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, Byron K Bexley
Name of the Holding Company Director and Official

Chairman/CEO & Director
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/19/2021
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

TexStar Bancshares, Inc.
Legal Title of Holding Company

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

Universal City	TX	78148
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Robert Garcia	VP
Name	Title

210-659-4000
Area Code / Phone Number / Extension

210-659-4936
Area Code / FAX Number

rgarcia@texstar-bank.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

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City State Zip Code

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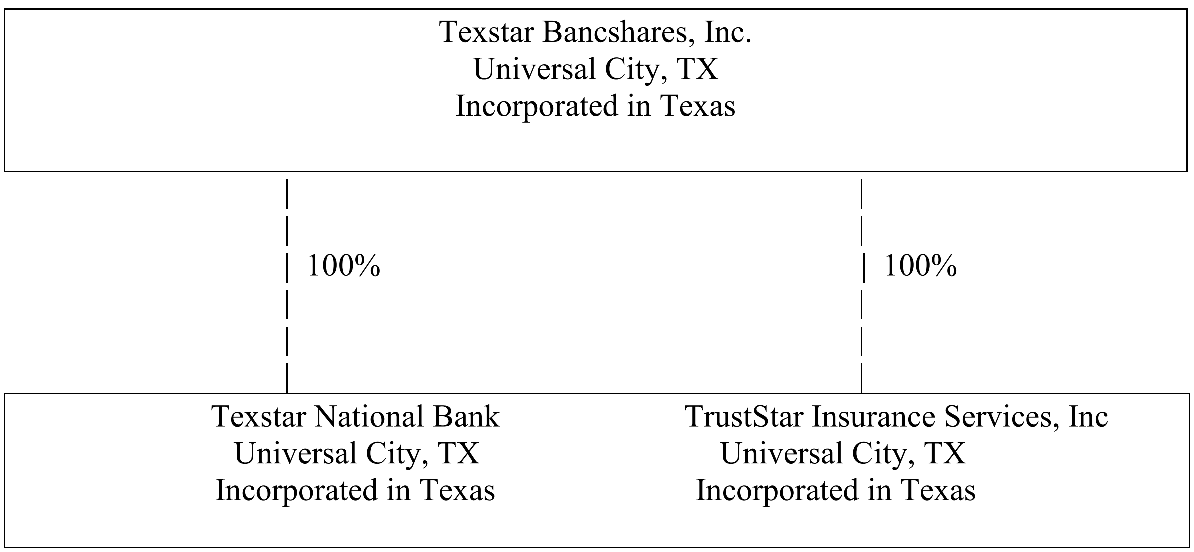
Form FR Y-6

Texstar Bancshares, Inc.
Universal City, Texas

Fiscal Year Ending December 31, 2020

Report Item:

1. The bank holding company prepares an annual report for its shareholder, but it is not available at the time of this mailing.
2. a. Organizational Chart:



Note: None of the entities in the organization have a LEI number.

2. b. Uploaded 03/25/2021

TexStar Bancshares, Inc.

Independent Auditor’s Report and
Consolidated Financial Statements

December 31, 2020 and 2019

TexStar Bancshares, Inc.
December 31, 2020 and 2019

Contents

8200 W. Interstate 10, Suite 900 | San Antonio, TX 78230-3806
210.341.9400 | Fax 210.341.9434 | bkd.com

Independent Auditor's Report

Board of Directors and Audit Committee
TexStar Bancshares, Inc.
San Antonio, Texas

We have audited the accompanying consolidated financial statements of TexStar Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, 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 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, 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 TexStar Bancshares, 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.

BKD, LLP

San Antonio, Texas
April 28, 2021

TexStar Bancshares, Inc.
Consolidated Balance Sheets
December 31, 2020 and 2019

Assets

	2020	2019
Cash and cash equivalents	$ 121,455,876	$ 37,084,643
Available-for-sale debt securities	31,256,548	18,287,860
Loans, net of allowance for loan losses of $5,152,000 and $4,213,690 at December 31, 2020 and 2019, respectively	223,932,416	210,923,627
Premises and equipment, net	8,351,735	8,314,490
Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock	2,230,500	1,453,150
Interest receivable	822,175	664,155
Goodwill	1,233,025	1,233,025
Intangible assets	1,944,359	980,617
Bank-owned life insurance	5,192,166	5,026,756
Other	323,979	384,806
Total assets	$ 396,742,779	$ 284,353,129

Liabilities and Stockholders' Equity

	2020	2019
Liabilities		
Deposits		
Demand	$ 89,802,464	$ 66,458,420
Savings, NOW and money market	141,496,177	89,781,350
Time	110,213,297	80,316,948
Total deposits	341,511,938	236,556,718
Borrowings	18,171,340	13,382,440
Interest payable and other liabilities	1,695,878	1,215,779
Total liabilities	361,379,156	251,154,937
Stockholders' Equity		
Common stock, $1 par value; authorized 3,000,000 shares; issued and outstanding 2020 - 1,436,541 shares, 2019 - 1,436,541 shares	1,436,541	1,436,541
Additional paid-in capital	13,732,794	13,610,919
Retained earnings	19,932,703	18,095,546
Accumulated other comprehensive income	261,585	55,186
Total stockholders' equity	35,363,623	33,198,192
Total liabilities and stockholders' equity	$ 396,742,779	$ 284,353,129

TexStar Bancshares, Inc.

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

	2020	2019
Interest Income		
Loans	$ 11,881,908	$ 11,626,451
Securities	691,602	1,059,117
Total interest income	12,573,510	12,685,568
Interest Expense		
Deposits	1,840,220	1,669,058
Borrowings	396,264	358,336
Total interest expense	2,236,484	2,027,394
Net Interest Income	10,337,026	10,658,174
Provision for Loan Losses	1,075,000	305,000
Net Interest Income After Provision for Loan Losses	9,262,026	10,353,174
Noninterest Income		
Customer service fees	213,092	231,697
Other service charges and fees	461,677	329,371
Insurance commission income	1,101,919	1,113,714
Other	224,907	256,818
Total noninterest income	2,001,595	1,931,600
Noninterest Expense		
Salaries and employee benefits	5,312,108	5,461,049
Net occupancy and equipment expense	1,142,451	1,201,678
Data processing	632,227	482,575
Printing, postage and office supplies	91,568	111,037
Legal and professional services	276,397	291,838
Deposit insurance premium	130,472	146,472
Other	1,000,141	995,764
Total noninterest expense	8,585,364	8,690,413
Income Before Income Taxes	2,678,257	3,594,361
Provision for Income Taxes	36,637	15,326
Net Income	$ 2,641,620	$ 3,579,035

TexStar Bancshares, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

	2020	2019
Net Income	$ 2,641,620	$ 3,579,035
Other Comprehensive Income		
Unrealized gains on available-for-sale debt securities	206,399	523,913
Comprehensive Income	$ 2,848,019	$ 4,102,948

TexStar Bancshares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2020 and 2019

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Paid-in Capital	Earnings	Income (Loss)	Total
Balance, January 1, 2019	1,436,541	$ 1,436,541	$ 13,367,169	$ 15,637,013	$ (468,727)	$ 29,971,996
Net income	-	-	-	3,579,035	-	3,579,035
Other comprehensive income	-	-	-	-	523,913	523,913
Dividends on common stock, $0.78 per share	-	-	-	(1,120,502)	-	(1,120,502)
Restricted stock expense	-	-	243,750	-	-	243,750
Balance, December 31, 2019	1,436,541	1,436,541	13,610,919	18,095,546	55,186	33,198,192
Net income	-	-	-	2,641,620	-	2,641,620
Other comprehensive income	-	-	-	-	206,399	206,399
Dividends on common stock, $0.56 per share	-	-	-	(804,463)	-	(804,463)
Restricted stock expense	-	-	121,875	-	-	121,875
Balance, December 31, 2020	1,436,541	$ 1,436,541	$ 13,732,794	$ 19,932,703	$ 261,585	$ 35,363,623

TexStar Bancshares, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Net income	$ 2,641,620	$ 3,579,035
Items not requiring (providing) cash		
Depreciation	596,312	495,650
Provision for loan losses	1,075,000	305,000
Net amortization of premiums on investment securities	121,998	50,067
Amortization of intangible assets	139,790	139,791
Share-based compensation expense	121,875	243,750
Increase in cash surrender value of bank-owned life insurance	(165,410)	(26,756)
Changes in		
Interest receivable	(158,020)	(58,063)
Other assets	60,827	(48,246)
Interest payable and other liabilities	(141,912)	185,980
Net cash provided by operating activities	4,292,080	4,866,208
Investing Activities		
Purchases of available-for-sale debt securities	(52,939,118)	-
Proceeds from maturities of available-for-sale debt securities	40,054,831	3,766,137
Net change in loans	(14,083,789)	(9,418,040)
Purchase of premises and equipment	(633,557)	(1,659,337)
Payments for purchase of insurance agencies	(481,521)	(166,667)
Purchase of FRB and FHLB stock	(777,350)	(34,700)
Purchase of bank-owned life insurance	-	(5,000,000)
Net cash used in investing activities	(28,860,504)	(12,512,607)
Financing Activities		
Net increase in deposits	104,955,220	23,255,340
Repayments of borrowings	(4,549,671)	(3,703,012)
Proceeds from borrowings	9,338,571	-
Dividends paid	(804,463)	(1,120,502)
Net cash provided by financing activities	108,939,657	18,431,826
Increase in Cash and Cash Equivalents	84,371,233	10,785,427
Cash and Cash Equivalents, Beginning of Year	37,084,643	26,299,216
Cash and Cash Equivalents, End of Year	$ 121,455,876	$ 37,084,643
Supplemental Cash Flows Information		
Interest paid	$ 2,304,132	$ 1,969,392
Liability for remaining payments for purchase of insurance agencies	$ (788,679)	$ (166,667)

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

Nature of Operations

TexStar Bancshares, Inc. (Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiaries, TexStar National Bank (Bank) and TrustStar Insurance Services, Inc. (TrustStar). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in the greater San Antonio, Texas area. TrustStar is a full-service insurance agency offering property, casualty, life and health insurance and commenced operations in 2015. The Company, Bank and TrustStar are subject to competition from other financial institutions and insurance agencies. The Company, Bank and TrustStar are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held-for-sale, management obtains independent appraisals for significant properties.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted primarily of due from banks.

At December 31, 2020, the Company’s interest-bearing cash accounts exceeded federally insured limits by approximately $117.3 million. Approximately, $88.4 million of this amount is held at the Federal Reserve Bank of Dallas.

Debt Securities

Available-for-sale debt securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities or to the earliest callable date for premiums. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Loans

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, an allowance for loan loss, 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. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. 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 is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 income. 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. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. 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 covers nonclassified loans and is based on historical charge-off experience and expected 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.

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.

Premises and Equipment

Land is carried at cost. Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Depreciation expense for the years ended December 31, 2020 and 2019, was $596,312 and $495,650, respectively.

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

Long-Lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank (FHLB) stock are required investments for institutions that are members of the Federal Reserve Bank (FRB) and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held-for-Sale

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 costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment (Step 0) is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value of a reporting unit is less than the carrying value, then goodwill is tested further for impairment. The quantitative impairment test (Step 1) consists of calculating the fair value of a reporting unit and comparing it to the carrying amount, including goodwill. If the fair value of a reporting unit is less than the carrying amount, then the Company proceeds to Step 2 of the impairment test.

Step 2 consists of calculating the implied fair value of reporting unit goodwill and comparing it to the carrying amount of that goodwill. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank-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.

Transfers of Financial Assets

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

Revenue From Contract

On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, and all subsequent amendments to the ASU (collectively, "ASC606"), implements a common revenue standard that clarifies the principles for recognizing revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or service. To achieve that core principle, the Company applies the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies the performance obligation. The majority of the Company's revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits, insurance commission income and other customer fees.

Descriptions of the Company's material revenue streams under ASC 606 are as follows:

Service Charges on Deposit Accounts: Service charges on deposit accounts mostly consist of fees charged to depositors related to deposit account maintenance fees, overdrafts, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time.

Other Charges and Fees: Other charges and fees primarily consist of ATM fees, merchant services and other service fees. These fees are earned at a point in time as the Company's performance obligation for service charges are satisfied, and related revenue recognized, when the services are rendered.

Insurance Commissions and Fees: Commission revenue is generally recognized as of the effective date of the insurance policy. The Company also receives contingent commissions from insurance companies as additional incentive for achieving specified premium goals and/or based upon the loss experience of the insurance placed by the Company. Contingent commissions from insurance Companies are recognized when determinable, which is generally when such commissions are received or when the Company receives data from the insurance companies that allows the reasonable estimation of these amounts. When policies are cancelled prior to the policy expiration date, unearned commission is refunded to the customer in accordance with the terms of the policy and is offset against earned commission.

Income Taxes

The Company's stockholders have elected to have the Company's income taxed as an S corporation under provisions of the Internal Revenue Code (IRC). Therefore, taxable income or loss is reported to the individual stockholders for inclusion in their respective tax returns, and no provision for federal income taxes is included in these statements. The provision for income taxes reflected in these statements is for state franchise taxes only.

Share-Based Compensation

The Company recognizes the fair value of stock-based awards to employees as compensation cost over the requisite service period. The share-based employee compensation plans are discussed more fully in *Note 13*. The Company's policy is to recognize forfeitures as they occur.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities.

Note 2: Restriction on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the FRB. The reserve required at December 31, 2019, $2,341,000. On March 26, 2020, the FRB reduced reserve requirement ratios to zero percent, effectively eliminating reserve requirements for all depository institutions.

Note 3: Securities

The amortized cost and approximate fair values of available-for-sale debt securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
U.S. government agencies	$ 22,006,782	$ 224,854	$ (160)	$ 22,231,476
Government-sponsored enterprise (GSE) residential mortgage-backed securities	8,988,181	71,026	(34,135)	9,025,072
Total	$ 30,994,963	$ 295,880	$ (34,295)	$ 31,256,548
December 31, 2019				
U.S. government agencies	$ 17,263,016	$ 93,581	$ (39,029)	$ 17,317,568
Government-sponsored enterprise (GSE) residential mortgage-backed securities	969,658	2,587	(1,953)	970,292
Total	$ 18,232,674	$ 96,168	$ (40,982)	$ 18,287,860

The amortized cost and fair value of available-for-sale debt 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.

	Amortized Cost	Fair Value
Within one year	$ 5,620,758	$ 5,672,361
One to five years	12,886,024	13,054,081
Five to ten years	3,500,000	3,505,034
Mortgage-backed securities	8,988,181	9,025,072
Total	$ 30,994,963	$ 31,256,548

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $31,256,548 and $10,971,401 at December 31, 2020 and 2019, respectively.

There were no sales of securities during 2020 or 2019.

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 $6,034,585 and $10,456,849, respectively, which is approximately 19 percent and 57 percent, respectively, of the Company's investment portfolio. The unrealized losses are largely due to increases in market interest rates over the yield available at the time the underlying securities were purchased.

Management believes the declines in fair value for these securities are temporary.

The following tables show the Company's investments' gross unrealized losses and fair value, 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	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ 1,999,840	$ 160	$ -	$ -	$ 1,999,840	$ 160
GSE residential mortgage-backed securities	4,034,745	34,135	-	-	4,034,745	34,135
Total	$ 6,034,585	$ 34,295	$ -	$ -	$ 6,034,585	$ 34,295

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ -	$ -	$ 10,091,458	$ 39,029	$ 10,091,458	$ 39,029
GSE residential mortgage-backed securities	177,298	768	188,093	1,185	365,391	1,953
Total	$ 177,298	$ 768	$ 10,279,551	$ 40,214	$ 10,456,849	$ 40,982

U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020.

Government-Sponsored Enterprise (GSE) Residential Mortgage-Backed Securities

The unrealized losses on the Company's investment in residential mortgage-backed securities issued by GSE securities were caused by interest rate increases. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Company does not intend to sell the investments and it is not more likely than not 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.

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, 2020 and 2019, include:

	2020	2019
Commercial and industrial	$ 53,602,792	$ 31,224,745
Real estate		
Commercial real estate	132,280,059	133,940,113
Residential real estate	20,289,228	24,061,779
Construction	21,632,987	24,596,700
Consumer and other	2,077,250	1,313,980
	229,882,316	215,137,317
Deferred PPP loan fees	(797,900)	-
Allowance for loan losses	(5,152,000)	(4,213,690)
Net loans	$ 223,932,416	$ 210,923,627

The risk characteristics of the Bank's material portfolio segments are as follows:

Real Estate Loans – The real estate loan portfolio consists of residential loans for single-family and multi-family properties, construction and land development loans, loans secured by farmland and other commercial real estate loans.

Residential loans are generally secured by owner occupied 1–4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers and can be impacted by economic conditions within their market area. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Construction and land development loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing.

Commercial real estate loans typically involve larger principal amounts and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and, secondarily, as loans secured by real estate. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria.

Commercial and Industrial Loans – The commercial and industrial loan portfolio consists of loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Commercial loan underwriting standards are designed to promote relationship banking rather than transactional banking and are underwritten based on the borrower's expected ability to profitably operate its business. The cash flows of borrowers, however, may not be as expected and collateral securing these loans may fluctuate in value. Most commercial loans are secured by assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

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

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

	2020				
	Commercial and Industrial	Real Estate	Consumer and Other	Unallocated	Total
Allowance for Loan Losses					
Balance, beginning of year	$ 584,980	$ 2,878,483	$ 5,184	$ 745,043	$ 4,213,690
Provision for (reduction in) loan losses	(223,755)	2,876	(2,542)	1,298,421	1,075,000
Losses charged-off	(149,067)	-	-	-	(149,067)
Recoveries	12,377	-	-	-	12,377
Balance, end of year	$ 224,535	$ 2,881,359	$ 2,642	$ 2,043,464	$ 5,152,000
Allowance Balances					
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	224,535	2,881,359	2,642	2,043,464	5,152,000
Ending balance	$ 224,535	$ 2,881,359	$ 2,642	$ 2,043,464	$ 5,152,000
Loans					
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	53,602,792	174,202,274	2,077,250	-	229,882,316
Ending balance	$ 53,602,792	$ 174,202,274	$ 2,077,250	$ -	$ 229,882,316

	2019				
	Commercial and Industrial	Real Estate	Consumer and Other	Unallocated	Total
Allowance for Loan Losses					
Balance, beginning of year	$ 425,545	$ 2,759,787	$ 48,485	$ 876,338	$ 4,110,155
Provision for loan losses	360,900	118,696	(43,301)	(131,295)	305,000
Losses charged-off	(205,933)	-	-	-	(205,933)
Recoveries	4,468	-	-	-	4,468
Balance, end of year	$ 584,980	$ 2,878,483	$ 5,184	$ 745,043	$ 4,213,690
Allowance Balances					
Ending balance individually evaluated for impairment	$ 81,283	$ -	$ -	$ -	$ 81,283
Ending balance collectively evaluated for impairment	503,697	2,878,483	5,184	745,043	4,132,407
Ending balance	$ 584,980	$ 2,878,483	$ 5,184	$ 745,043	$ 4,213,690
Loans					
Ending balance individually evaluated for impairment	$ 165,475	$ -	$ -	$ -	$ 165,475
Ending balance collectively evaluated for impairment	31,059,270	182,598,592	1,313,980	-	214,971,842
Ending balance	$ 31,224,745	$ 182,598,592	$ 1,313,980	$ -	$ 215,137,317

Internal Risk Categories

Loan grades are numbered 1 through 9. Grades 1 through 6 are considered satisfactory grades. The grade of 7 or "Special Mention" represents loans of lower quality and is considered criticized. The grades of 8, or "Substandard" and 9 or "Doubtful" refer to assets that are classified. The use and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

Pass (1–6) – The Bank has six levels within this category to provide granularity between loans.

Special Mention (OAEM) (7) – These assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (8) – These loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful (9) – Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

The following tables present the credit risk profile of the Bank's loan portfolio based on internal rating category and payment activity as of December 31, 2020 and 2019:

2020

		Real Estate				
	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Construction	Consumer and Other	Total
Rating						
Pass	$ 53,401,153	$ 130,497,669	$ 20,289,228	$ 21,632,987	$ 2,077,250	$ 227,898,287
Special Mention	201,639	52,736	-	-	-	254,375
Substandard	-	1,729,654	-	-	-	1,729,654
Total	$ 53,602,792	$ 132,280,059	$ 20,289,228	$ 21,632,987	$ 2,077,250	$ 229,882,316

2019

		Real Estate				
	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Construction	Consumer and Other	Total
Rating						
Pass	$ 30,965,337	$ 132,112,469	$ 24,061,779	$ 24,596,700	$ 1,313,980	$ 213,050,265
Special Mention	93,933	63,400	-	-	-	157,333
Substandard	165,475	1,764,244	-	-	-	1,929,719
Total	$ 31,224,745	$ 133,940,113	$ 24,061,779	$ 24,596,700	$ 1,313,980	$ 215,137,317

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

	2020					
	30-89 Days Past Due	Total Loans> 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Commercial and industrial	$ -	$ -	$ -	$ -	$ 53,602,792	$ 53,602,792
Real estate						
Commercial	-	-	-	-	132,280,059	132,280,059
Residential	-	-	-	-	20,289,228	20,289,228
Construction	-	-	-	-	21,632,987	21,632,987
Consumer and other	-	-	-	-	2,077,250	2,077,250
Total	$ -	$ -	$ -	$ -	$ 229,882,316	$ 229,882,316

	2019					
	30-89 Days Past Due	Total Loans> 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Commercial and industrial	$ -	$ -	$ 162,787	$ -	$ 31,061,958	$ 31,224,745
Real estate						
Commercial	-	-	-	-	133,940,113	133,940,113
Residential	-	-	-	-	24,061,779	24,061,779
Construction	-	-	-	-	24,596,700	24,596,700
Consumer and other	-	-	-	-	1,313,980	1,313,980
Total	$ -	$ -	$ 162,787	$ -	$ 214,974,530	$ 215,137,317

The Bank's impaired loans at December 31, 2020 and 2019, were insignificant.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2020	2019
Land	$ 3,224,743	$ 3,224,743
Buildings and improvements	8,136,378	8,068,281
Equipment	3,644,900	3,095,585
	15,006,021	14,388,609
Less accumulated depreciation	(6,654,286)	(6,074,119)
Net premises and equipment	$ 8,351,735	$ 8,314,490

Note 6: Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2020 and 2019, were:

	2020		2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 413,184	$ 311,933	$ 413,184	$ 270,615
Customer list	2,088,532	245,424	985,000	146,952
	$ 2,501,716	$ 557,357	$ 1,398,184	$ 417,567

Amortization expense for the years ended December 31, 2020 and 2019, was $139,790 and $139,791, respectively. Estimated amortization expense for each of the following five years is:

2021	$ 250,172
2022	250,172
2023	227,467
2024	208,853
2025	208,853
Thereafter	798,842
	$ 1,944,359

Note 7: Time Deposits

Time deposits in denominations of $250,000 or more were $76,867,648 and $48,639,416 at December 31, 2020 and 2019, respectively.

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

2021	$ 95,043,410
2022	11,897,667
2023	2,521,872
2024	308,523
2025	441,825
	$ 110,213,297

Note 8: Lines of Credit

FHLB Line of Credit

At December 31, 2020 and 2019, the Bank had a revolving line of credit with a maximum available amount of $82,991,869 and $86,007,577, respectively. The line is collateralized by all FHLB stock and a blanket lien on certain commercial and residential mortgage loans. The line of credit bears interest at a daily variable rate, which is set by the FHLB. There were no advances on this line at December 31, 2020 or 2019. Other advances from the FHLB are discussed in *Note 9*.

Frost Bank Line of Credit

At December 31, 2020 and 2019, the Bank had available a $1,500,000 revolving line of credit that expires in 2021. At December 31, 2020 and 2019, there were no funds borrowed against this line. The line is not collateralized at December 31, 2020. The line of credit bears interest at a daily variable rate, which is set by Frost Bank.

The Independent Bankers' Bank (TIB) Line of Credit

At December 31, 2020 and 2019, the Bank had available a $1,500,000 revolving line of credit with an open-ended term, which can be terminated by either party at any time. At December 31, 2020 and 2019, there were no funds borrowed against this line. The line is collateralized by securities as applicable. The line of credit bears interest at a daily variable rate, which is set by TIB.

Amegy Bank Line of Credit

At December 31, 2020 and 2019, the Bank had available a $5,500,000 revolving line of credit with an open-ended term, which can be terminated by either party at any time. At December 31, 2020, there were no funds borrowed against this line. The line is not collateralized at December 31, 2020. The line of credit bears interest at a daily variable rate, which is set by Amegy Bank.

Note 9: Borrowings

Borrowings consisted of the following components:

	2020	2019
FHLB advances	$ 14,457,054	$ 12,723,923
Note payable to Frost Bank	3,714,286	658,517
Balance as of December 31	$ 18,171,340	$ 13,382,440

FHLB advances are secured by a blanket lien on certain commercial and residential mortgage loans totaling $97,448,923 at December 31, 2020. Advances, bearing interest rates from 1.179 percent to 2.580 percent, are subject to restrictions or penalties in the event of prepayment. At December 31, 2020, final maturities of FHLB advances ranged from July 2021 to November 2027.

On June 17, 2020, the Company entered into a new agreement with Frost Bank to secure $4,000,000 in borrowings to add additional capital to the Bank, cover costs associated with the purchase of Belken Insurance Services, Inc. and to pay off the $658,517 remaining balance of the previous note to Frost Bank. This note is secured by collateral consisting of 1,225,500 shares of TexStar National Bank common stock. Principal and interest payments are due quarterly, and the note accrues interest at Frost Bank Prime plus 1.00 percent, which was 4.25 percent at December 31, 2020. The note matures on June 17, 2027. The note has affirmative debt covenants, and at December 31, 2020, the Company was out of compliance with the Return on Assets covenant of no less than 0.80 percent. This was caused in part due to the increase in assets of the Company as a result of loan originated under the Paycheck Protection Program and increased provisions for loan losses at the Bank. Based on the amount of capital at the Bank and the amount of retained earnings available for dividends at the Bank, the Company does not believe the noncompliance at December 31, 2020, will have a significant impact on operations.

Aggregate annual maturities of borrowings at December 31, 2020, are:

2021	$ 4,929,442
2022	4,298,144
2023	2,734,265
2024	2,579,935
2025	1,839,701
Thereafter	1,789,853
	$ 18,171,340

Note 10: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by 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 Company's and Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total 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 Bank meets all capital adequacy requirements to which it is subject.

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

The Bank's actual capital amounts and ratios are also presented in the following table.

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total risk-based capital (to risk-weighted assets)	$ 38,805,000	17.90%	$ 22,757,175	10.500%	$ 21,673,500	10.00%
Tier I capital (to risk-weighted assets)	$ 36,066,000	16.64%	$ 18,422,475	8.500%	$ 17,338,800	8.00%
Common equity Tier 1 capital (to risk-weighted assets)	$ 36,066,000	16.64%	$ 15,171,450	7.000%	$ 14,087,775	6.50%
Tier I capital (to average assets)	$ 36,066,000	9.09%	$ 15,866,840	4.000%	$ 19,833,550	5.00%
As of December 31, 2019						
Total risk-based capital (to risk-weighted assets)	$ 34,119,000	15.19%	$ 23,585,415	10.500%	$ 22,462,300	10.00%
Tier I capital (to risk-weighted assets)	$ 31,294,000	13.93%	$ 19,092,955	8.500%	$ 17,969,840	8.00%
Common equity Tier 1 capital (to risk-weighted assets)	$ 31,294,000	13.93%	$ 15,723,610	7.000%	$ 14,600,495	6.50%
Tier I capital (to average assets)	$ 31,294,000	10.93%	$ 11,449,040	4.000%	$ 14,311,300	5.00%

The above minimum capital requirements include the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conversion buffer was 2.500 percent at December 31, 2020 and 2019. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2020, approximately $6,075,623 of retained earnings was available for dividend declaration without prior regulatory approval.

Basel III Capital Rules

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Note 11: Related Party Transactions

At December 31, 2020 and 2019, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of $110,701 and $267,506, respectively.

Annual activity consisted of the following:

	2020	2019
Beginning balance	$ 267,506	$ 1,650,743
New loans	18,000	161,063
Changes in composition of related parties	-	(922,583)
Repayments	(174,805)	(621,717)
Ending balance	$ 110,701	$ 267,506

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Deposits from related parties held by the Company at December 31, 2020 and 2019, totaled $12,295,407 and $11,607,881, respectively.

The Company leased a facility under an operating lease with a related party for which $46,212 of rent was paid annually during 2019. The lease expired in 2018 but continued on a month-to-month basis through March 2019.

Note 12: Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to 50 percent, or 15 percent for certain higher-paid employees, of their compensation. During 2020 and 2019, the Company matched 100 percent of the employee's contribution on the first 4 percent of the employee's compensation. Employer contributions charged to expense for 2020 and 2019 were $106,038 and $104,317, respectively.

Note 13: Share-Based Compensation

Stock Options

The Company has a stock option plan under which the Company has granted options that vest over five years to the Company president and other officers of the Company for shares of common stock. The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant. The option awards generally vest based on five years of continuous service and have 10-year contractual terms. Certain options provide for accelerated vesting if there is a change of control (as defined in the plan).

The fair value of each award is estimated on the date of grant using a Black-Scholes option valuation model. No awards were granted in 2020 and 2019. No options were outstanding under this plan at December 31, 2020 or 2019.

Restricted Stock

In June 2015, the Company issued 75,000 shares of restricted stock to two executive officers. The shares are subject to forfeiture provisions in the event that the officers cease employment with the Company during the term of the agreement. The forfeiture provisions lapse on 20 percent of the shares each year on the anniversary date. The restricted stock agreements include provisions that accelerate the vesting of the unvested restricted stock if a change of control occurs as defined by the agreements. The holders of the restricted stock are entitled to all rights of a shareholder with regard to the restricted stock including the right to receive dividends. Dividends on the unvested restricted stock are charged to retained earnings when declared.

The restricted stock awards were valued at $16.25 per share at the date of grant based on a valuation obtained by a third-party valuation firm. Therefore, the total compensation expense that will be recognized by the Company over the five-year requisite service period is $1,218,750. The Company assumed that there would be no forfeitures of the awards during the requisite service period. The amount of compensation expense related to the restricted stock awards recognized by the Company during the years ended December 31, 2020 and 2019, was $121,875 and $243,750, respectively.

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

	Shares	Weighted-Average Grant-date Fair Value
Nonvested, beginning of year	15,000	$ 16.25
Granted	-	-
Vested	(15,000)	16.25
Forfeited	-	-
Nonvested, end of year	-	$ -

Note 14: Asset Acquisition

In December 2020, the Company acquired 100 percent of the assets of Belken Insurance Services, Inc., an insurance agency located in San Antonio. The purpose of this transaction was to increase market share and to increase the Company's base of insurance agency customers. The aggregate purchase price of $1,050,000 is being disbursed to the seller through an initial payment of $300,000 which was paid in December 2020, at closing and three annual payments of $250,000 beginning in December 2021. The Company accounted for the transaction as an asset acquisition as substantially all of the fair value of the assets acquired was concentrated in the customer listing.

In December 2017, the Company acquired 100 percent of the assets of Grothaus & Polk, Inc., an insurance agency located in Windcrest. The purpose of this transaction was to increase market share and to increase the Company's base of insurance agency customers. The aggregate purchase price of $500,000 is being disbursed to the seller through three annual payments beginning on January 3, 2018. The Company accounted for the transaction as an asset acquisition as substantially all of the fair value of the assets acquired was concentrated in the customer listing.

Note 15: Commitments and Credit Risk

The Company grants commercial, consumer and residential loans to customers primarily located in the San Antonio and south Texas market area. Although the Company has a diversified loan portfolio, the Company has concentrations of credit risk in the real estate market and is dependent on general economic conditions in the Company's geographic market area.

Commitments to Originate Loans and Lines of Credit

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line of credit may expire without being drawn upon, the total unused lines of credit do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2020 and 2019, the Company had outstanding commitments to originate loans and unused lines of credit aggregating $33,530,671 and $30,396,572, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period. The majority of commitments are at a floating market rate of interest.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit issued are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to $711,968 and $551,938 at December 31, 2020 and 2019, respectively, with terms ranging from 30 days to 15 months.

Impact of COVID-19 on the Bank

In March 2020, the COVID-19 coronavirus was identified as a global pandemic and began affecting the health of large populations around the world. As a result of the spread of COVID-19, economic uncertainties arose which can ultimately affect the financial position, results of operations and cash flows of the Bank as well as the Bank's customers. In response to economic concerns over COVID-19, in March 2020 the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was passed into law by Congress. The CARES Act included relief for individual Americans, health care workers, small businesses and certain industries hit hard by the COVID-19 pandemic. The *2021 Consolidated Appropriations Act* passed by Congress in December 2020, extended certain provisions of the CARES Act affecting the Bank into 2021.

The CARES Act included several provisions designed to help financial institutions like the Bank in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Bank has taken advantage of this provision to extend certain payment modifications to loan customers in need. As of December 31, 2020, the Bank has approximately $1,730,000 of outstanding loans that were modified during 2020 under the CARES Act guidance that remain on modified terms. The Bank modified other loans during 2020 under the guidance that have since returned to normal repayment status as of December 31, 2020.

The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The *2021 Consolidated Appropriations Act* approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Bank, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Bank if the borrower's loan is not forgiven and is then not repaid by the customer. The Bank earns a 1 percent interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Bank originated approximately $35,988,000 in PPP loans during 2020, of which approximately $33,573,000 is still outstanding at December 31, 2020.

Note 16: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019:

		Fair Value Measurements Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv-able Inputs (Level 3)
December 31, 2020				
Available-for-sale debt securities				
U.S. government agencies	$ 22,231,476	$ -	$ 22,231,476	$ -
Government-sponsored enterprise (GSE) residential mortgage-backed securities	9,025,072	-	9,025,072	-
	$ 31,256,548	$ -	$ 31,256,548	$ -
December 31, 2019				
Available-for-sale debt securities				
U.S. government agencies	$ 17,317,568	$ -	$ 17,317,568	$ -
Government-sponsored enterprise (GSE) residential mortgage-backed securities	970,292	-	970,292	-
	$ 18,287,860	$ -	$ 18,287,860	$ -

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2020 and 2019.

Available-for-Sale Securities

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 pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agency debt and mortgage-backed securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Currently, all of the Company's securities are classified in Level 2 of the hierarchy.

Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Matrix pricing is utilized in the valuation of the U.S. government agency debt and GSE residential mortgage-backed securities.

Nonrecurring Measurements

Assets measured at fair value on a nonrecurring basis in the consolidated balance sheets at December 31, 2020 and 2019, were not material.

Note 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 18: Subsequent Events

Subsequent events have been evaluated through April 28, 2021, which is the date the consolidated financial statements were available to be issued.

Note 19: Future Change in Accounting Principle

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss model, the current expected credit loss model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized. The CECL model represents a significant change from existing practice and may result in material changes to the Company's accounting for financial instruments. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of the Company's portfolios at the date of adoption. The new standard is effective for annual periods beginning January 1, 2023.

Results: A list of branches for your depository institution: TEXSTAR NATIONAL BANK (ID_RSSD: 3211937).
This depository institution is held by TEXSTAR BANCSHARES, INC. (4091819) of UNIVERSAL CITY, 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)	3211937	TEXSTAR NATIONAL BANK	600 PAT BOOKER RD	UNIVERSAL CITY	TX	78148	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
Ok		Full Service	1980136	CONVERSE BRANCH	9154 FM 78	CONVERSE	TX	78109	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
Ok		Full Service	2988924	NEW BRAUNFELS BRANCH	954 LOOP 337	NEW BRAUNFELS	TX	78130	COMAL	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
Ok		Full Service	3818635	DOWNTOWN BRANCH	803 WEST COMMERCE	SAN ANTONIO	TX	78207	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
Ok		Full Service	2798655	EAST CENTRAL BRANCH	7411 EAST HIGHWAY 87	SAN ANTONIO	TX	78263	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	
Ok		Full Service	2988933	SAN ANTONIO AIRPORT BRANCH	12800 SAN PEDRO AVENUE	SAN ANTONIO	TX	78216	BEXAR	UNITED STATES	Not Required	Not Required	TEXSTAR NATIONAL BANK	3211937	

Form FR Y-6
Texstar Bancshares, Inc.
Universal City, TX
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders
(1), (2), (3)(a,b,c) and (4)(a,b,c)

(1) Names 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 Shares in Bank Holding Company	(4)b Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)c List names of other companies (include partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Thomas A Akin San Antonio, TX	C.P.A.	Director	Director (Texstar National Bank)	Partner Akin, Doherty, Klein & Feuge, P.C.	2.13%	None	Akin, Doherty, Klein & Feuge, P.C. 28%
Byron K Bexley San Antonio, TX	Banking	Chairman/CEO/Director	Chairman/CEO/Director (Texstar National Bank)	N/A	6.44%	None	N/A
Ronald Hengst San Antonio, TX	Automotive Supplies	Director	Director (Texstar National Bank)	President Walton Distributing Company, Inc	1.04%	None	N/A
Manny E Ruiz San Antonio, TX	Banking	President/Director	President/Director (Texstar National Bank)	N/A	3.45%	None	N/A
Barbara Rush Seguin, TX	Not Employed	Director	Director (Texstar National Bank)	N/A	55.52%	None	N/A
Thomas L Short San Antonio, TX	Contractor	Director	Director (Texstar National Bank)	CEO Safelane Traffic Supply	2.89%	None	Shortline Corp. 100% Safelane Traffic Supply 49%

Report Item 3

NAME (1) (a)	ADDRESS (1) (a)	Country (1) (b)	SHARES (1) (c)	% Owned (1)c	Class (1)c
Barbara Rush	Seguin, TX	USA	797,497	55.52	Common
Byron K. Bexley	San Antonio, TX	USA	92,500	6.44	Common

NAME (2) (a)	ADDRESS (2) (a)	Country (2) (b)	SHARES (2) (c)	% Owned (2)c	Class (2)c
N/A	N/A	N/A	N/A	N/A	N/A