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, BRANDON STEELE
Name of the Holding Company Director and Official

PRESIDENT/CEO & CHAIRMAN
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

08/16/2021
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

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

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

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

December 31, 2020
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

STEELE BANCSHARES, INC
Legal Title of Holding Company

5555 OLD JACKSONVILLE HWY
(Mailing Address of the Holding Company) Street / P.O. Box

TYLER	TX	75703
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

JEFF HILL	SENIOR ACCOUNTANT
Name	Title

903-266-5521
Area Code / Phone Number / Extension

903-266-5580
Area Code / FAX Number

JHILL@ASBTX.COM
E-mail Address

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."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

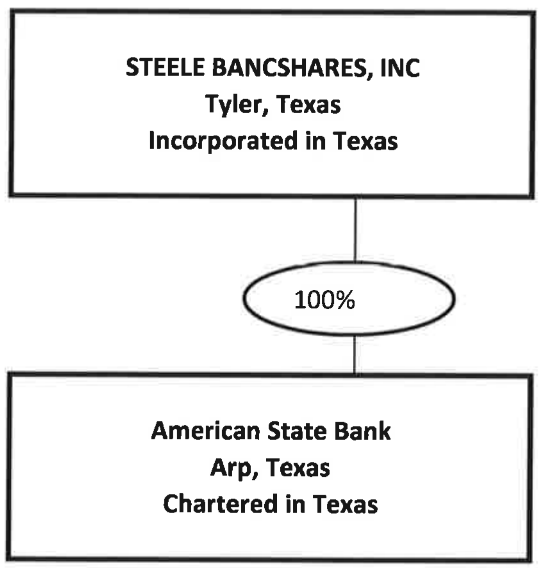
Form FR Y-6

Steele Bancshares, Inc.
Tyler, Texas
Fiscal Year Ending December 31, 2020

Report Item

1: The bank holding company will forward its annual report for its shareholders as soon as practicable.

2a: Organizational Chart



Steele Bancshares LEI: NA
American State Bank LEI: 549300VR7DBNPPSMHV60

Results A list of branches for your depository institutiAMERICAN STATE BANK (ID_RSSD: 262358).
This depository institution is held STEELE BANCSHARES, INC. (4136046) of TYLER, TX.
The data are as of12/31/202C. Data reflects information that was received and processed throug01/05/2021.

Reconciliation and Verification Ste
1. In the **Data Action** column of each branch row, enter one or more of the actions specified bel
2. If required, enter the date in the**Effective Date** column

Actions
OK: If the branch information is correct, ente'OK' in the**Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, ent'Change' in the**Data Action** column and the date when this information first became valid in t**Effective Date** column.
Close: If a branch listed was sold or closed, ent'Close' in the**Data Action** column and the sale or closure date in t**Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, er'Delete' in the**Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and en'Add' in the**Data Action** column and the opening or acquisition date in t**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 |

Submission Procedur
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more inform
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-

Note:
To satisfy the**FR Y-10 reporting requiremen**, you must also submit FR Y-10 Domestic Branch Schedules for each branch wit**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.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not require

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)	262358	AMERICAN STATE BANK	102 FRONT STREET	ARP	TX	75750	SMITH	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	3576252	CENTER BRANCH	163 CASS-CAID DRIVE	CENTER	TX	75935	SHELBY	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	879251	CHESTER BRANCH	113 CADE STREET	CHESTER	TX	75936	TYLER	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	2260451	HUNTINGTON BRANCH	304 SOUTH HIGHWAY 69	HUNTINGTON	TX	75949	ANGELINA	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	1891296	HASLAM BRANCH	13218 US HIGHWAY 84 EAST	JOAQUIN	TX	75954	SHELBY	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	926155	JOAQUIN BRANCH	120 N PRESTON STREET	JOAQUIN	TX	75954	SHELBY	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	5206290	LINDALE BRANCH	2501 SOUTH MAIN	LINDALE	TX	75771	SMITH	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	2323093	LUFKIN BRANCH	3001 S JOHN REDDITT DRIVE	LUFKIN	TX	75904	ANGELINA	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	1901775	TIMPSON BRANCH	830 NORTH 1ST STREET	TIMPSON	TX	75975	SHELBY	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	4463519	COPELAND BRANCH	917 EAST SOUTHEAST LOOP 323	TYLER	TX	75701	SMITH	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	1219975	SMITH COUNTY BRANCH	12300 STATE HIGHWAY 64 E	TYLER	TX	75707	SMITH	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	3940871	SOUTH TYLER BRANCH	5201 OLD JACKSONVILLE HIGHWAY	TYLER	TX	75703	SMITH	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
OK		Full Service	4426729	TROUP HIGHWAY BRANCH	1116 TROUP HIGHWAY	TYLER	TX	75701	SMITH	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	
Add	3/23/2020	Full Service	2323093	LUFKIN OPS BRANCH	1601 S CHESNUT STREET	LUFKIN	TX	75901	SMITH	UNITED STATES	Not Required	Not Required	AMERICAN STATE BANK	262358	

Form FR Y-6
Steele 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% of more with power to vote as of fiscal year ending 12-31-2020

(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	
Brandon T. Steele Tyler, TX, USA	USA	30,281 Common	100%

Securities holders not listed in 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-20

None

Form FR Y-6
Steele Bancshares, Inc.
Fiscal Year Ending December 31, 2020

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

(1) Name, City, State, Country	**(2) Principal Occupation if other than with Holding Company**	**(3)(a) Title & Position with Holding Company**	**(3)(b) Title & Position with Subsidiaries (include names of Subsidiaries)**	**(3)(c) Title & Position with Other Businesses (include names of other businesses)**	**(4)(a) Percentage of Voting Shares in Holding Company**	**(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)**	**(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)**
Brandon T. Steele Tyler, TX, USA	Business Person	President, CEO & Chairman	Chairman & Director (American State Bank)	KP Engineering, LP - CEO Steele Resources, LLC - CEO KP Engineering, LLC - President BTS Enterprises, Inc. - Chairman/Director	100%	American State Bank (100%)	BTS Enterprises, Inc (100%)
Ric G. Steele Tyler, TX, USA	Engineer	Secretary/Treasurer & Director	Director (American State Bank)	Chairman Emeritus (KP Engineering, LP)	None	None	N/A
Ken S. Baxter Tyler, TX, USA	Engineer	Director	Director (American State Bank)	Engineering Consultant (KP Engineering, LP)	None	None	N/A
Gary D. Godfrey Tyler, TX, USA	Retired Banker	Director	Director (American State Bank)	N/A	None	None	N/A

STEELE BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

STEELE BANCSHARES, INC. AND SUBSIDIARY
DECEMBER 31, 2020 AND 2019

TABLE OF CONTENTS

HENRY & PETERS
CERTIFIED PUBLIC ACCOUNTANTS | EST. 1929

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Steele Bancshares, Inc.

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 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 Steele Bancshares, Inc. and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Henry + Peters, P.C.

Tyler, Texas
June 22, 2021

TYLER OFFICE P: 903 597-6311
3310 S Broadway Ste. 100 | Tyler, Texas 75701

LONGVIEW OFFICE P: 903 758-0648
2101 Judson Road | Longview, Texas 75605

HenryPeters.com | More than Accounting.

STEELE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and due from banks	$ 6,753,525	$ 10,421,528
Interest-bearing deposits due from banks	35,504,683	29,672,729
Total cash and cash equivalents	42,258,208	40,094,257
Federal funds sold	281,000	562,000
Investment securities:		
Held to maturity	498,865	658,347
Available for sale	17,767,129	13,477,887
Loans held for sale	285,000	-
Loans, net of allowance for loan losses of $3,263,094 and $2,612,846	391,297,016	345,025,533
Accrued interest receivable:		
Loans	2,352,548	1,778,718
Investment securities	211,674	80,011
Premises and equipment, net	15,361,354	14,134,662
Other real estate and repossessed assets	6,647,665	7,623,836
Bank owned life insurance	9,185,711	8,961,696
Other securities	4,192,965	3,408,665
Goodwill	6,718,534	6,718,534
Other intangible assets, net	1,304,001	1,468,018
Other assets	888,002	970,243
Total assets	$499,249,672	$444,962,407
LIABILITIES AND STOCKHOLDER'S EQUITY		
Deposits:		
Noninterest-bearing demand deposits	$146,446,768	$114,937,464
Interest-bearing savings and time deposits	255,779,200	279,547,893
Total deposits	402,225,968	394,485,357
Federal Home Loan Bank advances	25,000,000	5,000,000
Other borrowings	23,838,822	-
Notes payable	15,352,053	15,352,053
Accrued interest payable	290,397	492,266
Other liabilities	1,028,746	861,027
Total liabilities	467,735,986	416,190,703
Stockholder's equity:		
Common stock, $0.01 par, 30,413 shares authorized, issued and outstanding	304	304
Additional paid-in capital	23,720,875	23,720,875
Retained earnings	7,525,573	4,883,506
Accumulated other comprehensive income	266,934	167,019
Total stockholder's equity	31,513,686	28,771,704
Total liabilities and stockholder's equity	$499,249,672	$444,962,407

See accompanying notes to the consolidated financial statements.

STEELE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
INTEREST INCOME		
Interest on loans	$ 19,957,229	$ 20,058,066
Interest on investment securities:		
U. S. Government, agencies and corporate bonds	517,928	324,594
State and political subdivisions	79,735	220,975
Interest on federal funds sold	314,043	304,166
Total interest income	20,868,935	20,907,801
INTEREST EXPENSE		
Interest on deposits	2,631,181	3,144,243
Interest on notes payable, advances, and other borrowings	882,664	1,180,018
Total interest expense	3,513,845	4,324,261
Net interest income	17,355,090	16,583,540
PROVISION FOR LOAN LOSSES	1,220,000	1,250,000
Net interest income after provision for loan losses	16,135,090	15,333,540
OTHER INCOME		
Service and other bank charges	2,518,469	2,710,104
Gain on the sale of investment securities	1,380,439	213,279
Other	401,384	334,750
Total other income	4,300,292	3,258,133
OTHER EXPENSES		
Employee compensation and benefits	8,461,255	8,213,289
Occupancy	1,477,202	1,760,688
Directors' fees	207,430	173,850
Net loss on sale of premises, other real estate and other assets	82,977	459,699
Other operating expenses	5,783,636	5,923,165
Total other expenses	16,012,500	16,530,691
NET INCOME	$ 4,422,882	$ 2,060,982

See accompanying notes to the consolidated financial statements.

STEELE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net income	$ 4,422,882	$ 2,060,982
Other comprehensive income:		
Change in unrealized gain on available for sale securities arising during the period	1,480,354	500,602
Reclassification adjustment for amounts realized on securities sales included in net income	(1,380,439)	(213,279)
Total other comprehensive income	99,915	287,323
Total comprehensive income	$ 4,522,797	$ 2,348,305

See accompanying notes to the consolidated financial statements.

STEELE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholder's Equity
Balance December 31, 2018	$ 304	$ 23,720,875	$ 4,080,958	$ (120,304)	$ 27,681,833
Net income	-	-	2,060,982	-	2,060,982
Other comprehensive income	-	-	-	287,323	287,323
Cash dividends	-	-	(1,258,434)	-	(1,258,434)
Balance December 31, 2019	304	23,720,875	4,883,506	167,019	28,771,704
Net income	-	-	4,422,882	-	4,422,882
Other comprehensive income	-	-	-	99,915	99,915
Cash dividends	-	-	(1,780,815)	-	(1,780,815)
Balance December 31, 2020	$ 304	$ 23,720,875	$ 7,525,573	$ 266,934	$ 31,513,686

See accompanying notes to the consolidated financial statements.

STEELE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,422,882	$ 2,060,982
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	698,627	748,490
Net amortization (accretion) of discounts and premiums on securities	31,432	(2,897)
Accretion of discount on loans	(325,473)	(493,877)
Net amortization of intangible assets	164,017	170,770
Net gain on sale of investment securities	(1,380,439)	(213,279)
Net loss (gain) on sale of other real estate and repossessed assets	80,777	(16,626)
Net loss on sale of premises and equipment	-	456,025
Write down of other real estate	2,200	20,300
Provision for loan losses	1,220,000	1,250,000
Earnings on bank owned life insurance, net of costs	(224,015)	(150,426)
Change in assets and liabilities:		
Increase in accrued interest receivable	(705,493)	(466,239)
Decrease in other assets	82,241	34,257
(Decrease) increase in accrued interest payable and other liabilities	(34,150)	208,142
Net cash provided by operating activities	4,032,606	3,605,622
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in federal funds sold	281,000	(557,000)
Proceeds from sales, maturities and calls of investment securities:		
Held to maturity	156,638	187,103
Available for sale	129,625,385	264,930,146
Purchases of available for sale investment securities	(132,462,861)	(255,328,214)
Purchases of Federal Home Loan Bank stock	(784,300)	(260,700)
Purchases of Federal Reserve Bank stock	-	(389,400)
Increase in loans	(46,756,812)	(27,803,608)
Proceeds from sales of other real estate and repossessed assets	198,996	171,700
Improvements to other real estate and repossessed assets	-	(19,151)
Purchases of premises and equipment	(1,925,319)	(351,309)
Proceeds from sale of premises and equipment	-	3,055,271
Investment in bank owned life insurance	-	(3,000,000)
Net cash used in investing activities	(51,667,273)	(19,365,162)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	7,740,611	62,993,652
Proceeds from Federal Home Loan Bank advances	120,000,000	914,000,000
Payments on Federal Home Loan Bank advances	(100,000,000)	(933,000,000)
Proceeds from other borrowings	32,299,340	-
Payments on other borrowings	(8,460,518)	-
Payments on notes payable	-	(1,000)
Cash dividends paid	(1,780,815)	(1,258,434)
Net cash provided by financing activities	49,798,618	42,734,218
Net increase in cash and cash equivalents	2,163,951	26,974,678
CASH AND CASH EQUIVALENTS		
Beginning of year	40,094,257	13,119,579
End of year	$ 42,258,208	$ 40,094,257

See accompanying notes to the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

Steele Bancshares, Inc. (the "Company"), formerly known as Steele Holdings, Inc., is a holding company whose principal activity is the ownership and management of its wholly owned subsidiary American State Bank (the "Bank"). All material intercompany accounts and transactions have been eliminated in consolidation.

The Bank provides full-service banking from twelve offices in northeast Texas, and its primary service area is Smith County, Texas. The Bank offers a broad range of deposit products, and the majority of its loans are secured by real estate. The Bank is not presently engaged in any other activities.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the 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 and impaired loans, management obtains independent appraisals for significant properties.

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

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

COMPREHENSIVE INCOME

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

REVENUE FROM CONTRACTS WITH CUSTOMERS

Certain revenues of the Company are accounted for under the guidance of ASC 606 *Revenue from Contracts with Customers.* The Company's services that fall within the scope of ASC 606 are presented within other income and are recognized as revenue as the Company satisfies its obligation to the customer. Revenue sources within the scope of ASC 606 include service charges on deposit accounts, merchant service fees and interchange income, other fees and charges, and gain/losses on sales of other real estate owned. The majority of the Company's revenues come from interest income and other income associated with loans and securities, which are outside the scope of ASC 606.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

REVENUE FROM CONTRACTS WITH CUSTOMERS - CONTINUED

The following summarizes revenue recognition policies as they relate to revenue from contracts with customers under Topic 606:

Service charges on deposit accounts. Service charges on deposit accounts include fees for banking services, overdrafts and non-sufficient funds. Revenue is generally recognized as services are rendered in accordance with account agreements for retail and commercial accounts. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Merchant service fees and interchange income. Includes fees related to merchant credit card services and interchange revenue related to debit card services. Merchant services revenue is derived from third party vendors who process card transactions on behalf of the Bank's merchant customers. Merchant services revenue is primarily comprised of residual fee income based on the referred merchant's processing volumes and/or margin. Interchange revenue is generated based on customers' usage and volume of activity. Rates are not controlled by the Bank, who effectively acts as processor/agent who collects and remits payments associated with customer transactions. This source of revenue is deemed to be services offered in an agent capacity, and accordingly, the Bank records such revenue, net of related costs, within other income. Performance obligations for fees and other charges are largely satisfied, and related revenue recognized, when the services are rendered.

Gains (Losses) on Sales of Other Real Estate Owned. The Bank records a gain or loss from sales of other real estate owned when control of the property is considered to be transferred to the buyer in exchange for proceeds. Generally, transfer occurs when deed is executed. When the Bank finances the sale by issuing a loan to facilitate, the Bank assesses the collectability of the purchase price and the ability of the buyer to service the loan obligations. Upon satisfaction of these criteria, the asset is recognized and gain/loss is recorded.

Other fees and charges. Other fees include ATM fees for customer and non-customer usage and other various charges. Performance obligations for fees and other charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

ADOPTION OF NEW ACCOUNTING STANDARD - GOODWILL

Effective January 1, 2020, the Bank adopted the provisions of ASU 2021-03, *Intangibles – Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*. The ASU provides an accounting alternative that allows private companies to perform a goodwill triggering event assessment, and any resulting test for goodwill impairment, as of the end of the reporting period and eliminates the requirement to perform this assessment during the reporting period. The scope of this ASU is limited to goodwill that is tested for impairment in accordance with Subtopic 350-20, *Intangibles-Goodwill and Other-Goodwill.* The Bank applied the provisions of this ASU prospectively. The adoption of this new guidance did not have a material impact on the financial statements. The only goodwill held by the Bank is through acquisitions of other companies. Goodwill is further discussed in Note 1.

CASH FLOWS

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and any short-term debt instruments with original maturities of three months or less. Federal funds sold are not included in cash equivalents.

For the years ended December 31, 2020 and 2019, cash paid for interest totaled $3,715,714 and $4,189,427, respectively.

Non-cash investing activities include transfer from loans to other real estate and repossessed assets totaling $25,802 and $304,379 during 2020 and 2019, respectively. The Company issued loans to facilitate the sale of other real estate and repossessed assets of $720,000 and $0 during the years ended December 31, 2020 and 2019, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INVESTMENT SECURITIES

In accordance with the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 320-10-25, the Company classifies and accounts for debt securities as follows. The Company maintains no equity investments, except for other securities which do not maintain readily determinable fair values.

HELD TO MATURITY

Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

AVAILABLE FOR SALE

Debt securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield on alternative investments are classified as available for sale. These assets are carried at market value, which is determined using published quotes as of the close of business. Unrealized gains and losses are excluded from earnings and reported as a separate component of retained earnings until realized. Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on sales of securities are reported using the specific identification method.

OTHER SECURITIES

Federal Home Loan Bank ("FHLB") stock is a required investment for institutions that are members of the FHLB system. The required investment in common stock is based on a predetermined formula, carried at cost in other securities and evaluated for impairment. FHLB stock totaled $2,807,200 and $2,022,900 at December 31, 2020 and 2019, respectively. Other securities, such as stock in the Federal Reserve Bank (FRB), Texas Independent Bankers Bank (TIB) and The Bankers Bank (TBB), are carried at cost in other assets. FRB stock totaled $1,160,850 at December 31, 2020 and 2019. TIB stock totaled $124,867 at December 31, 2020 and 2019. TBB stock totaled $100,048 at December 31, 2020 and 2019.

LOANS HELD FOR SALE

The Company originates and sells certain single family residential mortgage loans to the secondary mortgage market. These loans are carried at the lower of cost or estimated fair value in the aggregate. Gain or loss is recognized at the date of sale for any difference between the selling price and the carrying value of the related mortgages and is recorded in other 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 any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is reported on the level-yield interest method and includes amortization of net deferred loan fees and costs over the loan term.

On March 27, 2020, in response to the global pandemic involving the novel strain of coronavirus (Covid-19), the President signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Among the provision of the CARES Act was the authorization of the U.S. Small Business Administration (SBA) to create the Paycheck Protection Program (PPP) lending facility. PPP loans carry a standardized interest rate of 1%, a standardized term of maturity based on the date of origination, and borrower payments are largely deferred (under qualifying conditions) until the borrower is eligible to apply for loan forgiveness. PPP loans require no collateral or personal guarantees but are supported by the 100% guarantee of the SBA. In 2020, the Company originated PPP loans and deferred payments in accordance with the rules set forth by the SBA. The Company has classified its PPP loans as "Commercial" loans. In addition, the Company received origination fees from the SBA commensurate with the individual loan balances. All associated fees were recognized as service charges. Because the PPP loans are backed by the 100% SBA guarantee, the Company does not allocate any of the allowance for loan losses to these loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

LOANS - CONTINUED

NONACCRUAL LOANS

Generally, loans are placed on nonaccrual status at ninety days past due, and interest is considered a loss unless the loan is well secured and in the process of collection. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

IMPAIRED LOANS

A loan is considered impaired when, based on current information and events, it is probable 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. Management considers the past due status of the loans, excessive overdraft positions of the borrower in demand deposit accounts, negative changes in the borrower's cash flows and other financial information in determining which loans should be analyzed for impairment.

The method of accounting for impaired loans is consistent across the portfolio segments. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows, discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the Company determines that foreclosure is probable, the Company measures the loan at the fair value of the collateral and recognizes any loss immediately. Groups of loans with similar risk characteristics, including individually evaluated loans not determined to be impaired are collectively evaluated for impairment. When a loan is determined to be impaired, the Company recognizes the impairment by creating a valuation allowance with a corresponding charge to loan allowance provision expense.

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.

Loans classified as troubled debt restructurings are analyzed on an individual basis for impairment subsequent to the restructuring. An additional impairment is accounted for in the same manner as general impaired loans.

Loans in all portfolio segments are charged-off when they are deemed to be uncollectible. At that time, the related credit loss is deducted from the allowance. Recoveries of previously charged-off amounts are recorded when received.

As part of the CARES Act, Section 4013, "Temporary Relief from Troubled Debt Restructuring," provided banks with the option to temporarily suspend certain requirements under U.S. GAAP (Generally Accepted Accounting Practices) related to TDRs. Under Section 4013, certain loan modifications, when made in response to COVID-19 related difficulties under qualifying circumstances, were not required to be reported as TDRs. During 2020, the Company granted such temporary deferrals of payment to borrowers and did not include these loans in TDRs, in accordance with Section 4013 of the CARES Act. As of December 31, 2020, the balance of loans remaining on these temporary deferrals was approximately $64,649,000.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is management's estimate of credit losses inherent in the loan portfolio, including unfunded credit commitments, at the balance sheet date. The allowance for loan losses is established through a provision for loan losses charged to expense.

METHODOLOGY

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans. To perform this analysis, management divides the loan portfolio into portfolio segments, which are further divided into classes. A portfolio segment is the level at which management develops and documents a systematic methodology to determine the allowance for loan losses, and a segment class is the subdivision of a portfolio segment based on the initial measurement attribute, risk characteristics and methods for assessing risk.

Allowance levels for all portfolio segments are influenced by a number of factors, including, but not limited to, loan volume, delinquency rates and historical loss rates based on a rolling twelve quarter period. Historical loss rates are adjusted based on management's analysis of non-financial factors, including: changes in the Company's lending procedures and monitoring; national and local economic factors; portfolio trends; management's ability, experience and depth; the results of the loan portfolio review and changes in loan grades assigned; concentrations of credit risk and other external factors. In addition to these general factors, management also considers risks specific to the nature of the loans in each portfolio segment. While management attributes portions of the allowance for loan losses to individual impaired loans and specific loan portfolio segments, the entire allowance is available to absorb credit losses inherent in the total loan portfolio.

Below is a summary of the segments of the Company's loan portfolio:

Commercial: This portfolio segment includes general secured and unsecured commercial loans which are not secured by real estate. Risks inherent to this portfolio segment include fluctuations in the local and national economy.

Commercial - real estate: The commercial - real estate portfolio segment includes all commercial loans that are secured by real estate, other than those included in the 1-4 family residential segment. The segment includes construction of both business and residential structures and real estate development loans. Risks inherent to this portfolio segment include fluctuations in property values and changes in the local and national economy impacting the sale of the finished structures.

Tax exempt: Tax exempt loans consist of loans to taxing authorities, including counties, cities, school districts, hospitals, etc. Risks inherent to this portfolio segment include those risks which would impact the taxing authority's ability to assess and collect sufficient tax revenue. These risks may include declines in property values and fluctuations in the economy local to the taxing authority.

Consumer: This portfolio segment consists of non-real estate loans to consumers. This includes unsecured revolving lines as well as secured loans such as auto and personal loans. The risks inherent to this portfolio segment include those factors that would impact the consumer's ability to meet their obligations under the loan. These include increases in the local unemployment rate and fluctuations in consumer and business sales.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ALLOWANCE FOR LOAN LOSSES - CONTINUED

METHODOLOGY - CONTINUED

1-4 Family Residential: This portfolio segment includes loans to both commercial and consumer borrowers secured by real estate for housing units of up to four families. Risks inherent to this portfolio segment include increases in the local unemployment rate, changes in the local economy, and factors that would impact the value of the underlying collateral, such as changes in property values.

Agricultural: The agricultural portfolio segment includes loans to companies in the dairy and cattle industries and farmers. Loans in this segment are secured by collateral including cattle, equipment and real estate. Risks inherent in this portfolio segment include adverse changes in climate, fluctuations in feed and cattle prices and changes in property values.

CREDIT QUALITY INDICATORS

The Company monitors the credit quality of the loans in the various segments by identifying and evaluating credit quality indicators specific to each segment class. This information is incorporated into management's analysis of the adequacy of the allowance for loan losses. Information for the credit quality indicators is updated monthly for classified assets and quarterly for the remainder of the portfolio. The following is a discussion of the primary credit quality indicators most closely monitored for the respective portfolio segment classes:

Commercial: In assessing risk associated with commercial loans, management considers the business's cash flow and the value of the underlying collateral to be the primary credit quality indicators.

Commercial - real estate:

Construction: In assessing the credit quality of construction loans, management considers the ability of the borrower to finance principal and interest payments in the event that he is unable to sell the completed structure to be a primary credit quality indicator. For real estate development loans, management also considers the likelihood of the successful sale of the constructed properties in the development.

Other: Management considers the strength of the borrower's cash flows and changes in property values to be key credit quality indicators of other commercial – real estate loans.

Tax exempt: Primary credit quality indicators utilized by management for tax exempt loans include historical and projected trends in tax revenues and management's assessment of the strength of the entity's management and oversight boards.

Consumer:

Credit cards: Management considers the debt to income ratio of the borrower, the borrower's credit history, the availability of other credit to the borrower and the borrower's past-due history to be primary credit quality indicators for credit cards.

Other: In addition to the credit quality indicators described under credit cards, management also considers the estimated value of the underlying collateral in assessing other consumer loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ALLOWANCE FOR LOAN LOSSES - CONTINUED

CREDIT QUALITY INDICATORS - CONTINUED

1-4 Family Residential: Management considers changes in the local economy, changes in property values, and changes in local unemployment rates to be key credit quality indicators of the loans in the 1-4 family residential loan segment.

Agricultural: In assessing risk associated with agricultural loans, management considers the borrowers cash flows, the value of the underlying collateral and sources for secondary repayment to be primary credit quality indicators.

PREMISES AND EQUIPMENT

Land is stated at cost. Premises and equipment are stated at cost less accumulated depreciation. Estimated useful lives are 10 to 40 years for buildings and 5 to 20 years for furniture, fixtures and equipment. Depreciation is computed using the straight-line method.

Renewals and improvements are capitalized and depreciated over their estimated useful lives. Repairs, maintenance and minor improvements are charged to operations as incurred. When property is replaced or otherwise disposed of, the net cost of such property is removed from the respective accounts and the related gain or loss, if any, is recorded in current operations.

OTHER REAL ESTATE OWNED

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 the carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other non-interest expense.

At December 31, 2020 and 2019, the Company’s balance of assets acquired through, or in lieu of, loan foreclosure was comprised of residential real estate properties totaling $300,840 and $305,840, respectively. There were no consumer mortgage loans, secured by residential real estate properties, for which formal foreclosure procedures were in process at December 31, 2020 and 2019.

GOODWILL

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, impairment is indicated and goodwill is written down to its implied fair value. Any subsequent increases in goodwill value are not recognized in the financial statements.

INTANGIBLE ASSETS

Intangible assets, comprised of multiple core deposit intangibles, are being amortized over periods ranging from nine to ten years. Such assets are periodically evaluated as to the recoverability of their carrying value. Amortization expense related to these assets totaled $164,017 and $170,770 for the years ended December 31, 2020 and 2019, respectively.

INCOME TAXES

The Company's stockholder has elected to have the Company's income taxed as an “S Corporation” under the provisions of the Internal Revenue Code. Therefore, taxable income or loss is reported to the individual stockholder for inclusion in his individual tax return and no provision for federal income taxes is included in these consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INCOME TAXES - CONTINUED

Management of the Company considers the likelihood of changes by taxing authorities in its filed income tax returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require disclosure in the accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense totaled $257,818 and $312,843 for the years ended December 31, 2020 and 2019, respectively.

TRANSFER OF FINANCIAL ASSETS

The Company accounts for transfers and servicing of financial assets in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification (ASC) 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over the assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (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.

FAIR VALUE MEASUREMENTS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

ASU No. 2016-02, *Leases*

In February 2016, the FASB issued guidance that changes the accounting treatment of leases, in that lessees will recognize most leases on-balance sheet. This will increase reported assets and liabilities, as lessees will be required to recognize a right-of-use asset along with a lease liability, measured on a discounted basis. Lessees are allowed to account for short-term leases (those with a term of twelve months or less) off-balance sheet. The amendments in this update are effective for fiscal years beginning after December 15, 2021. The Company occupies certain banking offices and uses certain equipment under noncancelable operating lease agreements which currently are not reflected in its consolidated balance sheets. Upon adoption of the guidance, the Company expects to report increased assets and increased liabilities as a result of recognizing right-of-use assets and lease liabilities on its consolidated balance sheets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED - CONTINUED

ASU 2016-13, *Measurement of Credit Losses on the Financial Instruments*

In June 2016, the FASB issued this update that replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update 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 a Company's loan portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact that this standard will have on its financial statements.

RECLASSIFICATIONS

Certain prior year amounts in the Consolidated Statements of Income have been reclassified to conform to the current year's presentation. These changes had no impact on net income.

NOTE 2 - RESTRICTIONS ON CASH

As of December 31, 2019, approximately $4,950,000 of cash reserves was required to be on hand or deposit in order to meet regulatory reserve and clearing requirements of the Federal Reserve Bank. Effective March 2020, the Federal Reserve bank indefinitely removed this requirement for all of its member institutions.

NOTE 3 - INVESTMENT SECURITIES

The amortized costs of investment securities of the Company and their approximate fair values at December 31, 2020 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Held to Maturity:				
State and municipal securities	$ 498,865	$ -	$ (5,865)	$ 493,000
Total held to maturity	$ 498,865	$ -	$ (5,865)	$ 493,000
Available for Sale:				
State and municipal securities	$ 1,953,532	$ 40,958	$ -	$ 1,994,490
Mortgage-backed securities	1,979,574	61,226	-	2,040,800
Corporate bonds	13,567,089	172,537	(7,787)	13,731,839
Total available for sale	$ 17,500,195	$ 274,721	$ (7,787)	$ 17,767,129

NOTE 3 - INVESTMENT SECURITIES - CONTINUED

The amortized costs of investment securities of the Company and their approximate fair values at December 31, 2019 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Held to Maturity:				
State and municipal securities	$ 654,717	$ 231	$ (8,685)	$ 646,263
Mortgage-backed securities	3,630	-	(53)	3,577
Total held to maturity	$ 658,347	$ 231	$ (8,738)	$ 649,840
Available for Sale:				
U.S. Government and agency securities	$ 2,940,197	$ 52,974	$ -	$ 2,993,171
State and municipal securities	5,217,034	52,621	(964)	5,268,691
Mortgage-backed securities	5,153,637	62,388	-	5,216,025
Total available for sale	$ 13,310,868	$ 167,983	$ (964)	$ 13,477,887

Investments in mortgage-backed and related securities include pass-through certificates issued by the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Securities valued at $493,000 and $10,529,363 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Gross gains of $1,380,439 and $213,279 resulting from sales of available for sale securities were realized during 2020 and 2019, respectively. Additionally, no other-than-temporary impairments related to available for sale securities were recorded in 2020 or 2019.

The following table shows the Company's investment gross unrealized losses and fair value, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019. The Company held eight and fourteen securities that had been in a continuous unrealized loss position for longer than twelve months at December 31, 2020 and 2019, respectively.

	Total		Less than 12 months		More than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2020						
Corporate bonds	$ 1,992,212	$ (7,787)	$ 1,992,212	$ (7,787)	$ -	$ -
State and municipal securities	493,000	(5,865)	-	-	493,000	(5,865)
	$ 2,485,212	$ (13,652)	$ 1,992,212	$ (7,787)	$ 493,000	$ (5,865)
December 31, 2019						
State and municipal securities	$ 960,547	$ (9,649)	$ -	$ -	$ 960,547	$ (9,649)
Mortgage-backed securities	3,576	(53)	-	-	3,576	(53)
	$ 964,123	$ (9,702)	$ -	$ -	$ 964,123	$ (9,702)

Management believes these are temporary losses due to the upward movement in interest rates for the country as a whole. These bonds have a lower market value due to the increase in interest rates. Management believes these losses are not permanent declines in the underlying values of the investments.

NOTE 3 - INVESTMENT SECURITIES - CONTINUED

The contractual maturities of investment securities at December 31, 2020 and 2019 were as follows:

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Held to Maturity:				
Due in one year or less	$ 55,139	$ 55,000	$ 53,130	$ 53,000
Due in one to five years	443,726	438,000	601,555	593,231
Due after 10 years	-	-	3,662	3,609
Total	$ 498,865	$ 493,000	$ 658,347	$ 649,840
Available for Sale:				
Due in one year or less	$ 4,050,926	$ 4,071,989	$ 3,266,774	$ 3,321,236
Due in one to five years	11,575,512	11,765,827	4,931,511	4,982,668
Due in five to ten years	1,873,757	1,929,313	2,618,764	2,649,110
Due after 10 years	-	-	2,493,819	2,524,873
Total	$17,500,195	$17,767,129	$13,310,868	$13,477,887

NOTE 4 - LOANS

LOAN PORTFOLIO COMPOSITION

Loans were as follows at December 31:

	2020 (Dollars in thousands)	2019 (Dollars in thousands)
Commercial	$ 105,559	$ 69,674
Commercial real estate	122,793	103,670
Residential:		
Construction and land development	25,136	28,338
Farm	21,908	29,915
1-4 family residential	98,612	94,395
Multi-family residential	7,661	5,612
Agriculture	1,018	1,449
Consumer	13,827	14,068
Other	594	1,706
Total gross loans	397,108	348,827
Less:		
Net deferred loan fees and discounts	2,263	1,189
Allowance for loan losses	3,263	2,613
Total net loans	$ 391,582	$ 345,025

The Company has entered into transactions with certain directors, executive officers, significant shareholders, employees and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. Loans to such related parties at December 31, 2020 and 2019, totaled $304,175 and $571,238, respectively.

Commercial loans included PPP loans of $21,627,921 and $0 as of December 31, 2020 and 2019, respectively.

NOTE 4 - LOANS - CONTINUED

CREDIT QUALITY - CONTINUED

The Company closely monitors economic conditions and loan performance trends to manage and evaluate the exposure to credit risk. Key factors tracked by the Company and utilized in evaluating the credit quality of the loan portfolio include trends in delinquency ratios, the level of nonperforming assets, borrower's repayment capacity and collateral coverage.

Assets are graded "pass" when the relationship exhibits virtually no or acceptable credit risk and indicates repayment ability, tolerable collateral coverage and reasonable performance history. Lending relationships exhibiting potentially significant credit risk and marginal repayment ability and/or asset protection are graded "watch" or "special mention." Assets classified as "substandard" are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness that jeopardizes the liquidation of the debt. Substandard graded loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets are graded "doubtful" and are considered impaired when it is probable that all amounts due from a loan will not be collected according to the terms of the loan. The Company typically measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate or based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

The following table summarizes the credit exposure in the loan portfolio as of December 31, 2020 and 2019 (dollars in thousands):

	Commercial	Commercial Real Estate	Consumer	Agricultural	Residential
December 31, 2020					
Pass	$ 100,874	$ 122,369	$ 14,133	$ 1,018	$ 150,668
Special Mention	-	201	13	-	620
Substandard	4,685	223	173	-	2,029
Doubtful	-	-	102	-	-
Total	$ 105,559	$ 122,793	$ 14,421	$ 1,018	$ 153,317

	Commercial	Commercial Real Estate	Consumer	Agricultural	Residential
December 31, 2019					
Pass	$ 66,255	$ 102,340	$ 15,486	$ 1,449	$ 154,017
Special Mention	30	239	34	-	813
Substandard	3,389	1,091	173	-	3,430
Doubtful	-	-	81	-	-
Total	$ 69,674	$ 103,670	$ 15,774	$ 1,449	$ 158,260

NOTE 4 - LOANS - CONTINUED

CREDIT QUALITY - CONTINUED

The following tables summarize the payment status of loans in the Company's total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due continuing to accrue interest, and loans classified as nonperforming as of December 31, 2020 and 2019 (dollars in thousands):

Age Analysis of Past Due Loans
As of December 31, 2020
(Dollars in thousands)

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ 303	$ 11	$ -	$ 314	$ 105,245	$ 105,559	$ -
Commercial real estate:							
Commercial real estate - construction	-	-	-	-	-	-	-
Commercial real estate - other	165	91	-	256	122,537	122,793	-
Consumer:							
Consumer - other	62	22	3	87	11,812	11,899	3
Consumer - auto	23	-	3	26	2,496	2,522	3
Residential:							
Residential - construction	76	-	-	76	25,060	25,136	-
Residential - other	410	202	56	668	127,513	128,181	56
Agricultural	-	-	-	-	1,018	1,018	-
Total	$ 1,039	$ 326	$ 62	$ 1,427	$ 395,681	$ 397,108	$ 62

Age Analysis of Past Due Loans
As of December 31, 2019
(Dollars in thousands)

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ 267	$ 28	$ 22	$ 317	$ 69,357	$ 69,674	$ 22
Commercial real estate:							
Commercial real estate - construction	-	-	-	-	1,734	1,734	-
Commercial real estate - other	402	-	-	402	101,534	101,936	-
Consumer:							
Consumer - other	100	24	-	124	13,226	13,350	-
Consumer - auto	3	1	1	5	2,419	2,424	1
Residential:							
Residential - construction	1,571	182	-	1,753	26,585	28,338	-
Residential - other	622	262	-	884	129,038	129,922	-
Agricultural	-	-	-	-	1,449	1,449	-
Total	$ 2,965	$ 497	$ 23	$ 3,485	$ 345,342	$ 348,827	$ 23

NOTE 4 - LOANS - CONTINUED

IMPAIRED LOANS AND TROUBLED DEBT RESTRUCTURINGS

The following table presents non-accrual loans by loan portfolio segment class at December 31 (dollars in thousands):

	2020	2019
Commercial	$ 255	$ 643
Commercial real estate:		
Commercial real estate - other	223	233
Consumer:		
Consumer - other	130	167
Consumer - auto	13	66
Residential:		
Residential - construction	44	190
Residential - other	1,342	2,271
Total	$ 2,007	$ 3,570

A loan is considered impaired when, based on current information and events; it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with original contractual terms of the loan. Loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired. Loans defined as individually impaired, based on applicable accounting guidance, include larger balance nonperforming loans and troubled debt restructuring. A troubled debt restructuring ("TDR") is a restructuring in which a bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. TDRs accounted for $-0- of impaired loans as of December 31, 2020 and 2019. TDRs classified as performing totaled $801 and $24 (in thousands), as of December 31, 2020 and 2019, respectively. There were no TDRs that subsequently re-defaulted in 2020.

The following table presents information about the Company's impaired loans at December 31, 2020 and 2019 (dollars in thousands):

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With related allowance recorded:					
Consumer	$ 107	$ 107	$ 48	$ 107	$ -
With no related allowance recorded:					
Commercial	$ 3	$ 3	$ -	$ 3	$ -

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With related allowance recorded:					
Commercial	$ 108	$ 108	$ 50	$ 111	$ -
With no related allowance recorded:					
Commercial	$ 11	$ 11	$ -	$ 19	$ -

NOTE 4 - LOANS - CONTINUED

IMPAIRED LOANS AND TROUBLED DEBT RESTRUCTURINGS - CONTINUED

The tables below detail TDR's recognized during the years ended (dollars in thousands):

	Number of Contracts	Pre-Modifications Outstanding Recorded Investments	Post-Modifications Outstanding Recorded Investments
December 31, 2020			
Troubled Debt Restructuring:			
Commercial	6	$ 318	$ 318
Residential	2	483	483
December 31, 2019			
Troubled Debt Restructuring:			
Commercial	1	$ 15	$ 15
Residential	1	9	9

There were no commitments to lend additional funds to borrowers whose loans were classified as impaired or whose loan terms had been modified in a TDR at December 31, 2020 and 2019.

ALLOWANCE FOR LOAN LOSSES

An allowance is maintained for loan losses that represents management's best estimate of probable loan losses inherent in the Company's loan portfolio. In determining the allowance for loan losses, loans in the portfolio were disaggregated with similar credit risk characteristics into portfolio segments. See Note 1 "Summary of Significant Accounting Policies" for additional information.

The allowance for loan losses is increased through a provision for loan losses charged to earnings and reduced by net charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are added back.

NOTE 4 - LOANS - CONTINUED

ALLOWANCE FOR LOAN LOSSES - CONTINUED

The table below summarizes changes in the allowance for loan losses, by portfolio segment, as of December 31, 2020 and 2019 (dollars in thousands):

December 31, 2020	Commercial	Commercial Real Estate	Residential	Agricultural	Consumer	Total
Allowance for loan losses:						
Beginning Balance	$ 1,114	$ 681	$ 686	$ 11	$ 121	$ 2,613
Charge-offs	(636)	-	(32)	-	(43)	(711)
Recoveries	86	-	28	1	26	141
Provisions	1,039	-	181	-	-	1,220
Ending Balance	$ 1,603	$ 681	$ 863	$ 12	$ 104	$ 3,263
Evaluated for impairment:						
Individually	$ -	$ -	$ -	$ -	$ 48	$ 48
Collectively	1,603	681	863	12	56	3,215
	$ 1,603	$ 681	$ 863	$ 12	$ 104	$ 3,263
Loan Portfolio:						
Evaluated for impairment:						
Individually	$ 3	$ -	$ -	$ -	$ 107	$ 110
Collectively	105,556	122,793	153,317	1,018	14,314	396,998
Ending Balance	$ 105,559	$ 122,793	$ 153,317	$ 1,018	$ 14,421	$ 397,108

December 31, 2019	Commercial	Commercial Real Estate	Residential	Agricultural	Consumer	Total
Allowance for loan losses:						
Beginning Balance	$ 1,524	$ 129	$ 256	$ 11	$ 80	$ 2,000
Charge-offs	(634)	(148)	(31)	-	(74)	(887)
Recoveries	24	-	11	-	21	56
Provisions	-	700	450	-	100	1,250
Addition of Texas State Bank (Note 18)	200	-	-	-	(6)	194
Ending Balance	$ 1,114	$ 681	$ 686	$ 11	$ 121	$ 2,613
Evaluated for impairment:						
Individually	$ 11	$ -	$ -	$ -	$ 108	$ 119
Collectively	1,103	681	686	11	13	2,494
	$ 1,114	$ 681	$ 686	$ 11	$ 121	$ 2,613
Loan Portfolio:						
Evaluated for impairment:						
Individually	$ -	$ -	$ -	$ -	$ 50	$ 50
Collectively	69,674	103,670	158,260	1,449	15,724	348,777
Ending Balance	$ 69,674	$ 103,670	$ 158,260	$ 1,449	$ 15,774	$ 348,827

There have been no changes to the Company's accounting policies or methodology from the prior period that affected the current provision for credit losses.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment and the related accumulated depreciation are comprised of the following:

	Cost	Accumulated Depreciation	Net
December 31, 2020			
Land	$ 2,774,923	$ -	$ 2,774,923
Buildings	13,268,189	2,017,711	11,250,478
Furniture, fixtures and equipment	3,159,822	2,084,015	1,075,807
Vehicles	209,098	78,620	130,478
Computer software	165,857	60,109	105,748
Construction in process	23,920	-	23,920
Totals	$ 19,601,809	$ 4,240,455	$ 15,361,354
December 31, 2019			
Land	$ 1,955,459	$ -	$ 1,955,459
Buildings	12,232,161	2,073,872	10,158,289
Furniture, fixtures and equipment	5,856,286	4,542,314	1,313,972
Vehicles	136,379	34,463	101,916
Leasehold improvements	569,317	42,791	526,526
Computer software	576,546	498,046	78,500
Totals	$ 21,326,148	$ 7,191,486	$ 14,134,662

Depreciation expense for the years ended December 31, 2020 and 2019 totaled $698,627 and $748,490, respectively.

NOTE 6 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets at December 31, 2020 and 2019 include the following:

	2020	2019
Goodwill in connection with acquisition of American State Bank	$ 4,628,270	$ 4,628,270
Goodwill in connection with acquisition of Texas State Bank	2,090,264	2,090,264
Total goodwill	$ 6,718,534	$ 6,718,534

	2020	2019
Core deposit intangibles	$ 2,017,447	$ 2,017,447
Less: accumulated amortization	(713,446)	(549,429)
Other intangible assets, net	$ 1,304,001	$ 1,468,018

Amortization expense for the years ended December 31, 2020 and 2019 totaled $164,017 and $170,770, respectively. Projected future amortization is as follows:

Years ending December 31,	
2021	$ 163,000
2022	163,000
2023	163,000
2024	163,000
2025	163,000
Thereafter	489,001
Total	$ 1,304,001

NOTE 7 - EMPLOYEE BENEFITS

The Company has a 401(k) plan covering both full-time and part-time employees. Employees become eligible for the plan upon reaching 18 years of age and completing three months of continuous service. The plan provides for employee deferrals, with matching contributions at fifty percent, up to a maximum of three percent of eligible earnings. In addition, all eligible employees receive a three percent safe harbor contribution from the Company into the plan. Total employer contributions under this plan were $302,335 and $308,373 during 2020 and 2019, respectively.

The Company has life insurance policies on certain officers of the Company. The policies had an aggregate cash surrender value of $9,185,711 and $8,961,696 at December 31, 2020 and 2019, respectively.

NOTE 8 - DEPOSITS

Certificates of deposit in denominations of $250,000 or more totaled $19,017,333 and $58,607,000, at December 31, 2020 and 2019, respectively. At December 31, 2020, scheduled maturities for certificates of deposits are as follows:

Years ending December 31,	
2021	$ 60,875,633
2022	12,646,957
2023	16,240,978
2024	3,294,047
2025	6,132,286
	$ 99,189,901

Deposits of directors, executive officers, employees, and their affiliates at December 31, 2020 and 2019 totaled $2,334,246 and $3,991,821, respectively.

Overdrawn demand deposit accounts with balances totaling $69,593 and $99,753 were classified as loans as of December 31, 2020 and 2019, respectively.

NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES, OTHER BORROWINGS AND LINES OF CREDIT

The Company maintains a line of credit with the FHLB. The amount available under the FHLB line is determined by a borrowing base calculation which considers securities and loans held by the Company. Advances under the line bear interest at a variable interest rate. Advances are secured by all deposit accounts held by the Company at the FHLB, certain mortgage loans, certain investment securities, all FHLB stock held by the Company and other collateral. At December 31, 2020 and 2019, the Company held $25,000,000 and $5,000,000 in advances, respectively, bearing interest at 0.105% - 2.75%. The advance held at December 31, 2020 matures in 2030.

On April 22, 2020, the Company signed a letter of agreement that allows the Company to request advances from the Federal Reserve Bank of Dallas to help with liquidity needs in administering loans to customers in the U.S. Small Business Administration's Paycheck Protection Program. These advances are secured by pledges of PPP loans to small businesses and carry the same principal amount and maturity date as the pledged loans. At December 31, 2020, the Company held $23,838,822 in advances from the Federal Reserve Bank of Dallas, bearing interest at 0.35%.

The Company maintains additional lines of credit with unaffiliated financial institutions. As of December 31, 2020 and 2019, the Company had not utilized either line of credit.

NOTE 10 - NOTES PAYABLE

During 2017, the Company signed a note agreement with an unaffiliated financial institution. Under the note, the Company agreed to make twenty quarterly payments of principal in the amount of $264,531, plus accrued interest, at a floating rate of 0.75% plus the Wall Street Journal prime rate. The loan maintained a maturity date of January 2022. During 2018, the Company refinanced the note with the financial institution. The new note agreement maintains similar terms but has a maturity date of October 10, 2023 and calls for quarterly interest payments. Beginning January 2021, quarterly principal payments of $178,801, plus accrued interest, will commence under the agreement. The remaining principal and any accrued interest is due upon maturity. The note payable had an outstanding balance of $7,152,053 and $7,152,053 at December 31, 2020 and 2019, respectively.

During 2018, the Company signed an additional $3,000,000 note agreement with the unaffiliated financial institution. Under the note agreement, the Company agreed to make quarterly interest payments beginning January 2019 at a floating rate of 0.75% plus the Wall Street Journal prime rate. Beginning January 2021, the Company agreed to make quarterly principal payments of $75,000, plus accrued interest, with final payment of principal and any accrued interest on October 10, 2023. The notes payable to the financial institution are collateralized by the stock of the Company's subsidiary. The note agreements contain restrictive covenants including, among other things, the maintenance of certain net income levels and financial ratios. At December 31, 2020 and 2019, the Company was in compliance with the covenants.

As a result of the acquisition, further discussed in Note 18, the Company entered into multiple unsecured note payable agreements with previous shareholders of Joaquin Bancshares, Inc. The notes maintain fixed interest rates ranging from 2.00% to 3.50%. The agreements consist of annual interest payments of accrued interest on December 31 of each consecutive year beginning December 31, 2018, continuing annually thereafter until the maturity date of December 31, 2023, at which time principal and any accrued interest is due.

As a result of the acquisition, further discussed in Note 18, the Company entered into an additional unsecured note payable agreement with a shareholder of Joaquin Bancshares, Inc. The Company agreed to make quarterly interest payments beginning March 2019 at a fixed interest rate of 3.00% and annual principal payments beginning December 2022, until the maturity date of December 31, 2023, at which time principal and any accrued interest is due.

The unsecured notes payable had outstanding balances totaling $5,200,000 at December 31, 2020 and 2019.

At December 31, 2020, scheduled maturities of notes payable are as follows for the years ending December 31:

2021	$ 1,015,204
2022	1,015,204
2023	13,321,645
	$ 15,352,053

NOTE 11 - REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer is 2.50% for 2020 and 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2020 and 2019, the Company meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2020 and 2019, the most recent regulatory notifications categorized the Company as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Company as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

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

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

NOTE 11 - REGULATORY MATTERS - CONTINUED

The following tables outline the regulatory components of the Bank's capital and capital ratios under the rules applicable at December 31, 2020 and 2019:

	Actual		Minimum Required For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
Tier 1 capital to average total assets	$ 38,669,000	8.22%	-	-	$ 37,652,000	8.00%
December 31, 2019						
Total capital to risk-weighted assets	$ 38,517,000	10.99%	$ 36,797,000	10.50%	$ 35,044,000	10.00%
Tier 1 capital to risk-weighted assets	35,904,000	10.25%	29,788,000	8.50%	28,035,000	8.00%
Common equity tier 1 capital	35,904,000	10.25%	24,531,000	7.00%	22,779,000	6.50%
Leverage capital to average assets	35,904,000	8.25%	17,418,000	4.00%	21,772,000	5.00%

Dividends paid by the Company are mainly provided by dividends from its subsidiary. However, certain restrictions exist regarding the ability of the subsidiary to transfer funds to the Company in the form of cash dividends, loans or advances. These guidelines do not currently restrict the Bank from paying normal dividends to the Company.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various outstanding commitments and contingent liabilities such as commitments to extend credit, etc., which are not reflected in the accompanying balance sheets. These transactions are referred to as "off-balance sheet commitments." The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and letters of credit, which involve elements of credit risk in excess of the amounts recognized in the balance sheet. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. The Company does not anticipate any significant losses as a result of these transactions.

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Customers use credit commitments to ensure that funds will be available for working capital purposes, for capital expenditures and to ensure access to funds at specified terms and conditions. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letters of credit arrangements contain security and debt covenants similar to those contained in loan agreements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table below. If the commitment were funded, the Company would be entitled to seek recovery from the customer. As of December 31, 2020 and 2019, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

At December 31, 2020 and 2019, the Company had $727,000 and $900,000, respectively, in outstanding standby letters-of-credit, approximating fair value. Commitments to extend credit totaled $59,632,000 and $35,327,000 at December 31, 2020 and 2019, respectively, and consisted primarily of agreements to fund loans at the prevailing rates based upon acceptable collateral. Fees charged for these commitments are not significant to the operations of financial position of the Company and primarily represent a recovery of the underwriting costs.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

The Company grants commercial, residential and consumer loans to its customers, the vast majority of which are located in Smith County, Texas. Although the Company has a diversified loan portfolio, a substantial portion of the Company's loan portfolio is secured by real estate. Investments in state and municipal securities involve governmental entities within the Company's market area. Risks associated with concentrations in these geographical areas are monitored by management of the Company.

The Company also maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The uncertainty and volatility of state and local economies presents financial institutions with risks inherent within the industry. Negative changes in the economic environments could create challenges, and in some cases, could result in significant declines in the fair values of investments and other assets, constraints on liquidity, declines in capital and significant credit quality issues, including the decline of real estate and other collateral values supporting loans. The consolidated financial statements have been prepared using values and information currently available to the Company.

NOTE 14 - FAIR VALUE INFORMATION

FASB ASC 820, *Fair Value Measurements,* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC 820 defines fair value as 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. Under this guidance, fair value measurements are not adjusted for transaction costs.

FASB ASC 820 also establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below:

Level 1 — Quoted prices in active markets for identical assets or liabilities

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

Investment securities: Fair values for securities are based on quoted market prices or dealer quotes. (Level 1) If a quoted market price is not available, fair value is estimated using quoted prices for similar instruments. (Level 2)

Loans held for sale: Valued based on quoted prices for similar loans within the market, which does not significantly differ from cost. (Level 2)

Other real estate owned and repossessed collateral: Valued at the date of repossession based on appraisals of the underlying property performed by third-party appraisers, less estimated cost to sell. Subsequently, assets are carried at the lower of this carrying amount or fair value less cost to sell. (Level 3)

NOTE 14 - FAIR VALUE INFORMATION - CONTINUED

Impaired loans: Valued on a loan-by-loan basis based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the Company determines that foreclosure is probable, the Company measures the loan at the fair value of the collateral. Real estate collateral fair value is based on recent appraisals performed by third-party appraisers. Non-real estate collateral fair value is based on recent appraisals, net book values per borrower financial statements, or aging reports, adjusted based on management's knowledge of the borrower and market conditions. Appraisals of collateral are performed by certified third-party appraisers and reviewed and approved by management. Adjustment for fair value that is below the recorded investment balance for each loan is recorded as specific allocations within the allowance for loan losses. (Level 3)

Certain assets are not measured at fair value on a recurring basis, but are subject to fair value adjustments in certain circumstances in periods subsequent to their initial recognition. These assets are included in the tables below as of the periods indicated for which a nonrecurring change in fair value has been recorded during the reporting period. The Company had no liabilities recognized at fair value on a nonrecurring basis at December 31, 2020 and 2019.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value at December 31, 2020 and 2019. The Company had no liabilities recognized at fair value.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
December 31, 2020				
State and municipal securities	$ 1,994,490	$ -	$ 1,994,490	$ -
Mortgage-backed securities	2,040,800	-	2,040,800	-
Corporate bonds	13,731,839	-	13,731,839	-
Loans held for sale	285,000	-	285,000	-
Total on recurring basis	18,052,129	-	18,052,129	-
Other real estate and repossessed assets	13,800	-	-	13,800
Impaired loans	61,607	-	-	61,607
Total on nonrecurring basis	75,407	-	-	75,407
Total assets at fair value	$ 18,127,536	$ -	$ 18,052,129	$ 75,407

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
December 31, 2019				
U. S. Government and agency securities	$ 2,993,171	$ -	$ 2,993,171	$ -
State and municipal securities	5,268,691	-	5,268,691	-
Mortgage-backed securities	5,216,025	-	5,216,025	-
Total on recurring basis	13,477,887	-	13,477,887	-
Other real estate and repossessed assets	338,598	-	-	338,598
Impaired loans	56,899	-	-	56,899
Total on nonrecurring basis	395,497	-	-	395,497
Total assets at fair value	$ 13,873,384	$ -	$ 13,477,887	$ 395,497

NOTE 15 - OPERATING LEASES

The Company leases office machinery and a portion of a branch location with terms ranging from 1 month to 3 years. Monthly lease payments range from approximately $50 to $1,250 and terminate on varying dates, ranging from January 2020 to December 2022. At December 31, 2020, future minimum lease payments for leases with terms greater than 12 months are as follows:

Years ending December 31,		
2021	$	11,470
2022		5,931
	$	17,401

Lease expense related to lease agreements with terms less than and greater than 12 months totaled $55,022 and $147,871 for the years ended December 31, 2020 and 2019, respectively.

NOTE 16 - SHARE-BASED COMPENSATION

During the year ended December 31, 2019, the Company granted to specific employees stock appreciation rights (“SARs”) with a six-year (856 SARs, in total) and seven-year life (498 SARs, in total), at which point these rights will vest and become exercisable. The SARs will vest at the earlier of the conclusion of the established life of the SAR or the pre-determined retirement date of the employee. The SARs’ value will be based on a calculation of the value of the Bank’s stock. At date of grant, the value of the Bank’s stock was estimated to be $910.20 for the six-year SARs and $940.98 for the seven-year SARs. Each SAR entitles the holder to receive an amount in cash for each SAR equal to the appreciation in value of the Bank’s stock over the original value at the grant date. The Company has elected to account for the SARs using the intrinsic value method. The Bank calculates the value of the Bank’s stock at the end of each period by taking the net operating income of the Bank, excluding unrealized gain or loss, after tax pre-dividend/pre-distribution, and other extraordinary items as determined by the SAR Committee, divided by the total number of shares of common stock of the Bank. The SARs are reported as a liability on the Company’s balance sheet and will be remeasured at each financial reporting date through the date of settlement.

Compensation cost equal to the increase in the fair value of the Bank’s stock over the grant price will be recognized over the service period and, subsequently through the date of settlement, if later. At December 31, 2020, the estimated fair value of the Bank’s six-year SARs and seven-year SARs was approximately $1,139 and $1,051 per share, respectively. Accordingly, the intrinsic value of the SARs is $251,524. The share-based liability was $137,403 and $0 at December 31, 2020 and 2019, respectively. The following is an analysis of issued and outstanding SARs:

	Number of SARs		Average Intrinsic Value
SARs outstanding 1/1/2019	-	$	-
Granted	1,361		184.84
SARs outstanding 12/31/2019	1,361		184.84
Granted	1,680		-
Exercised	-		-
Expired/Cancelled	-		-
SARs outstanding 12/31/2020	3,041	$	82.70
SARs vested 12/31/2020 and 12/31/2019	-		

NOTE 17 - OTHER INCOME

Other income consisted of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Rental income	$ 54,500	$ 56,650
Earnings on bank owned life insurance	224,015	150,426
Other investment income	102,909	122,752
Other	19,960	4,922
	$ 401,384	$ 334,750

NOTE 18 - OTHER EXPENSE

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

	2020	2019
Network expense	$ 536,773	$ 502,829
FDIC assessments	390,690	228,418
Advertising expense	257,818	312,843
Consulting/Professional services	1,195,216	1,122,037
Computer expense	1,104,973	1,067,797
ATM expense	512,851	412,784
Office supplies	221,344	237,257
Other	1,563,971	2,039,200
	$ 5,783,636	$ 5,923,165

In the normal course of business, the Company receives a portion of its consulting and professional services from a related party owned by the shareholder of the Company. The services provided to and the fees paid by the Company are defined within a formal management services agreement between the parties. The agreement commenced in 2019, and fees paid by the Company for these services for the years ended December 31, 2020 and 2019 totaled approximately $893,000 and $798,000, respectively.

NOTE 19 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through June 22, 2021, the date on which the financial statements were available to be issued.