$ -	$ -	$ 3 031 499

NOTE 9 - FINANCIAL INSTRUMENTS - CONTINUED

	DECEMBER 31, 2019	FAIR VALUE MEASUREMENTS USING: QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Impaired Loans:				
Commercial	$ 104 471	$ -	$ -	$ 104 471
Real estate	570 948	-	-	570 948
Consumer	205 986	-	-	205 986
TOTAL IMPAIRED LOANS	$ 881 405	$ -	$ -	$ 881 405
Other Real Estate Owned:				
Residential real estate	$ -	$ -	$ -	$ -
TOTAL OTHER REAL ESTATE OWNED	$ -	$ -	$ -	$ -
Goodwill	$ 3 031 499	$ -	$ -	$ 3 031 499

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. Financial assets and liabilities measured at fair value on nonrecurring basis include the following:

Goodwill

Fair market value of goodwill is determined on a nonrecurring basis in order to determine if any impairment exists. In order to estimate the fair value of goodwill the Company uses inputs such as values of similar entities.

Impaired Loans

Certain impaired loans are reported at fair value of underlying collateral if repayment is expected solely from the collateral. The impaired loans are reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses. 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

OREO acquired by foreclosure are adjusted to fair value upon transfer of the loans to foreclosed properties. Subsequently, foreclosed properties are carried at the lower of carrying value or fair value. The estimated fair value for foreclosed properties included in Level 3 is determined by independent market based appraisals and other available market information. Discounts applied to appraisals have predominately been between 0% and 50%; however, in certain cases the discounts have ranged up to 75%, which include estimated costs to sell or other reductions based on market expectations or an executed sales contract. If fair value of the collateral deteriorates subsequent to initial recognition, the Company records the foreclosed properties as a nonrecurring Level 3 adjustment. Valuation techniques are consistent with those applied in prior periods.

NOTE 10 - CONCENTRATION OF CREDIT RISK

The Company periodically carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed Federal deposit insurance limits. From time to time, the Bank is also due amounts in excess of FDIC insurance limits for checks and transit items. The Federal Deposit Insurance Corporation (FDIC) provides deposit insurance coverage for amounts up to $250,000 for substantially all depository accounts. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Bank.

NOTE 11 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct, material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

NOTE 11 - REGULATORY MATTERS - CONTINUED

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Common and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020 and 2019, the most recent notification from the Office of the Comptroller of Currency categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, minimum total risk-based, Tier I risk based common equity Tier I risk based and Tier I leverage ratios as set forth in the table must be maintained. There are no conditions or events since that notification that management believes have changed the Bank's categories.

Actual capital amounts and ratios are presented in the table for the Bank (in thousands). Bank only amounts and percentages are presented as they do not differ materially from bank holding company amounts and percentages.

	ACTUAL			FOR CAPITAL ADEQUACY PURPOSES			TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS		
		AMOUNT	RATIO		AMOUNT	RATIO		AMOUNT	RATIO
As of December 31, 2020:									
Total Risk Based Capital (to Risk Weighted Assets)	$	58 165	42.23%	$	≥14 463	≥ 10.50%	$	≥13 774	≥ 10.00%
Tier I Capital (to Risk Weighted Assets)	$	56 437	40.97%	$	≥11 708	≥ 8.50%	$	≥11 019	≥ 8.00%
Common Equity Tier I Capital Ratio (to Risk Weighted Assets)	$	56 437	40.97%	$	≥ 8 265	≥ 6.00%	$	≥ 8 953	≥ 6.50%
Tier I Leverage Capital (to Average Assets)	$	56 437	13.10%	$	≥17 239	≥ 4.00%	$	≥21 549	≥ 5.00%
As of December 31, 2019:									
Total Risk Based Capital (to Risk Weighted Assets)	$	56 256	44.03%	$	≥13 414	≥ 10.50%	$	≥12 776	≥ 10.00%
Tier I Capital (to Risk Weighted Assets)	$	56 652	42.78%	$	≥10 859	≥ 8.50%	$	≥10 221	≥ 8.00%
Common Equity Tier I Capital Ratio (to Risk Weighted Assets)	$	56 652	42.78%	$	≥ 7 665	≥ 6.00%	$	≥ 8 304	≥ 6.50%
Tier I Leverage Capital (to Average Assets)	$	56 652	14.26%	$	≥15 329	≥ 4.00%	$	≥19 161	≥ 5.00%

The above risk-weighted capital ratios for capital adequacy purposes include a 2.50% capital conservation buffer. Financial institutions with a buffer greater than 2.50% are not subject to limits on capital distributions or discretionary bonus payments beyond those currently included in regulations. As reflected above, the Bank's capital was sufficient to exceed its minimum capital requirements including the required capital conservation buffer.

Although Federal Reserve regulations regarding specific capital requirements do not generally apply to Bank Holding Companies with consolidated assets of less than $3 billion, the Federal Reserve may apply capital guidelines to the Company on a consolidated basis, regardless of asset size, if such action is warranted for supervisory purposes.

NOTE 12 - RESTRICTIONS ON DISTRIBUTIONS (DIVIDENDS)

The Bank is subject to certain restrictions on the amount of distributions that it may pay without prior regulatory approval. The Bank normally restricts distributions to a lesser amount. At December 31, 2020, retained earnings of approximately $5,533,000, were available to the Bank for the payment of distributions without prior regulatory approval. The distributions may not be paid by the Bank without regulatory approval if capital requirements will not be met subsequent to the dividend.

As a subchapter S corporation, the Company may also be limited as to distributions based on previous retained subchapter S earnings or bank capital requirements as noted above.

NOTE 13 - RESTRICTION ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2020, was approximately $-0-.

NOTE 14 - DISCONTINUED OPERATIONS

Effective December 31, 2010, the physical assets and related title and abstract business of Polk County Title Company, Inc. were sold. Polk County Title Company, Inc. will remain in existence for a period of years in accordance with certain legal requirements and may generate or expend insignificant amounts of cash flow during the remaining years of its existence.

NOTE 15 - COMPONENTS OF OTHER COMPREHENSIVE INCOME

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2020 and 2019.

	YEARS ENDED					
	DECEMBER 31, 2020			DECEMBER 31, 2019		
	BEFORE TAX	TAX EFFECT	NET OF TAX	BEFORE TAX	TAX EFFECT	NET OF TAX
Changes in net unrealized gains on securities available for sale	$ 4 941 295	$ -	$ 4 941 295	$ 3 613 933	$ -	$ 3 613 933
OTHER COMPREHENSIVE INCOME (LOSS)	$ 4 941 295	$ -	$ 4 941 295	$ 3 613 933	$ -	$ 3 613 933

The following table presents the changes in each component of accumulated other comprehensive income, net of tax, for the years ended December 31, 2020 and 2019.

	SECURITIES AVAILABLE FOR SALE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Balance at December 31, 2018	$ (3 794 534)	$ (3 794 534)
Other comprehensive income before reclassifications	3 613 933	3 613 933
Balance at December 31, 2019	(180 601)	(180 601)
Other comprehensive income before reclassifications	4 941 295	4 941 295
Balance at December 31, 2020	$ 4 760 694	$ 4 760 694

NOTE 16 - BROKERAGE AND ADVISORY FEES

Net brokerage and advisory fees consists of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Gross brokerage and advisory fees	$ 2 663 040	$ 2 610 744
Expenses:		
Broker dealer	222 378	216 103
Brokerage ticket charges	232 922	157 173
Insurance expense	17 224	21 009
Technology expense	12 321	13 320
Brokerage bundled fees	8 283	9 388
Other expenses	16 270	23 249
TOTAL EXPENSES	509 398	440 242
NET BROKERAGE AND ADVISORY FEES	$ 2 153 642	$ 2 170 502

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
FNB Company and Subsidiaries
Livingston, Texas

We have audited the consolidated financial statements of FNB Company and Subsidiaries as of and for the years ended December 31, 2020 and 2019, and our report thereon dated February 11, 2021 which expressed an unmodified opinion on those financial statements appears on page 3. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
February 11, 2021

CONSOLIDATING SUPPLEMENTARY INFORMATION

FNB COMPANY AND SUBSIDIARIES

FNB COMPANY AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2020

	FNB COMPANY	THE FIRST NATIONAL BANK OF LIVINGSTON	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
ASSETS				
Cash and due from banks	$ 23 390	$ 27 608 062	$ (23 390)	$ 27 608 062
Interest bearing deposits in banks	-	60 820 000	-	60 820 000
Securities available-for-sale	-	198 753 022	-	198 753 022
Securities held-to-maturity	-	1 391 035	-	1 391 035
Restricted equity securities	-	588 620	-	588 620
Investment in subsidiaries	64 229 979	-	(64 229 979)	-
Loans, less allowance for loan losses	-	137 351 258	-	137 351 258
Bank premises and equipment, net	-	8 275 515	-	8 275 515
Accrued interest receivable	-	1 584 512	-	1 584 512
Goodwill, net	-	3 031 499	-	3 031 499
Other assets	705 959	968 469	(706 024)	968 404
TOTAL ASSETS	$ 64 959 328	$ 440 371 992	$ (64 959 393)	$ 440 371 927
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing deposits	$ -	$ 174 467 097	$ (23 390)	$ 174 443 707
Interest-bearing deposits	-	200 363 093	-	200 363 093
TOTAL DEPOSITS	-	374 830 190	(23 390)	374 806 800
Accrued interest and other liabilities	706 024	1 311 823	(706 024)	1 311 823
TOTAL LIABILITIES	706 024	376 142 013	(729 414)	376 118 623
Stockholders' Equity:				
Common stock	130 028	479 000	(479 000)	130 028
Surplus	21 401 004	12 612 340	(12 612 340)	21 401 004
Retained earnings	38 443 803	46 377 945	(46 377 945)	38 443 803
Treasury stock	(482 225)	-	-	(482 225)
Accumulated other comprehensive income	4 760 694	4 760 694	(4 760 694)	4 760 694
TOTAL STOCKHOLDERS' EQUITY	64 253 304	64 229 979	(64 229 979)	64 253 304
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 64 959 328	$ 440 371 992	$ (64 959 393)	$ 440 371 927

See independent auditors' report on supplementary information.

FNB COMPANY AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2019

	FNB COMPANY	THE FIRST NATIONAL BANK OF LIVINGSTON	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
ASSETS				
Cash and due from banks	$ 24 380	$ 13 689 267	$ (24 380)	$ 13 689 267
Interest bearing deposits in banks	-	62 085 000	-	62 085 000
Securities available-for-sale	-	163 613 543	-	163 613 543
Securities held-to-maturity	-	1 653 161	-	1 653 161
Restricted equity securities	-	587 320	-	587 320
Investment in subsidiaries	57 504 288	-	(57 504 288)	-
Loans, less allowance for loan losses	-	123 517 438	-	123 517 438
Bank premises and equipment, net	-	8 547 468	-	8 547 468
Accrued interest receivable	-	1 437 879	-	1 437 879
Goodwill, net	-	3 031 499	-	3 031 499
Other assets	898 513	769 407	(899 356)	768 564
TOTAL ASSETS	$ 58 427 181	$ 378 931 982	$ (58 428 024)	$ 378 931 139
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing deposits	$ -	$ 141 804 099	$ (24 380)	$ 141 779 719
Interest-bearing deposits	-	178 160 111	-	178 160 111
TOTAL DEPOSITS	-	319 964 210	(24 380)	319 939 830
Accrued interest and other liabilities	898 576	1 463 484	(899 356)	1 462 704
TOTAL LIABILITIES	898 576	321 427 694	(923 736)	321 402 534
Stockholders' Equity:				
Common stock	130 028	479 000	(479 000)	130 028
Surplus	21 401 004	12 612 340	(12 612 340)	21 401 004
Retained earnings	36 660 399	44 593 550	(44 593 550)	36 660 399
Treasury stock	(482 225)	-	-	(482 225)
Accumulated other comprehensive income	(180 601)	(180 602)	180 602	(180 601)
TOTAL STOCKHOLDERS' EQUITY	57 528 605	57 504 288	(57 504 288)	57 528 605
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 58 427 181	$ 378 931 982	$ (58 428 024)	$ 378 931 139

See independent auditors' report on supplementary information.

FNB COMPANY AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2020

	FNB COMPANY	THE FIRST NATIONAL BANK OF LIVINGSTON	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
Interest Income:				
Interest and fees on loans	$ -	$ 7 198 995	$ -	$ 7 198 995
Interest on Investment Securities:				
Taxable	-	2 053 435	-	2 053 435
Exempt from Federal income tax	-	706 117	-	706 117
Interest on deposits in banks	-	1 250 634	-	1 250 634
TOTAL INTEREST INCOME	-	11 209 181	-	11 209 181
Interest expense on deposits	-	475 962	-	475 962
Interest on Federal funds purchased	-	1 425	-	1 425
NET INTEREST INCOME	-	10 731 794	-	10 731 794
Provision for loan losses	-	355 000	-	355 000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	-	10 376 794	-	10 376 794
Other Income:				
Service charges on deposit accounts	-	1 649 443	-	1 649 443
Other service charges and fees	-	1 925 513	-	1 925 513
Equity in earnings of subsidiaries	4 985 893	-	(4 985 893)	-
Insurance commissions	-	921 887	-	921 887
Brokerage commissions (net)	-	2 153 642	-	2 153 642
Other income	892	95 342	-	96 234
TOTAL OTHER INCOME	4 986 785	6 745 827	(4 985 893)	6 746 719
Other Expenses:				
Salaries and employee benefits	-	6 669 954	-	6 669 954
Occupancy, insurance and equipment expense	-	1 303 395	-	1 303 395
ATM processing	-	963 128	-	963 128
Deposit insurance expense	-	76 500	-	76 500
Data processing	-	1 391 827	-	1 391 827
Directors fees	-	209 339	-	209 339
Postage and freight	-	106 520	-	106 520
Printing and office supplies	-	194 615	-	194 615
Legal and professional services	1 828	280 364	-	282 192
Telephone	-	105 790	-	105 790
Marketing	-	130 032	-	130 032
Other operating expenses	55	705 264	-	705 319
TOTAL OTHER EXPENSES	1 883	12 136 728	-	12 138 611
NET INCOME	$ 4 984 902	$ 4 985 893	$ (4 985 893)	$ 4 984 902

See independent auditors' report on supplementary information.

FNB COMPANY AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2019

	FNB COMPANY	THE FIRST NATIONAL BANK OF LIVINGSTON	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
Interest Income:				
Interest and fees on loans	$ -	$ 6 683 491	$ -	$ 6 683 491
Interest on Investment Securities:				
Taxable	-	2 748 965	-	2 748 965
Exempt from Federal income tax	-	602 909	-	602 909
Interest on deposits in banks	-	1 602 300	-	1 602 300
TOTAL INTEREST INCOME	-	11 637 665	-	11 637 665
Interest expense on deposits	-	576 450	-	576 450
Interest on Federal funds purchased	-	3 942	-	3 942
NET INTEREST INCOME	-	11 057 273	-	11 057 273
Provision for loan losses	-	240 000	-	240 000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	-	10 817 273	-	10 817 273
Other Income:				
Service charges on deposit accounts	-	1 794 199	-	1 794 199
Other service charges and fees	-	1 801 091	-	1 801 091
Equity in earnings of subsidiaries	5 000 888	-	(5 000 888)	-
Insurance commissions	-	892 813	-	892 813
Brokerage commissions (net)	-	2 170 502	-	2 170 502
Gain/(loss) other	-	(3 640)	-	(3 640)
Other income	2 897	42 905	-	45 802
TOTAL OTHER INCOME	5 003 785	6 697 870	(5 000 888)	6 700 767
Other Expenses:				
Salaries and employee benefits	-	6 881 658	-	6 881 658
Occupancy, insurance and equipment expense	-	1 376 200	-	1 376 200
ATM processing	-	909 487	-	909 487
Deposit insurance expense	-	30 000	-	30 000
Data processing	-	1 311 255	-	1 311 255
Directors fees	-	198 158	-	198 158
Postage and freight	-	119 787	-	119 787
Printing and office supplies	-	203 350	-	203 350
Legal and professional services	1 364	266 128	-	267 492
Telephone	-	102 252	-	102 252
Marketing	-	176 393	-	176 393
Other operating expenses	104	939 587	-	939 691
TOTAL OTHER EXPENSES	1 468	12 514 255	-	12 515 723
NET INCOME	$ 5 002 317	$ 5 000 888	$ (5 000 888)	$ 5 002 317

See independent auditors' report on supplementary information.

CONSOLIDATING SUPPLEMENTARY INFORMATION

THE FIRST NATIONAL BANK OF LIVINGSTON AND SUBSIDIARIES

THE FIRST NATIONAL BANK OF LIVINGSTON AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2020

	THE FIRST NATIONAL BANK OF LIVINGSTON	CHURCH STREET FINANCIAL	POLK COUNTY TITLE COMPANY, INC.	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
ASSETS					
Cash and due from banks	$ 27 608 062	$ 295 323	$ 36 120	$ (331 443)	$ 27 608 062
Interest bearing deposits in banks	60 820 000	-	-	-	60 820 000
Securities available-for-sale	198 753 022	-	-	-	198 753 022
Securities held-to-maturity	1 391 035	-	-	-	1 391 035
Restricted equity securities	588 620	-	-	-	588 620
Investment in subsidiaries	433 944	-	-	(433 944)	-
Loans, less allowance for loan losses	137 351 258	-	-	-	137 351 258
Bank premises and equipment, net	8 238 737	36 778	-	-	8 275 515
Accrued interest receivable	1 584 512	-	-	-	1 584 512
Goodwill, net	3 031 499	-	-	-	3 031 499
Other assets	947 453	170 939	-	(149 923)	968 469
TOTAL ASSETS	$ 440 748 142	$ 503 040	$ 36 120	$ (915 310)	$ 440 371 992
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Noninterest-bearing deposits	$ 174 798 540	$ -	$ -	$ (331 443)	$ 174 467 097
Interest-bearing deposits	200 363 093	-	-	-	200 363 093
TOTAL DEPOSITS	375 161 633	-	-	(331 443)	374 830 190
Accrued interest and other liabilities	1 356 530	105 216	-	(149 923)	1 311 823
TOTAL LIABILITIES	376 518 163	105 216	-	(481 366)	376 142 013
Stockholders' Equity:					
Common stock	479 000	350 000	2 000	(352 000)	479 000
Surplus	12 612 340	-	111 795	(111 795)	12 612 340
Retained earnings	46 377 945	47 824	(77 675)	29 851	46 377 945
Accumulated other comprehensive income	4 760 694	-	-	-	4 760 694
TOTAL STOCKHOLDERS' EQUITY	64 229 979	397 824	36 120	(433 944)	64 229 979
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 440 748 142	$ 503 040	$ 36 120	$ (915 310)	$ 440 371 992

See independent auditors' report on supplementary information.

THE FIRST NATIONAL BANK OF LIVINGSTON AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2019

	THE FIRST NATIONAL BANK OF LIVINGSTON	CHURCH STREET FINANCIAL	POLK COUNTY TITLE COMPANY, INC.	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
ASSETS					
Cash and due from banks	$ 13 689 267	$ 347 049	$ 36 120	$ (383 169)	$ 13 689 267
Interest bearing deposits in banks	62 085 000	-	-	-	62 085 000
Securities available-for-sale	163 613 543	-	-	-	163 613 543
Securities held-to-maturity	1 653 161	-	-	-	1 653 161
Restricted equity securities	587 320	-	-	-	587 320
Investment in subsidiaries	512 057	-	-	(512 057)	-
Loans, less allowance for loan losses	123 517 438	-	-	-	123 517 438
Bank premises and equipment, net	8 509 147	38 321	-	-	8 547 468
Accrued interest receivable	1 437 879	-	-	-	1 437 879
Goodwill, net	3 031 499	-	-	-	3 031 499
Other assets	748 928	205 935	-	(185 456)	769 407
TOTAL ASSETS	$ 379 385 239	$ 591 305	$ 36 120	$ (1 080 682)	$ 378 931 982
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits:					
Noninterest-bearing deposits	$ 142 372 724	$ -	$ -	$ (568 625)	$ 141 804 099
Interest-bearing deposits	178 160 111	-	-	-	178 160 111
TOTAL DEPOSITS	320 532 835	-	-	(568 625)	319 964 210
Accrued interest and other liabilities	1 348 116	115 368	-	-	1 463 484
TOTAL LIABILITIES	321 880 951	115 368	-	(568 625)	321 427 694
Stockholders' Equity:					
Common stock	479 000	350 000	2 000	(352 000)	479 000
Surplus	12 612 340	-	111 795	(111 795)	12 612 340
Retained earnings	44 593 550	125 937	(77 675)	(48 262)	44 593 550
Accumulated other comprehensive income	(180 602)	-	-	-	(180 602)
TOTAL STOCKHOLDERS' EQUITY	57 504 288	475 937	36 120	(512 057)	57 504 288
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 379 385 239	$ 591 305	$ 36 120	$ (1 080 682)	$ 378 931 982

See independent auditors' report on supplementary information.

THE FIRST NATIONAL BANK OF LIVINGSTON AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2020

	THE FIRST NATIONAL BANK OF LIVINGSTON	CHURCH STREET FINANCIAL	POLK COUNTY TITLE COMPANY, INC.	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
Interest Income:					
Interest and fees on loans	$ 7 198 995	$ -	$ -	$ -	$ 7 198 995
Interest on Investment Securities:		-	-	-	
Taxable	2 053 435	-	-	-	2 053 435
Exempt from Federal income tax	706 117	-	-	-	706 117
Interest on deposits in banks	1 250 634	-	-	-	1 250 634
TOTAL INTEREST INCOME	11 209 181	-	-	-	11 209 181
Interest expense on deposits	475 962	-	-	-	475 962
Interest on Federal funds purchased	1 425	-	-	-	1 425
NET INTEREST INCOME	10 731 794	-	-	-	10 731 794
Provision for loan losses	355 000	-	-	-	355 000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10 376 794	-	-	-	10 376 794
Other Income:					
Service charges on deposit accounts	1 649 443	-	-	-	1 649 443
Other service charges and fees	1 925 513	-	-	-	1 925 513
Equity in earnings of subsidiaries	921 887	-	-	(921 887)	-
Insurance commissions	-	921 887	-	-	921 887
Brokerage commissions (net)	2 153 642	-	-	-	2 153 642
Management fee	-	1 849 086	-	(1 849 086)	-
Other income	239 342	-	-	(144 000)	95 342
TOTAL OTHER INCOME	6 889 827	2 770 973	-	(2 914 973)	6 745 827
Other Expenses:					
Salaries and employee benefits	5 187 880	1 482 074	-	-	6 669 954
Occupancy, insurance and equipment expense	1 249 718	197 677	-	(144 000)	1 303 395
ATM processing	963 128	-	-	-	963 128
Deposit insurance expense	76 500	-	-	-	76 500
Data processing	1 353 873	37 954	-	-	1 391 827
Directors fees	197 339	12 000	-	-	209 339
Postage and freight	102 834	3 686	-	-	106 520
Printing and office supplies	189 438	5 177	-	-	194 615
Legal and professional services	266 271	14 093	-	-	280 364
Telephone	99 801	5 989	-	-	105 790
Marketing	84 274	45 758	-	-	130 032
Management fee paid	1 849 086	-	-	(1 849 086)	-
Other operating expenses	660 586	44 678	-	-	705 264
TOTAL OTHER EXPENSES	12 280 728	1 849 086	-	(1 993 086)	12 136 728
			-		
NET INCOME	$ 4 985 893	$ 921 887	$ -	$ (921 887)	$ 4 985 893

See independent auditors' report on supplementary information.

THE FIRST NATIONAL BANK OF LIVINGSTON AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2019

	THE FIRST NATIONAL BANK OF LIVINGSTON	CHURCH STREET FINANCIAL	POLK COUNTY TITLE COMPANY, INC.	ELIMINATING ENTRIES	CONSOLIDATED TOTALS
Interest Income:					
Interest and fees on loans	$ 6 683 491	$ -	$ -	$ -	$ 6 683 491
Interest on Investment Securities:					
Taxable	2 748 965	-	-	-	2 748 965
Exempt from Federal income tax	602 909	-	-	-	602 909
Interest on deposits in banks	1 602 300	-	-	-	1 602 300
TOTAL INTEREST INCOME	11 637 665	-	-	-	11 637 665
Interest expense on deposits	576 450	-	-	-	576 450
Interest on Federal funds purchased	3 942	-	-	-	3 942
NET INTEREST INCOME	11 057 273	-	-	-	11 057 273
Provision for loan losses	240 000	-	-	-	240 000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10 817 273	-	-	-	10 817 273
Other Income:					
Service charges on deposit accounts	1 794 199	-	-	-	1 794 199
Other service charges and fees	1 801 091	-	-	-	1 801 091
Equity in earnings of subsidiaries	893 197	-	-	(893 197)	-
Insurance commissions	-	892 813	-	-	892 813
Brokerage commissions (net)	2 170 502	-	-	-	2 170 502
Management fee	-	1 913 558	-	(1 913 558)	-
Gain/(loss) other	(2 253)	(1 387)	-	-	(3 640)
Other income	186 905	-	-	(144 000)	42 905
TOTAL OTHER INCOME	6 843 641	2 804 984	-	(2 950 755)	6 697 870
Other Expenses:					
Salaries and employee benefits	5 381 092	1 500 566	-	-	6 881 658
Occupancy, insurance and equipment expense	1 338 222	181 978	-	(144 000)	1 376 200
ATM processing	909 487	-	-	-	909 487
Deposit insurance expense	30 000	-	-	-	30 000
Data processing	1 276 021	35 234	-	-	1 311 255
Directors fees	186 158	12 000	-	-	198 158
Postage and freight	115 881	3 906	-	-	119 787
Printing and office supplies	194 000	9 350	-	-	203 350
Legal and professional services	253 108	13 020	-	-	266 128
Telephone	95 092	7 160	-	-	102 252
Marketing	94 793	81 600	-	-	176 393
Management fee paid	1 913 558	-	-	(1 913 558)	-
Other operating expenses	872 614	66 973	-	-	939 587
TOTAL OTHER EXPENSES	12 660 026	1 911 787	-	(2 057 558)	12 514 255
NET INCOME	$ 5 000 888	$ 893 197	$ -	$ (893 197)	$ 5 000 888

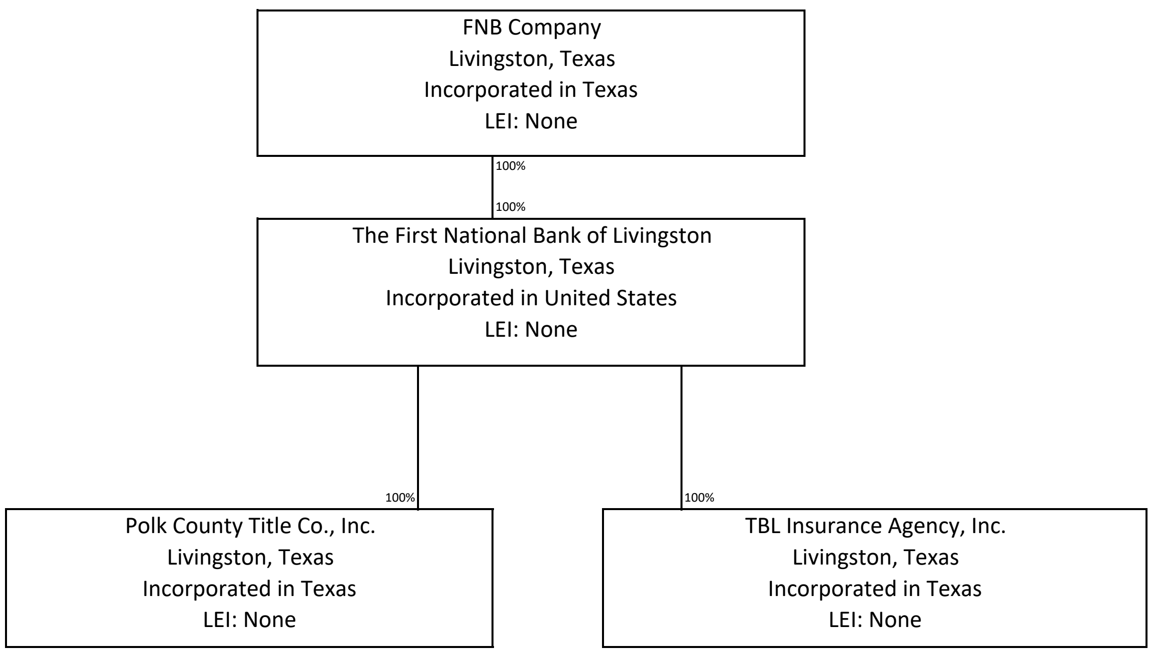
See independent auditors' report on supplementary information.

Form FR Y-6
FNB Company
2121 Hwy 190 West
Livingston, Texas
Fiscal Year Ending December 31, 2020

Report Item

1: The BHC does prepare an annual report for its shareholders. Enclosed are two copies of the annual report.

2a: Organization Chart



No LEI is available for any entity listed above.

Results: A list of branches for your holding company: FNB COMPANY (2504285) of LIVINGSTON, 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)	630658	FIRST NATIONAL BANK OF LIVINGSTON, THE	2121 HWY 190 WEST	LIVINGSTON	TX	77351	POLK	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF LIVINGSTON, THE	630658	
OK		Full Service	2114796	DOWNTOWN BRANCH	308 WEST CHURCH STREET	LIVINGSTON	TX	77351	POLK	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF LIVINGSTON, THE	630658	
OK		Full Service	1464234	ONALASKA BRANCH	14114 US HIGHWAY 190 WEST	ONALASKA	TX	77360	POLK	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF LIVINGSTON, THE	630658	

Form FR Y-6

FNB Company
Livingston, TX
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			**Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2020**		
(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
Carey L. Cochran, Jr. Livingston, TX	USA	***21,208 common 16.52%	N/A		
Ernest H. Cochran Bypass Trust B Judy Cochran & R. Malcolm Jones, Trustees Livingston, TX	USA	*8,610 common 6.71%			
Ernest H Cochran Residuary Trust C Judy Cochran & R. Malcolm Jones, Trustees Livingston, TX	USA	*11,124 common 8.67%			
Judy Cochran Livingston, TX	USA	2,120 common 1.65%			
Judy Cochran Family Total Livingston, TX	**USA**	**21,854 common 17.02%**			
R. Malcolm Jones Livingston, TX	USA	200 common 0.15%			
The John Guy Slocomb Family Trust Constance Slocomb, Trustee Livingston, TX	USA	**14,335 common 11.17%			
Constance Slocomb Livingston, TX	USA	5,086 common 3.96%			
John Allen Slocomb Livingston, TX	USA	206 common 0.16%			
Slocomb Family Total The John Guy Slocomb Family Trust Constance Slocomb John Allen Slocomb	**USA**	**19,627 common 15.29%**			

* This is a joint ownership with Judy Cochran and Malcolm Jones

** This is a joint ownership with Constance Slocomb.

***Carey L. Cochran, Jr. is not part of the Judy Cochran family

Form FR Y-6

FNB Company
Livingston, TX
Fiscal Year Ending December 31, 2020

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

(1) Names & 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 (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Judy Cochran Livingston, Texas, USA	Investments	Director	Director-FNB	Pres-Livingston Lands, Inc. Director-JAR Partnership	17.02%	NONE	25% Livingston Lands, Inc.
Carey L. Cochran, Jr. Livingston, Texas, USA	Merchant	Director	Director-FNB	Pres-Cochran Funeral Home	16.52%	NONE	100% Cochran Funeral Home
R. Malcolm Jones Livingston, Texas, USA	Attorney	Sr. Chm	Sr. Chm-FNB Director-TBL Ins.	N/A	15.53%	NONE	N/A
Constance T. Slocomb Livingston, Texas, USA	Attorney/CPA	Director	Director-FNB	N/A	15.13%	NONE	N/A
Richard L. Gilbert Livingston, Texas, USA	Safety Advisor	Director	Director-FNB	N/A	3.99%	NONE	N/A
Linda Nadolski Livingston, Texas, USA	Retired/Interior Designer	Director	Director-FNB	N/A	3.33%	NONE	N/A
John Thompson Livingston, Texas, USA	Consultant	Director	Director-FNB	N/A	2.06%	NONE	N/A
Zonna Craig Livingston, Texas, USA	Retired/Banking	Director	Director-FNB	N/A	1.73%	NONE	N/A
John Haynes Livingston, Texas, USA	Equipment Manufacturing	Director	Director-FNB	Pres-L.B. Equipment, Inc. V.P.-Little Beaver, Inc.	1.61%	NONE	50% H & H Leasing; 50% L.B. Equipment, Inc; 50% Little Beaver
J.E. Peters, Jr. Livingston, Texas, USA	Investments/Ranching	Director	Director-FNB	Director-Peters Tractor & Equipment	1.15%	NONE	N/A
A.C. Evans, Jr. Livingston, Texas, USA	Banker	President CEO/Director Treasurer	President CEO/Director-FNB Director-TBL Ins	N/A	0.97%	NONE	N/A

Form FR Y-6

FNB Company
Livingston, TX
Fiscal Year Ending December 31, 2020

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

(1) Names & 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 (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Claud Thomas Livingston, Texas, USA	Building Materials	Director	Director-FNB	Pres-Thomas Supply, Inc.	0.86%	NONE	Thomas Supply, Inc.-52%
Craig Anderson Evans Livingston, Texas, USA	Insurance/Investments	Director	Director/Vice President-TBL Ins.	N/A	0.60%	NONE	N/A
John Allen Slocomb Livingston, Texas, USA	Banker	Director	Director/Sr. Vice President-FNB	N/A	0.16%	NONE	N/A
Cindy Snook Livingston, Texas, USA	Banker	Director	Director/Sr. Vice President-FNB	N/A	0.16%	NONE	50% Snook Roofing and Sheet Metal, LLC
Kyle J. Kuntz Livingston, Texas, USA	Electric Power Distribution	Director	Director-FNB	CEO-Sam Houston Electric Co-op	0.16%	NONE	N/A
Russell Thomas Livingston, Texas, USA	Building Materials	Director	Director-FNB	Director-Thomas Supply	0.39%	NONE	Thomas Supply Inc- 48%