

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, **RAY OWEN**

Name of the Holding Company Director and Official

PRESIDENT, DIRECTOR

Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

07/28/2021

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

NA

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

Reporter's Name, Street, and Mailing Address

TALL CITY BANCSHARES, INC.

Legal Title of Holding Company

306 W. WALL ST., SUITE 100

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

MIDLAND

TX

79701

City

State

Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

JENNIFER MITCHELL

EVP, CFO

Name

Title

915-313-6728

Area Code / Phone Number / Extension

915-313-6767

Area Code / FAX Number

jmittell@bankoftexasonline.com

E-mail Address

NA

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

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TALL CITY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tall City Bancshares, Inc. and Subsidiary
El Paso, Texas

Report on the Financial Statements

We have audited the accompanying consolidated balance sheets of Tall City Bancshares, Inc. and Subsidiary as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, statements of changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

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 of 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tall City Bancshares, Inc. and Subsidiary 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.

Lentzbach, Barshaw & Company

El Paso, Texas
March 26, 2021

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2020 and 2019

(Dollar amounts in thousands)

	2020	2019
ASSETS		
Cash and due from banks	\$ 8,215	\$ 4,813
Federal funds sold	500	6,600
Interest-bearing deposits at other financial institutions	61,652	54,005
Cash and cash equivalents	<u>70,367</u>	<u>65,418</u>
Securities: (Notes 2 and 11)		
Available-for-sale	5,134	4,888
Held-to-maturity	7,471	7,276
Federal Reserve stock	761	761
Federal Home Loan Bank stock	3,099	1,279
Loans (Note 3)	341,546	317,331
Allowance for loan losses	(3,896)	(3,696)
Premises and equipment, net (Note 4)	5,340	275
Accrued interest receivable	829	1,169
Goodwill	257	257
Other assets	<u>203</u>	<u>139</u>
	<u>\$ 431,111</u>	<u>\$ 395,097</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits (Notes 5 and 11)		
Noninterest-bearing	\$ 136,370	\$ 129,182
Interest-bearing	<u>200,721</u>	<u>186,204</u>
Total deposits	<u>337,091</u>	<u>315,386</u>
Advances from Federal Home Loan Bank (Note 6)	38,856	29,664
Accrued interest and other liabilities	<u>407</u>	<u>508</u>
	<u>376,354</u>	<u>345,558</u>
Commitments and Contingencies (Note 7)		
Stockholders' Equity (Note 8, 9, and 12)		
Capital stock:		
Common stock, \$1.00 par value; 10,000,000 shares authorized; 2,572,100 shares issued and outstanding at December 31, 2020; 2,450,000 share issued and outstanding at December 31, 2019	2,572	2,450
Additional paid-in capital	24,564	23,416
Retained earnings	28,546	24,634
Accumulated other comprehensive income (loss)	35	(1)
Treasury Stock	<u>(960)</u>	<u>(960)</u>
	<u>54,757</u>	<u>49,539</u>
	<u>\$ 431,111</u>	<u>\$ 395,097</u>

See Notes to Consolidated Financial Statements.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

December 31, 2020 and 2019

(Dollar amounts in thousands)

	2020	2019
Interest and dividend income:		
Loans, including fees	\$ 14,866	\$ 15,996
Securities (Notes 2 and 11)	71	87
Interest-bearing deposits and other financial institutions	258	1,137
Federal funds sold	57	737
	<u>15,252</u>	<u>17,957</u>
Total interest and dividend income	15,252	17,957
Interest expense:		
Deposits	2,983	3,288
Federal Home Loan Bank Advances	712	423
	<u>3,695</u>	<u>3,711</u>
Total interest expense	3,695	3,711
Net interest income	11,557	14,246
Provision for loan losses (Note 3)	200	75
	<u>11,357</u>	<u>14,171</u>
Net interest income after provision for loan losses	11,357	14,171
Noninterest income:		
Customer service fees	68	65
Other income	163	128
	<u>231</u>	<u>193</u>
Total noninterest income	231	193
Noninterest expenses:		
Salaries and employee benefits	2,965	3,070
Operating expenses	660	778
Data processing	543	490
Occupancy expenses	308	280
	<u>4,476</u>	<u>4,618</u>
Total noninterest expenses	4,476	4,618
Net Income	\$ 7,112	\$ 9,746

See Notes to Consolidated Financial Statements.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

December 31, 2020 and 2019

(Dollar amounts in thousands)

	2020	2019
Net Income	\$ 7,112	\$ 9,746
Other comprehensive income:		
Change in net unrealized income on securities available-for-sale	<u>36</u>	<u>33</u>
Total comprehensive income	<u>\$ 7,148</u>	<u>\$ 9,779</u>

See Notes to Consolidated Financial Statements.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

December 31, 2020 and 2019
(Dollar amounts in thousands)

	Shares of Common Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2018	2,450,000	2,450	23,398	18,088	(34)	(960)	42,942
Net income	-	-	-	9,746	-	-	9,746
Change in net unrealized gains on available for sale investment securities	-	-	-	-	33	-	33
Dividend payment	-	-	-	(3,200)	-	-	(3,200)
Stock options expense	-	-	18	-	-	-	18
Balance, December 31, 2019	2,450,000	2,450	23,416	24,634	(1)	(960)	49,539
Net income	-	-	-	7,112	-	-	7,112
Issuance of common stock	122,100	122	1,132	-	-	-	1,254
Change in net unrealized gains (losses) on available for sale investment securities	-	-	-	-	36	-	36
Dividend payment	-	-	-	(3,200)	-	-	(3,200)
Stock options expense	-	-	16	-	-	-	16
Balance, December 31, 2020	2,572,100	\$ 2,572	24,564	28,546	35	(960)	\$ 54,757

See Notes to Consolidated Financial Statements.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2020 and 2019

(Dollar amounts in thousands)

	2020	2019
Cash Flows From Operating Activities		
Net income	\$ 7,112	\$ 9,746
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	200	75
Net amortization and accretion of securities premiums and discounts	(184)	(161)
Amortization of deferred loan fees	(175)	(99)
Depreciation	55	36
Stock option compensation expense	16	18
(Increase) decrease in assets:		
Accrued interest receivable	340	(271)
Other assets	(64)	(66)
Increase (decrease) in liabilities:		
Accrued interest and other liabilities	(102)	213
Net cash provided by operating activities	7,198	9,491
Cash Flows From Investing Activities		
Net (increase) decrease in:		
Available-for-sale securities		
Purchases	(11,131)	(5,127)
Maturities, calls and principal repayments	9,090	4,601
Loan originations and principal collections, net	(24,040)	(46,937)
Purchase of premises and equipment	(5,119)	(19)
Net cash used in investing activities	(31,200)	(47,482)
Cash Flows From Financing Activities		
Net increase (decrease) in:		
Non-interest bearing deposits	7,188	4,276
Dividend payment	(3,200)	(3,200)
Issuance of shares	1,254	-
Advances from Federal Home Loan Bank Net of Repayments	9,192	17,303
Interest bearing deposits	14,517	(9,003)
Net cash provided by financing activities	28,951	9,376
(Decrease) increase in cash and due from banks	4,949	(28,615)
Cash and due from banks:		
Beginning	65,418	94,033
Ending	\$ 70,367	\$ 65,418

See Notes to Consolidated Financial Statements.

(continued)

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2020 and 2019

(Dollar amounts in thousands)

	2020	2019
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	\$ 2,983	\$ 3,146
Supplemental Schedule of Noncash and Financing Activities		
Net change in unrealized loss on available-for-sale securities	36	33

See Notes to Consolidated Financial Statements.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands except shares amounts)

Note 1. Significant Accounting Policies

Consolidation policies:

The consolidated financial statements include the accounts of Tall City Bancshares, Inc. (the Corporation) and its wholly-owned subsidiary, Bank of Texas (formerly Kent County State Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations:

The Corporation is a holding company that acquired all of the assets and liabilities of Kent County State Bank on September 22, 2009. Branches of Kent County State Bank were opened in Midland on January 13, 2010, and in El Paso on January 14, 2010. Effective February 4, 2010 Kent County State Bank was officially renamed Bank of Texas and the charter was relocated to Midland, Texas.

The Corporation provides a variety of financial services to individuals and corporate customers in the Midland, El Paso and Jayton, Texas areas. Its primary deposit products are demand deposits and term certificate accounts and its primary lending products are oil and gas, commercial, and commercial real estate loans. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Use of estimates:

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term within the banking industry relates to the determination of the allowance for loan losses and the fair value of financial instruments.

Revenue Recognition:

The Corporation generally measures revenue based on the amount of consideration the Corporation expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as the Corporation satisfies its performance obligations under the contract, except in transactions where U.S. GAAP provides other applicable guidance. When the amount of consideration is variable, the Corporation will only recognize revenue to the extent that it is probable that the cumulative amount recognized will not be subject to a significant reversal in the future. Substantially all of the Corporation's contracts with customers have expected durations of one year or less and payments are typically due when or as the services are rendered or shortly thereafter.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands except shares amounts)

Note 1. Significant Accounting Policies (continued)

The Corporation's interest income is derived from loans and leases, securities and other short-term investments. The Corporation recognizes interest income in accordance with the applicable guidance in U.S. GAAP for these assets. Refer to the Portfolio Loans and Leases and Investment Securities sections of this footnote for further information.

Significant Group Concentrations of Credit Risk:

The Corporation's concentration of loans collateralized by real estate amount to \$222 and \$182 for the years ending December 31, 2020 and 2019, respectively. This represents 65% and 57% of gross loans at December 31, 2020 and, respectively. Oil and gas loans represented \$42 and \$60 of the total loan portfolio as of December 31, 2020 and 2019, respectively. This represents 13% and 19% of gross loans at December 31, 2020 and 2019, accordingly.

Cash, cash equivalents, interest bearing deposits at other financial institutions, and cash flows:

For purposes of reporting cash flows, cash and cash equivalents and due from banks includes cash on hand, amounts due from banks (including cash items in process of clearing), and fed funds sold. Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

The nature of the Corporation's business requires that it maintain amounts due from banks which, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Corporation has not experienced any losses in such accounts. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes the Corporation is not exposed to any significant risk on cash and cash equivalents.

Securities:

Investment securities classified as "available-for-sale" are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Investment securities for which the Bank has both the positive intent and ability to hold to maturity are classified as held to maturity and, accordingly, are stated at cost, adjusted for amortization of premiums and accretion of discounts as adjustments to interest income on investments.

Purchased premiums and discounts are recognized in interest income using the interest method over the terms of the securities. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Realized gains or losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Nonmarketable equity investments, which includes Federal Reserve Bank stock and The Independent Bankers Bank stock, are recorded at cost.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 1. Significant Accounting Policies (continued)

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. When the Corporation does not intend to sell a debt security, and it is more likely than not the Corporation will not have to sell the security before recovery of its cost basis, it recognizes the credit component of another-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Corporation did not recognize any other-than-temporary impairment on debt securities as of December 31, 2020 and 2019.

Loans:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield, using the interest method.

A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on loans is typically discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amount contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance for loan losses when management believes that un-collectibility 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 and is based upon management's periodic review of the collectability of loans in light of historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except shares amounts)

Note 1. Significant Accounting Policies (continued)

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

A loan is impaired when, based on current information and events, it is probable the Corporation will be unable to collect the scheduled payments of principal or interest payments when due in accordance with 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. Impairment is measured on a loan by loan basis for real estate and business 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. Accrued interest on impaired loans is recorded consistent with the current payment status of the loan. The amount of impairment, if any and any subsequent changes are included in the allowance for loan losses.

Foreclosed assets:

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan and lease losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose are recorded as necessary. Revenue and expense from the operations of foreclosed assets and changes in the valuation allowance are included net of expenses from foreclosed assets.

Premises and equipment:

Land is carried at cost. Building and improvements and furniture and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	39
Furniture and equipment	3-5

Goodwill:

Goodwill represents the excess of cost over fair value of assets acquired in the purchase of the Kent County State Bank in 2009. The Corporation does not amortize goodwill and, accordingly, no goodwill amortization expense was recognized for the fiscal years ending December 31, 2020 and 2019. Goodwill is evaluated for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. The determination of the value of goodwill requires management to make estimates and assumptions about future business trends and growth. If an event occurs that causes management to revise the estimates and

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except shares amounts)

Note 1. Significant Accounting Policies (continued)

assumptions used to determine the value of goodwill, such revision could result in an impairment charge that could have a material impact on the financial results of the Corporation. In management's opinion, no impairments existed at December 31, 2020 and 2019.

Income tax status:

The Corporation and its subsidiaries file a consolidated federal tax return. The Corporation, with the consent of its shareholders, has elected to be taxed under sections of the federal income tax law, which provides that, in lieu of corporation income taxes, the stockholders separately account for their pro rata shares of the Corporation's items of income, deductions, losses and credits. As a result of this election, no income taxes have been recognized in the accompanying financial statements.

Under U.S. generally accepted accounting principles, a tax provision resulting from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date in order to be recognized.

Management has analyzed the tax positions taken by the organization, and has concluded that as of December 31, 2020, no uncertain positions have been taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

With few exceptions, the Corporation is no longer subject to U.S. Federal income tax examinations for tax years before 2016 and state income tax examinations for tax years before 2015.

The Corporation is subject to the Texas Franchise Tax, which is based on a percentage of total revenues less allowable deductions. Tax expense was \$51 and \$52 for the years ending December 31, 2020 and 2019, respectively.

Comprehensive Income:

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available for sale, and unrealized losses related to factors other than credit on debt securities which are also recognized as separate components of equity.

Fair Values of Financial Instruments:

FASB ASC 825, Financial Instruments, requires disclosures about fair value for all financial instruments, whether recognized or not recognized in the statement of financial position. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

Fair Value Measurement:

The Corporation measures fair value in accordance with FASB ASC 820 Fair Value Measurements. FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures of fair value

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except shares amounts)

Note 1. Significant Accounting Policies (continued)

measurements. FASB ASC 820 establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. FASB ASC 820 applies to all assets and liabilities that are measured and reported on a fair value basis. Note 11 contains additional information.

New Accounting Pronouncements:

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Corporation is evaluating the potential impact of the amendment on the Corporation's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Corporation believes the amendments in this update will have an impact on the Corporation's financial statements and is working to evaluate the significance of that impact.

Subsequent Events:

The Corporation has evaluated subsequent events through March 26, 2021, the date through which the financial statements were available to be issued. See Note 13.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 2. Securities

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

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>				
U.S. Treasuries	\$ 2,999	\$ -	\$ -	\$ 2,999
U.S. Government agency securities	900	1	-	901
Mortgage-backed securities	-	-	-	-
Municipal Bonds	1,200	34	-	1,234
Total securities available-for-sale	<u>\$ 5,099</u>	<u>\$ 35</u>	<u>\$ -</u>	<u>\$ 5,134</u>

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available-for-Sale</u>				
U.S. Treasuries	\$ 1,592	\$ 1	\$ -	\$ 1,593
U.S. Government agency securities	3,000	-	(2)	2,998
Mortgage-backed securities	1	-	-	1
Municipal Bonds	296	-	-	296
Total securities available-for-sale	<u>\$ 4,889</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ 4,888</u>

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 2. Securities (continued)

The amortized cost and estimated fair value of investment securities held to maturity consist of the following:

		December 31, 2020			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Held-to-Maturity</u>					
	Certificate of Deposit	\$ 7,471	-	-	\$ 7,471
	Total securities held-to-maturity	\$ 7,471	\$ -	\$ -	\$ 7,471
		December 31, 2019			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Held-to-Maturity</u>					
	Certificate of Deposit	\$ 7,276	-	-	\$ 7,276
	Total securities held-to-maturity	\$ 7,276	\$ -	\$ -	\$ 7,276

At December 31, 2020 and 2019, securities with a carrying value of \$5 and \$5 respectively, were pledged to secure public deposits.

The amortized cost and fair value of securities by contractual maturity at December 31, 2020 follows:

		Available-for-Sale	
		Amortized Cost	Fair Value
	Due less than 1 year	\$ 3,174	\$ 3,175
	Over 1 year through 5 years	1,925	1,959
	After 5 years through 10 years	-	-
		\$ 5,099	\$ 5,134
		Held-to-maturity	
		Amortized Cost	Fair Value
	Due less than 1 year	\$ 7,471	\$ 7,471
		\$ 7,471	\$ 7,471

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 2. Securities (continued)

Gross unrealized losses on investment securities and the fair value of the related securities, 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 were as follows:

December 31, 2020		Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
<u>Securities Available-for-Sale</u>					
U.S. Treasuries	\$ -	\$ -	\$ -	\$ -	
U.S. Government Agencies	-	-	-	-	
Mortgage-backed securities	-	-	-	-	
Municipal Bonds	-	-	-	-	
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

December 31, 2019		Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
<u>Securities Available-for-Sale</u>					
U.S. Treasuries	\$ 1,593	\$ 1	\$ -	\$ -	
U.S. Government Agencies	-	-	2,988	(2)	
Mortgage-backed securities	-	-	1	-	
Municipal Bonds	296	-	-	-	
Total securities available-for-sale	<u>\$ 1,889</u>	<u>\$ 1</u>	<u>\$ 2,989</u>	<u>\$ (2)</u>	

TALL CITY BANCSHARES, INC. AND SUBSIDIARY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(Dollars in thousands except shares amounts)**Note 3. Loans**

The composition of net loans receivable as of December 31, 2020 and 2019, is as follows:

Loans receivable	2020	2019
Commercial	\$ 111,513	\$ 126,164
Real estate	223,645	182,484
Agricultural	6,033	8,352
Consumer	488	450
Overdrafts	(22)	18
	<u>341,657</u>	<u>317,468</u>
Less unearned discounts and deferred fees	(111)	(137)
	<u>341,546</u>	<u>317,331</u>
Allowance for loan losses	(3,896)	(3,696)
Loans receivable, net	<u>\$ 337,650</u>	<u>\$ 313,635</u>

A loan is considered impaired, in accordance with the impairment accounting guidance when based on current information and events, it is probable the Corporation will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in a troubled debt restructuring where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. There were no loans classified as impaired or as troubled debt restructurings as of December 31, 2020 and 2019.

There were no loans past due more than 90 days for which interest continues to be accrued at December 31, 2020 or at December 31, 2019.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 3. Loans (continued)

Changes in the allowance for loan losses for year ended December 31, 2020 and 2019 are as follows:

December 31, 2020	Commercial	Real Estate	Agriculture	Consumer	Unallocated	Total
Allowance for credit losses:						
Beginning Balance	\$ 4,095	5,253	211	11	(5,874)	3,696
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provisions	1,496	2,072	67	4	(3,439)	200
Ending balance	5,591	7,325	278	15	(9,313)	3,896
Ending balance: individually evaluated for impairment		1,313				1,313
Ending balance: collectively evaluated for impairment	111,513	223,645	6,033	488	(22)	341,657
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
December 31, 2019	Commercial	Real Estate	Agriculture	Consumer	Unallocated	Total
Allowance for credit losses:						
Beginning Balance	\$ 2,413	\$ 3,541	\$ 119	8	(2,460)	\$ 3,621
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provisions	1,682	1,712	92	3	(3,414)	75
Ending balance	4,095	5,253	211	11	(5,874)	3,696
Ending balance: individually evaluated for impairment		1,368	-	-	-	1,368
Ending balance: collectively evaluated for impairment	126,164	182,484	8,352	450	18	317,468
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The Corporation has an on-going monitoring process of the credit quality of our loan portfolio. We assess the probability of default or downgrade as well as the potential for loss. The process included the monitoring of payment performance through past due reviews as well as the review of periodic financial statements and other financial and operating reports from our borrowers. The Corporation utilizes a risk grading system which evaluates both of these risks. These grades correspond to the regulators' rating system. We assign a risk rating to each of our commercial and commercial real estate loans. Our Risk Rating System includes grades 1-5, being "Pass", "Special Mention", "Substandard", "Doubtful", and "Loss".

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except shares amounts)

Note 3. Loans (continued)

Grade 1: Pass

This grade represents loans considered to have an acceptable level of risk. Generally, the loans are to borrowers with an established history, sound financial capacity and sufficient cash flow to service debt.

Grade 2: Special Mention

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

Grade 3: Substandard

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

Grade 4: Doubtful

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

Grade 5: Loss

Assets classified loss are considered uncollectible and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except shares amounts)

Note 3. Loans (continued)

	Commercial		Real Estate	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Pass	\$ 111,513	\$ 126,164	\$ 222,297	\$ 181,116
Special Mention	-	-	-	-
Substandard	-	-	1,348	1,368
Doubtful	-	-	-	-
Total	<u>\$ 111,513</u>	<u>\$ 126,164</u>	<u>\$ 223,645</u>	<u>\$ 182,484</u>

	Agricultural	
	12/31/2020	12/31/2019
Pass	\$ 6,033	\$ 8,352
Special Mention	-	-
Substandard	-	-
Doubtful	-	-
Total	<u>\$ 6,033</u>	<u>\$ 8,352</u>

	Consumer - Other	
	12/31/2020	12/31/2019
Pass	\$ 488	\$ 450
Special Mention	-	-
Substandard	-	-
Doubtful	-	-
Total	<u>\$ 488</u>	<u>\$ 450</u>

	Overdrafts	
	12/31/2020	12/31/2019
Overdrafts	\$ (22)	\$ 18
Total	<u>\$ (22)</u>	<u>\$ 18</u>

As of December 31, 2020 and 2019, the Bank had no impaired loans or loans whose terms had been modified or restructured. The Corporation has no Financing Receivables.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Dollars in thousands except shares amounts)****Note 4. Premises and Equipment**

The major classes of premises and equipment and the total accumulated depreciation as of December 31, 2020 and 2019, are as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Land	\$ 610	\$ 10
Buildings and improvements	4,789	285
Furniture and equipment	<u>528</u>	<u>513</u>
	5,927	808
Less accumulated depreciation	<u>(587)</u>	<u>(533)</u>
Total	<u>\$ 5,340</u>	<u>\$ 275</u>

Depreciation expense was \$55 and \$36 for the years ending December 31, 2020 and 2019, respectively.

Note 5. Deposits

The composition of deposits is as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Demand deposits, noninterest bearing	\$ 136,294	\$ 129,181
NOW and money market accounts	20,948	14,139
Savings Deposits	3,030	1,933
Time certificates, \$250,000 or more	164,827	156,025
Other time certificates	<u>11,992</u>	<u>14,108</u>
Total deposits	<u>\$ 337,091</u>	<u>\$ 315,386</u>

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

2021	\$ 176,417
2022	366
2023	-
2024	36
2025	-
	<u>\$ 176,819</u>

Deposits from foreign customers totaled \$24 and \$47 as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the corporation had no brokered deposits.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except shares amounts)

Note 6. Advances from Federal Home Loan Bank

The Corporation has funding available from the Federal Home Loan Bank of Dallas. As of December 31, 2020 and 2019, the amount available for advances was approximately \$71,511 and \$87,648 respectively. Advances are collateralized by assets and stock of the Bank. As of December 31, 2020 and 2019, the Corporation had multiple advances of \$38,856 and \$29,664 outstanding. The advances bear interest at various rates ranging from 1.599% to 3.023%.

The advances have maturity dates as follows:

	<u>December 31, 2020</u>
One year or less	3,194
Over one year through three years	8,444
Over three years through five years	12,271
Over five years	14,947
	<u>\$ 38,856</u>

The Corporation also has a line of credit with two institutions for \$2 million on each line. The rate of interest on this line and related collateral will be quoted at the time of borrowing. There were no advances as of December 31, 2020 and 2019. This line may be terminated at any time by the originating institution.

Note 7. Commitments and Contingencies

Financial instruments with off-balance-sheet risk:

The Corporation is party to 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 performance letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 7. Commitments and Contingencies (continued)

A summary of the Corporation's commitments is as follows:

	12/31/2020	12/31/2019
Commitments to extend credit	\$ 176,503	\$ 122,950
Total	<u>\$ 176,503</u>	<u>\$ 122,950</u>

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. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the party.

Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, income-producing commercial properties, oil and natural gas, and raw land.

Contingencies:

In the normal course of business, the Corporation may become involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Corporation's financial statements. At the respective year ends, there was no pending litigation.

The Corporation leases facilities for the El Paso and Midland branches. These lease terms range from three to ten-year terms.

Minimum lease payments for the years ending December 31 are:

2021	\$	205
2022		78
2023		78
2024		86
2025		86
Thereafter		86
	<u>\$</u>	<u>619</u>

Rent expense totaled \$212 and \$190 for the years ended December 31, 2020 and 2019, respectively.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except shares amounts)

Note 8. Restrictions on Retained Earnings and Regulatory Matters

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

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

To be well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following tables. The Corporation's and the Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2020</u>						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 54,741	12.83%	\$ 33,976	8%	\$ N/A	N/A
Bank of Texas	54,665	12.87%	33,976	8%	42,470	10%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	\$ 54,463	12.824%	\$ 16,988	4%	\$ N/A	N/A
Bank of Texas	54,387	12.806%	16,988	4%	25,482	6%
Tier 1 Capital (to Average Assets)						
Consolidated	\$ 54,463	12.88%	\$ 16,918	4%	\$ N/A	N/A
Bank of Texas	54,387	12.86%	16,918	4%	21,147	5%

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except shares amounts)

Note 8. Restrictions on Retained Earnings and Regulatory Matters (continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<u>As of December 31, 2019</u>					
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 49,539	12.83%	\$ 30,897	8%	\$ N/A	N/A
Bank of Texas	49,462	12.81%	30,897	8%	38,621	10%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	\$ 49,283	12.76%	\$ 15,448	4%	\$ N/A	N/A
Bank of Texas	49,206	12.74%	15,448	4%	23,173	6%
Tier 1 Capital (to Average Assets)						
Consolidated	\$ 49,283	12.69%	\$ 15,531	4%	\$ N/A	N/A
Bank of Texas	49,206	12.67%	15,531	4%	19,414	5%

Note 9. Restrictions on Dividends

Federal and state banking regulations place certain restrictions on dividends paid by the Corporation. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Corporation.

In addition, dividends paid by the Corporation would be prohibited if the effect thereof would cause the Corporation's capital to be reduced below applicable minimum capital requirements.

Note 10. Transactions with Related Parties

The Corporation has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). At December 31, 2020 and 2019, directors, significant stockholders, and principal officers of the Corporation had outstanding loans of \$3,117 and \$3,181, respectively. Related party deposits amounted to \$98,022 and \$51,892 as of December 31, 2020 and 2019, respectively. The terms of transactions involving these accounts (i.e., rate paid) are comparable to those of accounts for other customers.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands except shares amounts)

Note 11. Fair Value of Financial Instruments

Effective for 2010, the Corporation adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. This new accounting guidance under ASC 820, *Fair Value Measurements and Disclosures*, was issued by the FASB on January 21, 2010. The additional disclosures required about fair value measurements include, among other things (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs, (2) the gross, rather than net, basis for certain Level 3 roll-forward information, (3) use of a "class" basis rather than a "major category" basis for assets and liabilities, and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The following information incorporates the new disclosure requirement.

Determination of Fair Value: The Bank follows the provisions of FASB ASC 820 *Fair Value Measurements* for assets and liabilities measured and reported at fair value, and to determine fair value disclosures. Under this guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, fair value estimates may not be realized in an immediate settlement of the instrument.

FASB ASC 825 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy: In determining fair value, the Corporation uses various valuation approaches. FASB ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Bank. Unobservable inputs are inputs that reflect the Bank's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels as follows:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access. Valuations are based on quoted prices that are readily available in an active market. Valuation of these products does not entail a significant degree of judgment.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Valuations can use model-based valuation techniques for which all significant assumptions are observable in the market.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands except shares amounts)

Note 11. Fair Value of Financial Instruments (continued)

Level 3: Valuations based on model based techniques that use inputs that are unobservable in the market and significant to the overall fair value measurement. Valuation techniques include discounted cash flow models or similar techniques.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Bank in determining fair value is greatest for instruments categorized in Level 3.

The Corporation's assets and liabilities recorded at fair value have been categorized within the fair value hierarchy based upon the lowest level of input that is significant to the fair value measurement, in accordance with FASB ASC 820.

Financial Assets and Liabilities Not Measured at Fair Value: Some of the Bank's financial assets and liabilities are not measured at fair value on a recurring basis but nevertheless are recorded at amounts approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include cash and accounts payable.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value in accordance with accounting standards:

Financial Assets

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Securities Available for Sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices provided by the Bank's securities broker. The Bank classifies available for sale securities as Level 2.

Loans: Loans receivable are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts, as described in note 1. The Bank does not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value.

For disclosure purposes, fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type.

Foreclosed Assets: Foreclosed assets are adjusted to fair value less estimated costs of disposal upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 11. Fair Value of Financial Instruments (continued)

less estimated cost of disposal. Fair value is generally based upon independent market prices or appraised values of the collateral and accordingly, we classify foreclosed assets as Level 2.

Financial Liabilities

Deposit Liabilities: Deposit liabilities are carried at historical costs. Accounting standards state that the fair value of deposits with no stated maturity, such as demand deposits, savings and money market accounts is equal to the amount payable on demand at the reporting date. The Bank utilized a third-party investment advisor to determine the fair value of deposits based on rates corollary to the one-year LIBOR as of that date. As a result, deposit liabilities are classified as Level 3.

Commitments, Contingencies, and Financial Instruments with Off Balance Sheet Risk: The fair value of financial instruments with off balance sheet risk is based on the credit quality and relationship, probability of funding, and other requirements. Fair values of off-balance sheet financial instruments are not material to the financial statements.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 11. Fair Value of Financial Instruments (continued)

The table below presents the balance of assets and liabilities measured at fair value on a recurring basis.

	December 31, 2020			
	Fair Value Measurements Using			
	Fair Values	Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale				
Treasuries	\$ 2,999	\$ -	2,999	-
U.S Government agencies	901	-	901	-
Tax free securities	1,234	-	1,234	-
Total securities available-for-sale	\$ 5,134	\$ -	5,134	-
	December 31, 2019			
	Fair Value Measurements Using			
	Fair Values	Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale				
Treasuries	\$ 1,593	\$ -	1,593	-
U.S Government agencies	2,998	-	2,998	-
Mortgage-backed securities	1	-	1	-
Tax free securities	296	-	296	-
Total securities available-for-sale	\$ 4,888	\$ -	4,888	-

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with accounting standards. These adjustments to fair value usually result from an application of lower of cost or market accounting or write-downs of individual assets. The valuation methodologies used to measure fair value adjustments are described previously in this note. For assets measured at fair value on a nonrecurring basis in 2020 that were still held in the balance sheet at year end, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios as of year-end.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 11. Fair Value of Financial Instruments (continued)

FASB ASC 825 Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair value of the Bank's financial instruments as defined by accounting standards:

	December 31, 2020		December 31, 2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and Cash Equivalents	\$ 70,367	70,367	\$ 58,879	58,879
Investment Securities				
Available for Sale	5,134	5,134	4,888	4,888
Held to Maturity	7,471	7,471	7,276	7,276
Gross Loans	341,546	399,971	317,331	319,166
Financial Liabilities				
Non-Interest Bearing Deposits	136,370	135,188	129,259	121,735
Interest-Bearing Deposits	200,721	200,839	186,204	186,671

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, significant assets that are not considered financial instruments include premises and equipment.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
(Dollars in thousands except shares amounts)**Note 12. Stock Option Plans**

The Corporation has granted options to six of its officers. Employees have options to purchase shares of the Corporation. The exercise price of the Corporation's options are \$10 to \$19.25. The option's terms are ten to fifteen years and vest 20% upon date of grant and 20% per annum beginning one year from the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

	<u>2020</u>
Dividend yield	0.0%
Expected life	10 years
Expected volatility	45%
Risk-free interest rate	1.83 to 2%

The expected volatility is based on historical volatility of similar entities during 2013. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on the option agreement. The dividend yield assumption is based on the Corporation's history and expectation of dividend payouts.

A summary of the status of the Corporation's stock option plan is presented below:

	Period ended December 31, 2020		
	Shares	Weighted Average Exercise Price	Average Intrinsic Value
Outstanding at beginning of year	228,100	\$10.00 - \$19.25	-
Granted	-	-	-
Exercised	(122,100)	\$ 10.28	-
Forfeited	-	-	-
Outstanding at end of year	106,000	\$11.49 - \$19.25	-

This table refers to assets. The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holder had all option holders exercised their options on December 31, 2020. This amount changes based on changes in the market value of the Corporation's stock. The fair value (present value of the estimated future benefit to the option holder) of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

TALL CITY BANCSHARES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except shares amounts)

Note 12. Stock Option Plans (continued)

Information pertaining to options outstanding at December 31, 2020 is as follows:

Table	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Exercise prices					
11.49	96,000	10 years	11.49	96,000	11.49
19.25	10,000	10 years	19.25	4,000	19.25
Outstanding at end of year	<u>106,000</u>			<u>100,000</u>	

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options, beginning balance	10,000	\$ 19.25
Granted	-	-
Vested	(6,000)	19.25
Forfeited/expired	-	-
Nonvested options, December 31, 2020	<u>4,000</u>	

As of December 31, 2020, and 2019, share based compensation expense was \$16 and \$18, respectively.

As of December 31, 2020, unrecognized share-based compensation expense related to non-vested options amounted to \$39. This amount is expected to be recognized over a weighted average period of 3.5 years.

Note 13. Subsequent Event

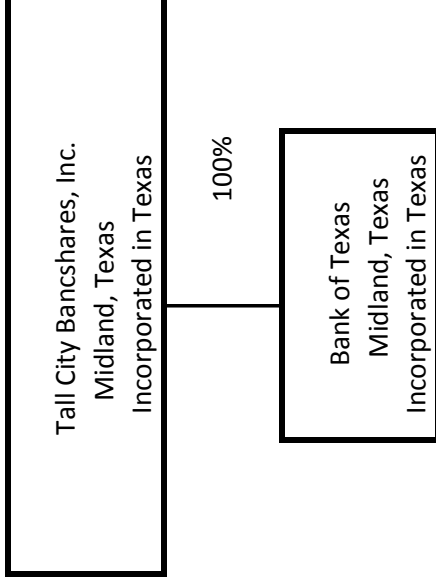
On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Corporation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Corporation, to date, the Corporation has not experienced any decrease in the operations.

Form FR-Y6
TALL CITY BANCSHARES, INC.
Midland, Texas
Fiscal year ending December 31, 2020

Report Item

1.) An annual report is prepared for security holders. It will follow under separate cover.

2a.) Organizational Chart



*Neither Entity has a LEI Number.

2b.) Domestic branch listing provided to the Federal Reserve Bank

Results: A list of branches for your depository institution: **BANK OF TEXAS (ID_RSSD: 925653)**.
 This depository institution is held by **TALL CITY BANCSHARES, INC. (9329821)** 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)	925653	BANK OF TEXAS	306 WEST WALL, SUITE 100	MIDLAND	TX	79701	MIDLAND	UNITED STATES	Not Required	Not Required	BANK OF TEXAS	925653	
Ok		Full Service	4039865	EL PASO BRANCH	320 TEXAS AVENUE	EL PASO	TX	79901-1437	EL PASO	UNITED STATES	Not Required	Not Required	BANK OF TEXAS	925653	
Ok		Full Service	4039857	KENT COUNTY STATE BANK, A BRANCH OF BANK OF TEXAS	102 DONAHOO AVENUE	JAYTON	TX	79528	KENT	UNITED STATES	Not Required	Not Required	BANK OF TEXAS	925653	

Form FR-Y6
TALL CITY BANCSHARES, INC.
Fiscal year ending December 31, 2020

Report Item 3: Securities Holders
(1)(a)(b)(c) and (2)(a)(b)(c)

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 City, State, County	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name City, State, County
David Kirk Midland, Texas, Midland	USA	540,000 shares 21.50% Common stock	N/A
Bill Kirk Midland, Texas, Midland	USA	200,000 shares 7.96 % Common stock	
Kirk Family Aggregate total: 740,000 shares 29.46% Common stock			
Jeff & DeeAnn Salehi Trust Midland, Texas, Midland Trustees: Bill Kirk and Kevin Blonkvist	USA	240,000 shares 9.55% Common stock	
M. Kurt Chapman Post, Texas, Garza	USA	200,000 shares 7.96 % Common stock	
Barrett Ramsey Midland, Texas, Midland	USA	140,000 shares 5.57 % Common stock	
Ray L. Owen El Paso, Texas, El Paso	USA	128,100 shares 5.10% Common stock	
Cameron Salehi Trust Midland, Texas, Midland Trustee: Kevin Blonkvist	USA	60,000 shares 2.39% Common stock	

Form FR-Y6
TALL CITY BANCSHARES, INC.
Fiscal year ending December 31, 2020

Report Item 4: Insiders

(1), (2), (3)(a)(b)(c) and (4)(a)(b)(c)

(1)(a) Name City, State, County	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title and Position with Bank Holding Company	(3)(b) Title and Position with Subsidiaries (Include names of other subsidiaries)	(3)(c) Title and Position with other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (incl name of Subsidiary)	(4)(c) List name of other companies (incl partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held
David Kirk Midland, Texas, Midland	N/A	Director & CEO	Director & Chairman of the Board Bank of Texas	Dogwood Timber, VP CK Gas & Oil, Manager BKDK, LP, Member CK Oil Properties, Manager DK Farms, Inc., Owner JD Kirk, LLC, Owner TAC, Ltd., Member DB Cooper, LLC, Member	21.50%	None	Dogwood Timber Company, 50% CK Gas & Oil, 50% BKDK, LP, 50% CK Oil Properties, 50% DK Farms, Inc., 100% J.D. Kirk, LLC, 100% MRDK, LLC., 50% DB Cooper, LLC, 50% TAC, Ltd., 45%
Ed Runyan Midland, Texas, Midland	Oil & Gas	Director	Director Bank of Texas	Ed Runyan Investments, Owner	1.95%	None	Ed Runyan Investments, 100%
Ray Owen El Paso, Texas, El Paso	N/A	Director, President	Director, President Bank of Texas	Que Cute Style LLC, Manager Owen Family Real Estate - 10201 Alameda LLC, Manager	5.10%	None	Que Cute Style LLC, 50% Owen Family Real Estate-10201 Alameda LLC, 50%
Richard A. Jennings Midland, Texas, Midland	Oil & Gas	Director	Director Bank of Texas	Atlantic Energy Partners, LLC, Owner Atlantic Production Partners, LLC, Owner Atlantic Operating II, LLC, Owner	0.40%	None	Atlantic Energy Partners, LLC, 100% Atlantic Production Partners, LLC, 100% Atlantic Operating II, LLC, 100%
Joe Kim King Brady, Texas	Banking	Director	Director Bank of Texas	Texas Country Bancshares, Inc., Chmn/Director Brady National Bank/Vice Chmn of the Board/Trust Officer/Director FNB, Ballinger, Chairman/Director Citizens Bank, Abilene, Director	0.06%	None	Texas Country Bancshares, Inc., 29.27% Kimike, Ltd., Partnership, 50% King Stone Scovell Ltd., Family Limited Partnership, 44.82% JKK Ranch LLC, 100%
Bill Kirk Midland, Texas, Midland	CPA, Farm interests	Director	Director Bank of Texas	BKDK, LP, Manager Dogwood Timber, President TAC, Ltd., Member DB Cooper, LLC, Member BKNK, LLC, Member Kirk & Company CPAs' Member Five Fingers LLC Member Twin Oaks Endeavors, LLC Member Jeff & DeeAnn Salehi Trust, Trustee	7.96%	None	BKDK, LP, 50% Dogwood Timber, 50% DB Cooper, LLC, 50% TAC, Ltd., 45% BKNK, LLC, 100% Kirk & Company 51% Five Fingers LLC 100% Twin Oaks Endeavors, LLC 50%
Kevin Blonkivist Midland, Texas, Midland	Investment Management	NA	NA	RBC Wealth, Managing Director, Branch Manager, SVP Nashland, Managing Partner Washerboyworker, Managing Partner JK Royalty, Managing Partner Wishbone Water, Managing Partner JK Cattle, Managing Partner KJ Inc., Managing Partner Jeff & DeeAnn Salehi Trust, Trustee Cameron Salehi Trust, Trustee	9.55%	None	RBC Wealth, 25% Nashland, 25% Washerboyworker, 25% JK Royalty, 25% Wishbone Water, 25% JK Cattle, 25% KJ Inc., 25%
							9.55% 2.39% <u>11.94%</u>