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, Cleve Breedlove
Name of the Holding Company Director and Official

Chairman and CEO
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

10/28/2021
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2020
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Access Bancorp, Inc
Legal Title of Holding Company

P.O. Box 1429
(Mailing Address of the Holding Company) Street / P.O. Box

Denton	TX	76202
City	State	Zip Code

320 W. Eagle Drive Suite 100, Denton, TX 76201
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Randal Sahm	CFO
Name	Title

940-297-6336
Area Code / Phone Number / Extension

940-382-3942
Area Code / FAX Number

rsahm@accessbanktx.com
E-mail Address

n/a
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.

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

ORGANIZATION CHART Y6 REPORT – 2a
12/31/2020

ACCESS BANCORP INC.
DENTON TX - USA
INCORPORATED – TEXAS
PARENT COMPANY OF ACCESSBANK TEXAS
Sole Shareholder of AccessBank Texas – 100%
LEI # - None

ACCESSBANK TEXAS
DENTON TX - USA
INCORPORATED - TEXAS
SUBSIDIARY BANK OF ACCESS BANCORP INC.

LEI # 549300QUS7X0QJUEZ353

Results: A list of branches for your depository institution: ACCESSBANK TEXAS (ID_RSSD: 3535848).
This depository institution is held by ACCESS BANCORP, INC. (4556381) of DENTON, TX.
The data are as of 12/31/2020. Data reflects information that was received and processed through 01/05/2021.

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

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

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

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	3535848	ACCESSBANK TEXAS	320 WEST EAGLE DRIVE, SUITE 100	DENTON	TX	76201	DENTON	UNITED STATES	Not Required	Not Required	ACCESSBANK TEXAS	3535848	
OK		Full Service	918459	NORTH DALLAS BRANCH	5644 LBJ FREEWAY	DALLAS	TX	75240	DALLAS	UNITED STATES	Not Required	Not Required	ACCESSBANK TEXAS	3535848	
OK		Limited Service	3663264	MOBILE BRANCH	320 WEST EAGLE DRIVE SUITE 100	DENTON	TX	76201	DENTON	UNITED STATES	Not Required	Not Required	ACCESSBANK TEXAS	3535848	
OK		Full Service	5278662	SPEEDWAY BRANCH	15960 CHAMPIONSHIP PARKWAY	FORT WORTH	TX	76117	TARRANT	UNITED STATES	Not Required	Not Required	ACCESSBANK TEXAS	3535848	
OK		Full Service	5161812	KRUM BRANCH	1020 EAST MCCART STREET	KRUM	TX	76249	DENTON	UNITED STATES	Not Required	Not Required	ACCESSBANK TEXAS	3535848	

Form FR Y-6

Access Bancorp Inc.
Denton, Texas
Fiscal Year Ending 12/31/2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending MM/DD/YYYY			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending MM/DD/YYYY (but not at fiscal year-end)		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Brett Bingham Dallas, TX USA	USA	310,986 6.55%	N/A	N/A	N/A
Arthur W. Hollingsworth Dallas, TX USA	USA	275,000 6.25%	N/A	N/A	N/A
Kelly W. Earls Plano, TX USA	USA	210,650 4.79%	N/A	N/A	N/A

Form FR Y-6

Access Bancorp Inc.
Denton, Texas
Fiscal Year Ending 12/31/2020

Report Item 4: Insiders

(1) Name & Address (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 (including subsidiary name)	(3)(c) Title/Position with Other Businesses (including business name)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name)	(4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25%
VAUGHN A. ANDRUS DENTON, TX USA	RETIRED BANKER	DIRECTOR	DIRECTOR ACCESSBANK	N/A	1.14%	0.00%	N/A
BRETT BINGHAM FRISCO TX USA	BUSINESS ENTREPRENEUR	DIRECTOR	DIRECTOR ACCESSBANK	OWNER - MEETING PROTOCAL WORLDWIDE PRESIDENT - TRUE NORTH DEVELOPMENT	6.55%	0.00%	TRUE NORTH DEVELOPMENT - 100%
CLEVE T. BREEDLOVE DENTON TX USA	N/A	CHAIRMAN and CEO	CHAIRMAN and CEO ACCESSBANK TEXA	N/A	0.53%	0.00%	N/A
KAYLIN FARMER DENTON TX USA	FARMING, OIL AND GAS	DIRECTOR	DIRECTOR ACCESSBANK	PRESIDENT KELSOE OIL COMPANY	0.11%	0.00%	N/A
DOUGLAS S. HESTER COLLEYVILLE TX USA	N/A	DIRECTOR	DIRECTOR ACCESSBANK DALLAS PRESIDENT ACCESSBANK	N/A	0.75%	0.00%	N/A
SUSAN M. HESTER COLLEYVILLE TX USA	N/A	SECRETARY TO BOARD	COO ACCESSBANK	N/A	0.28%	0.00%	N/A
JAMES E.KING DENTON TX USA	INSURANCE AGENT	DIRECTOR	DIRECTOR ACCESSBANK	PRESIDENT - ALLIANCE AGENTS	0.15%	0.00%	N/A
GLENN MONROE FORT WORTH TX USA	N/A	VICE CHAIRMAN	VICE CHAIRMAN ACCESSBANK	N/A	0.00%	0.00%	N/A
DAVID M. RILEY DENTON TX USA	MANUFACTURING	DIRECTOR	DIRECTOR ACCESSBANK	PRESIDENT - BONDED LIGHTENING PROTECTION SYS	2.27%	0.00%	BONDED LIGHTENING PROTECTION SYS - 100%
J.VIRGIL STRANGE DENTON TX USA	CONSTRUCTION	DIRECTOR	DIRECTOR ACCESSBANK	PRESIDENT -AXIOM COMMERCIAL LTD PRESIDENT - TREMONT CONSTRUCTION	1.37%	0.00%	AXIOM COMMERCIAL LTD - 50% TREMONT CONSTRUCTION - 50%
DAVID J. VANDERLAAN DENTON TX USA	REALTOR	DIRECTOR	DIRECTOR ACCESSBANK	OWNER - VANDERLAAN REAL ESTATE	2.49%	0.00%	VANDERLAAN REAL ESTATE - 100%

ACCESS BANCORP, INC.
AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2020 and 2019

Dallas Office
8343 Douglas Avenue
Suite 400
Dallas, Texas 75225
214.393.9300 Main

whitleypenn.com

whitleypenn

REPORT OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors
Access Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Access Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company 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 GAAP.

Whitley Penn LLP

Dallas, Texas
April 30, 2021

ACCESS BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2020 and 2019

ASSETS	**2020**	2019
Cash and cash equivalents:		
Cash and due from banks	**$ 5,225,762**	$ 6,828,173
Federal funds sold	**3,079,000**	40,550,000
Interest-bearing deposits in other banks	**39,016,875**	26,854,672
Total cash and cash equivalents	**47,321,637**	74,232,845
Investment securities available-for-sale	**35,432,661**	47,753,841
Mortgage loans held-for-sale	**1,026,850**	1,196,990
Loans, net	**396,561,371**	322,875,668
Accrued interest receivable	**1,309,928**	1,063,526
Premises and equipment, net	**10,917,372**	10,101,512
Other real estate owned	**2,890,800**	-
Non-marketable equity securities	**913,022**	908,022
Bank-owned life insurance	**6,311,736**	6,150,854
Goodwill, net	**2,730,674**	3,221,798
Core deposit intangible, net	**308,238**	397,988
Other assets	**3,064,581**	3,077,108
Total assets	**$ 508,788,870**	$ 470,980,152

LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	**$ 122,809,103**	$ 100,206,582
Interest bearing	**327,193,422**	313,085,703
Total deposits	**450,002,525**	413,292,285
Notes payable	**22,306,402**	23,500,000
Other liabilities	**2,158,244**	1,572,458
Total liabilities	**474,467,171**	438,364,743
Commitments and contingencies		
Stockholders' equity:		
Common stock, $1 par value, 15,000,000 shares authorized:		
Common stock - voting: 4,399,724 shares issued and outstanding at December 31, 2020 and 2019	**4,399,724**	4,399,724
Common stock - nonvoting: 775,136 shares issued and outstanding	**775,136**	775,136
Additional paid-in capital	**19,237,971**	19,237,971
Retained earnings	**9,100,006**	8,257,574
Accumulated other comprehensive income (loss)	**808,862**	(54,996)
Total stockholders' equity	**34,321,699**	32,615,409
Total liabilities and stockholders' equity	**$ 508,788,870**	$ 470,980,152

See accompanying notes to consolidated financial statements.

ACCESS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the Years Ended December 31, 2020 and 2019

	2020	2019
Interest income:		
Loans, including fees	**$ 20,237,754**	$ 16,440,375
Investment securities	**795,284**	1,167,652
Federal funds sold	**89,510**	270,219
Interest-bearing deposits in other banks	**180,619**	475,042
Total interest income	**21,303,167**	18,353,288
Interest expense:		
Deposits	**3,560,487**	4,167,980
Notes payable	**1,138,638**	518,919
Total interest expense	**4,699,125**	4,686,899
Net interest income	**16,604,042**	13,666,389
Provision for loan losses	**2,639,116**	1,780,838
Net interest income after provision for loan losses	**13,964,926**	11,885,551
Noninterest income:		
Service fees	**591,799**	674,551
Net gain on sales of mortgage loans	**1,043,270**	653,220
Other	**234,655**	279,476
Total noninterest income	**1,869,724**	1,607,247
Noninterest expense:		
Salaries and employee benefits	**8,691,559**	7,560,247
Occupancy	**1,859,083**	1,661,291
Advertising and marketing	**246,317**	473,288
Data processing services	**577,191**	541,722
Legal and professional fees	**298,571**	257,080
Deposit insurance assessment	**315,506**	141,655
Goodwill amortization	**491,124**	491,124
Core deposit intangible amortization	**89,750**	89,750
Other	**2,203,727**	1,680,181
Total noninterest expense	**14,772,828**	12,896,338
Income before income taxes	**1,061,822**	596,460
Income tax expense	**219,390**	243,662
Net income	**$ 842,432**	$ 352,798

See accompanying notes to consolidated financial statements.

ACCESS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2020 and 2019

	2020	2019
Net income	**$ 842,432**	$ 352,798
Other comprehensive income:		
Net unrealized gain on investment securities available-for-sale arising during the period	**1,093,491**	1,847,266
Net tax effect	**(229,633)**	(387,925)
Total other comprehensive income, net of tax	**863,858**	1,459,341
Total comprehensive income	**$ 1,706,290**	$ 1,812,139

See accompanying notes to consolidated financial statements.

ACCESS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2020 and 2019

	Voting Common Stock	Nonvoting Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2019	$ 4,389,724	$ 775,136	$ 19,207,971	$ 7,904,776	$ (1,514,337)	$ 30,763,270
Net income	-	-	-	352,798	-	352,798
Issuance of voting common stock	10,000	-	30,000	-	-	40,000
Other comprehensive income	-	-	-	-	1,459,341	1,459,341
Balance, December 31, 2019	4,399,724	775,136	19,237,971	8,257,574	(54,996)	32,615,409
Net income	**-**	**-**	**-**	**842,432**	**-**	**842,432**
Other comprehensive income	**-**	**-**	**-**	**-**	**863,858**	**863,858**
Balance, December 31, 2020	**$ 4,399,724**	**$ 775,136**	**$ 19,237,971**	**$ 9,100,006**	**$ 808,862**	**$ 34,321,699**

See accompanying notes to consolidated financial statements.

ACCESS BANCORP, 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	$ 842,432	$ 352,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	833,421	686,711
Goodwill amortization	491,124	491,124
Core deposit intangible amortization	89,750	89,750
Non-cash interest expense related to debt issuance costs	21,712	-
Provision for loan losses	2,639,116	1,780,838
Loss on sales of premises and equipment	-	5,571
Net gain on sales of mortgage loans	(1,043,270)	(653,220)
Originations of mortgage loans held-for-sale	(51,928,400)	(35,251,340)
Proceeds from the sale of mortgage loans held-for-sale	53,141,810	35,271,870
Net amortization of premiums of investment securities available-for-sale	518,967	557,040
Increase in cash surrender value of bank-owned life insurance	(160,882)	(160,803)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(468,508)	(280,670)
Accrued interest payable and other liabilities	585,786	616,009
Net cash provided by operating activities	5,563,058	3,505,678
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(99,999,917)	(119,996,000)
Proceeds from calls, maturities and principal repayments of investment securities available-for-sale	112,895,621	131,398,944
Net loan originations	(79,525,619)	(48,500,335)
Proceeds from sales of other real estate owned	310,000	-
Purchases of premises and equipment	(1,649,281)	(2,624,338)
Proceeds from sales of premises and equipment	-	160,439
Net cash used in investing activities	(67,969,196)	(39,561,290)
Cash flows from financing activities:		
Net increase in deposits	36,710,240	70,019,122
Issuance of voting common stock	-	40,000
Proceeds from notes payable	-	15,000,000
Payments on notes payable	(1,215,310)	(1,000,000)
Net cash provided by financing activities	35,494,930	84,059,122
Net (decrease) increase in cash and cash equivalents	(26,911,208)	48,003,510
Cash and cash equivalents at beginning of year	74,232,845	26,229,335
Cash and cash equivalents at end of year	$ 47,321,637	$ 74,232,845
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 4,785,531	$ 4,272,381
Cash paid for income taxes	$ -	$ 460,000
Supplemental Disclosures of Non-Cash Investing Activity:		
Loans transferred to other real estate owned	$ 3,200,800	$ -

See accompanying notes to consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Access Bancorp, Inc. ("Bancorp") is a bank holding company whose primary purpose is to own and manage AccessBank Texas (the "Bank"). The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Denton, Dallas, and Fort Worth, Texas and the surrounding areas. The Bank operates under a state bank charter and provides full banking services. The Bank is subject to regulation by the Texas Department of Banking and the Federal Deposit Insurance Corporation ("FDIC").

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Bancorp and its wholly owned subsidiary, AccessBank Texas, which are collectively referred to as the Company. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the reporting period. Accordingly, actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the fair values of financial instruments.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits in other banks. Federal funds are normally sold for one-day periods. Interest-bearing deposits in other banks normally have one-day maturities. The Company considers all highly liquid investments with an initial maturity of less than ninety days to be cash equivalents.

The Company maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage. The Company's management monitors the balance in these accounts and periodically assesses the financial condition of the other financial institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash or cash equivalents.

Investment Securities Available-for-Sale

Securities available-for-sale consist of certain debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors.

Securities available-for-sale are reported at fair value with all unrealized gains or losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported as a separate component of other comprehensive income. Available-for-sale securities that have unrealized losses that are judged to be other than temporary are included in current earnings and a new cost basis is established.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

The amortization of premiums and accretion of discounts, computed by the interest method over their contractual lives, are recognized in interest income. Realized gains or losses are determined on the basis of the cost of specific securities sold.

The Company evaluates its debt securities for other than temporary impairment on an ongoing basis for those securities with a fair value below amortized cost. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to retain its investment and whether it is more likely than not the Company will be required to sell its investment before its anticipated recovery in fair value. When the Company does not intend to sell the security, and it is more likely than not that it will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. There was no other than temporary impairment recorded in 2020 and 2019.

Non-marketable Equity Securities

As a member of the Federal Home Loan Bank of Dallas (“FHLB”), the Company is required to maintain investment in capital stock of the FHLB. The Company also maintains investment in the capital stock of the Independent Bankers Financial Corporation (“IBFC”). FHLB and IBFC stock does not have a readily determinable fair value as ownership is restricted and lacks a ready market. As a result, these stocks are carried at cost and evaluated periodically by management for impairment. Management has concluded that the stocks were not impaired at December 31, 2020 or 2019. The amounts of FHLB and IBFC stock are included in other assets on the accompanying consolidated balance sheets.

Mortgage Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans.

Loans and Allowance for Loan Losses

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout North Texas. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans are stated at unpaid principal balances, less the allowance for loan losses and deferred loan fees and costs. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Certain loan origination fees, net of direct loan origination costs, are deferred and amortized as an adjustment of yield over the life of the loan or over the commitment period, as applicable.

The accrual of interest is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due. For all classes of loans, loans will be placed on nonaccrual status at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans are typically charged-off when the loan becomes 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

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

The allowance for loan losses is established as losses are probable to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature, and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

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

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. To date, these troubled debt restructurings have been such that, after considering economic and business conditions and collection efforts, the collection of interest is doubtful and therefore the loan is generally placed on nonaccrual. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow.

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing, and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and generally include personal guarantees.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. Agricultural loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farm land, cattle, or equipment, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. A large portion of real estate loans are owner occupied which further reduces the Company's risk.

The Company utilizes methodical credit standards and analysis to supplement its policies and procedures in underwriting consumer loans. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimizes the Company's risk.

<u>COVID-19 Impact</u>

The coronavirus (COVID-19) pandemic has placed significant health, economic, and other major pressures on local communities, the United States, and the entire world. In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") which was designed to provide comprehensive relief to individuals and businesses following the unprecedented impact of the COVID-19 pandemic. Additionally, we have been actively managing our response to the continuing COVID-19 pandemic and have implemented a number of procedures in response to the pandemic to support the safety and well-being of our employees and customers. Some of the procedures include:

- Addressing the safety of the Company's branch network, following local, state, and federal guidelines;
- Holding regular executive and pandemic task force meetings to address issues that change rapidly;
- Implementing business continuity plans to help ensure that customers have adequate access to banking services;
- Providing extensions and deferrals to loan customers affected by COVID-19;
- Participating in both appropriations of the CARES Act Paycheck Protection Program ("PPP") that provide 100% federally guaranteed loans for small business to cover up to 24 weeks of payroll costs and assist with mortgage interest, rent, and utilities. Notably, these small business loans may be forgiven by the Small Business Administration ("SBA") if borrowers maintain their payrolls and satisfy certain other conditions during the COVID-19 pandemic.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

As noted above, the Company provided extensions and deferrals to loan customers affected by COVID-19. The provisions in the CARES Act included an election within Section 4013 that allows banks to suspend the guidance on accounting for troubled debt restructurings ("TDRs") to loan modifications, such as extensions and deferrals, related to COVID-19 made between March 1, 2020, and the earlier of (i) December 31, 2020 or (ii) 60 days after the President terminates the COVID-19 national emergency declaration. The relief can only be applied to modifications on loans that were not more than 30 days past due as of December 31, 2019. In December 2020, Congress passed the Consolidated Appropriations Act which, among other things, extended the relief from TDR accounting provided in Section 4013 of the CARES Act to the earlier of (i) January 1, 2022 or (ii) 60 days after the President terminates the COVID-19 national emergency declaration.

The Company elected to apply the provisions as provided in Section 4013 of the CARES Act to applicable loan modifications. As of December 31, 2020, the Company has deferrals of $116,812,888 designated under Section 4013 and related to COVID-19.

Through August 8, 2020, when the PPP ended to new applicants, the Company originated PPP loans for a total of $41,822,000. As of December 31, 2020, the outstanding balance of these PPP loans was $33,450,000. In addition, the Company earned total fees on PPP loans of $1,825,642 with $1,240,350 recognized in the current year. The remaining fees will be amortized over the remaining life of the loans or upon forgiveness by the SBA if prior to maturity. Net origination fee income related to PPP loans is deferred and amortized into interest income over the contractual life of the loan. PPP loans are 100% guaranteed by the SBA and have a zero percent risk-weight for regulatory capital ratios.

Off-balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	5 - 30 years
Furniture and equipment	3 - 10 years

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. Any write-ups based on the asset's fair value at the date of acquisition are included in non-interest income. Write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held-for-sale is carried at the lower of the new cost basis or fair value less costs to sell. Any subsequent write-downs are recorded as a charge to income, if necessary, to reduce the carrying value of a property to the lower of its cost basis or fair value less cost to sell.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

Goodwill and Core Deposit Intangible, Net

Goodwill represents the excess of costs over fair value of net assets of a business acquired. The Company elected the accounting alternatives provided in Accounting Standards Update ("ASU") No. 2014-02, *Intangibles – Goodwill and Other* (Topic 350)*: Accounting for Goodwill*, issued by the Financial Accounting Standards Board ("FASB"). The Company, within the scope of this guidance, elected to amortize goodwill on a straight-line basis over 10 years and test goodwill for impairment at the entity level. Goodwill is tested for impairment by the Company when a triggering event occurs that indicates that the fair value of an entity's reporting unit may be below its carrying amount. Under this accounting alternative, the goodwill impairment amount, if any, would be the excess of the entity's reporting unit's carrying amount over its fair value. In 2020, management did not identify any triggering events that would indicate the fair value of goodwill was below the carrying amount and concluded goodwill was not impaired at December 31, 2020.

Core deposit intangibles are acquired customer relationships arising from a bank acquisition and are being amortized on a straight-line basis over their estimated useful lives of eight years. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. There was no impairment recorded for 2020.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and the tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years.

The FASB has issued guidance in the ASC for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's federal and state tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The Company files income tax returns in the U.S. federal jurisdiction and Texas. For the years ended December 31, 2020 and 2019, management has determined there are no material uncertain tax positions. The Company classifies interest and, if applicable, penalties related to income tax liabilities as a component of income tax expense.

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. See Note 13 for additional fair value disclosures.

Share-Based Payments

The Company uses the fair value provisions of FASB ASC 718*, Share-Based Payments*, in accounting for stock options and warrants. FASB ASC 718 requires the recognition of share-based compensation expense, using a fair-value based method, for costs related to all share-based payments including stock options. FASB ASC 718 requires entities to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The Company accounts for share-based compensation in accordance with FASB ASC 718 and estimates their fair value based on using the Black-Scholes option pricing model.

1. Nature of Operations and Summary of Significant Accounting Policies – continued

<u>Comprehensive Income</u>

Comprehensive income is included in the consolidated statements of comprehensive income and is reported for all periods. Comprehensive income includes both net income and other comprehensive income (loss), which includes the change in unrealized gains and losses on investment securities available-for-sale.

<u>Recent Accounting Pronouncements</u>

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses* (Topic 326), *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022. The Company has not yet evaluated the potential effects of adopting ASU 2016-13 on the Company's consolidated results of operations, financial position, or cash flows.

In February 2016, the FASB issued ASU 2016-02 – *Leases* (Topic 842). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the annual periods beginning after December 15, 2021. Early adoption is permitted. The Company has not yet evaluated the impact of the adoption of ASU 2016-02 on the Company's consolidated results of operations, financial position, or cash flows.

In January 2017, the FASB issued ASU 2017-04 – *Intangibles – Goodwill and Other* (Topic 350). ASU 2017-04 amended existing guidance to simplify the subsequent measurement of goodwill eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment change for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments are effective for annual periods beginning after December 15, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company expects the adoption of ASU 2017-04 to have no material effect on the Company's consolidated results of operations, financial position, or cash flows.

2. Investment Securities Available-for-Sale

The amortized cost, estimated fair values, and gross unrealized gains and losses of the Company's investment securities are classified as follows:

	December 31, 2020			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale				
Residential mortgage-backed securities by U.S. government sponsored enterprises	**$ 27,772,227**	**$ 793,615**	**$ (88)**	**$ 28,565,754**
Collateralized residential mortgage obligations issued by U.S. government sponsored enterprises	**5,859,103**	**205,234**	**-**	**6,064,337**
Asset-backed securities issued by the Small Business Administration	**777,455**	**25,115**	**-**	**802,570**
	$ 34,408,785	**$ 1,023,964**	**$ (88)**	**$ 35,432,661**

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale				
Residential mortgage-backed securities by U.S. government sponsored enterprises	$ 38,214,402	$ 50,753	$ (131,638)	$ 38,133,517
Collateralized residential mortgage obligations issued by U.S. government sponsored enterprises	8,663,539	30,019	(10,704)	8,682,854
Asset-backed securities issued by the Small Business Administration	945,515	12	(8,057)	937,470
	$ 47,823,456	$ 80,784	$ (150,399)	$ 47,753,841

2. Investment Securities Available-for-Sale – continued

The following tables disclose the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

	Continuous Unrealized Losses Existing for Less Than 12 Months		Continuous Unrealized Losses Existing for Greater than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of December 31, 2020:				
Available-for-sale				
Residential mortgage-backed securities issued by U.S. government sponsored enterprises	**$ -**	**$ -**	**$ 27,468**	**$ (88)**
Collateralized residential mortgage obligations issued by U.S. government sponsored enterprises	**-**	**-**	**-**	**-**
Asset-backed securities issued by the Small Business Administration	**-**	**-**	**-**	**-**
	$ -	**$ -**	**$ 27,468**	**$ (88)**
As of December 31, 2019:				
Available-for-sale				
Residential mortgage-backed securities issued by U.S. government sponsored enterprises	$ 657,421	$ (11,495)	$ 18,598,860	$ (120,143)
Collateralized residential mortgage obligations issued by U.S. government sponsored enterprises	2,110,853	(10,704)	-	-
Asset-backed securities issued by the Small Business Administration	-	-	342,813	(8,057)
	$ 2,768,274	$ (22,199)	$ 18,941,673	$ (128,200)

The number of investment positions in an unrealized loss position at December 31, 2020, totaled 1. The Company does not believe these unrealized losses are "other-than-temporary" as (1) the Company does not have the intent to sell the securities prior to recovery and/or maturity; and (2) it is more likely than not that the Company will not have to sell these securities prior to recovery and/or maturity. The unrealized losses noted are interest rate-related due to the level of interest rates at December 31, 2020. The Company has reviewed the credit of the issuers and has not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

There were no investment securities at December 31, 2020 or 2019 pledged to secure U.S. government deposits and other public funds as required or permitted by law.

There were no sales of investment securities during 2020 and 2019.

2. Investment Securities Available-for-Sale – continued

The amortized cost and estimated fair value of investment securities by contractual maturity are shown below. Mortgage-backed securities and collateralized mortgage obligations typically are issued with stated principal amounts, and are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as prepayment risk, are passed on to the certificate holder. Accordingly, the term of mortgage-backed securities and collateralized mortgage obligations approximates the term of the underlying mortgages and can vary significantly due to prepayments. Therefore, these securities are not included in the maturity schedule.

	December 31, 2020	
	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	777,455	802,570
Due after five years through ten years	-	-
Due after ten years	-	-
	777,455	802,570
Residential mortage-backed securities by U.S. government sponsored enterprises	27,772,227	28,565,754
Collateralized residential mortgage obligations issued by U.S. government sponsored enterprises	5,859,103	6,064,337
Total	$ 34,408,785	$ 35,432,661

3. Loans and Allowance for Loan Losses

Loans in the accompanying consolidated balance sheets are classified as follows:

	December 31,	
	2020	2019
Commercial real estate	$ 229,735,116	$ 194,685,264
Residential real estate	70,861,280	69,993,889
Real estate - farm land	3,034,999	5,263,976
Commercial	90,492,560	46,956,369
Agricultural	1,247,307	1,532,026
Consumer and other	7,290,226	9,238,695
	402,661,488	327,670,219
Net deferred loan (fees) costs	**(470,476)**	137,151
Allowance for loan losses	**(5,629,641)**	(4,931,702)
Loans, net	**$ 396,561,371**	$ 322,875,668

<u>Nonaccrual and Past Due Loans</u>

Nonaccrual loans, segregated by class of loans, are classified as follows:

	December 31,	
	2020	2019
Commercial real estate	**$ 2,599,122**	$ 4,724,408
Residential real estate	**240,340**	-
Real estate - farm land	**-**	-
Commercial	**2,220,846**	2,730,196
Agricultural	**-**	-
Consumer and other	**10,795**	-
Total	**$ 5,071,103**	$ 7,454,604

3. Loans and Allowance for Loan Losses – continued

An age analysis of past due loans aggregated by class of loans is as follows:

December 31, 2020	**30 to 89 Days**	**90 Days or Greater**	**Total Past Due**	**90 Days Past Due and Still Accruing**
Commercial real estate	**$ -**	**$ -**	**$ -**	**$ -**
Residential real estate	**822,091**	**240,340**	**1,062,431**	**-**
Real estate - farm land	**107,616**	**-**	**107,616**	**-**
Commercial	**212,576**	**1,800,281**	**2,012,857**	**-**
Agricultural	**-**	**-**	**-**	**-**
Consumer and other	**455,676**	**13,730**	**469,406**	**2,814**
Total	**$ 1,597,959**	**$ 2,054,351**	**$ 3,652,310**	**$ 2,814**

December 31, 2019	30 to 89 Days	90 Days or Greater	Total Past Due	90 Days Past Due and Still Accruing
Commercial real estate	$ 7,355,030	$ -	$ 7,355,030	$ -
Residential real estate	1,840,679	-	1,840,679	-
Real estate - farm land	113,898	-	113,898	-
Commercial	469,025	2,730,196	3,199,221	-
Agricultural	-	-	-	-
Consumer and other	36,449	3,847	40,296	3,847
Total	$ 9,815,081	$ 2,734,043	$ 12,549,124	$ 3,847

3. Loans and Allowance for Loan Losses – continued

Impaired Loans

Impaired loans are summarized in the following tables:

December 31, 2020	**Unpaid contractual principal balance**	**Recorded investment with no allowance**	**Recorded investment with allowance**	**Total recorded investment**	**Related allowance**	**Average recorded investment during year**
Commercial real estate	**$ 2,599,122**	**$ 2,599,122**	**$ -**	**$ 2,599,122**	**$ -**	**$ 3,661,765**
Residential real estate	**243,142**	**240,340**	**-**	**240,340**	**-**	**120,170**
Real estate - farm land	**-**	**-**	**-**	**-**	**-**	**-**
Commercial	**4,078,677**	**2,772,701**	**686,884**	**3,459,585**	**489,033**	**3,094,891**
Agricultural	**-**	**-**	**-**	**-**	**-**	**-**
Consumer and other	**14,164**	**10,795**	**3,369**	**14,164**	**3,369**	**10,242**
Total	**$ 6,935,105**	**$ 5,622,958**	**$ 690,253**	**$ 6,313,211**	**$ 492,402**	**$ 6,887,068**

December 31, 2019	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment during year
Commercial real estate	$ 4,724,408	$ -	$ 4,724,408	$ 4,724,408	$ 1,492,058	$ 2,362,204
Residential real estate	-	-	-	-	-	-
Real estate - farm land	-	-	-	-	-	-
Commercial	3,477,266	1,833,216	896,980	2,730,196	283,733	2,888,329
Agricultural	-	-	-	-	-	-
Consumer and other	6,319	-	6,319	6,319	6,319	7,787
Total	$ 8,207,993	$ 1,833,216	$ 5,627,707	$ 7,460,923	$ 1,782,110	$ 5,258,320

During the years ended December 31, 2020 and 2019, interest income recognized on impaired loans was not considered to be material to the consolidated financial statements.

3. Loans and Allowance for Loan Losses – continued

Troubled Debt Restructuring

During the year ended December 31, 2020, the terms of certain loans were modified as troubled debt restructurings. The following table presents modifications of loans as troubled debt restructured loans:

	December 31, 2020			
	Number of Loans	Adjusted Interest Rate	Total Payment Deferral	Combined Rate and Payment Deferral
Commercial real estate	1	$ -	$ -	$ 2,599,122
Residential real estate	-	-	-	-
Real estate - farm land	-	-	-	-
Commercial	1	-	-	420,852
Agriculture	-	-	-	-
Consumer and other	-	-	-	-
Total	2	$ -	$ -	$ 3,019,974

Two loans restructured during the year ended December 31, 2020, totaling $3,019,974 were on nonaccrual status as of December 31, 2020.

No loans were modified as a troubled debt restructured loan within the previous 12 months and for which there was a payment default during the year ended December 31, 2020. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral.

During the year ended December 31, 2019, there were no loans modified as troubled debt restructurings.

Credit Quality Indicators

From a credit risk standpoint, the Company classifies its loans in one of four categories: (i) pass, (ii) special mention, (iii) substandard, or (iv) doubtful. Loans classified as loss are charged-off. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology of the Company is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

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

3. Loans and Allowance for Loan Losses – continued

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

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

The following tables summarize the Company's internal ratings of its loans:

December 31, 2020	**Pass**	**Special Mention**	**Sub-standard**	**Doubtful**	**Total**
Commercial real estate	**$ 220,674,303**	**$ 6,461,691**	**$ 2,599,122**	**$ -**	**$ 229,735,116**
Residential real estate	**70,620,940**	**-**	**240,340**	**-**	**70,861,280**
Real estate - farm land	**3,034,999**	**-**	**-**	**-**	**3,034,999**
Commercial	**87,032,975**	**-**	**3,459,585**	**-**	**90,492,560**
Agricultural	**1,247,307**	**-**	**-**	**-**	**1,247,307**
Consumer and other	**7,276,062**	**-**	**14,164**	**-**	**7,290,226**
Total	**$ 389,886,586**	**$ 6,461,691**	**$ 6,313,211**	**$ -**	**$ 402,661,488**

December 31, 2019	Pass	Special Mention	Sub-standard	Doubtful	Total
Commercial real estate	$ 187,330,234	$ 2,630,622	$ 4,724,408	$ -	$ 194,685,264
Residential real estate	69,685,600	-	308,289	-	69,993,889
Real estate - farm land	5,263,976	-	-	-	5,263,976
Commercial	44,226,173	-	2,730,196	-	46,956,369
Agricultural	1,532,026	-	-	-	1,532,026
Consumer and other	9,232,376	-	6,319	-	9,238,695
Total	$ 317,270,385	$ 2,630,622	$ 7,769,212	$ -	$ 327,670,219

3. Loans and Allowance for Loan Losses – continued

The following tables summarize the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2020 and 2019, respectively:

December 31, 2020	**Commercial real estate**	**Residential real estate**	**Real estate - farm land**	**Commercial**	**Agricultural**	**Consumer and other**	**Total**
Beginning balance	**$ 2,930,171**	**$ 1,053,465**	**$ 79,227**	**$ 706,731**	**$ 23,058**	**$ 139,050**	**$ 4,931,702**
Provision for loan losses	**1,955,773**	**(36,748)**	**(36,794)**	**777,452**	**(5,619)**	**(14,948)**	**2,639,116**
Charge-offs	**(1,674,000)**	**(26,000)**	**-**	**(255,000)**	**-**	**(32,113)**	**(1,987,113)**
Recoveries	**-**	**-**	**-**	**36,000**	**-**	**9,936**	**45,936**
Ending balance	**$ 3,211,944**	**$ 990,717**	**$ 42,433**	**$ 1,265,183**	**$ 17,439**	**$ 101,925**	**$ 5,629,641**

December 31, 2019	Commercial real estate	Residential real estate	Real estate - farm land	Commercial	Agricultural	Consumer and other	Total
Beginning balance	$ 2,005,838	$ 754,640	$ 59,644	$ 695,856	$ 20,092	$ 57,103	$ 3,593,173
Provision for loan losses	849,333	298,825	19,583	508,875	2,966	101,256	1,780,838
Charge-offs	-	-	-	(508,000)	-	(25,107)	(533,107)
Recoveries	75,000	-	-	10,000	-	5,798	90,798
Ending balance	$ 2,930,171	$ 1,053,465	$ 79,227	$ 706,731	$ 23,058	$ 139,050	$ 4,931,702

3. Loans and Allowance for Loan Losses – continued

The following tables summarize the allocation of the allowance for loan losses by type for loans individually and collectively evaluated for impairment:

December 31, 2020	**Commercial real estate**	**Residential real estate**	**Real estate - farm land**	**Commercial**	**Agricultural**	**Consumer and other**	**Total**
Loans individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ 489,033**	**$ -**	**$ 3,369**	**$ 492,402**
Loans collectively evaluated for impairment	**3,211,944**	**990,717**	**42,433**	**776,150**	**17,439**	**98,556**	**5,137,239**
Total	**$ 3,211,944**	**$ 990,717**	**$ 42,433**	**$ 1,265,183**	**$ 17,439**	**$ 101,925**	**$ 5,629,641**

December 31, 2019	Commercial real estate	Residential real estate	Real estate - farm land	Commercial	Agricultural	Consumer and other	Total
Loans individually evaluated for impairment	$ 1,492,058	$ -	$ -	$ 283,733	$ -	$ 6,319	$ 1,782,110
Loans collectively evaluated for impairment	1,438,113	1,053,465	79,227	422,998	23,058	132,731	3,149,592
Total	$ 2,930,171	$ 1,053,465	$ 79,227	$ 706,731	$ 23,058	$ 139,050	$ 4,931,702

3. Loans and Allowance for Loan Losses – continued

The Company's recorded investment in loans related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology is as follows:

December 31, 2020	**Loans individually evaluated for impairment**	**Loans collectively evaluated for impairment**	**Total**
Commercial real estate	**$ 2,599,122**	**$ 227,135,994**	**$ 229,735,116**
Residential real estate	**240,340**	**70,620,940**	**70,861,280**
Real estate - farm land	**-**	**3,034,999**	**3,034,999**
Commercial	**3,459,585**	**87,032,975**	**90,492,560**
Agricultural	**-**	**1,247,307**	**1,247,307**
Consumer and other	**14,164**	**7,276,062**	**7,290,226**
Total	**$ 6,313,211**	**$ 396,348,277**	**$ 402,661,488**

December 31, 2019	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total
Commercial real estate	$ 4,724,408	$ 189,960,856	$ 194,685,264
Residential real estate	-	69,993,889	69,993,889
Real estate - farm land	-	5,263,976	5,263,976
Commercial	2,730,196	44,226,173	46,956,369
Agricultural	-	1,532,026	1,532,026
Consumer and other	6,319	9,232,376	9,238,695
Total	$ 7,460,923	$ 320,209,296	$ 327,670,219

3. Loans and Allowance for Loan Losses – continued

Concentrations of Credit

The Company makes agricultural, agribusiness, commercial, residential, and consumer loans to customers primarily in North Texas. Although the Company's portfolio is diversified, a substantial portion of the Company's customers' abilities to honor their contracts is dependent upon the business economy in North Texas and surrounding areas.

At December 31, 2020 and 2019, the Company had total commercial real estate loans representing 448.1% and 404.5%, respectively of total risk-based capital. Included in this percentage, the Company had non-owner occupied commercial real estate loans representing 261.6% and 225.1%, respectively, and owner occupied commercial real estate loans representing 186.5% and 179.4% respectively, of total risk-based capital at December 31, 2020 and 2019. Additionally, as of December 31, 2020 and 2019, the Company had loans for construction, land development, and other land loans representing 86.3% and 83.8%, respectively, of total risk-based capital. Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program ("CRE"). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk based capital, or total non-owner occupied commercial real estate loans representing 300% or more of the institutions total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

Related Party Loans

At December 31, 2020 and 2019, the Company had loans outstanding to executive officers, directors, its shareholders, and other affiliates (related parties) totaling $2,548,424 and $1,385,386, respectively. During the year ended December 31, 2020, repayments totaled $171,862, and loan originations totaled $1,334,900. In management's opinion, such loans and other extensions of credit and were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

4. Premises and Equipment

Premises and equipment at December 31, 2020 and 2019, consisted of the following:

	December 31, 2020	December 31, 2019
Furniture, fixtures and equipment	**$ 3,381,431**	$ 3,201,477
Leasehold improvements	**1,432,172**	1,011,721
Building premises	**6,423,457**	5,773,231
Land	**2,934,002**	2,614,002
	14,171,062	12,600,431
Less: accumulated depreciation	**(3,253,690)**	(2,498,919)
	$ 10,917,372	$ 10,101,512

Depreciation expense was $833,421 and $686,711 for the years ended December 31, 2020 and 2019, respectively, and is included in occupancy expense on the accompanying consolidated statements of income.

5. Goodwill, Net

The gross carrying value and accumulated amortization of goodwill is as follows:

	December 31, 2020	December 31, 2019
Goodwill	**$ 4,981,659**	$ 4,981,659
Less: accumulated amortization	**(2,250,985)**	(1,759,861)
	$ 2,730,674	$ 3,221,798

Amortization expense related to goodwill amounted to $491,124 for the years ended December 31, 2020 and 2019.

The future amortization expense related to goodwill remaining at December 31, 2020, is as follows:

Year	Amount
2021	**$ 491,124**
2022	**491,124**
2023	**491,124**
2024	**491,124**
2025	**491,124**
Thereafter	**275,054**
	$ 2,730,674

6. Core Deposit Intangible, Net

The gross carrying value and accumulated amortization of the core deposit intangible is as follows:

	December 31, 2020	December 31, 2019
Core deposit intangible	**$ 777,313**	$ 777,313
Less: accumulated amortization	**(469,075)**	(379,325)
	$ 308,238	$ 397,988

Amortization expense related to the core deposit intangible amounted to $89,750 for the years ended December 31, 2020 and 2019, respectively.

The future estimated amortization expense related to the core deposit intangible remaining at December 31, 2020, is as follows:

Year	Amount
2021	**$ 89,750**
2022	**89,750**
2023	**89,750**
2024	**38,988**
	$ 308,238

7. Deposits

Deposits at December 31, 2020 and 2019, are summarized as follows:

	2020		2019	
	Amount	**Percent**	Amount	Percent
Noninterest-bearing demand	**$ 122,809,103**	**27.3%**	$ 100,206,582	24.2%
Interest-bearing demand	**212,381,951**	**47.2%**	182,017,654	44.0%
Savings deposits	**7,993,980**	**1.8%**	7,361,462	1.8%
Certificates of deposit, greater than or equal to $250,000	**44,193,278**	**9.8%**	48,222,247	11.7%
Certificates of deposit, less than $250,000	**62,624,213**	**13.9%**	75,484,340	18.3%
Total	**$ 450,002,525**	**100.0%**	$ 413,292,285	100.0%

7. Deposits – continued

At December 31, 2020, scheduled maturities of certificates of deposit were as follows:

Year	Amount
2021	$ **85,395,054**
2022	**18,863,289**
2023	**1,796,044**
2024	**438,658**
2025	**324,446**
	$ **106,817,491**

The aggregate amount of demand deposit overdrafts that have been reclassified as loans was $33,639 and $108,213 at December 31, 2020 and 2019, respectively.

Deposits received from related parties at December 31, 2020 and 2019, totaled $26,064,025 and $27,920,936, respectively.

8. Notes Payable and Capitalized Debt Issuance Costs

As of December 31, 2020 and 2019, the Company has a note payable secured by the stock of the Bank from an unrelated financial institution with an outstanding balance of $7,500,000 and $8,500,000, respectively. Interest is payable quarterly at 0.25% above the prime rate as published in the Wall Street Journal (3.5% at December 31, 2020) until May 12, 2018, at which time principal and interest was payable quarterly until maturity of May 12, 2019, when all outstanding principal and interest was due. In May 2019, the Bank amended the note, extending the maturity date to May 12, 2023, and establishing the interest rate to be equal to prime rate as published in the Wall Street Journal. Under the amended note, payments of principal and interest continue to be payable quarterly until maturity.

In December 2019, the Company issued $15,000,000 of subordinated notes payable to an unrelated third party. The subordinated notes payable bear interest at 5.50% until December 31, 2024, at which time the interest rate will be reset quarterly at 3.90% above the 3-month LIBOR rate. Interest will be paid quarterly, and all outstanding principal and interest will be due at the maturity date of December 31, 2029. The outstanding balances of subordinated notes payable totaled $15,000,000 as of December 31, 2020.

The notes payable includes various non-financial and financial covenants including minimum capital requirements. As of December 31, 2020, the Company was non-compliant with two covenants related to one lender: 1) the Bank's return on assets cannot be less than 0.50%; 2) the Bank's loan to asset ratio cannot exceed 80%. The Company obtained a waiver from the lender for the covenants that were not in compliance.

At December 31, 2020, debt was presented net of capitalized debt issuance costs of $193,598. Amortization of capitalized debt issuance costs of $21,712 during the year ended December 31, 2020, is included as a component of interest expense on the accompanying consolidated statements of income.

8. Notes Payable and Capitalized Debt Issuance Costs – continued

Debt issuance costs will be amortized in the future as follows:

Year		Amount
2021	**$**	**21,712**
2022		**21,712**
2023		**21,712**
2024		**21,712**
2025		**21,712**
Thereafter		**85,038**
	$	**193,598**

9. Other Borrowings

As a member of the FHLB Dallas, the Bank may have outstanding borrowings subject to the lesser of 35% of total assets or certain qualifying assets (primarily investment securities and 1-4 family mortgage loans) not otherwise pledged. At December 31, 2020 and 2019, total qualifying assets were $169,055,253 and $148,472,100, respectively. The Bank has sufficient collateral to be able to borrow an additional $122,555,253 and $101,972,000 from the FHLB Dallas at December 31, 2020 and 2019, respectively. There were no FHLB advances outstanding at December 31, 2020 and 2019.

The Company has an unsecured credit line with an unaffiliated financial institution of $5,000,000. The credit line has no stated maturity dates; however, it may be canceled at the sole discretion of the lending institution. The daily rate of interest on the credit line is quoted at the time such advance is requested or renewed by the Company. There were no outstanding borrowings under this line at December 31, 2020 and 2019.

10. Income Taxes

The provision for income taxes is summarized as follows for the years ended December 31:

		2020		2019
Current federal tax (benefit) expense	**$**	**(151,626)**	$	704,583
Current state tax expense		**13,000**		9,282
Deferred federal tax expense (benefit)		**358,016**		(470,203)
	$	**219,390**	$	243,662

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The effective federal tax rate for 2020 is approximately 21%. The rate of 40% for 2019 differs from the statutory tax rate of 21% principally due to the increase in cash surrender value of life insurance and non-deductible meals, entertainment, and dues expense.

10. Income Taxes – continued

Significant components of the Company's deferred tax assets and liabilities, included in other assets on the accompanying consolidated balance sheets, are presented in the table below.

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Allowance for loan losses	**$ 1,140,627**	$ 980,194
Net deferred loan fees	**98,800**	28,802
Goodwill	**153,050**	119,658
Stock options	**182,549**	182,549
Stock appreciation rights	**101,583**	76,006
Start-up costs	**29,568**	45,696
Net unrealized losses on investment securities available-for-sale	**-**	14,619
Other	**184,603**	197,438
Total deferred tax assets	**1,890,780**	1,644,962
Deferred tax liabilities:		
Premises and equipment	**(684,168)**	(39,634)
Prepaid expenses	**(43,301)**	(46,846)
Net unrealized gains on investment securities available-for-sale	**(215,014)**	-
Other	**(45,816)**	(68,352)
Total deferred tax liabilities	**(988,299)**	(154,832)
Net deferred tax asset	**$ 902,481**	$ 1,490,130

11. Commitments and Contingencies

Leases

The Company has entered into a non-cancelable operating lease agreement to lease the main facility from a partnership in which some of its directors are partners. The future minimum lease payments due under all non-cancelable operating leases at December 31, 2020, were as follows:

Year	Amount
2021	$ 396,663
2022	396,663
2023	396,663
2024	264,442
Total	$ 1,454,431

Total rent expense was approximately $554,320 and $548,000 for the years ended December 31, 2020 and 2019, respectively, and is included in occupancy expense on the accompanying consolidated statements of income.

Litigation

The Company, from time to time, may be involved in certain legal actions arising from normal business activities. Management believes that the outcome of such proceedings will not materially affect the financial position, results of operations or cash flows of the Company.

12. Financial Instruments with Off-Balance Sheet Risk

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for unfunded lines of credit, commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. The Company generally uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2020	2019
Commitments to extend credit	**$ 78,895,180**	$ 51,758,000
Standby letters of credit	**46,500,000**	198,000
Total	**$ 125,395,180**	$ 51,956,000

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

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

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

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

13. Fair Value Disclosures

The authoritative guidance for fair value measurements 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs.

13. Fair Value Disclosures – continued

The authoritative guidance for fair value measurements 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs.

An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs).

Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

> *Level 1 Inputs.* Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
>
> *Level 2 Inputs*. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks, and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 investments consist primarily of obligations of U.S. government sponsored enterprises and agencies, obligations of state and municipal subdivisions, corporate bonds and mortgage backed securities.
>
> *Level 3 Inputs*. Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters.

13. Fair Value Disclosures – continued

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Financial Assets and Financial Liabilities

Financial assets and financial liabilities measured at fair value on a recurring basis include the following:

Investment securities available-for-sale. Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information, and the security's terms and conditions, among other items.

There were no transfers between Level 2 and Level 3 during the years ended December 31, 2020 and 2019.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements Using			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
At December 31, 2020				
Investment securities available-for-sale	**$ -**	**$ 35,432,661**	**$ -**	**$ 35,432,661**
At December 31, 2019				
Investment securities available-for-sale	$ -	$ 47,753,841	$ -	$ 47,753,841

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis include the following:

Impaired loans. Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on the discounting of the collateral measured by appraisals.

At December 31, 2020, impaired loans with a carrying value of $6,313,211 were reduced by specific valuation allowances of $492,402 resulting in a net fair value of $5,820,809. At December 31, 2019, impaired loans with a carrying value of $7,460,923 were reduced by specific valuation allowances of $1,782,110 resulting in a net fair value of $5,678,813.

14. Employee Benefit Plans

In 2016, the Company formed a combined stock ownership and profit sharing plan ("KSOP"). The KSOP is a defined contribution plan and is available to all employees meeting certain eligibility requirements. In general, for employees who work more than 1,000 hours per year, the Company matches employee contributions up to 4% of the employee's salary. Employer matching expenses related to contributions to the plan for the years ended December 31, 2020 and 2019, were $180,766 and $166,337, respectively, and are included within salaries and employees benefits in the accompanying consolidated statements of income. Employee and employer contributions were made in accordance with the terms of the plan. As of December 31, 2020 and 2019, the KSOP held 112,315 and 94,655 shares of voting common stock, respectively, and 8,362 and 6,442 shares of non-voting common stock, respectively.

15. Stock Appreciation Rights

Effective January 1, 2016, the Company established the AccessBank Texas Stock Appreciation Rights Plan. Stock appreciation rights (SARs) granted under the plan generally have a term of 10 years and the participant would receive, in cash, 100% of the SARs value at the distribution date or earlier if the participant attained the normal retirement age. The SARs value is calculated, in accordance with the terms of the agreement, as the excess of the per-share book price at each reporting date over the initial value specified in the award agreement. Certain participants have awards that specify other terms, vesting periods, or timing of distributions.

The Company did not grant SAR's to employees in 2020 and granted 78,500 SARS in 2019. During the year ended December 31, 2020, 39,612 SARs were forfeited by employees, while 34,112 SARs were forfeited during the year ended December 31, 2019. The Company's liability for outstanding SARs of $483,729 and $361,931 at December 31, 2020 and 2019, respectively, is reflected in other liabilities in the accompanying consolidated balance sheets. For the year ended December 31, 2020, the Company recognized $121,798 for SARs-related expense. The Company recognize $293,741 SARs-related expense for the year ended December 31, 2019.

15. Stock Appreciation Rights – continued

Below is a summary of SARs activity during 2020 and 2019:

	Shares	Weighted Average Price
Outstanding, January 1, 2020	**680,030**	**$ 6.55**
Granted	**-**	**-**
Exercised	**-**	**-**
Forfeited	**39,612**	**5.72**
Expired	**-**	
Outstanding, December 31, 2020	**640,418**	**$ 6.63**
SARs exerciseable	**-**	
Weighted average remaining contractual life of SARs:		
Oustanding	4.01	
Exercisable	-	

	Shares	Weighted Average Price
Outstanding, January 1, 2019	635,642	$ 5.96
Granted	78,500	6.41
Exercised	-	
Forfeited	34,112	5.96
Expired	-	
Outstanding, December 31, 2019	680,030	$ 6.55
SARs exerciseable	-	
Weighted average remaining contractual life of SARs:		
Oustanding	4.16	
Exercisable	-	

16. Stock Options

The Company has a Stock Incentive Plan available to directors, executive officers and employees, which provides for nonqualified and incentive stock options. The option exercise price shall be no less than one hundred percent (100%) of the fair market value on the date of grant and, in the case of a stock option granted to a controlling shareholder owning more than 10% of the Company's outstanding stock, no less than one hundred ten percent (110%) of the fair market value on the date of grant. The fair value of the stock options is determined using the Black-Scholes methodology. Vesting periods range from three to five years from the date of grant. Options expire 10 years from the date of grant and, in the case of a controlling shareholder, not more than five years from the date of grant.

16. Stock Options – continued

The total number of shares for which options are authorized is 295,000. As of December 31, 2020, there were no shares remaining to be granted under the Stock Incentive Plan. There were 7,500 stock options outstanding and exercisable as of December 31, 2020 and 2019. Options outstanding as of December 31, 2020, had a weighted average exercise share price of $4.00 and weighted average remaining contractual life of 1 year per option. There was no stock option activity during the year ended December 31, 2020. Options outstanding as of December 31, 2019, had a weighted average exercise share price of $4.00 and weighted average remaining contractual life of 2 years per option. During 2019, 10,000 stock options were exercised and 6,000 stock options expired, having weighted average exercise prices of $4.00 and $10.00, respectively. There was no other stock option activity during the year ended December 31, 2019.

For the years ended December 31, 2020 and 2019, there was no stock based compensation expense. At December 31, 2020, there was no unrecognized compensation costs related to stock option compensation arrangements since all options were fully vested.

17. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table on the following page) of total, common Tier I capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, common Tier 1 risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the tables below.

As shown in the following table, the Bank's capital ratios exceed the regulatory definition of well capitalized as of December 31, 2020 and 2019. There have been no conditions or events since December 31, 2020, that management believes have changed the Bank's category. Based upon the information in its most recently filed call report, the Bank continues to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action.

17. Regulatory Matters – continued

A comparison of the Bank's actual capital amounts and ratios to required capital amounts and ratios is presented in the following table (in thousands of dollars):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2020:						
Total capital (to risk-weighted assets)	**$ 54,925**	**14.0%**	**$ 31,363**	**8.0%**	**$ 39,204**	**10.0%**
Tier 1 capital (to risk-weighted assets)	**50,016**	**12.8%**	**23,522**	**6.0%**	**31,363**	**8.0%**
Common equity tier 1 capital (to risk-weighted assets)	**50,016**	**12.8%**	**17,642**	**4.5%**	**25,482**	**6.5%**
Tier 1 capital (to average assets)	**50,016**	**9.8%**	**20,422**	**4.0%**	**25,527**	**5.0%**
As of December 31, 2019:						
Total capital (to risk-weighted assets)	$ 52,175	14.9%	$ 28,086	8.0%	$ 35,108	10.0%
Tier 1 capital (to risk-weighted assets)	47,780	13.6%	21,065	6.0%	28,086	8.0%
Common equity tier 1 capital (to risk-weighted assets)	47,780	13.6%	15,799	4.5%	22,820	6.5%
Tier 1 capital (to average assets)	47,780	10.7%	17,833	4.0%	22,292	5.0%

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank 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 Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was 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 for 2019 and thereafter is 2.50%.

18. Subsequent Events

In preparing the consolidated financial statements, the Company has evaluated all subsequent events and transactions for potential recognition or disclosure through April 30, 2021, the date the consolidated financial statements were available for issuance.

In March 2021, the Company issued $7,000,000 of subordinated notes payable to an unrelated third party. The subordinated notes payable bear interest at 5.00% until March 31, 2026, at which time the interest rate will be reset quarterly at 4.45% above the secured overnight financing rate published by the Federal Reserve Bank of New York. Interest will be paid quarterly, and all outstanding principal and interest will be due at the maturity date of March 31, 2031. The proceeds from these subordinated notes payable were used to pay off the Company's existing note payable with an unrelated financial institution in the amount of $7,500,000.