

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.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2020

Month / Day / Year

N/A

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

Reporter's Name, Street, and Mailing Address

LAGUNA MADRE BANCSHARES, INC.

Legal Title of Holding Company

PO BOX 3640

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

South Padre Island TX 78597

City State Zip Code

709 Padre Blvd, South Padre Island, TX 78597

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Charles Rogan President

Name Title

956-761-7958

Area Code / Phone Number / Extension

956-761-5921

Area Code / FAX Number

CROGAN@FNBSP.COM

E-mail Address

N/A

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

I, CHARLES ROGAN

Name of the Holding Company Director and Official

DIRECTOR & PRESIDENT

Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

3-15-21

Date of Signature

For holding companies not registered with the SEC—

Indicate status of Annual Report to Shareholders:

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

For Federal Reserve Bank Use Only

RSSD ID \_\_\_\_\_  
 C.I. \_\_\_\_\_

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.....		<input type="checkbox"/>
2. a letter justifying this request has been provided separately ...		<input type="checkbox"/>
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."		

## For Use By Tiered Holding Companies

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

LAGUNA MADRE DELAWARE BANCSHARES, INC.

Legal Title of Subsidiary Holding Company

30 OLD RUDNICK LANE

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

DOVER

City

DE

State

19901

Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City

State

Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City

State

Zip Code

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City

State

Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City

State

Zip Code

Physical Location (if different from mailing address)

**LAGUNA MADRE BANCSHARES, INC.**  
**South Padre Island, Texas**  
**Annual Report - Form FR Y-6**  
**Fiscal Year Ending December 31, 2020**

**Report Item 1: Annual Report to Shareholders**

See attached audited financial statements.

**LAGUNA MADRE BANCSHARES, INC.**  
**South Padre Island, Texas**  
**Annual Report - Form FR Y-6**  
**Fiscal Year Ending December 31, 2020**

**Report Item 2: Organization Chart**

LAGUNA MADRE BANCSHARES, INC.  
South Padre Island, Texas  
Incorporated in Texas

LAGUNA MADRE DELAWARE BANCSHARES, INC.  
(100% owned by Laguna Madre Bancshares, Inc.)  
Dover, Delaware  
Incorporated in Delaware

FIRST NATIONAL BANK OF SOUTH PADRE ISLAND  
(100% owned by Laguna Madre Delaware Bancshares, Inc.)  
South Padre Island, Texas

Note: First National Bank of South Padre Island has no direct or indirect ownership or control of any companies. No LEI is available for any of the entities in the organization.

**Results:** A list of branches for your depository institution: **FIRST NATIONAL BANK OF SOUTH PADRE ISLAND (ID\_RSSD: 346566).**

This depository institution is held by **LAGUNA MADRE BANCSHARES, INC. (2524210)** of **SOUTH PADRE ISLAND, 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)	346566	FIRST NATIONAL BANK OF SOUTH PADRE ISLAND	709 PADRE BLVD.	SOUTH PADRE ISLAND	TX	78597-6612	CAMERON	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF SOUTH PADRE ISLAND	346566	
OK		Full Service	2330318	PORT ISABEL BRANCH	218 EAST QUEEN ISABELLA	PORT ISABEL	TX	78578	CAMERON	UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK OF SOUTH PADRE ISLAND	346566	

**LAGUNA MADRE BANCSHARES, INC.**  
**South Padre Island, Texas**  
**Annual Report - Form FR Y-6**  
**Fiscal Year Ending December 31, 2020**

**Report Item 3: Shareholders**

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020.

(1)(a) Name & Address	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number & Percentage of each class of Voting Securities
<b>Dennis Franke</b> South Padre Island, Texas	U.S.A.	32,158 – 25.36% Common stock
<b>Richard Franke</b> South Padre Island, Texas	U.S.A.	32,058 – 25.28% Common stock
<b>John P. Franke</b> South Padre Island, Texas	U.S.A.	100 – 0.08% Common stock
<b>Trevor Franke</b> Dallas, Texas	U.S.A.	100 – 0.08% Common stock
<b>Denise Franke Yeary</b> Dalas, Texas	U.S.A.	100 – 0.08% Common stock
<b>Richard J. Franke Jr.</b> Los Fresnos, Texas	U.S.A.	100 – 0.08% Common stock
<b>Kevin C. Franke</b> South Padre Island, Texas	U.S.A.	100 – 0.08% Common stock
<b>Herbert L. Schwarz</b> Ft. Worth, Texas	U.S.A.	17,697 – 13.96% Common stock
<b>McDaniel Nevada Irrv. Trust</b> <b>Barbara A. McDaniel, Trustee</b> Henderson, NV	U.S.A.	17,651 – 13.92% Common stock

**Report Item 3: Shareholders - Continued**

**Franke Family Total**

South Padre Island, Texas	U.S.A.	64,716 – 51.04%
		Common stock

Shareholders 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. – None.

(2)(a), (2)(b), (2)(c) - None

**LAGUNA MADRE DELAWARE BANCSHARES, INC.**  
**Dover, Delaware**  
**Annual Report - Form FR Y-6**  
**Fiscal Year Ending December 31, 2020**

**Report Item 3: Shareholders**

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020.

(1)(a) Name & Address	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number & Percentage of each class of Voting Securities
Laguna Madre Bancshares, Inc. South Padre Island, Texas	U.S.A.	1,000 - 100.00% Common stock

Shareholders 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 – None.

(2)(a), (2)(b), (2)(c) - None



**LAGUNA MADRE DELAWARE BANCSHARES, INC.**  
**Dover, Delaware**  
**Annual Report - Form FR Y-6**  
**Fiscal Year Ending December 31, 2020**

**Report Items:**

(2), 3(a), (3)(b), 3(c), (4)(b), (4)(c) - None

LAGUNA MADRE BANCSHARES, INC.  
ANNUAL REPORT - FORM FR Y-6  
December 31, 2020

Report Item 4: Insiders

(1) Name & Address	(2) Principal Occupation if other than with BHC	(3)(a) Title & Position with BHC	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with other businesses	(4)(a) Percentage of voting shares in BHC	(4)(b) Percentage of voting shares in Subsidiaries	(4)(c) 25% or more Ownership in other Companies
Dennis Franke South Padre Island, Tx	Real Estate Developer	Director	Director- First National Bank of SPI Director Laguna Madre Delaware Bancshares	Franke II, LLC dba Franke Realtors & Franke Rentals - President Franke GP, LLC - President Franke Development, LLC - Managing Member Shores Development, Inc. - Sec/Treas Shores Owner Association - Sec/Treas Padre Shores II, LLC - President The Dennis and Ellen Franke Revocable Trust utd dated 11/4/2002 - Co-Trustee Island Innkeepers No 1, LLC - VP Island Innkeepers No 2, LLC - VP	25.36%	None	Franke II, LLC - 50% Member Franke Investments, Ltd.-49.5% partner Franke GP LLC-50% member Franke Development, LLC - 25% Member Shores Development, Inc.-50% stock
Richard Franke South Padre Island, Tx	Real Estate Developer	Director	Director First National Bank of SPI Director Laguna Madre Delaware Bancshares	Franke II, LLC dba Franke Realtors & Franke Rentals - Vice-President Franke GP, LLC - Vice-President Franke Development, LLC - Managing Member Shores Development, Inc. - President Shores Owner Association - VP Padre Shores II, LLC - VP, Sec., Treas.  The Richard and Becky Revocable Trust utd dated 5/13/2008 - Co-Trustee Island Innkeepers No 1, LLC - President Island Innkeepers No 2, LLC - President Laguna Madre Delaware Bancshares - Director	25.28%	None	Franke II, LLC - 50% Member Franke Investments, Ltd.-49.5% partner Franke GP LLC-50% member Franke Development, LLC - 25% Member Shores Development, Inc.-50% stock RKB Estates - 25.39% partner
McDaniel Nevada Irrevocable Trust Barbara A McDaniel Henderson, NV	N/A	Principal Securities Holder	N/A	None	13.92%	None	None
Charles Rogan South Padre Island, Tx	N/A	Director & President	President & Adv. Director - FNBSP Director, President - Laguna Madre Delaware Bancshares;	None	1.18%	None	None
John P. Franke South Padre Island, Tx	Attorney	Director	Vice President & Director Laguna Madre Delaware Bancshares	The Franke Law Firm, P.C. - President Franke & Diaz, PLLC - Manager	0.08%	None	The Franke Law Firm, P.C. - 50% Owner Franke & Diaz, PLLC - 50% Owner
Trevor Franke South Padre Island, Tx	Commercial Real Estate Broker	Director	N/A	Managing Director JLL	0.00%	None	None
Herbert L. Schwarz Ft. Worth, Tx	Retired	Principal Securities Holder	N/A	None	13.960%	None	None

LAGUNA MADRE DELEWARE BANCSHARES, INC.  
ANNUAL REPORT - FORM FR Y-6  
December 31, 2020

Report Item 4: Insiders

(1) Name & Address	(2) Principal Occupation if other than with BHC	(3)(a) Title & Position with BHC	(3)(b) Title & Position with Subsidiaries	(3)(c) Title & Position with other businesses	(4)(a) Percentage of voting shares in BHC	(4)(b) Percentage of voting shares in Subsidiaries	(4)(c) 25% or more Ownership in other Companies
Laguna Madre Bancshares, Inc. South Padre Island, Tx	N/A	Principal Securities Holder	N/A	N/A	100.000%	None	Franke II, LLC - 50% Member Franke Investments, Ltd.-49.5% partner  Franke GP LLC-50% member
Dennis Franke South Padre Island, Tx	Real Estate Developer	Director	Director- First National Bank of SPI;	Franke II, LLC dba Franke Realtors & Franke Rentals - President Franke GP, LLC - President Franke Development, LLC - Managing Member Shores Development, Inc. - Sec/Treas Shores Owner Association - Sec/Treas Padre Shores II, LLC - President The Dennis and Ellen Franke Revocable Trust utia dated 11/4/2002 - Co-Trustee Island Innkeepers No 1, LLC - VP Island Innkeepers No 2, LLC - VP	0.000%	None	Franke II, LLC - 50% Member Franke Investments, Ltd.-49.5% partner Franke GP LLC-50% member Franke Development, LLC - 25% Member Shores Development, Inc.-50% stock
Richard Franke South Padre Island, Tx	Real Estate Developer	Director	Director First National Bank of SPI;	Franke II, LLC dba Franke Realtors & Franke Rentals - Vice-President Franke GP, LLC - Vice-President Franke Development, LLC - Managing Member Shores Development, Inc. - President Shores Owner Association - VP Padre Shores II, LLC - VP, Sec., Treas. The Richard and Becky Revocable Trust utia dated 5/13/2008 - Co-Trustee Island Innkeepers No 1, LLC - President Island Innkeepers No 2, LLC - President	0.000%	None	Franke II, LLC - 50% Member Franke Investments, Ltd.-49.5% partner Franke GP LLC-50% member Franke Development, LLC - 25% Member Shores Development, Inc.-50% stock RKB Estates - 25.39% partner
Charles Rogan South Padre Island, Tx	N/A	Director & President	President & Adv. Director - FNBSPI	None	0.000%	None	None
John P. Franke South Padre Island, Tx	Attorney	Director & Vice President	N/A	The Franke Law Firm, P.C. - President	0.000%	None	The Franke Law Firm, P.C. - 50% Owner Franke & Diaz, PLLC - 50% Owner

FIRST NATIONAL BANK OF SOUTH PADRE ISLAND

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2020 AND 2019

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*The Right Choice.*

**BML**

Burton  
McCumber  
& Longoria, LLP  
CPAs & Advisors

Brownsville · McAllen

## **Independent Auditors' Report**

Board of Directors  
First National Bank of South Padre Island

### **Report on the Financial Statements**

We have audited the accompanying financial statements of First National Bank of South Padre Island (a wholly-owned subsidiary of Laguna Madre Delaware Bancshares, Inc.) which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of earnings and comprehensive income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First National Bank of South Padre Island as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Burton, McCumber, & Longoria LLP.*

Brownsville, Texas  
January 29, 2021

**FINANCIAL STATEMENTS**



**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND  
BALANCE SHEETS – CONTINUED  
DECEMBER 31,**

LIABILITIES AND STOCKHOLDER'S EQUITY

	2020	2019
<b>LIABILITIES</b>		
Deposits		
Demand	\$ 22,468,000	\$ 15,717,000
NOW and money market accounts	31,004,000	26,176,000
Time	6,557,000	7,117,000
Total deposits	60,029,000	49,010,000
Accrued interest payable	3,000	7,000
Other liabilities	36,000	28,000
Total liabilities	60,068,000	49,045,000
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-
<b>STOCKHOLDER'S EQUITY</b>		
Common stock - authorized, 175,000 shares of \$5 par value; issued and outstanding 150,000 shares	750,000	750,000
Surplus	750,000	750,000
Retained earnings	5,236,000	4,886,000
Accumulated other comprehensive income	31,000	37,000
Total stockholder's equity	6,767,000	6,423,000
	\$ 66,835,000	\$ 55,468,000

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**  
**Years ended December 31,**

	2020	2019
Interest income	\$ 2,148,000	\$ 2,468,000
Interest expense	201,000	266,000
Net interest income before provision for loan losses	1,947,000	2,202,000
Provision for loan losses	-	5,000
Net interest income after provision for loan losses	1,947,000	2,197,000
Other income		
Service charges on deposit accounts	57,000	69,000
Gain on sale of securities	15,000	-
Other	68,000	38,000
Total other income	140,000	107,000
Other expenses		
Salaries and employee benefits	766,000	829,000
Occupancy expenses	183,000	202,000
Furniture and fixtures	117,000	118,000
General and administrative	600,000	577,000
Total other expenses	1,666,000	1,726,000
Net earnings	421,000	578,000
Net earnings per common share	\$ 2.81	\$ 3.85
Other comprehensive gain (loss), net of tax:		
Unrealized gain on available-for-sale securities	11,000	71,600
Reclassification adjustment	( 17,000)	20,400
Total other comprehensive gain (loss), net of tax	( 6,000)	92,000
Comprehensive income	\$ 415,000	\$ 670,000

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

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**STATEMENT OF STOCKHOLDER'S EQUITY**  
**Year ended December 31, 2020**

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	\$	\$	\$	\$ (	\$
Balance at January 1, 2019	750,000	750,000	5,566,000	55,000)	7,011,000
Net earnings	-	-	578,000	-	578,000
Other comprehensive gain net of reclassification	-	-	-	92,000	92,000
Dividends paid	-	-	(1,258,000)	-	(1,258,000)
Balance at December 31, 2019	750,000	750,000	4,886,000	37,000	6,423,000
Net earnings	-	-	421,000	-	421,000
Other comprehensive loss net of reclassification	-	-	-	(6,000)	(6,000)
Dividends paid	-	-	(71,000)	-	(71,000)
Balance at December 31, 2020	750,000	750,000	5,236,000	31,000	6,767,000

The accompanying notes are an integral part of this financial statement.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**STATEMENTS OF CASH FLOWS**  
**Years ended December 31,**

	2020	2019
Cash flows from operating activities		
Net earnings	\$ 421,000	\$ 578,000
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	-	5,000
Accretion/amortization of discount or premium	( 8,000)	( 17,400)
Provision for depreciation	108,000	113,000
Gain on sale of securities	( 15,000)	-
Gain on sale of OREO	( 30,000)	-
Net change in:		
Accrued interest receivable	41,000	2,000
Other assets	2,000	5,000
Accrued interest payable	( 4,000)	3,000
Other liabilities	8,000	8,000
Net cash provided by operating activities	523,000	696,600
Cash flows from investing activities:		
Purchases of federal agency obligations	( 3,000,000)	( 1,145,360)
Net proceeds from sales of OREO	90,000	-
Proceeds from sales and maturities of federal agency obligations	4,920,000	2,900,000
Principal reduction of mortgage-backed securities	80,000	118,760
Net decrease in loans	3,930,000	237,000
Loans charged off	-	( 5,000)
Recoveries of loans charged off	26,000	-
Purchases of bank premises and equipment	( 76,000)	( 86,000)
Net cash provided by investing activities	5,970,000	2,019,400
Cash flows from financing activities:		
Net increase (decrease) in demand deposits	6,751,000	( 1,127,000)
Net increase (decrease) in NOW and money market accounts	4,828,000	( 90,000)
Net decrease in time deposits	( 560,000)	( 287,000)
Dividends paid	( 71,000)	( 1,258,000)
Net cash provided by (used in) financing activities	10,948,000	( 2,762,000)
Increase (decrease) in cash and cash equivalents	17,441,000	( 46,000)
Cash and cash equivalents at beginning of year	18,454,000	18,500,000
Cash and cash equivalents at end of year	\$ 35,895,000	\$ 18,454,000

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

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First National Bank of South Padre Island (Bank), which is a full service financial institution, is a wholly-owned subsidiary of Laguna Madre Delaware Bancshares, Inc. (Delaware). Delaware is a wholly-owned subsidiary of Laguna Madre Bancshares, Inc. (Bancshares). The Bank's main office is located at South Padre Island, Texas and its branch bank is located at Port Isabel, Texas.

The accounting policies of the Bank conform to practices within the banking industry and are based on generally accepted accounting principles (GAAP). A summary of the significant accounting and reporting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Investment Securities

The Bank is required to classify its debt investment securities into one of three categories: held-to-maturity, available-for-sale, or trading. The classifications are to be reassessed at each reporting date.

- *Held-to-maturity.* Investments in debt securities will be classified as held-to-maturity and measured at amortized cost in the statement of financial position when the Bank has the positive intent and ability to hold those securities to maturity. Unrealized gains and losses are disclosed for financial reporting purposes.
- *Trading securities.* Securities that are bought and held principally for the purpose of selling them in the near term (thus held only for a short period of time) will be classified as trading securities and measured at fair value with unrealized holding gains and losses included in earnings. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price.
- *Available-for-sale securities.* Investment securities not classified as trading or as held-to-maturity are classified as *available-for-sale securities*. Securities available-for-sale are carried at fair value with unrealized holding gains and losses excluded from earnings and reported in other comprehensive income.

Realized gains and losses on securities available-for-sale are included in other income and, when applicable, are reported as a reclassification adjustment in other comprehensive income.

Investment securities are adjusted for accretion as well as amortization of discount and premium. The adjusted carrying amount of the specific securities sold is used to compute gains or losses on the sale of securities. All investments are available-for-sale as of December 31, 2020 and 2019.

2. Loan and Interest Income

Loans are stated net of loan participations sold without recourse and the allowance for loan losses. Interest is recognized on the unpaid principal balance based on the interest method, except when collectability is in doubt.

Interest income on all loans is accrued as earned. Loans are placed on non-accrual after such loans exceed 90 days past due. Interest income is recorded thereafter only upon collection. All past due amounts must be collected before the loan is returned to accrual status.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Loan and Interest Income - Continued

A loan is considered a trouble debt restructuring (TDR) when the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower in modifying or renewing the loan that the Bank would otherwise not consider. The terms of a TDR loan may be modified to fit the ability of the borrower to repay based on the borrower's current financial status, which may include a reduction in interest rate to market rate or below, a change in term or movement of past due amounts to the back-end of the loan or refinancing.

In March 2020, various regulatory agencies, including the FRB and the FDIC issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. Provisions of the CARES Act largely mirrored the provisions of the interagency statement, providing that modified loans were not to be considered TDRs if they were performing at December 31, 2019 and other consideration set forth in the interagency statements were met. Borrowers considered current were those that are less than 30 days past due on their contractual payments at the time a modification program is implemented or at December 31, 2019. At December 31, 2020, the Company had 1 COVID-19 modified loan deferral with a loan balance of \$181,000.

3. Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan and lease losses.

*General and Unallocated Components:*

The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio:

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Allowance for Loan and Lease Losses - Continued

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

- *Real Estate loans:* Loans in this segment include consumer real estate, commercial real estate and construction loans. All loans in these segments are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.  
Commercial real estate loans consist of primarily income-producing properties such as apartment buildings and properties used for business operations such as office buildings and industrial facilities. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will effect on the credit quality in this segment. Construction loans primarily include real estate development loans for which payment is derived from sale of the property, as well as construction projects in which the property will ultimately be used by the borrower. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.
- *Commercial loans:* Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows generated by the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.
- *Consumer loans:* Loans in this segment include installment, demand, and collateral loans, principally to customers residing in the Bank's primary market area with acceptable credit ratings. Installment and collateral consumer loans generally consist of new and used automobiles, loans collateralized by deposit accounts and unsecured personal loans. The overall health risk of the economy, including unemployment rates and housing prices, may have an effect on the credit quality in this segment. Excluding collateral loans which are fully collateralized by a deposit account, repayment for loans in this segment is dependent on the credit quality of the individual borrower.

*Allocated component:*

The allocated component relates to loans that are classified as impaired. Impairment measured on a loan by loan basis either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the present value of discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of the loan.

A loan is considered impaired when, based on current information and events, it is probably that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Allowance for Loan and Lease Losses - Continued

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The Bank may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession that the Bank would not otherwise consider is made because the borrower is experiencing financial difficulty, the modification is considered a TDR. All TDRs are initially classified as impaired.

4. Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation is provided principally on the straight-line basis over the estimated useful life of each type of asset.

Accounting Standards Codification Topic ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," requires the Bank to review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that impairment has occurred, the amount of the impairment is charged to operations. No impairments were recognized for the years ended December 31, 2020 and 2019.

5. Income Tax

Effective January 1, 1998, Bancshares made an election to be taxed as an S Corporation under the Internal Revenue Code. On the same date, Delaware and Bank elected to be taxed as Qualified Subchapter S Corporation subsidiaries of Bancshares. As a result of these elections, income taxes assessed on consolidated taxable net earnings of the group are payable personally by the stockholders of Bancshares.

6. Earnings per Common Share

Earnings per common share amounts are based on the weighted average number of common shares outstanding during the year.

7. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include amounts due from banks, federal funds sold and certificates of deposit.

8. 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 disclosures 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.



**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Use of Estimates - Continued

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

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

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

9. Comprehensive Income

Comprehensive income reports all changes in equity that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. The Bank presents its comprehensive income in the statement of earnings and comprehensive income.

10. Fair Value Measurements

The Bank applies GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Fair Value Measurements - Continued

The following tables represent assets and liabilities reported on the balance sheets at their fair value as of December 31, 2020 and 2019, by level, within the FASB ASC 820 "Fair Value Measurements and Disclosures", fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using			
	Assets/ Liabilities Measured at Fair Value December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<u>Measured on a recurring basis:</u>				
Assets				
Investment Securities				
Available-for-sale	\$ 966,000	\$ -	\$ 966,000	\$ -
Restricted available- for-sale securities	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -
<u>Measured on a non-recurring basis:</u>				
Assets				
Impaired loans	\$ 39,000	\$ -	\$ 39,000	\$ -
	Assets/ Liabilities Measured at Fair Value December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<u>Measured on a recurring basis:</u>				
Assets				
Investment Securities				
Available-for-sale	\$ 3,439,000	\$ -	\$ 3,439,000	\$ -
Restricted available- for-sale securities	\$ 1,510,000	\$ -	\$ 1,510,000	\$ -
<u>Measured on a non-recurring basis:</u>				
Assets				
Impaired loans	\$ 45,000	\$ -	\$ 45,000	\$ -

Available-for-sale investment securities are classified within Level 2 of the valuation hierarchy. The Bank obtains fair value measurements for investment securities from an independent pricing service. Fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market census prepayment speeds, credit information and the bond's terms and conditions, among other things.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Fair Value Measurements – Continued

Impaired loans are classified within Level 2 of the valuation hierarchy. The fair value of impaired loans is derived in accordance with FASB ASC 310, “Accounting by Creditors for Impairment of a Loan.” The fair value of impaired loans is based on the fair value of the collateral, as determined through an external appraisal process. Impaired loans are primarily comprised of collateral-dependent commercial loans.

11. Other Real Estate Owned (OREO)

Other real estate, acquired through foreclosure or deed in lieu of foreclosures, is carried at the lower of the recorded investment or its estimated fair market value. Prior to foreclosure, the value of the underlying loan is written down to the estimated fair market value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary.

At December 31, 2020 and 2019, the balance of OREO was \$0.

12. Operating, Accounting and Reporting Considerations related to COVID-19

The COVID-19 pandemic has negatively impacted the global economy. In response to the crisis, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was passed by Congress and signed into law on March 27, 2020. The CARES Act provides an estimated \$2.2 trillion to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. Under Section 4013 of the CARES Act, and based upon regulatory guidance promulgated by federal banking regulators, qualifying short-term loan modifications resulting in payment deferrals that are attributable to the adverse impact of COVID-19, are not considered to be troubled debt restructurings (“TDRs”). Some of the provisions applicable to the Company include, but are not limited to:

- Accounting for Loan Modifications – The CARES Act provides that a financial institution may elect to suspend (1) the requirements under GAAP for certain loan modifications that would otherwise be categorized as a troubled debt restructure (“TDR”) and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. The suspension is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. The suspension is not applicable to any adverse impact on the credit of a borrower that is not related to the pandemic.
- Paycheck Protection Program – The CARES Act established the Paycheck Protection Program (“PPP”), an expansion of the Small Business Administration’s 7(a) loan program and the Economic Injury Disaster Loan Program (“EIDL”), administered directly by the Small Business Administration (“SBA”).
- Mortgage Forbearance – Under the CARES Act, through the earlier of December 31, 2020, mortgage customers experiencing financial hardship due to COVID-19 may request forbearance on the loan for up to 30 days, with up to two additional 30-day periods at the borrower’s request.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Operating, Accounting and Reporting Considerations related to COVID-19 - Continued

Also in response to the COVID-19 pandemic, the Board of Governors of the Federal Reserve System (“FRB”), the Federal Deposit Insurance Corporation (“FDIC”), the National Credit Union Administration (“NCUA”), the Office of the Comptroller of the Currency (“OCC”), and the Consumer Financial Protection Bureau (“CFPB”), in consultation with the state financial regulators (collectively, the “agencies”) issued a joint interagency statement (issued March 22, 2020; revised statement issued April 7, 2020). Some of the provisions applicable to the Company include, but are not limited to:

- Accounting for Loan Modifications – Loan modifications that do not meet the conditions of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR. The agencies confirmed with FASB staff that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who are current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or insignificant delays in payments. Loan modifications were made in accordance with Section 4013 of the CARES Act and the Interagency Statement on Loan Modifications and Reporting for Financial Institutions working with customers affected by COVID-19 and therefore were not classified as TDRs.
- Past Due Reporting – With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan’s payment date is governed by the due date stipulated in the legal agreements. If a financial institution agrees to a payment deferral, these loans would not be considered past due during the period of the deferral.
- Nonaccrual Status and Charge-offs – During short-term COVID-19 modifications, these loans generally should not be reported as nonaccrual or as classified.

NOTE B – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate fair value of each class of financial instrument for which it is practicable to estimate that value.

Cash and cash equivalents, interest-bearing deposits in financial institutions, federal funds sold - for these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities - fair value equals quoted market price (level 2 input), if available; otherwise, fair value is estimated using quoted market prices for similar securities.

Loans - fair value was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, for which the carrying amount is a reasonable estimate of fair value.

Accrued interest receivable – the carrying amount of accrued interest approximate fair value.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE B – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

Deposit liabilities - fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date.

Fair value of fixed-maturity time deposits is estimated using the rates currently offered for deposits of similar remaining maturity.

Commitments to extend credit, standby letters of credit, financial guarantees written - fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

Carrying amounts approximate the fair value of each financial instrument at December 31, 2020 and 2019.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE C - INTEREST-BEARING DEPOSITS

Interest-bearing deposits were as follows for the years ended December 31;

	2020	2019
Certificates of deposit		
2.50% interest; due January 17, 2020	\$ -	\$ 245,000
1.75% interest; due January 21, 2020	-	100,000
2.25% interest; due February 18, 2020	-	245,000
2.56% interest; due February 25, 2020	-	250,000
2.40% interest; due March 16, 2020	-	245,000
2.55% interest; due April 13, 2020	-	245,000
1.80% interest; due May 29, 2020	-	250,000
2.90% interest; due June 15, 2020	-	245,000
1.85% interest; due July 13, 2020	-	250,000
1.75% interest; due July 14, 2020	-	250,000
1.90% interest; due August 10, 2020	-	250,000
2.70% interest; due August 14, 2020	-	245,000
1.90% interest; due August 18, 2020	-	250,000
3.00% interest; due September 21, 2020	-	245,000
3.05% interest; due October 15, 2020	-	245,000
3.05% interest; due October 29, 2020	-	245,000
3.05% interest; due November 30, 2020	-	245,000
2.90% interest; due January 19, 2021	245,000	245,000
2.90% interest; due January 25, 2021	245,000	245,000
2.80% interest; due January 25, 2021	245,000	245,000
2.50% interest; due March 15, 2021	249,000	249,000
2.00% interest; due March 29, 2021	245,000	245,000
2.40% interest; due April 5, 2021	245,000	245,000
2.20% interest; due June 14, 2021	248,000	248,000
3.15% interest; due June 21, 2021	245,000	245,000

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE C - INTEREST-BEARING DEPOSITS – Continued

	2020	2019
Certificates of deposit		
3.00% interest; due September 28, 2021	\$ 245,000	\$ 245,000
1.70% interest; due November 22, 2021	250,000	250,000
2.80% interest; due January 31, 2022	245,000	245,000
2.75% interest; due March 21, 2022	245,000	245,000
1.35% interest; due March 31, 2022	247,000	-
.30% interest; due November 9, 2023	248,000	-
.25% interest; due December 20, 2021	247,000	-
1.70% interest; due August 14, 2023	245,000	-
1.20% interest; due April 18, 2022	247,000	-
1.00% interest; due February 13, 2023	247,000	-
1.70% interest; due February 14, 2022	245,000	-
1.05% interest; due March 7, 2022	247,000	-
1.05% interest; due March 8, 2022	246,000	-
1.90% interest; due January 17, 2023	245,000	-
.50% interest; due December 12, 2023	249,000	-
.50% interest; due December 18, 2024	248,000	-
	<u>5,913,000</u>	<u>7,002,000</u>
TIB Money Market Account- .20% and 1.65% interest at December 31, 2020 and 2019, respectively	5,494,000	5,425,000
TCB Money Market Account- .38% and 1.84% interest at December 31, 2020 and 2019, respectively.	<u>7,017,000</u>	<u>1,002,000</u>
	<u>\$ 18,424,000</u>	<u>\$ 13,429,000</u>

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE D - INVESTMENT SECURITIES

The carrying amounts of investment securities and their approximate fair values as shown in the balance sheet at December 31, 2020 and 2019 were as follows:

Available-for-sale Securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2020</u>				
Federal agency obligations	\$ 2,500,000	\$ 18,000	\$ -	\$ 2,518,000
Municipal securities	200,000	1,000	-	201,000
Mortgage-backed securities	235,000	12,000	-	247,000
Totals	<u>\$ 2,935,000</u>	<u>\$ 31,000</u>	<u>\$ -</u>	<u>\$ 2,966,000</u>

Available-for-sale Securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2019</u>				
Federal agency obligations	\$ 4,398,000	\$ 32,000	\$( 3,000)	\$ 4,427,000
Municipal securities	200,000	4,000	-	204,000
Mortgage-backed securities	314,000	4,000	-	318,000
Totals	<u>\$ 4,912,000</u>	<u>\$ 40,000</u>	<u>\$( 3,000)</u>	<u>\$ 4,949,000</u>

The net change in unrealized holding (loss) gain on securities available-for-sale of (\$6,000) and \$92,000 for 2020 and 2019, respectively, was recorded in as accumulated other comprehensive income, respectively, in the statements of earnings and comprehensive income.

The Bank did not record other-than-temporary impairment (OTTI) for investment securities for the years ended December 31, 2020 and 2019.

Information pertaining to securities with gross unrealized losses as of December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position is shown in the table below. Unrealized losses on these securities are not considered credit related. The Bank has not made a decision to sell debt securities with unrealized losses and believes it is more likely than not that it would not be required to sell such securities before recovery of its amortized cost.



**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE D - INVESTMENT SECURITIES – Continued

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>December 31, 2020</u>						
Federal agency obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	-	-	-	-	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2019</u>						
Federal agency obligations	\$ 647,300	\$( 1,500)	\$ 498,000	\$( 1,500)	\$ 1,145,300	\$( 3,000)
Mortgage-backed securities	-	-	-	-	-	-
Totals	<u>\$ 647,300</u>	<u>\$( 1,500)</u>	<u>\$ 498,000</u>	<u>\$( 1,500)</u>	<u>\$ 1,145,300</u>	<u>\$( 3,000)</u>

The scheduled maturities of debt securities available-for-sale at December 31, 2020, were as follows:

	Amortized Cost	Fair Value
Due within one year or less	\$ 700,000	\$ 702,000
Due after one year but within five years	2,235,000	2,264,000
Due after five years but within ten years	-	-
	<u>\$ 2,935,000</u>	<u>\$ 2,966,000</u>

Proceeds from sales and maturities of debt securities during 2020 and 2019 totaled \$4,920,000 and \$2,900,000 with gross gains and losses of \$0 being realized on those sales in the respective years.

Investment securities with a fair market value of \$2,000,000 and \$1,510,000 were pledged as collateral for public deposits and for other purposes required or permitted by law during December 31, 2020 and 2019, respectively.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE E - LOANS

The composition of the Bank's loan portfolio was as follows at December 31,:

	<u>2020</u>	<u>2019</u>
Real estate loans	\$ 25,213,000	\$ 28,945,000
Commercial loans	1,549,000	1,643,000
Consumer loans	168,000	333,000
Other	2,000	1,000
	<u>26,932,000</u>	<u>30,922,000</u>
Less: Allowance for loan losses	<u>( 562,000)</u>	<u>( 536,000)</u>
Total loans, net	<u>\$ 26,370,000</u>	<u>\$ 30,386,000</u>

The following is a schedule of maturities of the Bank's loans as of December 31, 2020:

	<u>Less than one year</u>	<u>One to five years</u>	<u>Greater than five years</u>	<u>Total</u>
Real Estate	\$ 2,937,000	\$ 15,735,000	\$ 6,541,000	\$ 25,213,000
Commercial	363,000	1,186,000	-	1,549,000
Consumer	97,000	71,000	-	168,000
Other	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Total	<u>\$ 3,399,000</u>	<u>\$ 16,992,000</u>	<u>\$ 6,541,000</u>	<u>\$ 26,932,000</u>

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE E - LOANS - Continued

Management relies primarily on an internal risk rating system, in addition to delinquency status, to assess the risk in the loan portfolio. Annually, the Bank undergoes a review from an independent third party of a significant portion of loans within each segment. Management uses the results of these reviews as part of its annual review process. The Bank utilizes the following ratings to assess credit quality:

- *Pass*: Loans in this category have low to average risk.
- *Pass Watch*: Loans in this category indicate that based on current information, the borrower has the capacity to perform according to terms; however, elements of uncertainty exist and may require above average level of supervision from the servicing officer.
- *Special Mention*: Loans in this category have potential weaknesses that deserve management's close attention. Special mention assets are adversely classified and do expose the bank to sufficient risk to warrant adverse classification. This category is used to identify an asset, which has as its sole weakness credit data exceptions, collateral documentation exceptions or other account management weaknesses where the exceptions or weaknesses are material to the repayment of the asset.
- *Substandard*: Loans in this category are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. There are well-defined weaknesses that jeopardize the repayment of the debt.
- *Doubtful*: Loans in this category have all the weaknesses inherent in those classified substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently ascertainable facts, conditions and values, highly questionable or improbable.

The following table displays the loan portfolio by credit quality indicators as of:

December 31, 2020	<u>Pass/Pass Watch</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Total</u>
Real Estate Loans	\$ 24,067,000	\$ 687,000	\$ 459,000	\$ 25,213,000
Commercial Loans	1,510,000	-	39,000	1,549,000
Consumer Loans	168,000	-	-	168,000
Other	2,000	-	-	2,000
	<u>\$ 25,747,000</u>	<u>\$ 687,000</u>	<u>\$ 498,000</u>	<u>\$ 26,932,000</u>
December 31, 2019	<u>Pass/Pass Watch</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Total</u>
Real Estate Loans	\$ 28,289,100	\$ 531,100	\$ 124,800	\$ 28,945,000
Commercial Loans	1,598,000	-	45,000	1,643,000
Consumer Loans	333,000	-	-	333,000
Other	1,000	-	-	1,000
	<u>\$ 30,221,100</u>	<u>\$ 531,100</u>	<u>\$ 169,800</u>	<u>\$ 30,922,000</u>

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE E - LOANS - Continued

Nonaccrual loans include loans which are contractually past due 90 days or more and loans less than 90 days past due on which the Bank has ceased accruing interest. The following table represents recorded investment in nonaccrual loans and loans past due over 90 days and still accruing by class of loans as of:

	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	Nonaccrual	Loans past due Over 90 days and still accruing	Nonaccrual	Loans past due Over 90 days and still accruing
Real Estate Loans	\$ 459,000	\$ -	\$ 20,000	\$ -
Commercial Loans	39,000	-	42,000	-
	<u>\$ 498,000</u>	<u>\$ -</u>	<u>\$ 62,000</u>	<u>\$ -</u>

The following table represents the aging of recorded investments in past due loans as of December 31, 2020:

	1-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans receivable
Real Estate Loans	\$ 767,000		\$ 448,000	\$ 1,215,000	\$23,998,000	\$25,213,000
Commercial Loans	85,000			85,000	1,464,000	1,549,000
Consumer Loans	13,000			13,000	155,000	168,000
Other				-	2,000	2,000
	<u>\$ 865,000</u>	<u>\$ -</u>	<u>\$ 448,000</u>	<u>\$ 1,313,000</u>	<u>\$25,619,000</u>	<u>\$26,932,000</u>

At December 31, 2020 and 2019, the total recorded investment in impaired loans, all of which had allowances determined in accordance with GAAP, totaled \$39,000 and \$45,000, respectively. The average recorded investment in impaired loans totaled \$39,000 and \$45,000 for the years ended December 31, 2020 and 2019, respectively. The allowance for loan losses related to impaired loans totaled \$39,000 and \$48,000 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, loans whose terms had been modified in a trouble debt restructuring (TDR) totaled \$0 (See Note A12). The allowance for loan losses included specific reserves of \$0 related to TDRs at December 31, 2020 and 2019. No additional funds were committed to borrowers on TDR status at December 31, 2020 and 2019. The Bank in prudent circumstances may provide additional funds committed to borrowers in a TDR status.

Commercial loans include \$2,423,000 of PPP loans and the net loan fees related to the PPP loans totaled \$121,000 at December 31, 2020.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE E - LOANS - Continued

Under Section 4013 of the CARES Act, and separately based upon regulatory guidance promulgated by federal banking regulators (collectively “Interagency Statement”), qualifying short-term loan modifications resulting in payment deferrals that are attributable to the adverse impact of COVID-19, are not considered to be troubled debt restructurings (“TDRs”). As such, the applicable loans are reported as current with regard to payment status and continue to accrue interest during the payment deferral period. At December 31, 2020, the Company had 1 COVID-19 modified loan deferrals totaling approximately \$181,000.

NOTE F - ALLOWANCE FOR LOAN LOSSES

The following sets forth the allocation of the allowance for loan losses by loan category for the year ended December 31, 2020. The total allowance for loan losses by loan category is disaggregated to the detail the amounts derived through individual evaluation and collective evaluation for impairment. The allowance for loan losses related to individually evaluated loans is attributable to reserves for non-accrual commercial loans. The allowance for loan losses related collectively evaluated loans is attributable to the remainder of the portfolio:

December 31, 2020	Individually Evaluated	Collectively Evaluated	Total
Real estate	\$ -	\$ 503,000	\$ 503,000
Consumer	-	2,000	2,000
Commercial	39,000	18,000	57,000
	<u>\$ 39,000</u>	<u>\$ 523,000</u>	<u>\$ 562,000</u>
December 31, 2019	Individually Evaluated	Collectively Evaluated	Total
Real estate	\$ -	\$ 488,000	\$ 488,000
Commercial	48,000	-	48,000
	<u>\$ 48,000</u>	<u>\$ 488,000</u>	<u>\$ 536,000</u>

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE F - ALLOWANCE FOR LOAN LOSSES – Continued

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

	2020	2019
Balance - January 1,	\$ 536,000	\$ 536,000
Provision charged to operating expenses	-	5,000
Loans recovered during the year		
Real estate	26,000	-
Total loans recovered	26,000	-
Loans charged off during the year		
Real estate	-	( 5,000)
Total loans charged off	-	( 5,000)
Balance - December 31,	\$ 562,000	\$ 536,000

NOTE G - BANK PREMISES AND EQUIPMENT, NET

Bank premises and equipment are summarized as follows at December 31,:

	2020	2019
Banking house and fixtures	\$ 1,582,000	\$ 1,582,000
Furniture and fixtures	613,000	534,000
Automobiles	31,000	31,000
	2,226,000	2,147,000
Less: Accumulated depreciation	( 1,847,000)	( 1,736,000)
	379,000	411,000
Land	933,000	933,000
	\$ 1,312,000	\$ 1,344,000

Depreciation expense totaled \$108,000 and \$113,000 for the years ended December 31, 2020 and 2019, respectively.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE H - COMMITMENTS

In the normal course of business, there are various outstanding commitments such as guarantees and commitments to extend credit which are not reflected in the accompanying financial statements. The Bank evaluates its credit and market risks on each commitment on a case by case basis and obtains collateral as deemed necessary. The Bank does not anticipate any losses as a result of these commitments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making off-balance-sheet commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank has outstanding letters of credit totaling approximately \$5,000 and \$24,600 as of December 31, 2020 and 2019, respectively.

Outstanding loan commitments and lines of credit totaled \$899,000 and \$867,000 as of December 31, 2020 and 2019, respectively, including \$0 to officers, directors, and their related interests in 2020 and 2019, respectively.

NOTE I – DEPOSITS

The aggregate amount of jumbo time deposits, each with a minimum denomination of \$100,000 totaled \$2,688,000 and \$3,265,000 at December 31, 2020 and 2019, respectively. At December 31, 2020, the aggregate amount of time deposits that exceed FDIC insurance totaled \$1,038,000.

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

Three months or less	\$ 1,680,000
Over three months through twelve months	4,060,000
Over one year through three years	<u>817,000</u>
	<u><u>\$ 6,557,000</u></u>

NOTE J - INTEREST INCOME

A summary of the major components of interest income follows for the years ended December 31,:

	<u>2020</u>	<u>2019</u>
Interest on loans, including fees of \$218,000 and \$109,000 in 2020 and 2019, respectively	\$ 1,825,000	\$ 1,907,000
Interest on federal funds sold	23,000	105,000
Interest on investment securities	113,000	260,000
Other interest income	<u>187,000</u>	<u>196,000</u>
	<u><u>\$ 2,148,000</u></u>	<u><u>\$ 2,468,000</u></u>

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE K - INTEREST EXPENSE

A summary of the major components of interest expense follows for the years ended December 31,:

	2020	2019
NOW accounts	\$ 10,000	\$ 19,000
Money market accounts	88,000	157,000
Certificates of deposits	99,000	86,000
Municipals	4,000	4,000
	\$ 201,000	\$ 266,000

NOTE L - STATEMENTS OF CASH FLOWS

Supplemental cash flow information follows:

	2020	2019
Cash paid for interest	\$ 208,000	\$ 270,000
Noncash activity		
Net unrealized gains on securities	( 6,000)	92,000
Reclassifications	( 17,000)	20,400

NOTE M - DEFINED CONTRIBUTION RETIREMENT PLAN

The Bank has established a defined contribution retirement plan (Plan) covering substantially all employees. Participants may make voluntary salary reduction contributions to the Plan ranging from two to fifteen percent of their compensation.

The Bank's contribution to the Plan is discretionary and is allocated to participating employees based upon a formula that provides a matching of employee contributions up to five percent of an employee's compensation. The balance of the Bank's contribution is allocated to participants based on salaries. The Bank contributed \$23,000 and \$29,000 to the Plan during the years ended December 31, 2020 and 2019, respectively.

Plan funds are currently invested in money market accounts and U.S. Treasury Bills. Payments upon termination of employment are based on vested amounts credited to individual accounts.

The Bank has obtained a ruling from the Internal Revenue Service confirming that the Plan qualifies for special tax treatment under Section 401 of the Internal Revenue Code of 1986.



**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE N - RELATED PARTIES

The Bank has entered into transactions with certain directors, executive officers and employees. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral requirements, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

Loan activity with related parties is summarized as follows for the period ending December 31,:

	2020	2019
Balance at beginning of year	\$ 6,000	\$ 29,000
New loans and renewals	-	-
	6,000	29,000
Payments	( 6,000)	( 23,000)
Balance at end of year	\$ -	\$ 6,000

Related party demand deposits totaled approximately \$587,856 and \$637,000 at December 31, 2020 and 2019, respectively.

The bank uses legal and realtor services from related parties for operations. Total expenses incurred for these services totaled \$16,515 and \$6,500 for the years ended December 31, 2020 and 2019, respectively.

NOTE O - CONCENTRATION OF RISK

Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks exceed the amount of insurance provided on such deposits by \$10,568,000 and \$10,893,000 at December 31, 2020 and 2019, respectively. Generally, these deposits may be redeemed upon demand.

NOTE P - MINIMUM CAPITAL RATIOS

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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. With respect to the Bank, prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE P - MINIMUM CAPITAL RATIOS – Continued

The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. As of December 31, 2020, there are no conditions or events since that notification that management believes have changed the Bank's category.

In July 2013, the Federal banking regulators approved a final rule to implement the revised capital adequacy standards of the Basel Committee on Banking Supervision, commonly called Basel III, and to address relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The final rule strengthens the definition of regulatory capital, increases risk-based capital requirements, makes selected changes to the calculation of risk-weighted assets, and adjusts the prompt corrective action thresholds. The Company and the Bank became subject to the new rule on January 1, 2015 and certain provisions of the new rule will be phased in over the period of 2015 through 2019.

The rule requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5 percent, increases the minimum Tier 1 capital to risk-weighted assets ratio requirement from 4.0 percent to 6.0 percent, retains the minimum total capital to risk-weighted assets ratio requirement of 8.0 percent and retains a minimum leverage ratio requirement of 4.0 percent. It also permits the Bank to retain the existing treatment for most accumulated other comprehensive income, such that unrealized gains and losses on securities available-for-sale will not affect regulatory capital amounts and ratios.

In addition, it implements a new capital conservation buffer requirement for a banking organization to maintain a common equity capital ratio more than 2.50 percent above the minimum common equity Tier 1 capital, Tier 1 capital and total risk based capital ratios in order to avoid limitations on capital distributions, including dividend payments, and certain discretionary bonus payments. The capital conservation buffer requirement will be phased in beginning on January 1, 2016 at 0.625 percent and will be fully phased in at 2.50 percent by January 1, 2019. A banking organization with a buffer of less than the required amount would be subject to increasingly stringent limitations on such distributions and payments as the buffer approaches zero. The new rule also generally prohibits a banking organization from making such distributions or payments during any quarter if its eligible retained income is negative and its capital conservation buffer ratio was 2.5 percent or less at the end of the previous quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income.

**FIRST NATIONAL BANK OF SOUTH PADRE ISLAND**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**December 31, 2020 and 2019**

NOTE P - MINIMUM CAPITAL RATIOS – Continued

On November 13, 2019, the federal bank regulatory agencies published a final rule in the *Federal Register* that provided a simplified measure of capital adequacy for qualifying community banking organizations. The final rule went into effect on January 1, 2020. Banks that meet the qualifying criteria could elect to use the Community Bank Leverage Ratio (“CBLR”) framework as of the Call Report for the quarter ended March 31, 2020. The CBLR framework is an optional framework designed to reduce regulatory burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the CBLR framework. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% are considered to have satisfied the risk-based and leverage capital requirements in the agencies' generally applicable capital rule. Additionally, such insured depository institutions are considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. As of December 31, 2020, the Bank had a leverage ratio of 10.04%.

The Bank’s actual capital amounts and ratios at December 31, 2019, are presented in the following table:

As of December 31, 2019

Common Equity Tier I Capital Ratio	\$ 6,386,000	23.46%	≥\$ 1,905,000	≥7.00%	≥\$ 1,769,000	≥6.50%
Tier I Capital Ratio	\$ 6,386,000	23.46%	≥\$ 2,314,000	≥8.50%	≥\$ 2,178,000	≥8.00%
Total Capital Ratio	\$ 6,716,000	24.67%	≥\$ 2,858,000	≥10.50%	≥\$ 2,722,000	≥10.00%
Tier I Leverage Ratio	\$ 6,386,000	11.35%	≥\$ 2,251,000	≥4.00%	≥\$ 2,813,000	≥5.00%

NOTE Q – DIVIDEND RESTRICTIONS

All banks are subject to dividend restrictions set forth by OCC regulations. Under such regulations, the Bank may not, without prior approval of the OCC, declare dividends in excess of the sum of the current year’s earnings plus the retained earnings from the two prior years.

NOTE R - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 29, 2021, the date these financials statements were available to be issued.

Due to COVID-19 known as the Coronavirus, in March of 2020, the President of the United States declared a National Emergency and the Governor of the State of Texas declared a State of Disaster. The effect of these declarations on the Bank’s investments, loans, deposits, capital, employees and overall operations are uncertain. Accordingly, these consolidated financial statements have not been adjusted as the effects on the Bank’s financial position, operations and cash flows are unknown.

SUPPLEMENTARY INFORMATION

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Independent Auditors' Report on Additional Information

Board of Directors  
First National Bank of South Padre Island

We have audited the financial statements of First National Bank of South Padre Island as of and for the year ended December 31, 2020, and our report thereon dated January 29, 2021, which expressed an unmodified opinion on those financial statements, appears on pages 06 to 33. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information, except for the portions marked "unaudited", is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Burton, McCumber, & Longoria LLP*

Brownsville, Texas  
January 29, 2021