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, Ken L. Burgess, Jr.
Name of the Holding Company Director and Official

Chief Executive Officer, Director
Title of the Holding Company Director and Official

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

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

Ken L. Burgess
Signature of Holding Company Director and Official

03/26/2021
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. ____________

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

First Bancshares of Texas, Inc.
Legal Title of Holding Company

310 W. Wall St., Suite 1200
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Midland	TX	79701

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Phyllis Bechner	CFO

432-687-9166
Area Code / Phone Number / Extension

432-687-1712
Area Code / FAX Number

pbechner@fcbtexas.com
E-mail Address

www.firstbancshares.com
Address (URL) for the Holding Company's web page

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

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

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

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

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.

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

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

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

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

Physical Location (if different from mailing address)

April 27, 2020

FIRST BANCSHARES
OF TEXAS, INC.

Federal Reserve Bank of Dallas
Banking Supervision Department
2200 N. Pearl Street
Dallas, TX 75201-2216

First Bancshares of Texas, Inc. (the "Company") is filing two copies of the part 363 Annual Report for the fiscal year ended December 31, 2020, on behalf of its insured depository institution subsidiaries listed in the chart below that are subject to Part 363. The Part 363 Annual Report contains audited comparative annual financial statements, the independent public accountant's report on the audited financial statements, management's statement of responsibilities, management's assessment of compliance with the Designated Laws and Regulations pertaining to insider loans and dividend restrictions, and [if applicable] management's assessment of and the independent public accountant's attestation report on internal control over financial reporting. The chart below also indicates the level (institution or holding company) at which the requirements of Part 363 are being satisfied for each listed insured depository institution subsidiary.

Institutions subject to Part 363	Audited financial statements	Management's statement of responsibilities	Management's assessment of compliance with designated laws and regulations	Management's internal control assessment	Independent auditor's internal control attestation report
First Bancshares of Texas, Inc.	Holding Company Level	Holding Company Level	Holding Company Level	Holding Company Level	Holding Company Level
FirstCapital Bank of Texas, N.A.	Holding Company Level	Institution Level	Institution Level	Institution Level	Holding Company Level

If you have any questions regarding the annual report [or reports] of the Company's insured depository institution subsidiaries subject to part 363 or if you need any further information, you may contact me at 432-687-9166 or pbechner@fcbtexas.com.

Phyllis Bechner
Chief Financial Officer

310 WEST WALL STREET, SUITE 1200 MIDLAND, TEXAS 79701 432.686.0044 FAX 432.687.1712

WWW.FIRSTBANCSHARES.COM

FIRST BANCSHARES
OF TEXAS, INC.

Management Report

Statement of Management's Responsibilities

The management of First Bancshares of Texas, Inc. (the "Company") is responsible for preparing the Company's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9SP Parent Company Only Financial Statements for Small Holding Companies; and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020.

Management's Assessment of Internal Control over Financial Reporting

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.*, FR Y-9SP Parent Company Only Financial Statements for Small Holding Companies. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9SP Parent Company Only Financial Statements for Small Holding Companies; as of December 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control--Integrated Framework (2013)*. Based upon its assessment, management has concluded that, as of December 31, 2020, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9SP Parent Company Only Financial Statements for Small Holding Companies; is effective based on the criteria established in *Internal Control--Integrated Framework.*

The effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FR Y-9SP Parent Company Only Financial Statements for Small Holding Companies; as of December 31, 2020, has been audited by Crowe LLP, an independent public accounting firm, as stated in their report dated March 30, 2021.

3/30/21

Ken Burgess, Jr, Chief Executive Officer
First Bancshares of Texas, Inc.

Date

3/30/21

Phyllis Bechner, Chief Financial Officer
First Bancshares of Texas, Inc.

Date

FirstCapital Bank of Texas
You above all.

FCBTexas.com | 844.FCB.TEXAS

Management Report

Statement of Management's Responsibilities

The management of FirstCapital Bank of Texas, N.A. Institution (the "Institution") is responsible for preparing the Institution's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income; and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Institution has assessed the Institution's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020. Based upon its assessment, management has concluded that the Institution complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020.

Management's Assessment of Internal Control over Financial Reporting

The Institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.*, Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income. The Institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Institution are being made only in accordance with authorizations of management and directors of the Institution; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Institution's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income, as of December 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control--Integrated Framework (2013)*. Based upon its assessment, management has concluded that, as of December 31, 2020, the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income, is effective based on the criteria established in *Internal Control--Integrated Framework*.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income, as of December 31, 2020, has been audited by Crowe Horwath LLP, an independent public accounting firm, as stated in their report dated March 30, 2021.

3/30/21

Brad Burgess, Chief Executive Officer
FirstCapital Bank of Texas, N.A.

Date

3/30/21

Phyllis Bechner, Chief Financial Officer
FirstCapital Bank of Texas, N.A.

Date

Crowe LLP
Independent Member Crowe Global

NDEPENDENT AUDITOR'S REPORT

Audit Committee
First Bancshares of Texas, Inc.
Midland, Texas

Report on Internal Control Over Financial Reporting

We have audited First Bancshares of Texas, Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

Management's Responsibility for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of First Bancshares of Texas, Inc.'s internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Parent Company Only Financial Statements for

Small Bank Holding Companies (Form FR Y-9SP). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, First Bancshares of Texas, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

Other Matter

This report is intended solely for the information and use of management, Audit Committee, others within the organizations, the Federal Deposit Insurance Corporation and other banking regulators and is not intended to be and should not be used by anyone other than these specified parties.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the 2020 financial statements of First Bancshares of Texas, Inc., and our report dated March 30, 2021 expressed an unmodified opinion.

Crowe LLP

Crowe LLP

Dallas, Texas
March 30, 2021

INDEPENDENT AUDITOR'S REPORT

Shareholders and the Board of Directors of First Bancshares of Texas, Inc.
Midland, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Bancshares of Texas, Inc., which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, shareholders' 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 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.

Auditor's 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 auditor's 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. 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 financial position of First Bancshares of Texas, Inc. as of December 31, 2020 and 2019, and the 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.

Report on Other Legal and Regulatory Requirements

We also have audited in accordance with auditing standards generally accepted in the United States of America, First Bancshares of Texas, Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 30, 2021 expressed an unmodified opinion.

Crowe LLP

Crowe LLP

Dallas, Texas
March 30, 2021

First Bancshares of Texas, Inc.
Consolidated Statements of Financial Condition
December 31, 2020 and 2019
(Dollar amounts in thousands except share and per share data)

	2020	2019
Assets		
Cash and due from banks	$ 19,227	$ 33,632
Federal funds sold	—	10,000
Interest-bearing deposits in banks	160,719	158,443
Cash and cash equivalents	179,946	202,075
Securities available for sale	36,144	47,936
Securities held to maturity (fair value is $42,207 and $59,171 at December 31, 2020 and 2019, respectively)	41,129	58,520
Equity securities (at fair value)	220	255
Restricted investments carried at cost	6,106	3,629
Loans held for sale	1,959	368
Loans, net of allowance for loan losses of $20,799 and $15,196 at December 31, 2020 and 2019, respectively	1,426,732	1,269,873
Premises and equipment, net	23,750	26,436
Right of use asset, net	8,317	7,351
Deferred tax asset, net	5,860	4,791
Cash surrender value of life insurance	37,202	36,217
Goodwill	54,913	54,913
Core deposit intangible	6,239	7,279
Other assets	16,651	13,699
Total assets	$ 1,845,168	$ 1,733,342
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing	$ 533,720	$ 480,454
Interest-bearing	1,002,790	948,311
Total deposits	1,536,510	1,428,765
Securities sold under agreements to repurchase	33,624	32,778
Advances from Federal Home Loan Bank	620	677
Subordinated debentures	3,093	3,093
Lease liability	8,713	7,753
Accrued expenses and other liabilities	10,637	11,072
Total liabilities	1,593,197	1,484,138
Shareholders' Equity		
Preferred stock, $1 par value; 5,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2020 and 2019, respectively	—	—
Common stock, $1 par value; 35,000,000 shares authorized; 16,819,019 and 16,819,019 shares issued at December 31, 2020 and 2019, respectively	16,819	16,819
Capital surplus	150,415	149,530
Treasury stock, at cost, 58,042 and 54,944 shares at December 31, 2020 and 2019, respectively	(1,103)	(1,044)
Retained earnings	85,208	83,426
Accumulated other comprehensive income, net of tax	632	473
Total shareholders' equity	251,971	249,204
Total liabilities and shareholders' equity	$ 1,845,168	$ 1,733,342

See Notes to Consolidated Financial Statements

First Bancshares of Texas, Inc.
Consolidated Statements of Income
For the Years Ended December 31, 2020 and 2019
(Dollar amounts in thousands)

	2020	2019
Interest Income		
Loans, including fees	$ 80,603	$ 76,467
Debt securities:		
Taxable	1,700	2,296
Tax-exempt	625	864
Deposits in other banks	1,183	1,529
Federal funds sold	30	174
Other	346	264
Total interest income	84,487	81,594
Interest Expense		
Deposits	9,153	11,685
Subordinated debentures	113	166
Securities sold under agreements to repurchase	255	377
Advances from Federal Home Loan Bank	98	569
Total interest expense	9,619	12,797
Net Interest Income	74,868	68,797
Provision for Loan Losses	9,763	3,006
Net Interest Income After Provision for Loan Losses	65,105	65,791
Noninterest Income		
Service charges on deposit accounts	1,345	1,589
Other service charges and fees	2,189	1,804
Gain on sales of loans	419	522
Trust department income	544	573
Net gain (loss) on securities transactions	(35)	293
Other income	1,297	1,426
Total noninterest income	5,759	6,207
Noninterest Expense		
Salaries and employee benefits	28,200	27,259
Occupancy and equipment	6,949	6,589
Professional fees	2,764	3,681
IT and data processing	2,081	2,885
Advertising	1,095	1,275
FDIC assessment	606	352
Other expenses	7,376	7,301
Total noninterest expense	49,071	49,342
Income Before Income Taxes	21,793	22,656
Provision for Income Taxes	4,090	4,600
Net Income	$ 17,703	$ 18,056

See Notes to Consolidated Financial Statements

First Bancshares of Texas, Inc.
Consolidated Statements of Income (Continued)
For the Years Ended December 31, 2020 and 2019
(Dollar amounts in thousands except per share data)

	2020	2019
Per Share Data:		
Basic earnings per common share	1.06	1.12
Diluted earnings per common share	1.05	1.12
Dividends per share	0.95	0.20

See Notes to Consolidated Financial Statements

First Bancshares of Texas, Inc.

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2020 and 2019
(Dollar amounts in thousands)

	2020	2019
Net Income	$ 17,703	$ 18,056
Other Comprehensive Income (Loss)		
Change in unrealized gains on investment securities available for sale, before tax	201	2,051
Tax effect	(42)	(431)
Other comprehensive income	159	1,620
Comprehensive Income	$ 17,862	$ 19,676

See Notes to Consolidated Financial Statements

First Bancshares of Texas, Inc.
Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 2020 and 2019
(Dollar amounts in thousands except share data)

	Common Stock		
	Shares Outstanding	Par Amount	Capital Surplus
Balance, January 1, 2019	12,621,789	$ 12,622	$ 73,711
Net income	—	—	—
Other comprehensive income	—	—	—
Dividends declared	—	—	—
Exercise of stock options	44,850	24	15
Purchases of treasury stock	(79,376)	—	—
Shares issued in employee stock purchase plan	13,728	10	175
Stock consideration for Fidelity purchase	4,163,084	4,163	74,936
Stock-based compensation	—	—	693
Balance, December 31, 2019	16,764,075	16,819	149,530
Net income	—	—	—
Other comprehensive income	—	—	—
Dividends declared and paid	—	—	—
Exercise of stock options	2,500	—	(17)
Purchases of treasury stock	(21,278)	—	—
Shares issued in employee stock purchase plan	15,680	—	(19)
Stock-based compensation	—	—	921
Balance, December 31, 2020	16,760,977	$ 16,819	$ 150,415

See Notes to Consolidated Financial Statements

Treasury Stock				
Shares Outstanding	Treasury Stock, at Cost	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
—	$ —	$ 68,723	$ (1,147)	$ 153,909
—	—	18,056	—	18,056
—	—	—	1,620	1,620
—	—	(3,353)	—	(3,353)
(20,500)	390	—	—	429
79,376	(1,509)	—	—	(1,509)
(3,932)	75	—	—	260
—	—	—	—	79,099
—	—	—	—	693
54,944	(1,044)	83,426	473	249,204
—	—	17,703	—	17,703
—	—	—	159	159
—	—	(15,921)	—	(15,921)
(2,500)	47	—	—	30
21,278	(404)	—	—	(404)
(15,680)	298	—	—	279
—	—	—	—	921
58,042	$ (1,103)	$ 85,208	$ 632	$ 251,971

See Notes to Consolidated Financial Statements

First Bancshares of Texas, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(Dollar amounts in thousands)

	2020	2019
Cash flows from operating activities:		
Net income	$ 17,703	$ 18,056
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,768	2,728
Net accretion on loans	(2,748)	(2,875)
Provision for loan losses	9,763	3,006
Net amortization of securities	94	(75)
Gain on sales of loans	(419)	(522)
Appreciation in cash surrender value life insurance	(986)	(1,790)
Net OREO (gains) losses on sales and valuation adjustments	1	(23)
Loss (gain) on disposition of fixed assets	(348)	(17)
Deferred income taxes	(1,110)	(120)
Stock-based compensation	921	693
Amortization of intangible assets	1,040	999
Origination of loans held for sale	(24,207)	(23,300)
Proceeds from sale of loans originated for sale	23,034	24,862
Net (gain) loss on securities transactions	35	(293)
Net (gain) loss on sale of investments in partnerships	308	—
Net change in operating leases	(5)	402
(Increase) decrease in other assets	(2,508)	3,168
Increase (decrease) in accrued expenses and other liabilities	2,917	(861)
Net cash provided by operating activities	26,253	24,038
Cash flows from investing activities:		
Proceeds from maturities, calls and pay downs of securities available for sale	1,062,929	609,828
Proceeds from sales of securities available for sale	—	13,884
Purchases and acquisition of securities available for sale	(1,050,991)	(600,515)
Proceeds from maturities, calls and pay downs of securities held-to-maturity	17,351	19,162
Net change in loans	(162,166)	(25,054)
Net change in restricted investments carried at cost	(2,477)	(1,376)
Purchases and additions to premises and equipment, net	(812)	(1,501)
Proceeds from sales of fixed assets	1,079	13
Proceeds from sales of foreclosed assets	(2,462)	(426)
Acquisitions, net of cash received	—	27,684
Net cash provided by (used in) investing activities	(137,549)	41,699
Cash flows from financing activities:		
Net increase (decrease) in deposits	107,745	82,570
Increase (decrease) in securities sold under agreements to repurchase	847	19,261
Proceeds from Federal Home Loan Bank advances	300,000	198,001
Repayment of Federal Home Loan Bank advances	(300,056)	(248,799)
Exercise of stock options	30	429
Purchases of treasury stock	(404)	(1,509)
Proceeds from employee stock purchase plan	279	260
Dividends on common stock	(19,274)	—
Net cash provided by financing activities	89,167	50,213
Increase (decrease) in Cash and Cash Equivalents	(22,129)	115,950
Cash and Cash Equivalents, Beginning of Period	202,075	86,125
Cash and Cash Equivalents, End of Period	$ 179,946	$ 202,075

First Bancshares of Texas, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(Dollar amounts in thousands except share data)

	2020	2019
Supplemental Information		
Interest paid	$ 10,505	$ 12,305
Income taxes paid	6,700	4,125
Non-cash Supplemental Information		
Transfers from loans to foreclosed assets	$ 1,738	$ 137
Dividends accrued	—	3,353
Shares issued in connection with acquisition	0	4,163,084

See Notes to Consolidated Financial Statements

Note 1: Nature of Operation and Summary of Significant Accounting Policies

Nature of Operation

First Bancshares of Texas, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, FirstCapital Bank of Texas, N.A. (the Bank). The Bank's primary source of revenue is providing a variety of financial services to individuals and businesses primarily in the Texas cities of Amarillo, Burkburnett, Byers, Dallas, Fredericksburg, Henrietta, Horseshoe Bay, Lubbock, Marble Falls, Midland and Wichita Falls, and their respective surrounding areas. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany transactions and balances have been eliminated in consolidation.

Uses of Estimates

The preparation of financial statements in conformity with U.S. 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.

Cash Flows

Cash and cash equivalents include cash, balances due from banks, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, federal funds purchased and repurchase agreements.

The Company may be required to maintain average balances on hand or with the Federal Reserve Bank. The Company was not required to maintain a reserve as of December 31, 2020 and 2019.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks mature within three months and are carried at cost. Also included in this category are Certificates of Deposit (CDs) with banks that mature within one year.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of tax. Purchase premiums and discounts are recognized in interest income using the interest method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be requested to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings, For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Investment in Partnerships

The Company accounts for the investment in partnerships based on the cost method of accounting, and amounts are presented in Other Assets on the Statement of Financial Condition. The total remaining commitment is $2,054 at December 31, 2020.

In 2016, the Company purchased a partnership interest in Valesco Fund II, L.P. for $126 and committed to purchase a total of $3,000. At December 31, 2020 and 2019, the carrying value of the investment in the partnership was $1,206, and $1,200, respectively.

In 2014, the Company purchased a partnership interest in Independent Bankers Capital Fund III, L.P. for $458 and committed to purchase a total of $1,500. At December 31, 2020 and 2019, the carrying value of the investment in the partnership was $1,262, and $1,262, respectively.

In 2012, the Company committed to purchase a partnership interest in Pharos III, L.P. for a total of $1,500. At December 31, 2020 and 2019, the carrying value of the investment in the partnership was $1,320 and $1,163, respectively.

In 2011, the Company purchased a partnership interest in Valesco Commerce Street Capital, L.P. for $59 and committed to purchase a total of $500. At December 31, 2020 and 2019, the carrying value of the investment in the partnership was $19 and $76, respectively.

In 2009, the Company purchased a partnership interest in Independent Bankers Capital Fund II, L.P. for $37 and committed to purchase a total of $250. At December 31, 2020 and 2019, the carrying value of the investment in the partnership was $0 and $0, respectively.

The above investments are reviewed periodically for impairment.

Restricted Investments Carried at Cost

Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB) and TIB-The Independent BankersBank (TIB) stock are required investments for institutions that are members of the FHLB, FRB and TIB systems. The required investments in the common stock are based on predetermined formulas, carried at cost and evaluated for impairment.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value, as determined by outstanding commitments by investors. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at loan origination of the loan and are recognized in noninterest income upon sale of the loan. Loans are generally sold servicing released.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout the Texas cities of Amarillo, Burkburnett, Byers, Dallas, Fredericksburg, Henrietta, Horseshoe Bay, Lubbock, Marble Falls, Midland and Wichita Falls and their respective surrounding areas. In 2019, the Company acquired loans with a fair value of $410,231. Of those $30,938 were identified to be purchased credit impaired. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. For loans amortized at cost, interest income is accrued based on the unpaid principal balance.

The accrual of interest on all loans is generally discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are 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.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. Commercial and commercial real estate loans are individually evaluated for impairment on a quarterly basis. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component is based on historical charge off experience and incurred loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. Factors include the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge offs and recoveries; migrations of loans to the classification of special mention, substandard or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

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

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

A troubled debt restructured ("TDR") loan is a loan, which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A TDR loan would generally be considered impaired in the year of modification and will be assessed periodically for continued impairment.

Acquired loan portfolios are recorded net of a discount for the expected credit loss. Therefore no allowance is generally recorded on acquired loans unless the incurred losses are estimated to be more than the remaining discount.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter.

(Dollar amounts in thousands)

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35-40 years
Leasehold improvements	5-10 years
Equipment	3-5 years

The Company leases certain properties and equipment under operating leases. For leases in effect upon adoption of Accounting Standards Update 2016-02, "Leases (Topic 842)" at January 1, 2019 and for any leases commencing thereafter, the Company recognizes a liability to make lease payments, the "lease liability", and an asset representing the right to use the underlying asset during the lease term, the "right-of-use asset". The lease liability is measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate. The right-of-use asset is measured at the amount of the lease liability adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term, any unamortized initial direct costs, and any impairment of the right-of-use-asset. Operating lease expense consists of a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight line basis.

Certain of the Company's leases contain options to renew the lease; however, these renewal options are not included in the calculation of the lease liabilities as they are not reasonably certain to be exercised. The Company has made an accounting policy election to not apply the recognition requirements in Topic 842 to short-term leases. The Company has also elected to make an accounting policy election for property leases to not include nonlease components such as CAM charges ad property taxes when accounting for its leases. The Company's leases are not complex; therefore there were no significant assumptions or judgements made in applying the requirements of Topic 842, including the determination of whether the contracts contained a lease, the allocation of consideration in the contracts between lease and nonlease components, and the determination of the discount rates for the leases.

Cash Surrender Value of Life Insurance

The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within one year from the transaction date and are presented at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Treasury Stock

Treasury stock is accounted for on the cost method, and consisted of 58,042 and 54,944 shares at December 31, 2020 and 2019, respectively.

Stock Based Compensation

At December 31, 2020 and 2019, the Company recognizes the fair value (calculated value) of stock-based awards to employees as compensation cost over the requisite service period.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the asset has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the rights (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and, upon examination, also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. There were no interest or penalties recorded during the years ended December 31, 2020 and 2019. The Company files consolidated income tax returns with its subsidiary. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2017.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Employee Stock Purchase Plan (“ESPP”) shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments that are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Retirement Plans

Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized gains or losses on available for sale securities.

Transfers between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Other Intangible Assets

Intangible assets, such as core deposit intangibles, acquired in a purchase business combination with definite useful lives are amortized over their estimated useful lives to their estimated residual values. The core deposit intangible is amortized on a double-declining balance method over its estimated useful life of 7 to 10 years.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on prior year net income or total stockholders' equity.

Adoption of New Accounting Standards

ASU 2017-04, *Intangibles: Goodwill and Other: Simplifying the Test for Goodwill Impairment* - ASU 2017-04 eliminates Step 2 from the goodwill impairment test to simplify the subsequent measurement of goodwill. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a company with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the company's fair value; however, the loss recognized should not exceed the total amount of goodwill carried by the company. In addition, the income tax effects of tax deductible goodwill on the carrying amount of the company should be considered when measuring the goodwill impairment loss, if applicable. ASU 2017-04 also eliminates the requirements for any company with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment to determine if the quantitative impairment test is necessary. The standard must be adopted using a prospective basis and the nature and reason for the change in accounting principle should be disclosed upon transition. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in reporting periods beginning after December 15, 2019. Early adoption is permitted on testing dates after January 1, 2017. During the first quarter of 2020, the Company adopted the provision of ASU 2017-04, and the adoption did not have a material impact on the Company's consolidated financial statements.

Guidance on Non-TDR Loan Modifications due to COVID-19

In April 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System (the "FRB") and the Federal Deposit Insurance Corporation (the "FDIC"), issued a revised interagency statement encouraging financial institutions to work with customers affected by the coronavirus pandemic ("COVID-19") and providing additional information regarding loan modifications. The revised interagency statement clarifies the interaction between the interagency statement issued on March 22, 2020 and the temporary relief provided by Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Section 4013 of the CARES Act allows financial institutions to suspend the requirements to classify certain loan modifications as TDRs.

For the year ended December 31, 2020, the Company modified $220.1 million in loans that were not evaluated for TDR treatment since they met the requirements of Section 4013 of the CARES Act. The revised statement also provides supervisory interpretations on past due and non accrual regulatory reporting of loan modification programs and regulatory capital. This interagency guidance is expected to reduce the number of TDRs that will be reported in future periods; however, the amount is indeterminable and will depend on future developments, which are highly uncertain and cannot be accurately predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

(Dollar amounts in thousands)

Note 2: Business Combinations and Divestitures

The acquisition of FB Bancshares Holding Company and its subsidiary Fidelity Bank closed February 28, 2019 after being initially announced on November 14, 2018 and receiving regulatory approvals on January 29, 2019. Fidelity Bank was a Texas chartered commercial bank, with an emphasis on commercial real estate. The merger agreement provided that Fidelity Bank merge with and into FirstCapital Bank of Texas. Fidelity Bank was headquartered in Wichita Falls, TX and operated six branches in Wichita Falls and surrounding communities. The acquisition further diversified the Company's loan, customer, and deposit base. The total consideration paid was $114,100 and included cash consideration of $35,001 and common stock issued of $79,099.

A summary of the fair values of assets acquired, liabilities assumed, consideration transferred, and the resulting goodwill is as follows:

Assets acquired:		
Cash and cash equivalents	$	62,685
Securities		7,868
Loans		410,231
Premises and equipment		5,597
Intangible assets (core deposit intangible)		7,933
Other real estate		1,411
Deferred tax asset		1,768
Other		15,358
	$	512,851
Liabilities assumed:		
Deposits	$	403,205
FHLB advances		47,000
Other		3,459
	$	453,664
Fair value of net assets acquired	$	59,187
Consideration Transferred		114,100
Goodwill	$	54,913

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. Under the acquisition method of accounting, assets acquired, liabilities assumed, and any identifiable intangible assets acquired are recorded at fair value as of the acquisition date. The Company recognized goodwill on this acquisition of $54,913, which is nondeductible for tax purposes as this acquisition is a nontaxable transaction.

(Dollar amounts in thousands)

The goodwill is calculated based on the fair values of assets acquired and liabilities assumed as of the acquisition date. The accounting for the acquisition has been finalized.

In connection with the acquisition, the Company acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carry over of any allowance for loan and lease losses. Acquired loans were segregated between those considered to be purchased credit impaired ("PCI") loans and those without credit impairment at acquisition. The following table presents details of the estimated fair value of acquired loans at the acquisition date:

	Loans, Excluding PCI Loans	PCI Loans	Total Loans
Real Estate			
1-4 Family Real Estate	$ 62,225	$ 2,568	$ 64,793
Commercial Real Estate	170,826	14,257	185,083
Construction	12,014	213	12,227
Land Development	21,973	—	21,973
Consumer	7,524	103	7,627
Commercial	85,439	8,006	93,445
Other Loans	19,292	5,791	25,083
	$ 379,293	$ 30,938	$ 410,231

The following presents information at the acquisition date for non-PCI loans acquired in the transaction:

Contractually required principal and interest payments	$ 433,093
Book balance at acquisition	384,725
Contractual cash flows not expected to be collected	5,656
Fair value at acquisition	$ 379,293

The following presents information at the acquisition date for PCI loans acquired in the transaction:

Contractually required principal and interest payments	$ 37,535
Contractual cash flows not expected to be collected (nonaccretable difference)	5,224
Expected cash flows at acquisition	32,311
Interest component of expected cash flows (accretable yield)	1,373
Fair value of loans acquired with deterioration of credit quality	$ 30,938

Expenses related to the acquisition, including professional fees and other transaction costs, totaling $2,952 were recorded in noninterest expense in the consolidated statements of income during the year ended December 31, 2019.

(Dollar amounts in thousands)

Note 3: Securities

The amortized cost and appropriate fair value of the Company's available for sale securities, with gross unrealized gains and losses, are presented below.

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale Securities				
Mortgage-backed	$ 29,210	$ 671	$ (139)	$ 29,742
Municipal bonds	6,133	269	—	6,402
Total available for sale securities	$ 35,343	$ 940	$ (139)	$ 36,144
Held to Maturity Securities				
Mortgage-backed	$ 26,608	$ 467	$ (46)	$ 27,029
Municipal bonds	14,521	657	—	15,178
U.S. Government and agency	—	—	—	—
Total held to maturity securities	$ 41,129	$ 1,124	$ (46)	$ 42,207

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale Securities				
Mortgage-backed	$ 41,897	$ 458	$ (15)	$ 42,340
Municipal bonds	5,440	156	—	5,596
Total available for sale securities	$ 47,337	$ 614	$ (15)	$ 47,936
Held to Maturity Securities				
Mortgage-backed	$ 38,010	$ 199	$ (152)	$ 38,057
Municipal bonds	18,013	587	—	18,600
U.S. Government and agency	2,497	17	—	2,514
Total held to maturity securities	$ 58,520	$ 803	$ (152)	$ 59,171

(Dollar amounts in thousands)

The amortized cost and fair value of available for sale securities and held to maturity securities at December 31, 2020 by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year or less	$ 1,318	$ 1,324	$ 3,398	$ 3,423
Due from one to five years	3,985	4,198	4,418	4,571
Due from five to ten years	830	880	5,094	5,492
Due after ten years	—	—	1,611	1,692
Mortgage-backed securities	29,210	29,742	26,608	27,029
Totals	$ 35,343	$ 36,144	$ 41,129	$ 42,207

There were no sales of securities available for sale in 2020. Proceeds from sales of debt securities and the associated gross gains and losses in 2019 are as follows:

	2020	2019
Proceeds	$ —	$ 13,884
Gross gains	—	293
Gross losses	—	—

At December 31, 2020 and 2019, securities with carrying values of $62,873 and $56,749, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporary impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019.

	December 31, 2020					
	Less than 12 Months		12 Months or More		Total	
Category	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
HTM Municipal Bonds	$ —	$ —	$ —	$ —	$ —	$ —
AFS Municipal Bonds	—	—	—	—	—	—
HTM U.S. Government and agency	—	—	—	—	—	—
HTM Mortgage-backed securities	9,355	(46)	—	—	9,355	(46)
AFS Mortgage-backed securities	14,872	(139)	—	—	14,872	(139)
Total	$ 24,227	$ (185)	$ —	$ —	$ 24,227	$ (185)

(Dollar amounts in thousands)

	December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
Category	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
HTM Municipal Bonds	$ —	$ —	$ —	$ —	$ —	$ —
AFS Municipal Bonds	—	—	—	—	—	—
HTM U.S. Government and agency	—	—	—	—	—	—
HTM Mortgage-backed securities	4,117	(9)	14,150	(143)	18,267	(152)
AFS Mortgage-backed securities	2,072	(15)	17	—	2,089	(15)
Total	$ 6,189	$ (24)	$ 14,167	$ (143)	$ 20,356	$ (167)

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2020 and 2019, was $24,227 and $20,356, which is approximately 31% and 19%, respectively, of the Company's available for sale and held to maturity investment portfolio.

Mortgage-backed, U.S. Government and Agency, and Municipal Bonds

The unrealized losses on the Company's investment in mortgage-backed, U.S. Government, Agency and Municipal securities were caused by interest rate decreases and increases in prepayment speeds. Because the decline in market value is attributable to changes in interest rates and increases in prepayment speeds and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020 and 2019, respectively.

(Dollar amounts in thousands)

Note 4: Loans and Allowances for Loan Losses

Portfolio segments of loans as of December 31 are as follows:

	2020	2019
Real Estate:		
1-4 Family Real Estate	$ 260,186	$ 261,178
Commercial Real Estate	575,924	490,098
Construction	76,949	98,623
Land Development	85,866	85,566
Consumer	12,500	14,601
Commercial	398,817	288,001
Other Loans	37,289	47,002
Gross Loans	$ 1,447,531	$ 1,285,069
Less Allowance for Loan Losses	(20,799)	(15,196)
Loans, Net	$ 1,426,732	$ 1,269,873

The Company participated in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") and approximately $123,262 in loans under the program were outstanding at December 31, 2020. The PPP loans are reported in the Commercial loan segment and are all pass rated. These loans bear interest at 1% and have two and five year terms ($123,091 and $171, respectively), depending on the date of origination. These loans also earn an origination fee, paid by the SBA when the loan is funded. The origination fee is based on loan amount, and is being accreted over the life of the loan, or until the loan is forgiven. The Company has recognized $1,204 in interest income and accreted $3,378 in net origination fees related to PPP loans, as of December 31, 2020.

The COVID-19 pandemic materially impacted the allowance for credit losses and related provision for credit losses during the first three quarters of 2020. Decreased oil prices, and COVID-19 related business interruptions were the primary drivers of the Company's provision for credit losses.

(Dollar amounts in thousands)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and evaluation method as of December 31, 2020 and 2019:

	December 31, 2020				
	Beginning Balance	**Provision (Credit) for Loan Losses**	**Charge-offs**	**Recoveries**	**Ending Balance**
Real Estate:					
1-4 Family Real Estate	$ 2,457	$ 1,181	$ (209)	$ 70	$ 3,499
Commercial Real Estate	6,212	3,463	(1,180)	218	8,713
Construction	1,168	(44)	—	3	1,127
Land Development	1,377	135	—	—	1,512
Consumer	267	169	(222)	96	310
Commercial	3,293	4,324	(4,413)	1,749	4,953
Other Loans	422	535	(382)	110	685
Total	$ 15,196	$ 9,763	$ (6,406)	$ 2,246	$ 20,799

	December 31, 2019				
	Beginning Balance	**Provision (Credit) for Loan Losses**	**Charge-offs**	**Recoveries**	**Ending Balance**
Real Estate:					
1-4 Family Real Estate	$ 2,119	$ 373	$ (35)	$ —	$ 2,457
Commercial Real Estate	5,795	582	(132)	(33)	6,212
Construction	1,078	88	—	2	1,168
Land Development	950	427	—	—	1,377
Consumer	191	187	(111)	—	267
Commercial	3,076	1,284	(1,159)	92	3,293
Other Loans	405	65	(48)	—	422
Total	$ 13,614	$ 3,006	$ (1,485)	$ 61	$ 15,196

(Dollar amounts in thousands)

The following tables present the balance in allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2020 and 2019:

	December 31, 2020							
	ALLL Allocations				Unpaid Principal Balance			
	Impaired	Pooled	PCI	Total	Impaired	Pooled	PCI	Total
Real Estate:								
1-4 Family Real Estate	$ 760	$ 2,739	$ —	$ 3,499	$ 3,411	$ 255,619	$ 1,156	$ 260,186
Commercial Real Estate	—	8,713	—	8,713	12,353	553,259	10,312	575,924
Construction	—	1,127	—	1,127	305	76,444	200	76,949
Land Development	—	1,512	—	1,512	316	85,550	—	85,866
Consumer	—	310	—	310	6	12,491	3	12,500
Commercial	188	4,459	306	4,953	5,352	386,806	6,659	398,817
Other Loans	232	453	—	685	570	34,626	2,093	37,289
Total	$ 1,180	$ 19,313	$ 306	$ 20,799	$ 22,313	$ 1,404,795	$ 20,423	$ 1,447,531

	December 31, 2019							
	ALLL Allocations				Unpaid Principal Balance			
	Impaired	Pooled	PCI	Total	Impaired	Pooled	PCI	Total
Real Estate:								
1-4 Family Real Estate	$ —	$ 2,457	$ —	$ 2,457	$ 1,702	$ 257,513	$ 1,963	$ 261,178
Commercial Real Estate	—	6,212	—	6,212	6,948	469,404	13,746	490,098
Construction	—	1,168	—	1,168	285	98,133	205	98,623
Land Development	—	1,377	—	1,377	—	85,566	—	85,566
Consumer	—	267	—	267	22	14,537	42	14,601
Commercial	119	3,174	—	3,293	9,419	271,565	7,017	288,001
Other Loans	—	422	—	422	—	43,505	3,497	47,002
Total	$ 119	$ 15,077	$ —	$ 15,196	$ 18,376	$ 1,240,223	$ 26,470	$ 1,285,069

Internal Risk Categories

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as special mention, substandard or doubtful. These assets pose an elevated risk and may have a high probability of default or total loss. In 2020, approximately 56% of the Company's loan portfolio was reviewed through bank commissioned external loan reviews.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits on at least a quarterly basis. Ratings can be changed at any time based on a change in inherent risk. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

Pass rated refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

Risk characteristics applicable to each segment of the loan portfolio are described as follows:

Real Estate: The Company's real estate portfolio is comprised primarily of homogenous loans secured by residential and commercial real estate. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers and successful operations of the property securing the loan or the business conducted on the property securing the loan. Credit risk in residential loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose.

(Dollar amounts in thousands)

Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Other: Other loans are subject to underwriting standards and processes similar to commercial loans. These loans are based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most loans are secured by the assets being financed and may include personal guarantees.

The following tables set forth information regarding the internal classes of the loan portfolio by primary credit quality indicator as of December 31, 2020 and 2019:

	December 31, 2020					
	Internal Loan Grade					
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**PCI**	**Total**
Real Estate:						
1-4 Family Real Estate	$ 249,623	$ 1,693	$ 7,714	$ —	$ 1,156	$ 260,186
Commercial Real Estate	517,929	22,411	25,272	—	10,312	575,924
Construction	76,444	—	305	—	200	76,949
Land Development	83,289	—	2,577	—	—	85,866
Consumer	12,272	5	220	—	3	12,500
Commercial	381,393	368	10,334	63	6,659	398,817
Other Loans	24,689	—	10,507	—	2,093	37,289
Total	$ 1,345,639	$ 24,477	$ 56,929	$ 63	$ 20,423	$ 1,447,531

(Dollar amounts in thousands)

	December 31, 2019					
	Internal Loan Grade					
	Pass	Special Mention	Substandard	Doubtful	PCI	Total
Real Estate:						
1-4 Family Real Estate	$ 248,575	$ 3,276	$ 7,364	$ —	$ 1,963	$ 261,178
Commercial Real Estate	471,572	513	4,267	—	13,746	490,098
Construction	98,133	—	285	—	205	98,623
Land Development	84,529	—	1,037	—	—	85,566
Consumer	14,015	10	534	—	42	14,601
Commercial	269,995	713	10,157	119	7,017	288,001
Other Loans	43,101	—	404	—	3,497	47,002
Total	$ 1,229,920	$ 4,512	$ 24,048	$ 119	$ 26,470	$ 1,285,069

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the years ended December 31, 2020 and 2019.

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2020 and 2019.

	December 31, 2020				
	30-89 Days Past Due Still Accruing	90 Days and Greater Still Accruing	Nonaccrual	Current	Total Loans
Real Estate:					
1-4 Family Real Estate	$ 1,232	$ —	$ 2,828	$ 254,969	$ 259,029
Commercial Real Estate	1,034	—	6,490	558,088	565,612
Construction	140	—	305	76,304	76,749
Land Development	251	—	—	85,615	85,866
Consumer	109	—	—	12,389	12,498
Commercial	1,316	—	4,598	386,244	392,158
Other Loans	61	—	469	34,666	35,196
PCI	75	—	1,240	19,108	$ 20,423
Total	$ 4,218	$ —	$ 15,930	$ 1,427,383	$ 1,447,531

(Dollar amounts in thousands)

	December 31, 2019				
	30-89 Days Past Due Still Accruing	90 Days and Greater Still Accruing	Nonaccrual	Current	Total Loans
Real Estate:					
1-4 Family Real Estate	$ 1,980	$ —	$ 1,337	$ 255,898	$ 259,215
Commercial Real Estate	1,851	—	66	474,435	476,352
Construction	275	—	285	97,859	98,419
Land Development	513	—	—	85,053	85,566
Consumer	410	—	22	14,127	14,559
Commercial	1,372	—	5,890	269,207	276,469
Other Loans	280	—	—	47,739	48,019
PCI	277	—	1,489	24,704	$ 26,470
Total	$ 6,958	$ —	$ 9,089	$ 1,269,022	$ 1,285,069

A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in TDRs when concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

(Dollar amounts in thousands)

The following tables present impaired loans by class of loans for the years ended December 31, 2020 and 2019:

	December 31, 2020				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real Estate:					
1-4 Family Real Estate	$ 2,087	$ 2,087	$ —	$ 2,354	$ 45
Commercial Real Estate	12,008	12,008	—	13,212	469
Construction	305	305	—	307	3
Land Development	316	316	—	338	20
Consumer	6	6	—	14	1
Commercial	5,002	4,913	—	6,497	114
Other Loans	101	101	—	101	5
Total	$ 19,825	$ 19,736	$ —	$ 22,823	$ 657
With a related allowance:					
Real Estate:					
1-4 Family Real Estate	$ 1,324	$ 1,324	$ 760	$ 1,452	$ 21
Commercial Real Estate	345	345	—	345	11
Construction	—	—	—	—	—
Land Development	—	—	—	—	—
Consumer	—	—	—	—	—
Commercial	350	350	188	467	24
Other Loans	469	469	232	756	4
Total	$ 2,488	$ 2,488	$ 1,180	$ 3,020	$ 60
Grand Total	**$ 22,313**	**$ 22,224**	**$ 1,180**	**$ 25,843**	**$ 717**

(Dollar amounts in thousands)

	December 31, 2019				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real Estate:					
1-4 Family Real Estate	$ 1,702	$ 1,702	$ —	$ 1,951	$ 16
Commercial Real Estate	6,948	6,948	—	7,056	320
Construction	285	285	—	262	—
Land Development	—	—	—	—	—
Consumer	22	22	—	53	—
Commercial	9,300	9,243	—	12,923	187
Other Loans	—	—	—	—	—
Total	$ 18,257	$ 18,200	$ —	$ 22,245	$ 523
With a related allowance:					
Real Estate:					
1-4 Family Real Estate	$ —	$ —	$ —	$ —	$ —
Commercial Real Estate	—	—	—		—
Construction	—	—	—	—	—
Land Development	—	—	—	—	—
Consumer	—	—	—	—	—
Commercial	119	119	119	124	8
Other Loans	—	—	—	—	—
Total	$ 119	$ 119	$ 119	$ 124	$ 8
Grand Total	**$ 18,376**	**$ 18,319**	**$ 119**	**$ 22,369**	**$ 531**

At December 31, 2020 and 2019, the Company had purchased credit impaired loans that had further deteriorated since acquisition with a recorded investment of $5,870 and $0, respectively. As a result, the Company recorded a related allowance of $306 and $0 at December 31, 2020 and 2019, respectively.

(Dollar amounts in thousands)

At December 31, 2020 and 2019, the Company had a number of loans that were modified in TDRs, some of which still may be impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following table presents information regarding newly designated TDRs by class as of December 31, 2020 and 2019. Newly classified TDRs:

	December 31, 2020		
	Number of Loans	Pre-modification Recorded Balance	Post-modification Recorded Balance
Real Estate:			
1-4 Family Real Estate	1	$ 275	$ 275
Commercial Real Estate	3	8,870	8,520
Construction	2	308	305
Land Development	2	338	316
Consumer	—	—	—
Commercial	4	345	396
Other Loans	2	404	404
Total	**14**	**$ 10,540**	**$ 10,216**

	December 31, 2019		
	Number of Loans	Pre-modification Recorded Balance	Post-modification Recorded Balance
Real Estate:			
1-4 Family Real Estate	1	$ 71	$ 71
Commercial Real Estate	3	5,578	5,486
Construction	—	—	—
Land Development	—	—	—
Consumer	1	65	14
Commercial	3	2,732	2,685
Other Loans	—	—	—
Total	**8**	**$ 8,446**	**$ 8,256**

In 2020, there were no loans that had a loss within 12 months of renegotiation. In 2019, one Commercial loan had a partial loss and one Commercial loan had a full loss within 12 months of renegotiation. These loans had a carrying balance of $24 as of December 31, 2019. The Bank has no commitments to loan additional funds to borrowers whose loans have been modified.

(Dollar amounts in thousands)

The following table presents information regarding all TDRs with related allowance, by class, for the years ended December 31, 2020 and 2019.

	December 31, 2020		
	Number of Loans	Unpaid Principal Balance	Related Allowance
Real Estate:			
1-4 Family Real Estate	3	$ 420	$ —
Commercial Real Estate	7	12,956	—
Construction	2	305	—
Land Development	2	316	—
Consumer	—	—	—
Commercial	9	2,838	306
Other Loans	4	403	122
Total	**27**	**$ 17,238**	**$ 428**

	December 31, 2019		
	Number of Loans	Unpaid Principal Balance	Related Allowance
Real Estate:			
1-4 Family Real Estate	4	$ 349	$ —
Commercial Real Estate	6	6,338	—
Construction	—	—	—
Land Development	—	—	—
Consumer	2	30	—
Commercial	11	3,819	41
Other Loans	3	101	—
Total	**26**	**$ 10,637**	**$ 41**

(Dollar amounts in thousands)

During the year ended December 31, 2020, the company granted principal and interest deferrals on outstanding loan balances to customers affected by the COVID-19 pandemic (COVID modifications). Additionally, upon request and after meeting certain conditions, borrowers could be granted additional payment deferrals subsequent to the first deferral. These temporary deferrals were generally no more than 90 days in duration and were not considered TDRs. Loans of $220,110 received COVID modifications during 2020. As of December 31, 2020, loans with outstanding balances of $99,004 remained in some form of a modification phase. Of this amount, loans totaling $86,287 were under temporary modifications requiring payment of interest only, while loans totaling $12,716 remained under a temporary modification deferring both principal and interest. Of the $12,716 under modifications deferring principal and interest, $12,044 are risk rated as Pass, and $672 are rated Substandard. If the impact of COVID-19 persists, borrower operations do not improve or if other negative events occur, such modified loans could transition to potential problem loans or into problem loans.

The following table presents information regarding principal and interest deferrals as of December 31, 2020 associated with loan modifications due to COVID-19 that were not considered TDRs.

				December 31, 2020			
		COVID Modifications During 2020		Remaining COVID Modifications Paying Interest Only		Remaining COVID Modifications Deferring Both Principal and Interest	
	Outstanding Loan Balance	Loan Balance	Percentage of Outstanding Loan Balance	Loan Balance	Percentage of Outstanding Loan Balance	Loan Balance	Percentage of Outstanding Loan Balance
Real Estate:							
1-4 Family Real Estate	$ 260,186	$ 22,499	8.6 %	$ 3,752	1.4 %	$ 64	— %
Commercial Real Estate	575,924	146,807	25.5 %	53,291	9.3 %	12,407	2.2 %
Construction	76,949	6,716	8.7 %	6,716	8.7 %	—	— %
Land Development	85,866	7,435	8.7 %	3,857	4.5 %	—	— %
Consumer	12,500	175	1.4 %	—	— %	—	— %
Commercial	398,817	35,641	8.9 %	18,306	4.6 %	34	— %
Other Loans	37,289	837	2.2 %	365	1.0 %	211	0.6 %
Total	$ 1,447,531	$ 220,110	15.2 %	$ 86,287	6.0 %	$ 12,716	0.9 %

(Dollar amounts in thousands)

As a result of the COVID-19 pandemic, the Company has identified industry segments that could represent a potentially higher level of credit risk, as these customers may have incurred a negative impact to their businesses as a result of governmental stay-at-home orders, travel restrictions, business limitations and shutdowns, and social distancing requirements. At December 31, 2020, the Company had the following exposure to these potentially sensitive COVID-19 identified industry segments:

			December 31, 2020	
		COVID Modifications During 2020	Remaining COVID Modifications Paying Interest Only	Remaining COVID Modifications Deferring Both Principal and Interest
COVID Impacted Industries	**Outstanding Loan Balance**	**Outstanding Loan Balance**	**Outstanding Loan Balance**	**Outstanding Loan Balance**
Commercial Real Estate:				
Hotels	$ 90,330	$ 57,369	$ 28,943	$ 11,036
Restaurants	22,404	11,874	6,850	—
Retail Shopping Centers	45,742	13,373	567	—
Retail Buildings	86,332	18,600	1,399	—
Oil & Gas Service Companies	17,104	8,495	1,079	—
Other CRE	279,786	35,582	14,190	672
Construction:				
Hotels	9,991	—	—	—
Oil & Gas Service Companies	499	60	—	—
Other Construction	152,325	14,091	10,573	—
Oil & Gas Service Companies:	33,802	5,189	1,352	—
Other:	709,216	55,477	21,334	1,008
Total	$ 1,447,531	$ 220,110	$ 86,287	$ 12,716

(Dollar amounts in thousands)

Purchase Credit Impaired Loans

The Company has loans that were acquired for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding contractually required principal and interest and the carrying amount of these loans included in the balance sheet amounts of loans receivable are as follows:

	2020	2019
Contractually required principal and interest payments		
Real Estate		
1-4 Family Real Estate	$ 1,262	$ 2,382
Commercial Real Estate	11,042	15,454
Construction	208	219
Land Development	—	—
Consumer	9	99
Commercial	7,574	8,189
Other Loans	3,034	4,545
Outstanding contractually required principal and interest	$ 23,129	$ 30,888
Gross carrying amount included in loans receivable	$ 20,423	$ 26,470

The changes in accretable yield in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

	2020	2019
Accretable yield, beginning balance	$ 768	$ —
Additions	—	1,373
Accretion	(1,308)	(845)
Reclassification from nonaccretable to accretable yield	853	359
Disposals	—	(119)
Accretable yield, ending balance	$ 313	$ 768

(Dollar amounts in thousands)

Note 5: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is presented below:

	2020	2019
Land	$ 3,638	$ 4,047
Projects and Construction in Progress	13	358
Bank Premises	27,094	27,133
Furniture, software and equipment	12,172	11,497
Premises and equipment, at cost	42,917	43,035
Accumulated depreciation	(19,167)	(16,599)
Net premises and equipment	$ 23,750	$ 26,436

Depreciation expense was $2,768 and $2,728 for the years ended December 31, 2020 and 2019, respectively.

The company leases certain premises and equipment under operating leases. At December 31, 2020 and 2019, the Company had lease liabilities totaling $8,713 and $7,753, respectively, and right-of-use assets totaling $8,317 and $7,351, respectively, related to these leases. For the year ended December 31, 2020, the weighted average remaining lease term for operating leases was 5.7 years and the weighted average discount rate used in the measurement of operating lease liabilities was 2.76%.

Lease costs were as follows:

	2020	2019
Operating Lease Cost	$ 1,618	$ 1,221
Short-term Lease Cost	124	129
Variable Lease Cost	—	—
Total Lease Cost	$ 1,742	$ 1,350

(Dollar amounts in thousands)

Pursuant to the terms of noncancellable lease agreements in effect at December 31, 2020, pertaining to banking premises and equipment, future minimum rent commitments under various operating leases and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

Lease Payments Due:	December 31, 2020
2021	$ 1,983
2022	1,945
2023	1,741
2024	1,430
2025	932
Thereafter	1,759
Total Undiscounted Cash Flows	$ 9,790
Discount on Cash flows	(1,077)
Total Lease Liability	$ 8,713

Total rent expense for the years ended December 31, 2020 and 2019 was $1,633 and $1,602, respectively.

The Company maintains two lease transactions with related parties. Both of these related parties are not considered variable interest entities.

Note 6: Deposits

The aggregate amount of time deposits in denominations of $250 or more at December 31, 2020 and 2019 were $142,723 and $157,764, respectively. At December 31, 2020, the scheduled maturities of time deposits were as follows:

2021	$ 449,031
2022	21,380
2023	4,671
2024	753
2025 and thereafter	967
	$ 476,803

The Company had brokered deposits of $25,000 and $30,002 at December 31, 2020 and 2019 respectively.

Note 7: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $33,624 and $32,778 at December 31, 2020 and 2019, respectively. Such agreements mature on a daily basis and are secured by U.S. government securities with a fair value of $49,668 and $43,299 as of December 31, 2020 and 2019, respectively.

(Dollar amounts in thousands)

Note 8: Advances from Federal Home Loan Bank

At year-end, advances from the Federal Home Loan Bank were as follows:

	2020	2019
Maturities 12/16/2021 through 12/16/2026 at the end of 2019, at fixed rates from 1.971% to 2.695%, averaging 2.317%	$ 620	$ 677

The advances were collateralized by $379,055 and $448,678 of first lien mortgage loans under a blanket line arrangement at year-end 2020 and 2019.

Maturities of FHLB advances as of December 31, 2020 are as follows:

2021	$ 99
2022	—
2023	—
2024	160
2025	246
Thereafter	115
	$ 620

Note 9: Subordinated Debentures

On December 30, 2003, the Company completed the placement of $3,093 in subordinated debentures to First Bancshares of Texas Statutory Trust I (the Trust). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank National Association with a liquidation value of $3,093.

Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders on June 17, 2004. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 2.85% (3.08% and 4.75% at December 31, 2020 and 2019, respectively). Also, the interest rate cannot exceed the maximum rate permitted by New York law.

Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years. The preferred securities mature in March 2034.

Subordinated debt may be included in regulatory Tier I capital subject to a limitation that such amounts do not exceed 25% of Tier I capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital.

For the years ended December 31, 2020 and 2019, interest expense on the subordinated debentures was $113 and $166, respectively.

(Dollar amounts in thousands)

Note 10: Lines of Credit

The Bank has a line of credit with a correspondent bank totaling $15,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds. The agreement does not contain a stated expiration date, but may be terminated at any time at the discretion of the correspondent bank. As of December 31, 2020 and 2019, no advances were outstanding under this agreement.

The Bank has a second line of credit with a correspondent bank totaling $10,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds for the first ten (10) days and on the eleventh (11) day, the Company must furnish collateral in the form of marketable securities. The agreement expires May 1, 2021. As of December 31, 2020 and 2019, no advances were outstanding under this agreement.

The Bank has a third line of credit with a correspondent bank totaling $20,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds for the first ten (10) days and on the eleventh (11) day, the Company must furnish collateral in the form of government securities. The agreement expires April 25, 2021. As of December 31, 2020 and 2019, no advances were outstanding under this agreement.

The Federal Home Loan Bank provides an additional source of funding. As of December 31, 2020, the Bank had a net available collateral limit of $265,235 that could be used in the event that additional funding becomes a necessity.

Note 11: Income Taxes

Income tax expense for the years ended December 31, 2020, and 2019 consisted of the following:

	2020	2019
Income tax expense:		
Current federal income tax	$ 5,148	$ 4,613
Current state income tax	52	107
Deferred federal income tax	(1,110)	(120)
Income tax expense	$ 4,090	$ 4,600

A reconciliation of income tax expense at the statutory rate of 21% for the years ended December 31, 2020, and 2019 to the Company's actual income tax expense is shown below.

	2020	2019
Income tax expense at the statutory rate	$ 4,577	$ 4,758
State income taxes	52	107
Nontaxable earnings	(330)	(388)
Nondeductible expenses	47	153
Other	(256)	(30)
Provision for income tax	$ 4,090	$ 4,600

(Dollar amounts in thousands)

The tax effects of temporary differences related to deferred taxes shown on the consolidated statements of financial condition were:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 4,368	$ 3,191
Fair market value on loans	890	1,535
Benefits payable	908	674
Self insurance	163	205
Other Real Estate	—	86
Lease Liability	1,830	1,628
Premises and equipment	117	—
Other	738	655
	$ 9,014	$ 7,974
Deferred tax liabilities:		
Premises and equipment	$ —	$ 60
Unrealized gain on available-for-sale securities	168	126
Lease Right to use asset	1,746	1,544
Core Deposit Intangible	1,240	1,453
	$ 3,154	$ 3,183
Net deferred tax asset	$ 5,860	$ 4,791

The company is subject to U.S. federal income tax and state income tax. The company is no longer subject to examination by taxing authorities for years prior to 2017. The company does not have any material uncertain tax positions and does not have any interest and penalties recorded in the statement of operations or balance sheet for the years ended December 31, 2020 and 2019.

Note 12: Restrictions on Dividends & Minimum Regulatory Capital Requirements

Restrictions on Dividends

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. Such regulations generally restrict cash dividends to the Bank's available current year earnings plus remaining earnings not paid to the Company in dividends from the past two years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. As of December 31, 2020, $14,430 of retained earnings is available to pay dividends.

Minimum Regulatory Capital Requirements

Banks and holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is included in computing regulatory capital. Management believes as of December 31, 2020, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restorations plans are required. At year end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of January 1, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organization to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rule (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out to the CBLR framework and revert back to the risk-weighing framework without restriction. As of December 31, 2020, both the Company and the Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

(Dollar amounts in thousands)

Actual and required capital amounts and ratios are presented below at year-end.

	Actual		Minimum to be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	**Ratio**	**Amount**	**Ratio**
As of December 31, 2020				
Total capital (to risk-weighted assets):				
Consolidated	N/A	N/A	N/A	N/A
Bank	$ 182,445	10.1%	$ 162,907	9.0%

Prior to the Bank's election to adopt capital reporting under the community bank leverage ratio framework effective January 1, 2020, the Bank measured capital adequacy under the Basel III Capital Rules. The Basel III Capital Rules require minimum capital ratios as of December 31, 2019 as follows:

4.5% CET1 to risk weighted assets

6.0% Tier 1 capital to risk weighted assets

8.0% Total capital to risk weighted assets

4.0% Minimum leverage ratio

(Dollar amounts in thousands)

As of December 31, 2019, the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized". The Bank's actual capital amounts and ratios for December 31, 2019 are presented in the following table. It is not applicable to disclose the consolidated capital requirements for banks with assets from $1 billion to $3 billion due to the Federal Reserve policy statement issued in August 2018.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total capital (to risk-weight assets):						
Consolidated	$ 204,927	14.2%	$ 151,130	N/A	N/A	N/A
Bank	191,854	13.3	151,083	10.5	143,888	10.0
Tier I Capital (to risk-weighted assets):						
Consolidated	189,539	13.2	122,343	N/A	N/A	N/A
Bank	176,466	12.3	122,305	8.5	115,111	8.0
Common Equity Tier I (to risk-weighted assets):						
Consolidated	186,539	13.0	100,753	N/A	N/A	N/A
Bank	176,466	12.3	100,722	7.0	93,527	6.5
Tier I Capital (to average assets):						
Consolidated	189,539	11.7	64,666	N/A	N/A	N/A
Bank	176,466	10.9	64,643	4.0	80,804	5.0

Note 13: Employee Benefit Plans

401(k) Plan

The Company has a 401(k) plan in which substantially all employees may participate. The Company matches employees' contributions based on a percentage of salary contributed by participants. The Company's expense for the plan was $968 and $929 for the years ended December 31, 2020 and 2019, respectively.

Employee Stock Purchase Plan

The Company designated 500,000 shares for an employee stock purchase plan effective August 1, 2011, allowing all employees of the Company an opportunity to purchase shares of common stock of the Company through an after-tax payroll deduction withheld from each paycheck. Payroll deductions are transferred into an escrow account until they have enough to purchase 250 shares, which is the minimum number of shares that can be purchased through this program. The Company matches 25% of employees' contributions each payroll period up to $125 dollars per payroll period. The Company's expense for the plan was $55 and $57 for the years ended December 31, 2020 and 2019, respectively.

(Dollar amounts in thousands except share and per share data)

Stock Option Plan

A summary of changes in the Company's non-vested stock options under the 2007 stock option plan for the year ended December 31, 2020 were as follows:

	Number of Shares	Weighted-Average Grant Date Value
Non-vested options, December 31, 2019	586,600	$ 4.79
Granted	44,000	5.13
Vested	(176,900)	4.81
Cancelled	—	—
Non-vested options, December 31, 2020	453,700	$ 4.81

The Company's 2007 stock option plan was updated in 2018. The Company may grant options to purchase its common stock to its directors, officers and employees for up to 1,300,000 shares of common stock. These stock option grants are primarily incentive-based in order to attract and retain qualified and highly productive employees. The exercise price of each stock option is determined on the date of the grant. The Company's stock option agreements are for a maximum term of ten years. The options vest over a period of three to five years following the date of the grant.

In accordance with authoritative accounting guidance, the Company recognizes compensation cost relating to share-based payment transactions in the consolidated financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the years ended December 31, 2020 and 2019, the Company recognized $921 and $693, respectively, in compensation expense for stock options, which is included as a part of salaries and employee benefits on the consolidated statements of income.

(Dollar amounts in thousands except share and per share data)

A summary of changes in the Company's stock options under the 2007 stock option plan for the years ended December 31, 2020 and 2019, were as follows:

	December 31,					
	2020			2019		
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)
Outstanding, January 1	750,500	$ 16.97		384,250	$ 13.86	
Granted	44,000	18.25		419,000	18.97	
Exercised	(2,500)	11.92		(44,850)	9.51	
Cancelled	—	—		(7,900)	13.47	
Outstanding, December 31	792,000	$ 16.21	7.21	750,500	$ 16.97	8.10
Exercisable, December 31	338,300	$ 14.56	6.14	163,900	$ 12.74	5.38

In 2019 and 2020, the Board of Directors of the Company declared and paid special cash dividends on the outstanding common stock of the Company as a return of capital to the Company's shareholders. As a result, there was a reduction of the per share exercise price of each stock option award outstanding as of December 31, 2020. The strike prices for stock options issued in 2019 and prior to 2019, were reduced by $0.90, and the strike prices for stock options issued in 2020 were reduced by $0.75. There was no adjustment made to stock option expense, as it was concluded to be immaterial. The purpose of this economic adjustment to the outstanding stock option awards is to allow the Company's option holders to participate in the benefit of the Company's return of capital on parity with the Company's shareholders.

	December 31,	
	2020	2019
Aggregate intrinsic value of options exercised	$ 18	$ 423
Cash received from option exercises	30	429
Tax benefit realized from option exercises	4	89
Weighted average fair value of options granted	5.13	4.74

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is based on a combination of historical volatility of the Company's stock, and indices of other financial institutions. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted represents the period of time that options are expected to be outstanding; the range given below results from certain groups of employees exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

(Dollar amounts in thousands except share and per share data)

The fair value of the stock options granted was determined using the following weighted average assumptions:

	2020	2019
Dividend yield	1.18 %	0.26 %
Expected life	9.3 years	9.2 years
Expected volatility	15.26 %	15.26 %
Risk-free interest rate	1.82 %	2.54 %

The following table summarizes information concerning outstanding and vested stock options as of December 31, 2020:

	Options Outstanding			Options Exercisable	
Ranges of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price	Shares Exercisable	Weighted-Average Exercise Price
$8.00-$9.00	7,000	1.78	8.71	7,000	8.71
$9.00-$10.00	65,000	2.2	9.20	65,000	9.20
$11.00-$12.00	10,000	4.06	11.02	10,000	11.02
$12.00-$13.00	37,000	5.06	12.19	30,600	12.18
$13.00-$14.00	20,000	6.01	13.38	12,000	13.38
$14.00-$15.00	60,000	6.59	14.11	36,000	14.11
$15.00-$16.00	5,000	7.02	15.92	2,000	15.92
$16.00-$17.00	125,000	7.44	16.40	54,500	16.40
$17.00-$18.00	15,000	8.03	17.35	3,000	17.35
$18.00-$19.00	448,000	8.32	18.11	118,200	18.10
	792,000	7.21	$ 16.21	338,300	$ 14.56

As of December 31, 2020, the remaining compensation expense to be recognized for outstanding stock options was $1,561. This compensation expense is to be fully recognized by the year ending December 31, 2024. The cost is expected to be recognized over a remaining weighted average period of 1.74 years.

(Dollar amounts in thousands)

Note 14: Related-party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. Annual activity consisted of the following:

	December 31, 2020	December 31, 2019
Beginning balance	$ 14,053	$ 21,156
New loans and advances	120	2,090
New loans (due to acquisition)	—	1,644
Effects of changes in composition of related parties	—	(3,104)
Repayments	(1,117)	(7,733)
Ending balance	$ 13,056	$ 14,053

Deposits from related parties held by the Bank at 2020 and 2019, amounted to $48,478 and $41,087, respectively.

Note 15: Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(Dollar amounts in thousands)

Assets measured at fair value on a recurring basis are summarized in the table below.

	December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities, available for sale				
Mortgage-backed	$ —	$ 29,742	$ —	$ 29,742
Municipal bonds	—	6,402	—	6,402
Total securities, available for sale	$ —	$ 36,144	$ —	$ 36,144
Equity Securities	$ —	$ 220	$ —	$ 220
Loans held for sale	$ —	$ 1,959	$ —	$ 1,959

	December 31, 2019			
	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities, available for sale				
Mortgage-backed	$ —	$ 42,340	$ —	$ 42,340
Municipal bonds	—	5,596	—	5,596
Total securities, available for sale	$ —	$ 47,936	$ —	$ 47,936
Equity Securities	$ —	$ 255	$ —	$ 255
Loans held for sale	$ —	$ 368	$ —	$ 368

The Company used the following methods and assumptions to estimate fair value of financial instruments that are measured at fair value on a recurring basis:

Securities, Available for Sale - Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Loans Held for Sale - Loans held for sale represent mortgage loan originations intended to be sold in the secondary market. The fair value of loans held for sale is determined using commitments on hand from investors or prevailing market prices and are classified in Level 2 of the valuation hierarchy.

(Dollar amounts in thousands)

Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at December 31, 2020 and 2019:

	December 31, 2020			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans:				
1-4 Family Real Estate	$ —	$ —	$ 564	$ 564
Commercial Real Estate	—	—	3,912	3,912
Construction	—	—	—	—
Land Development	—	—	—	—
Consumer	—	—	—	—
Commercial	—	—	1,897	1,897
Other Loans	—	—	237	237
PCI	—	—	612	612
Other Real Estate Owned:				
Commercial Real Estate	—	—	768	768
Total	$ —	$ —	$ 7,990	$ 7,990

	December 31, 2019			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Impaired loans:				
1-4 Family Real Estate	$ —	$ —	$ —	$ —
Commercial Real Estate	—	—	—	—
Construction	—	—	—	—
Land Development	—	—	—	—
Consumer	—	—	—	—
Commercial	—	—	150	150
Other Loans	—	—	—	—
PCI	—	—	40	40
Other Real Estate Owned:				
Commercial Real Estate	—	—	1,205	1,205
Total	$ —	$ —	$ 1,395	$ 1,395

Impaired Loans, Net of ALLL - A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the underlying fair value of the loan's collateral. For real estate loans, fair value of the impaired loan's collateral is determined by third party appraisals, or internal evaluations, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, and other factors developed by management's comparison to historical results, such as lack of marketability. For non-real estate loans, fair value of the impaired loan's collateral may be determined using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business.

Other Real Estate Owned (OREO) - OREO is primarily comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the ALLL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs.

(Dollar amounts in thousands)

The estimated fair values of the Company's financial instruments not measured at fair value on a recurring or non-recurring basis were as follows:

	2020			
	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 179,946	$ 179,946	$ —	$ —
Securities held-to-maturity	41,129	—	42,207	—
Securities available-for-sale	36,144	—	36,144	—
Federal Home Loan Bank stock	905	N/A	N/A	N/A
Federal Reserve Bank stock	4,728	N/A	N/A	N/A
Loans held for sale, at fair value	1,959	—	1,959	—
Loans not previously presented, gross	1,438,824	—	—	1,406,306
Accrued interest receivable	7,859	7,859	—	—
Financial liabilities:				
Deposits	$ 1,536,510	$ —	$ 1,558,943	$ —
Accrued interest payable	532	532	—	—
Other Borrowings:				
Securities sold under agreements to repurchase	33,624	33,624	—	—
Advances from FHLB	620	—	620	—
Subordinated debentures	3,093	—	3,093	—

(Dollar amounts in thousands)

	2019			
	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 202,075	$ 202,075	$ —	$ —
Securities held-to-maturity	58,520	—	59,171	—
Securities available-for-sale	47,936	—	47,936	—
Federal Home Loan Bank stock	1,742	N/A	N/A	N/A
Federal Reserve Bank stock	1,414	N/A	N/A	N/A
Loans held for sale, at fair value	368	—	368	—
Loans not previously presented, gross	1,284,758	—	—	1,260,091
Accrued interest receivable	6,263	6,263	—	—
Financial liabilities:				
Deposits	$ 1,428,765	$ —	$ 1,449,625	$ —
Accrued interest payable	1,418	1,418	—	—
Other Borrowings:				
Securities sold under agreements to repurchase	32,778	32,778	—	—
Advances from FHLB	677	—	677	—
Subordinated debentures	3,093	—	3,093	—

The following methods and assumptions were used by the Company in estimating the fair value of the above classes of financial instruments.

Cash and Cash Equivalents - For financial instruments with a shorter term or with no stated maturity, prevailing market rates, and limited credit risk, the carrying amounts approximate fair value and are considered a Level 1 classification.

Securities, Held to Maturity - Fair value estimates are based on quoted market prices, if available, resulting in a Level 1 classification. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments and is considered a Level 2 classification.

FHLB Stock, and FRB Stock - FHLB and FRB stock is restricted to member banks and there are restrictions placed on its transferability. As a result, the fair value of the stock was not practicable to determine.

Loans - Loans include loans held for investment and loans included in assets held for sale. Loans exclude impaired loans previously described above. Fair values are estimated by averaging exit pricing on comparable acquisitions from the past two years, and applying a liquidity premium adjustment, that is supported by a memo from a third party securities firm.

For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

(Dollar amounts in thousands)

Accrued Interest Receivable and Accrued Interest Payable - The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair values given the short term nature of the receivables and are considered a Level 1 classification.

Deposits - Fair values for deposits are estimated by averaging pricing on deposits acquired over the past two years, resulting in a Level 2 classification.

Securities Sold Under the Agreement to Repurchase - For financial instruments with a shorter term or with no stated maturity, prevailing market rates, and limited credit risk, the carrying amounts approximate fair value and are considered a Level 1 classification.

Advances from FHLB - The Company's FHLB advances have relatively short term maturities, and therefore materially approximates carrying value and is considered a Level 2 classification.

Subordinated Debentures - The subordinated notes were valued based on quoted market prices, but due to limited trading activity for the subordinated notes in these markets, the subordinated notes are considered a Level 2 classification.

Note 16: Commitments and Credit Risk

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

	2020		
	Variable Rate	**Fixed Rate**	**Total**
Commitments to extend credit	$ 205,128	$ 77,372	$ 282,500
Standby letters of credit	—	12,084	12,084

	2019		
	Variable Rate	**Fixed Rate**	**Total**
Commitments to extend credit	$ 165,541	$ 73,212	$ 238,753
Standby letters of credit	—	13,035	13,035

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

(Dollar amounts in thousands)

The Company has no other off-balance sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the consolidated financial statements.

Note 17: Goodwill and Intangible Assets

Core deposit intangibles consist of the following:

	2020	2019
Beginning balance	$ 7,279	$ 345
Acquired core deposit intangible	—	7,933
Amortization of intangible	(1,040)	(999)
Ending Balance	$ 6,239	$ 7,279

Generally, material acquired intangible assets are being amortized utilizing an accelerated method over their estimated useful lives, which range from 7 to 10 years. The future amortization schedule for the Company's intangible assets is as follows:

2021	$ 904
2022	786
2023	772
2024	752
2025	712
Thereafter	2,313

Goodwill consists of the following:

	2020	2019
Beginning balance	$ 54,913	$ —
Acquired goodwill	—	54,913
Ending Balance	$ 54,913	$ 54,913

(Dollar amounts in thousands except share and per share data)

Note 18: Earnings per Share

The factors used in the earnings per share computation follow:

	2020	2019
Basic		
Net income to common stockholders	$ 17,703	$ 18,056
Average shares outstanding net of treasury stock	16,754,852	16,122,807
Basic earnings per common share	$ 1.06	$ 1.12
Diluted		
Net income to common stockholders	$ 17,703	$ 18,056
Weighted average common shares outstanding for basic earnings per common share	16,754,852	16,122,807
Dilutive effects of:		
Assumed exercises of stock options	44,161	58,098
Average shares and dilutive potential common shares	16,799,013	16,180,905
Diluted earnings per common share	$ 1.05	$ 1.12

For the years ended December 31, 2020 and 2019, there were 750,339 and 737,252 stock option shares, respectively, that were not considered in computing dilutive earnings per share because they were antidilutive.

Note 19: Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Noninterest Income.

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. Service charges on deposit accounts was $1,345 and $1,589 for the years ended December 31, 2020 and 2019, respectively.

Interchange Income: The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Interchange income was $1,427 and $1,060 for the years ended December 31, 2020 and 2019, respectively.

Wealth Management Fees (Gross): The Company earns wealth management fees from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e., the trade date. Wealth management fees were $544 and $573 for the years ended December 31, 2020 and 2019, respectively.

Gains/Losses on Sales of OREO: The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. Gains/losses on sales of OREO were $11 and $34 for the years ended December 31, 2020 and 2019, respectively.

(Dollar amounts in thousands)

Note 20: Other Income

	2020	2019
Bank-owned life insurance	$ 986	$ 996
Gain on sale of bank premises & fixed assets	348	17
Post acquisition loan recoveries	133	272
Office rental income	135	110
Other income or losses	(305)	31
Total other income	$ 1,297	$ 1,426

Note 21: Other Expenses

	2020	2019
Software maintenance	$ 1,432	$ 1,203
CDI amortization	1,040	999
Other	4,904	5,099
Total other expenses	$ 7,376	$ 7,301

Note 22: Subsequent Event

The Company has evaluated subsequent events for recognition and disclosure through March 30, 2021, which is the date the financial statements were available to be issued.

Note 23: Litigation & Contingencies

COVID-19

In December 2019, a novel coronavirus (COVID-19) was reported in China, and, in March 2020, the World Health Organization declared the outbreak a pandemic. The COVID-19 pandemic has caused significant economic dislocation in the United States, as many state and local governments have intermittently ordered non-essential businesses to close and residents to shelter in place at home. This has resulted in an unprecedented slowdown in economic activity and a related increase in unemployment and unemployment claims. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the coronavirus, including the passage of the CARES Act and subsequent legislation, but there can be no assurance that such steps will be effective or achieve their desired results in a timely fashion. The extent of such impact from the COVID-19 outbreak and related mitigation efforts will depend on future developments, which are highly uncertain, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. This could cause a material, adverse effect on the Company’s business, financial condition, liquidity and results of operations, including increases in loan delinquencies, problem assets and foreclosures; decreases in the value of collateral securing our loans; increases in our allowance for credit losses; and decreases in the value of our intangible assets.

Litigation

From time to time, the Company is named as a defendant in various lawsuits. The Company considers most of these proceedings to be in the normal course of business or typical for the industry. In these various lawsuits, management of the Company, following consultation with legal counsel, do not expect the ultimate disposition of any, or a combination, of these matters to have a material adverse effect on the business of the Company or the Bank.

The Bank is a defendant in a particular adversary proceeding in the United States Bankruptcy Court in the Northern District of Texas. The proceeding is brought by the bankruptcy trustee in the bankruptcy proceedings which evolved from the collapse of a regional auto dealership. Plaintiffs have asserted that they are seeking damages in excess of $100 million. Based on current knowledge, the Company believes that the claims are unsupported by the evidence, lacking in merit and intends to vigorously defend its position. The ultimate outcome of this litigation cannot presently be determined. The Company, in consultation with legal counsel, believes that an ultimate resolution of this matter yielding a material unfavorable outcome is remote. The case is currently in the discovery process.

Crowe LLP
Independent Member Crowe Global

Members of the Audit Committee
First Bancshares of Texas, Inc.
Midland, Texas

To assist the Audit Committee in overseeing the financial reporting process of First Bancshares of Texas, Inc. ("Company") for which management is responsible, we are submitting this letter. The matters communicated include selected responsibilities of each of the parties and the audit process.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Our audit is designed to obtain reasonable, but not absolute, assurance about whether the financial statements are free from material misstatement. Refer to our engagement letter with the Company for further information on the responsibilities of management and of Crowe LLP.

AUDITOR'S RESPONSIBILITY UNDER THE STANDARDS OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

An audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) is designed to obtain reasonable, but not absolute, assurance about whether the financial statements are free from material misstatement. Similarly, under these same standards, the auditor obtains a sufficient understanding of internal control to plan the audit, but this understanding and the tests of selected internal controls that are performed are not sufficient for the auditor to express an opinion on the effectiveness of internal control.

PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate an overview of the planned scope and timing of the audit. Accordingly, the following matters regarding the planned scope and timing of the audit were discussed with you on May 18, 2020.

- How we proposed to address the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- Where the entity has an internal audit function, the extent to which the auditor will use the work of internal audit, and how the external and internal auditors can best work together.
- Your views and knowledge of matters you consider warrant our attention during the audit, as well as your views on:

- The allocation of responsibilities between you and management.
- The entity's objectives and strategies, and the related business risks that may result in material misstatements.
- Significant communications with regulators.
- Other matters you believe are relevant to the audit of the financial statements.

ACCOUNTING POLICIES AND PRACTICES, ESTIMATES, AND SIGNIFICANT UNUSUAL TRANSACTIONS AND OUR EVALUATION OF THE QUALITY OF THE COMPANY'S FINANCIAL REPORTING

<u>Critical Accounting Policies, Practices, and Estimates:</u> We are required to discuss with the Audit Committee our judgment about the Company's critical accounting policies and practices. Critical accounting policies and practices are those that are both most important to the portrayal of the Company's financial condition and results, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Further, we are required to discuss with the Audit Committee our judgment about the Company's critical accounting estimates. Critical accounting estimates are accounting estimates where (a) the nature of the estimate is material due to levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change and (b) the impact of the estimate on financial condition or operating performance is material.

We consider the following accounting policies, practices and estimates to be critical, as defined above.

- Allowance for loan losses
- Identification of impaired loans

During our meeting we will address the following items in our discussion:

- The reasons certain policies and practices are considered critical;
- Any newly identified significant risks or changes to the significant risks initially identified and communicated during planning;
- How current and anticipated future events might affect the determination of whether certain policies and practices are considered critical;
- Our assessment of management's disclosures related to the critical accounting policies and practices, along with any significant modifications to the disclosure of those policies and practices proposed that management did not make;
- The process management used to develop critical accounting estimates;
- Management's significant assumptions used in critical accounting estimates that have a high degree of subjectivity;
- Any significant changes management made to the process used to develop critical accounting estimates or significant assumptions, management's reasons for the changes, and the effects of the changes on the financial statements;
- The basis for our conclusions regarding the reasonableness of the critical accounting estimates.

During the presentation of our annual audit plan to the Audit Committee we presented preliminary risks of material misstatement that had been identified during our initial planning procedures. Our risks may change throughout the course of the audit as this assessment is a continuous analysis. The following summarizes our final risks of material misstatements:

- In our evaluation of the approach and methodology related to the AFLL, the engagement team identified that the qualitative factors make up 92% of the AFLL collective reserve and as a result, the engagement team has identified a significant risk as it relates to the Qualitative factors on the AFLL.
- In our assessment of journal entry access, the engagement team identified a risk of Management Override of Controls related to the Journal Entry Process. Some members of senior management possess the ability to create and post journal entries without secondary approval. As a result, the risk of Management Override of Controls in this area is enhanced.

- As a result of the COVID-19 Pandemic, there is an increased risk that potential problem and non-performing loans timely identified as a result of reduced delinquency from deferrals, resulting in improper income recognition. This could result in provision related to those loans could be understated.

Initial Selection of, or Changes in, Significant Accounting Policies or Practices: In addition to the above critical accounting policies, practices and estimates, the Audit Committee should be informed of the initial selection of, or changes in, significant accounting policies or the application of such policies in the current period.

- There were no such accounting changes or significant policies requiring communication.

Effect of Significant Accounting Policies in Controversial Areas or Areas Where There is a Lack of Authoritative Guidance or Consensus, or Diversity in Practice: We are required to communicate the effect of significant accounting policies in controversial areas or areas where there is a lack of authoritative guidance or consensus, or diversity in practice.

- We are not aware of any significant accounting policies used by the Company related to controversial areas or areas for which there is a lack of authoritative guidance or consensus, or diversity in practice.

Qualitative Aspects of Significant Accounting Policies and Practices: The Audit Committee should also be informed of the qualitative aspects of the significant accounting policies and practices. We consider the following accounting policies and practices to be significant.

Significant Accounting Estimate	Process Used by Management	Basis for Our Conclusions
Allowance for Loan and Lease Losses	The allowance for loan losses was determined by management by a process involving consideration of past experience, current delinquent loan information, information contained in regulatory reports of examination, contacts with borrowers and other information contained in the loan files and other available data including environmental factors such as industry, geographical, economic and political factors.	We tested this accounting estimate by reviewing, on a test basis, the information listed and by testing information in certain customer loan files.
Impaired Loans	Loans are classified as impaired when, based on current information and events, it is probable that all amounts due under the contractual terms of the loan agreement will not be collected and when a loan modification is considered a troubled debt restructuring. All amounts due according to the contractual terms means that both the contractual interest payments and contractual principal payments will be collected as scheduled in the loan agreement. Estimates about the collectability of loans and borrower performance are required to make this determination. Once identified as impaired, the loan is recorded at the present value of future cash flows or at the fair value of collateral if the loan is collateral dependent, requiring further assumptions about amounts and timing of future cash flows and/or collateral valuations.	We reviewed the estimates made by management regarding identification and accounting for impaired loans.

Significant Accounting Estimate	Process Used by Management	Basis for Our Conclusions
Fair Value of Financial Instruments	The disclosure and determination of fair value requires management to use certain assumptions and estimates pertaining to the fair values of certain assets and liabilities.	We tested the propriety of information underlying management's estimates.
Legal Matters	Management evaluates legal claims against the Company to determine if legal matters require disclosure and/or expense recognition.	We had correspondence with internal counsel and reviewed the reasonableness of the disclosures and accruals. We are unaware of any outstanding litigation that would require additional accrual or disclosure under applicable accounting standards.

During our meeting we will refer to the Company's accounting policies footnote in the financial statements. We will address the following items in our discussion:

- The results of our evaluation of, and conclusions about, the qualitative aspects of the Company's significant accounting policies and practices, including situations in which we identified bias in management's judgments about the amounts and disclosures in the financial statements;
- The results of our evaluation of the differences between estimates best supported by the audit evidence and estimates included in the financial statements, which are individually reasonable, that indicate a possible bias on the part of the Company's management.

We are to discuss with you our comments about the following matters related to the Company's accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with you.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

<u>Significant Unusual Transactions</u>: The Audit Committee should be aware of methods used to account for significant transactions that are outside of the normal course of business for the Company or that otherwise appear to be unusual due to their timing, size, or nature.

- We are not aware of any significant unusual transactions recorded by the Company.

We will address the following items in our discussion:

- The policies and practices management used to account for significant unusual transactions;
- Our understanding of the business purpose (or the lack thereof) of significant unusual transactions.

Financial Statement Presentation: We are required to evaluate whether the presentation of the financial statements and the related disclosures are in conformity with Generally Accepted Accounting Principles, including our consideration of the form, arrangement, and content of the financial statements.

- In our evaluation of the financial statements and related disclosures there were no issues to communicate related to the form, arrangement, and content of the financial statements.

New Accounting Pronouncements: We are responsible for informing the Audit Committee about any concerns regarding management's anticipated application of accounting pronouncements that have been issued but are not yet effective and might have a significant effect on future financial reporting.

- There were no such concerns regarding management's anticipated application of accounting pronouncements requiring communication.

Alternative Accounting Treatments: We are required to discuss alternative treatments permissible under Generally Accepted Accounting Principles for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments and the treatment preferred.

- There were no such alternative treatments that were discussed with management.

CORRECTED AND UNCORRECTED AUDIT ADJUSTMENTS

Corrected Audit Adjustments: We are responsible for informing the Audit Committee about adjustments to the financial statements arising from our audit.

- There were no such adjustments.

We will address the following item in our discussion:

- The implications that such corrections might have on your financial reporting process

Uncorrected Audit Adjustments: We are also responsible for informing the Audit Committee about uncorrected financial statement misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Security Fair Value Levels Disclosure – Approximately $1.9 million of securities classified by management as possessing Level 2 inputs were determined to by Crowe Valuation Specialist to likely possess Level 3 inputs.

OTHER COMMUNICATIONS

Communication Item	Results
Other Information In Documents Containing Audited Financial Statements The Audit Committee often considers information prepared by management that accompanies the financial statements. To assist your consideration of this information, we read such information and consider whether such information, or the manner	We read the following items and noted no material inconsistencies or misstatement of facts in such information based on our reading thereof. • Annual Report to Shareholders • President's Letter

Communication Item	Results
of its presentation, is materially inconsistent with information in the audited financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.	
Difficulties or Contentious Matters We are required to discuss with the Audit Committee any difficulties or contentious matters for which we consulted outside of the engagement team	During the audit, there were no such issues for which we consulted outside the engagement team.
Consultations With Other Accountants If we are aware that management consulted with other accountants about significant auditing and accounting matters and we have a concern about such matters, we are to inform the Audit Committee of such consultation and provide our views on the matters discussed.	To our knowledge, there were no such consultations with other accountants about which we have a concern.
Material Written Communications As required by the SEC's final rule on Auditor Independence and Section 205 of the Sarbanes-Oxley Act, we are required to discuss with the Audit Committee certain material written communications.	Material written communications that are required to be discussed include the following. • Management's representation letter to us (a copy is attached); • Our engagement letter (previously discussed with and approved by the Audit Committee); • Our confirmation of independence (previously discussed with the Audit Committee); • Draft Audit opinion (provided separately) • Draft FDICIA Opinion (provided separately) • We have previously communicated to management the internal control deficiencies that we have identified during our audit.
Departures from the Auditor's Standard Report We are required to communicate any modifications to the auditor's opinion or explanatory language included in the auditor's report.	There we no modifications to the auditor's opinion or any explanatory language included in the auditor's report.
Disagreements With Management We are required to discuss with the Audit Committee any disagreements with management, whether or not satisfactorily resolved, that individually or in the aggregate could be significant to the Company's financial statements or the auditor's report.	During our audit, there were no such disagreements with management.
Significant Difficulties Encountered In Performing The Audit We are to inform the Audit Committee of any significant difficulties encountered in dealing with management related to the performance of the audit.	There were no difficulties encountered in dealing with management related to the performance of the audit.
Identification of, Accounting for, and Disclosure of Relationships and Transactions with Related Parties We are required to communicate with the Audit Committee our evaluation of the Company's identification of, accounting for, and disclosure of its relationships and transactions with related parties.	We will communicate our evaluation of the Company's identification of, accounting for, and disclosure of its relationships and transactions with related parties. There were no other significant matters arising from the audit regarding the Company's relationships and transactions with related parties.

Communication Item	Results
We are also required to communicate other significant matters arising from the audit regarding the Company's relationships and transactions with related parties.	
Other Matters We are to communicate any other matters arising from the audit that are significant to the Company's financial reporting process, including complaints or concerns regarding accounting or auditing matters that have come to our attention during the audit.	No additional matters were noted during our audit.

We were pleased to serve your Company as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the Audit Committee, Board of Directors, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe LLP

Crowe LLP

Dallas, Texas
March 30, 2021

FIRST BANCSHARES
OF TEXAS, INC.

March 30, 2021

Crowe LLP
750 North St Paul Street, Suite 850
Dallas, Texas 75201

Ladies and Gentlemen:

We are also providing this letter in connection with your audit of internal control over financial reporting of First Bancshares of Texas, Inc. for the purpose of expressing an opinion as to whether internal control over financial reporting is effective based on the control criteria established by the Committee of Sponsoring Organizations.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your examination:

1. We are responsible for establishing and maintaining effective internal control over financial reporting that will, among other things, assure the preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America and with the instructions to the Parent Company Only Financial Statements for Small Holding Companies Form FR Y-9 SP.

2. We have performed an evaluation and made an assessment of the effectiveness of internal control over financial reporting based on the control criteria established by the Committee of Sponsoring Organizations.

3. We did not use your procedures that were performed during your audit of internal control over financial reporting or the financial statements as part of the basis for our assessment on the effectiveness of internal control over financial reporting.

4. We have concluded that internal control over financial reporting was effective based on the control criteria established by the 2013 Committee of Sponsoring Organizations of the Treadway Commission as of December 31, 2020.

5. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all significant deficiencies or material weaknesses in internal control over financial reporting.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. There were no material fraud and other frauds that, although not material, involved senior management or management or other employees who have a significant role in our internal control over financial reporting.

310 WEST WALL STREET, SUITE 1200 MIDLAND, TEXAS 79701 432.686.0044 FAX 432.687.1712
WWW.FIRSTBANCSHARES.COM

8. Significant deficiencies and material weaknesses identified and communicated to management and the Audit Committee during previous engagements, if any, have been resolved, and we have provided you with explanations of those that have not been resolved.

9. We have disclosed to you all changes in internal control over financial reporting or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by management with regard to significant deficiencies and material weaknesses, through the date of this letter.

Ken Burgess, Chief Executive Officer
First Bancshares of Texas, Inc.

Phyllis Bechner, Chief Financial Officer
First Bancshares of Texas, Inc.

FIRST BANCSHARES
OF TEXAS, INC.

March 30, 2021

Crowe LLP

750 North St. Paul Street, Suite 850

Dallas, Texas 75201

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the consolidated financial statements of First Bancshares of Texas, Inc. as of December 31, 2020 for the for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

1. We are responsible for the preparation and fair presentation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, and we believe the financial statements are fairly presented.
2. We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to error or fraud. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

3. All transactions have been recorded in the accounting records and reflected in the financial statements.

4. We have provided you --

   a. Access to all financial records, documentation and other information that is relevant to the preparation and fair presentation of the financial statements.

   b. All names of related parties and all relationships and transactions with related parties.

   c. Additional information that you have requested from us for the purpose of the audit.

   d. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   e. All minutes of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

   f. All regulatory examination reports and correspondence to and from regulatory agencies, including communications concerning compliance with laws and regulations or supervisory actions.

   g. Results of the assessment of risk that the financial statements may be materially misstated as a result of fraud.

5. We have no plans or intentions that might materially affect the carrying value or classification of assets and liabilities.

6. We have identified all accounting estimates that materially affect recorded amounts and disclosures in the financial statements, and the key factors and significant assumptions underlying those estimates. We believe the methods, the consistency in application, the accuracy and completeness of data, and the reasonableness of significant assumptions used in developing all accounting estimates are appropriate in the circumstances. These estimates include:

   a. Allowance for loan losses.

   b. Classification and valuation of impaired loans.

   c. Classification and valuation of debt and equity securities.

   d. Valuation of intangible assets, goodwill, and deferred tax assets.

   e. Disclosure of fair value of financial instruments.

f. Compensation expense associated with share-based payments and related disclosures, as required by FASB ASC 718, *Compensation – Stock Compensation*.

g. Recognition and measurement of tax positions

7. Adequate consideration and provision has been made, when necessary, for any material losses likely to be sustained from:

    a. Impairment of long-lived assets when the carrying amount may not be recoverable.

    b. Collection of receivables.

    c. Environmental remediation liabilities

8. Except as disclosed in the financial statements, or directly to you, there are or have been no material:

    a. Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions or other requirements, or oral or written agreements to repurchase assets previously sold

    b. Arrangements, either written or oral, with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements

    c. Oral or written guarantees or warranties, agreements to repurchase items sold, or inventory shipped on approval or consignment

    d. Other financial instruments with significant "off-balance-sheet" risk of accounting loss to which the Company is a party

    e. Marketable securities or other financial instruments held for trading purposes (defined in FASB ASC 320 as "bought and held principally for the purpose of selling them in the near term...with the objective of generating profits on short-term differences in price")

    f. Asserted, or unasserted claims or assessments that our lawyer has advised us are probable of assertion, that must be disclosed in accordance with FASB ASC 450, Contingencies.

    g. Concentrations that make the Company vulnerable to the risk of a severe impact within one year from the balance sheet date (including, for example, individual or group concentrations of customers, suppliers, lenders, products, services, sources of labor or materials, licenses or other rights, operating areas or markets)

h. Significant accounting estimates that are susceptible to changing materially as a result of an event or change in conditions that is reasonably possible of occurrence within one year from the balance sheet date

i. Liens, encumbrances or other title impairments, such as pledges as collateral, on Company assets at the balance sheet date

j. Restrictions under borrowing agreements

k. Significant events that have occurred subsequent to the balance sheet date through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

l. Declines in market value of investments that are not temporary. We have reviewed our securities portfolio and determined that any unrecognized losses, including those that have existed 12 months or more, are temporary, as defined in FASB ASC 320, *Investments - Debt and Equity Securities*. We also represent that we do not intend to sell, nor is it more likely than not that we will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis.

m. Expenditures deferred to future periods that are not recoverable.

n. Sales of loans or other items with recourse provisions.

o. Derivative financial instruments such as futures, forwards, swaps or options, or other financial instruments.

p. Commitments to originate, purchase or sell loans or securities, or other financial instruments with off-balance sheet risk.

q. Financial instruments, such as loans and securities, with significant individual or group concentration of credit risk.

9. We have provided sufficient support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction.

10. Related parties and all related party relationships and transactions, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, have been disclosed to you, and have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of accounting principles generally accepted in the United States.

11. We have disclosed to you all known actual or possible litigation, claims and assessments whose effects should be considered by management when preparing the financial

statements. These matters have been accounted for and disclosed in conformity with accounting principles generally accepted in the United States.

12. Except as disclosed to you, there has been no fraudulent financial reporting or misstatements from asset misappropriation from:

    a. Management, whether material or not.

    b. Employees who have significant roles in internal control, whether material or not.

    c. Others when the fraud could have a material effect on the financial statements.

13. Except as disclosed to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation's financial statements received in communications from employees, former employees, analysts, regulators, or others.

14. Except as disclosed to you, there have been no:

    a. Instances of non-compliance or suspected non-compliance with laws or regulations whose effects should be considered for disclosure when preparing the financial statements or as a basis for recording a loss.

    b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450.

    c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

    d. Unrecorded transactions or side agreements or other arrangements (either written or oral).

15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

16. We believe the effects of cybersecurity risks and actual breaches are properly accounted for and disclosed in the financial statements.

17. All matters of judgment involved in the calculation and determination of the fair value of stock-based compensation under FASB ASC 718, *Compensation – Stock Compensation*, including the use of an option-pricing model and all related assumptions, are the responsibility of management. The assumptions we used are reasonable and supportable and developed in compliance with ASC 718. We have also reviewed and considered the

interpretations under Staff Accounting Bulletin ("SAB") No. 107, Valuation of Share-Based Payment Arrangements for Public Companies. We believe that the assumptions used in option-pricing models have been developed in accordance with both SAB 107 and ASC 718. Additionally, we represent that the methods used have been consistently applied in all periods presented, and the assumptions and the process from which they were developed are completely and adequately disclosed in the consolidated financial statements according to the requirements of ASC 718 and SAB 107.

18. The information provided to you regarding our stock option or other share based payment plan(s) is a complete and accurate description of the plan(s) and all awards made under the plan(s). All information regarding awards made, such as the date of the award, number of shares awarded, the strike price of the award, the expiration date, etc., have been properly determined. We have not engaged in any activities or practices in setting the terms of awards that are inconsistent with the plan's provisions, such as "backdating" awards or other practices that result in favorable strike prices for the grantee.

19. We understand that during the course of your audit, you have relied on work performed by the following specialists. We confirm that we have no relationships with those specialists that may bear on their objectivity, such as the ability through employment, ownership, contractual right, family relationship or otherwise to directly or indirectly control or significantly influence the specialist.

    - Harvest Investment of Burr Ridge, IL (Security Valuation)
    - Real Estate Research Corporation (Appraisal Valuation)
    - RWG Accountants & Advisors (Loan Review)
    - Eide Bailly LLP (Internal Audit)

20. During the course of your audit, we have provided to you physical or electronic copies of various original documents. We understand that you are relying on such copies as audit evidence in your audit and represent that copies provide are an accurate and completed representation of the original documentation and that the copies have not been modified from their original version.

21. We have disclosed all known matters contradicting the subject matter or assertion and any communication from regulatory agencies or others affecting the subject matter or assertion have been disclosed to you, including communications received between the end of the period addressed in the written assertion and the date of your report.

22. We are responsible for the subject matter and assertion, selecting the criteria, when applicable, and determining such criteria are appropriate for our purposes.

23. We have provided you with access to all records relevant to the subject matter and the agreed-upon procedures.

24. All suggested adjusting journal entries, as discussed and approved, will be recorded in the accounting records.

25. Proper disclosure has been made of regulatory capital matters as required by the AICPA industry audit guide, including our institution's prompt corrective action category as of the most

26. We have considered the effects of the Coronavirus pandemic on our business. In all material respects, the financial statements appropriately reflect the impact of this pandemic on our business, including appropriate disclosure of related risks and uncertainties. In addition, the financial statements include assumptions and estimates we believe are reasonable in light of the pandemic.

Ken Burgess, Chief Executive Officer

First Bancshares of Texas, Inc.

Phyllis Bechner, Chief Financial Officer

First Bancshares of Texas, Inc.

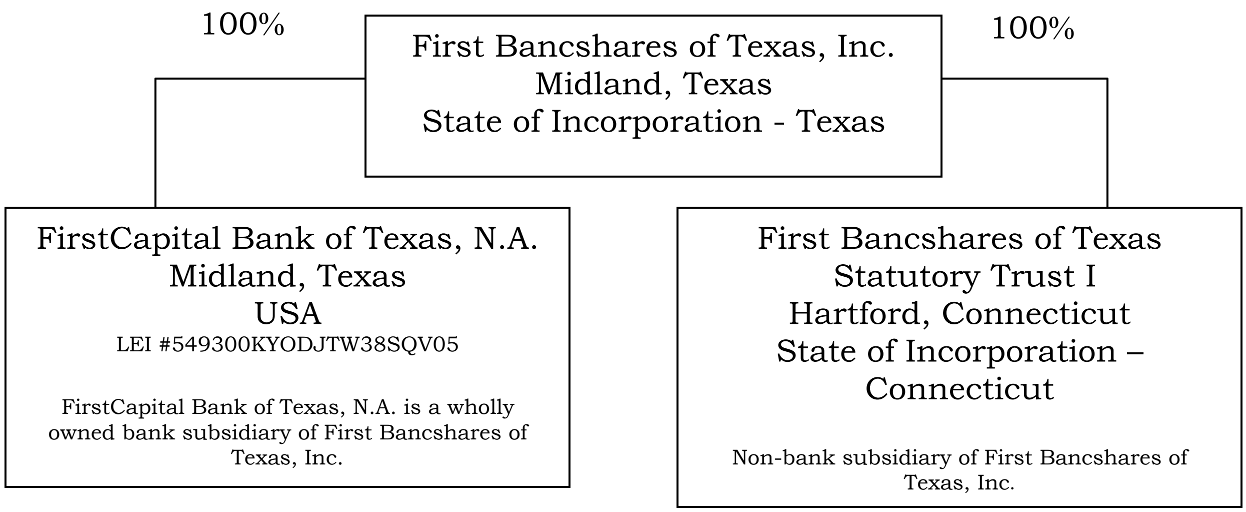
Form FR Y-6

First Bancshares of Texas, Inc.
Midland, Texas
Fiscal Year Ending December 31, 2020

Report Items 1 and 2a

1 First Bancshares of Texas, Inc. will hold its annual shareholder meeting May 18, 2021. The Annual Report will be forwarded to the District Federal Reserve Bank as soon as practicable.

2a Organization Chart



Results: A list of branches for your depository institution: FIRSTCAPITAL BANK OF TEXAS,N.A. (ID_RSSD: 2746263).
This depository institution is held by FIRST BANCSHARES OF TEXAS, INC. (3121344) of MIDLAND, 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)	2746263	FIRSTCAPITAL BANK OF TEXAS,N.A.	310 WEST WALL STREET, SUITE 1200	MIDLAND	TX	79701	MIDLAND	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	3459690	HILLSIDE BRANCH	7100 HILLSIDE ROAD	AMARILLO	TX	79109	RANDALL	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	4638782	SONCY BRANCH	3900 S. SONCY	AMARILLO	TX	79119	RANDALL	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	3378728	BURKBURNETT BRANCH	301 SOUTH AVENUE D	BURKBURNETT	TX	76354-3541	WICHITA	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	57255	BYERS BRANCH	505 MAIN STREET	BYERS	TX	76357	CLAY	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	5351846	DALLAS BRANCH	5580 LBJ FREEWAY, SUITE 100	DALLAS	TX	75240	DALLAS	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	5307094	FREDERICKSBURG BRANCH	805 WEST MAIN STREET, SUITE 500	FREDERICKSBURG	TX	78624	GILLESPIE	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	3749216	HENRIETTA BRANCH	202 WEST WICHITA	HENRIETTA	TX	76365	CLAY	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	4853914	HORSESHOE BAY BRANCH	9891 WEST FM 2147	HORSESHOE BAY	TX	78657	LLANO	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	3672323	LUBBOCK BRANCH	6811 INDIANA AVENUE	LUBBOCK	TX	79413	LUBBOCK	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	5189777	MILWAUKEE BRANCH	7904 MILWAUKEE AVE.	LUBBOCK	TX	79424	LUBBOCK	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	3648300	MARBLE FALLS BRANCH	507 WEST FM 2147	MARBLE FALLS	TX	78654	BURNET	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	3408867	NORTH BRANCH	3708 NORTH BIG SPRING STREET	MIDLAND	TX	79705	MIDLAND	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	3408876	WEST BRANCH	5606 WEST WADLEY AVENUE	MIDLAND	TX	79707	MIDLAND	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
Close	12/31/2020	Full Service	3481114	8TH STREET BRANCH	909 8TH STREET, SUITE 101	WICHITA FALLS	TX	76301-6818	WICHITA	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	2140058	CATTLEMAN'S BRANCH	900 MIDWESTERN PARKWAY	WICHITA FALLS	TX	76302	WICHITA	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Limited Service	5066328	DRIVE THRU BRANCH	2405 KELL BOULEVARD	WICHITA FALLS	TX	76308	WICHITA	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	
OK		Full Service	3202962	KELL BRANCH	2525 KELL BOULEVARD, SUITE 100	WICHITA FALLS	TX	76308	WICHITA	UNITED STATES	Not Required	Not Required	FIRSTCAPITAL BANK OF TEXAS,N.A.	2746263	

Form FR Y-6

First Bancshares of Texas, Inc.
Midland, Texas
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year 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**
Patriot Financial Partners III, LP (1) Philadelphia, PA USA	USA	1,000,000-5.97% Common Stock	N/A	N/A	N/A
Castle Creek Capital Partners VI, LP (2) Rancho Santa Fe, CA USA	USA	1,000,000-5.97% Common Stock			

(1) Patriot Financial Partners is represented on the board by Jim Deutsch

(2) Castle Creek is represented on the board by Tony Scavuzzo

Form FR Y-6

First Bancshares of Texas, Inc.
Midland, Texas
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 Bank Holding Company	(3)(a) Title & Position with Bank 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 Bank 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)
Michael J Canon Midland, TX USA	Attorney	Chairman & Director	General Counsel & Director (FirstCapital Bank of Texas)	Attorney: Michael J Canon, PC	0.98%	None	Michael J Canon, PC-100%
Kenneth L Burgess Jr Horseshoe Bay, TX USA	None	CEO & Director	Chairman (FirstCapital Bank of Texas)	None	0.80%	None	None
Brad D. Burgess Lubbock, TX USA	None	Vice President & Director	CEO (FirstCapital Bank of Texas)	Manager, Brookchase, Ltd.; Board Member, Independent Bankers Association of Texas	0.66%	None	Brookchase, Ltd. - 99%
Tracy Bacon Midland, TX USA	None	Treasurer & Director	COO (FirstCapital Bank of Texas)	None	0.15%	None	None
Robin Richey Midland, TX USA	None	Secretary	Sr. Vice President (FirstCapital Bank of Texas)	Managing Partner, RichTree Farms	0.17%	None	RichTree Farms - 25%
Phyllis Bechner Midland, TX USA	None	Chief Financial Officer	CFO (FirstCapital Bank of Texas)	Vice President, OMGWHWD307,LLC, Treasurer, OMGWDIA, LLC	0.20%	None	OMGWHWD307,LLC - 100% OMGWDIA, LLC - 50%
Tevis Herd Midland, TX USA	Attorney	Director	Director (FirstCapital Bank of Texas)	President of Herd Management, LLC, General Partner of Manada Resources, L.P.	0.53%	None	Manada Resources, L.P. - 40%

Form FR Y-6

First Bancshares of Texas, Inc.
Midland, Texas
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 Bank Holding Company	(3)(a) Title & Position with Bank 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 Bank 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)
Subodh Patel Lubbock, TX USA	Hospitality	Director	Director (FirstCapital Bank of Texas)	President of: ICNP Investments Inc.	0.57%	None	ICNP Investments Inc. - 100% Inn of the South Plains LLC - 100% M&M Hospitality LLC - 37.5% Ishvarpremi Hospitality LLC - 100% Seminole Hospitality LLC - 50% Maheshwari Hospitality LLC- 50% Bluebonnet Hospitality Management, LLC. - 50% BlueBonnet SW Bagels LLC - 50% SPHG Management LLC - 100% Big Spring Hospitality LLC-50% SSNRM, LLC-52% PD Hospitality, LLC-52% Starlight Conference Center, LLC-52% Legacy Quick Mart LLC - 50% Bhaginee - 50% Stadium Motel Inc. - 50%
Teresa D. Wilkinson Midland, TX USA	Investments	Director	Director (FirstCapital Bank of Texas)	Partner, Ben-mar Partners	4.08%	None	Ben-mar Partners - 30% JB Sterling LLC - 100%
Allen Pruitt Midland, TX USA	Finance	Director	Director (FirstCapital Bank of Texas)	Partner, Texcap Land & Minerals 3 and Texcap Land & Minerals 4; Asset and Finance Management for Warren Charitable Foundation, Warren Ventures, Ltd., Warren Management, LLC	0.14%	None	None
Don Cosby Ft Worth, TX USA	None	President and Director	Director (FirstCapital Bank of Texas)	None	0.62%	None	None
Jim Deutsch Philadelphia, PA USA	Finance	Director	Director (FirstCapital Bank of Texas)	Partner: Patriot Financial Partners LP	5.97%	None	None
Tony Scavuzzo Dallas, TX USA	Finance	Director	Director (FirstCapital Bank of Texas)	Principal: Castle Creek Capital Partners	5.97%	None	None

Form FR Y-6

First Bancshares of Texas, Inc.
Midland, Texas
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 Bank Holding Company	(3)(a) Title & Position with Bank 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 Bank 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)
Warren T. Ayres Wichita Falls, TX USA	Oil & Gas	Director	Director (FirstCapital Bank of Texas)	Executive Vice President, Eagle Oil & Gas	2.84%	None	Eagle I - 50% FBB Investments - 50% Eagle Leasing & Investments Corp. - 25% WF Belair Venture LLC - 45.24%
Jeff Dillard Wichita Falls, TX USA	Oil & Gas	Director	Director (FirstCapital Bank of Texas)	President, Cobra Oil and Gas	2.68%	None	Cobra Oil and Gas - 50% Cobra Exploration Company LLC - 50% Foxtrot Inc - 50% Falls Distributing Company - 33.33% 503 Management LLC - 100% 6 Shooter LLC - 100% Jolly Management LLC - 33.33% Stagecoach Management LP - 99% Arrow Hydrocarbons Management LLC - 50% 3S Management LP - 33.33% Sidonian Partners LP - 49.50% DTY Management LLC - 50% Fort Construction LP - 99% Tailwind Advisors LLC - 60% Tailwind Oil & Gas Management LLC - 50%