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, Mary E. Sullivan
Name of the Holding Company Director and Official

Manager of SBH Manager, LLC
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.

Mary E Sullivan
Signature of Holding Company Director and Official

09/14/2021
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

SBH Manager, LLC
Legal Title of Holding Company

800 North Shoreline Suite 2200 N
(Mailing Address of the Holding Company) Street / P.O. Box

Corpus Christi	TX	78401
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Katie Hobgood	Director of Accounting
Name	Title

817-987-2394
Area Code / Phone Number / Extension

817-987-2381
Area Code / FAX Number

khobgood@affiliatedbank.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 **1**

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.

Susser Bank Holdings, LLC
Legal Title of Subsidiary Holding Company

800 North Shoreline Suite 2200 N
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

Corpus Christi	TX	78401
City	State	Zip Code

Physical Location (if different from mailing address)

BancAffiliated, Inc
Legal Title of Subsidiary Holding Company

2326 W Pleasant Ridge Road
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

Arlington	TX	76015
City	State	Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

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City State Zip Code

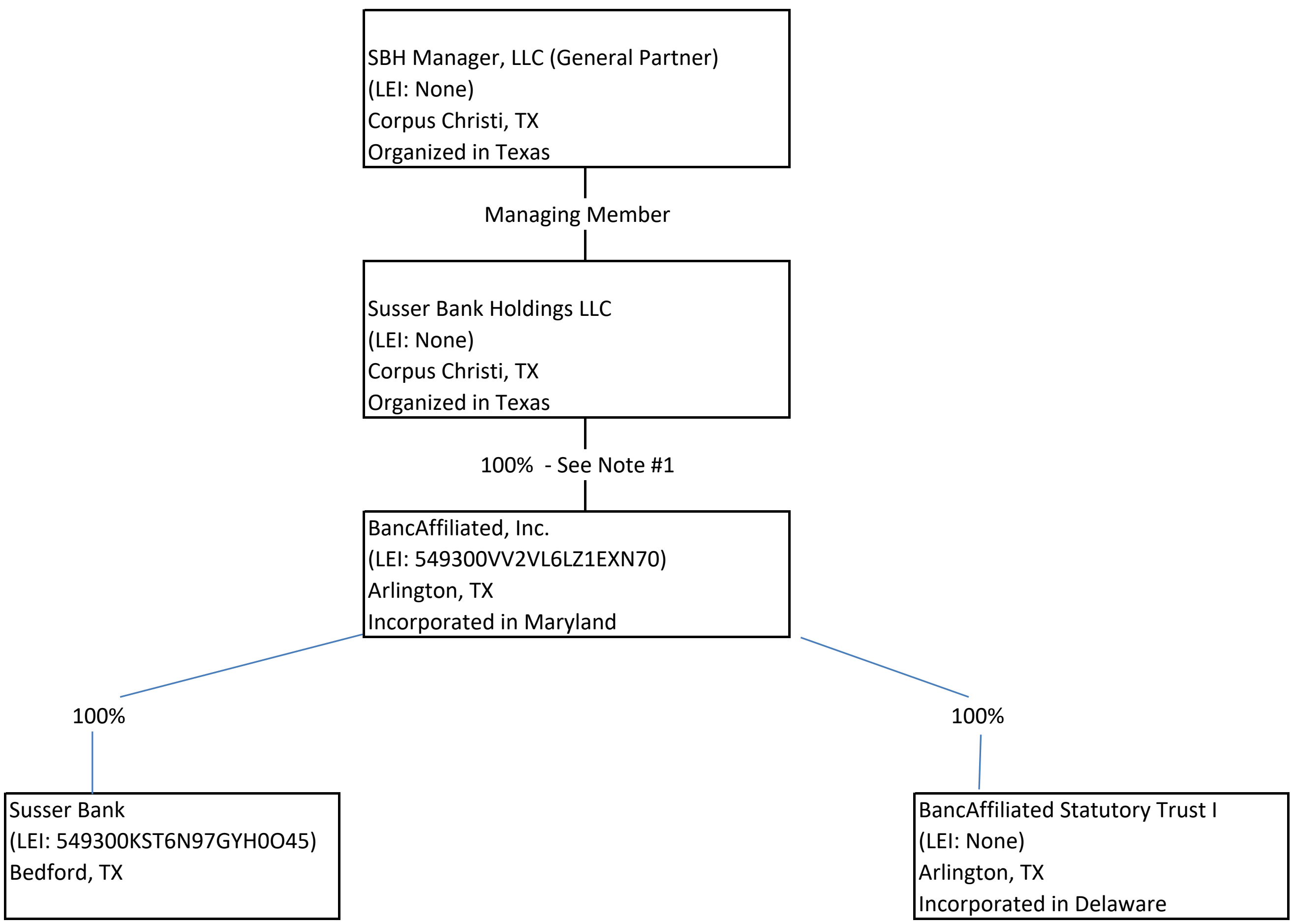
Physical Location (if different from mailing address)

Form FR Y-6
SBH Manager, Inc.
Corpus Christi, TX
Fiscal Year Ending December 31, 2020

Report Item

1. BancAffiliated, Inc. prepares an annual report to shareholders.
   One copy is enclosed.

2a. Organizational Chart



Note #1 - 70.56% overall economic ownership of the entity, comprised of 100% of the super-voting class of stock.

Results: A list of branches for your depository institution: SUSSER BANK DBA AFFILIATED BANK (ID_RSSD: 965789).
This depository institution is held by SBH MANAGER, LLC (5189450) of CORPUS CHRISTI, 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)	965789	SUSSER BANK DBA AFFILIATED BANK	500 HARWOOD RD	BEDFORD	TX	76021-4110	TARRANT	UNITED STATES	Not Required	Not Required	SUSSER BANK DBA AFFILIATED BANK	965789	
OK		Full Service	4167527	ARLINGTON BRANCH	2326 WEST PLEASANT RIDGE ROAD	ARLINGTON	TX	76015	TARRANT	UNITED STATES	Not Required	Not Required	SUSSER BANK DBA AFFILIATED BANK	965789	
OK		Full Service	5535468	FORT WORTH - HULEN	4200 SOUTH HULEN STREET, SUITE 110	FORT WORTH	TX	76109	TARRANT	UNITED STATES	Not Required	Not Required	SUSSER BANK DBA AFFILIATED BANK	965789	
OK		Full Service	4462259	GARLAND BRANCH	2302 GUTHRIE ROAD	GARLAND	TX	75043	DALLAS	UNITED STATES	Not Required	Not Required	SUSSER BANK DBA AFFILIATED BANK	965789	
Change	4/20/2020	Full Service	4763620	ROUND ROCK - I-35 BRANCH	920 NORTH INTERSTATE HIGHWAY 35	ROUND ROCK	TX	78681	WILLIAMSON	UNITED STATES	Not Required	Not Required	SUSSER BANK DBA AFFILIATED BANK	965789	

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

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

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/2020		
(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Susser Bank Holdings, LLC Corpus Christi, TX, USA	USA	70.56% Ownership of BancAffiliated; 100% of Super-Voting class of common stock provides 96.0% voting power	None		

Form FR Y-6
Susser Bank Holdings, LLC
Fiscal Year Ending December 31, 2020

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

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/2020		
(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
SBH Manager, LLC Corpus Christi, TX USA	USA	0% economic interest 100% voting control by virtue of being the general partner	None		
Sam L Susser Dallas, TX USA	USA	**			
Susser Family Limited Partnership II Corpus Christi, TX USA	USA	**			
** Dallas, TX USA	USA	**			

** The responsive data may be found in the confidential volume

Form FR Y-6
SBH Manager, LLC
Fiscal Year Ending December 31, 2020

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

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/2020		
(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Sam L. Susser Dallas, TX, USA	USA	100% - Sole member of GP	None		

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

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

(1) Name, City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securites are held (List names of companies and percentage of voting securities held)
Sam L Susser Dallas, TX, USA	Executive & Private Investor	Chairman & Director	Chairman & Director (Susser Bank)	Manager, SBH Manager, LLC President, Susser Investment Company Chairman/CEO, Corpus Christi Athletic Club	70.61% Ownership of BancAffiliated including 70.56% indirect ownership via control of Susser Bank Holdings LLC through SBH Manager LLC (96.0% voting power)	N/A	**
Jeff R Schmid Dallas, TX, USA	Banker	Director & Secretary	CEO (Susser Bank)	Manager, JABA Enterprises, LLC	2.31% Ownership	N/A	**
David Engel Corpus Christi, TX, USA	Investor	Director	Director (Susser Bank)	N/A	.05% Ownership	N/A	**
Rob Jones Houston, TX, USA	Investment Consulting	Director	N/A	President-Basalt Investments, LLC President & CEO/Managing Member-Cinnabar Investments, LLC Managing Member-Jones Spirits, LP Member-Bramble Road, LLC	.05% Ownership	N/A	**
Ronald G. Steinhart Dallas, TX, USA	Retired Bank Executive	Director	N/A	N/A	.03% Ownership	N/A	**
James Huffines Dallas, TX USA	Retired Bank Executive	Director	Director (Susser Bank)	Principal, JRH LLC	.01% Ownership	N/A	**
T. Randall Cain San Antonio, TX USA	Retired Executive/CPA	Director	Director (Susser Bank)	N/A	.01% Ownership	N/A	**
Lisanne Davidson Fort Worth, TX USA	Banker	Chief Counsel	Chief Counsel (Susser Bank)	N/A	.10% Ownership	N/A	**

** The responsive data may be found in the confidential volume

Form FR Y-6
Susser Bank Holdings, LLC
Fiscal Year Ending December 31, 2020

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

(1) Name, City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securites are held (List names of companies and percentage of voting securities held)
Sam L Susser Dallas, TX, USA	Executive & Private Investor	Sole Member & Manager of GP	Chairman & Director (BancAffiliated & Susser Bank)	President, Susser Investment Company Chairman/CEO, Corpus Christi Athletic Club	**	70.61% Ownership of BancAffiliated including 70.56% indirect ownership via control of Susser Bank Holdings LLC through SBH Manager LLC (96.0% voting power)	**
Mary E Sullivan Corpus Christi, TX USA	CPA	Manager of GP	Director (Susser Bank)	None	**	0.05% Direct ownership of BancAffiliated (regular voting)	**

** The responsive data may be found in the confidential volume

Form FR Y-6
SBH Manager, LLC
Fiscal Year Ending December 31, 2020

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

(1) Name, City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securites are held (List names of companies and percentage of voting securities held)
Sam L Susser Dallas, TX, USA	Executive & Private Investor	Sole Member & Manager of GP	Chairman & Director (BancAffiliated & Susser Bank) Sole Member & Manager of GP (Susser Bank Holdings, LLC)	President, Susser Investment Company Chairman/CEO, Corpus Christi Athletic Club	100%	70.61% Ownership of BancAffiliated including 70.56% indirect ownership via control of Susser Bank Holdings LLC through SBH Manager LLC (96.0% voting power)	**
Mary E Sullivan Corpus Christi, TX, USA	CPA	Manager of GP	Director (Susser Bank) Manager of GP (Susser Bank Holdings, LLC)	None	0%	0.05% Direct ownership of BancAffiliated (regular voting)	**

** The responsive data may be found in the confidential volume

SUSSER BANC
HOLDINGS
CORPORATION

Susser
Bank

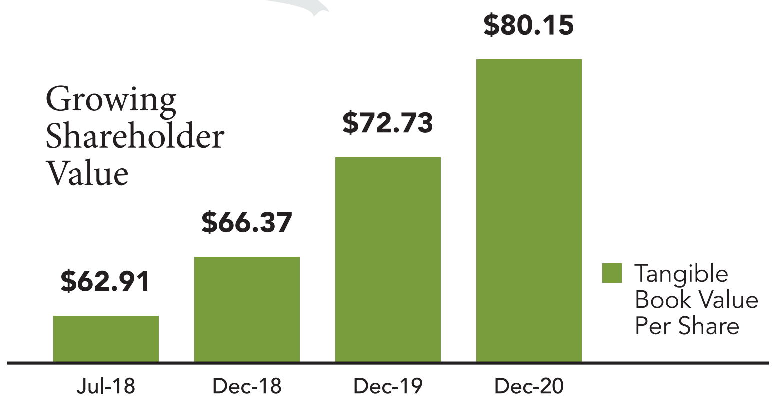
2020
Annual Report

Susser Bank

Branches

Our Mission

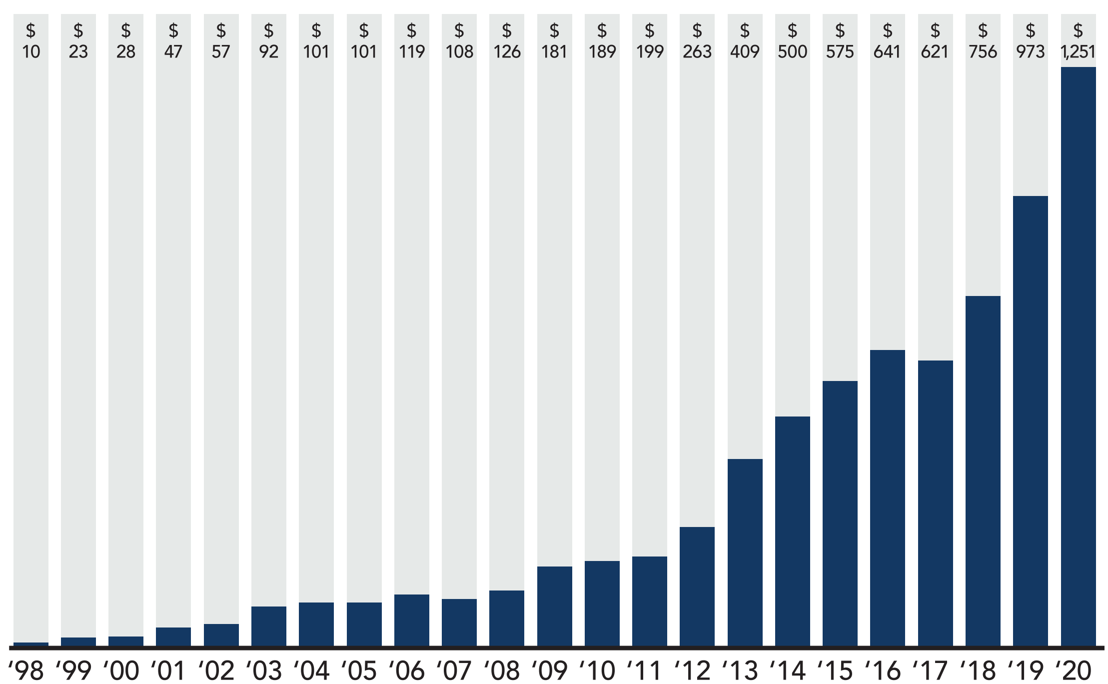
At Susser Bank, our reputation is everything. Our single-minded purpose is to create outstanding financial solutions which benefit our clients, team members and the communities we live in.



24% CAGR Asset Growth 1998-2020

In millions

Susser Bank signed LOI on May 5, 2017 and closed the investment on July 2, 2018.



Susser Banc Holdings Corporation

Freedom Place at Old Parkland
4143 Maple Avenue, Suite 450
Dallas, Texas 75219

April 5, 2021

2020 was an extraordinarily challenging year for all of us and one that we will never forget. Some of us lost family or friends, and for many, life will never be the same.

Given these trying circumstances, we are so proud of our team that overcame these challenges and turned them into opportunities, many while working remotely through the COVID-19 pandemic. First and foremost, we protected the bank, accelerating our efforts to de-risk the balance sheet and increase liquidity. We closed out 2020 with $1.25 billion in assets, up 29% from the prior year, while also increasing the diversification and managing the credit exposure of the loan portfolio. Total deposits increased by 19% over the previous year. Net income of $8.25 million was in line with our budget, although the key drivers of income were different than anticipated at the start of the year. We encourage you to read the accompanying Management's Discussion and Analysis for a robust discussion of 2020 performance.

Effective at close of business on December 30, 2020, our wholly-owned subsidiary, Affiliated Bank, N.A. ("Bank"), converted its charter from a national bank to a Texas state bank, and also changed its name to Susser Bank. While we maintained a constructive and very satisfactory relationship with our national regulator, we believe we will be able to build an even closer working relationship with the Texas Department of Banking and continue to receive strong safety and soundness oversight, while also reducing regulatory costs. We do not expect the Texas Department of Banking to be as impacted by the constant shift in the political climate as the Washington-based regulators.

As we have previously shared, we realized the Affiliated Bank brand did not differentiate us in the market and was often confused with other names. We had decided to rebrand to the SouthWest Bank name in conjunction with our planned merger with that bank, but after terminating the merger in mid-2020, we began the difficult process of evaluating other brands. After consultation with our Board of Directors and the Susser family, we decided to move forward with the Susser Bank name. Additionally, effective February 22, 2021, BancAffiliated, Inc, the parent company, changed its name to Susser Banc Holdings Corporation. We believe the strength and reputation of six generations living and successfully doing business in Texas will provide the Bank with additional awareness and business leverage in our primary Texas markets. These name changes reflect the Susser family's long-term commitment to the banking business and the intent to continue growing Susser Bank over multiple generations to come. Our new branding is being revealed in this annual report, and we will formally launch the new brand in tandem with our annual shareholder meeting on April 27, 2021.

One of the opportunities our team executed extremely well last year was the Paycheck Protection Program (PPP). Our bankers assisted over 1,600 clients with $214.6

million in PPP loans. Compared to our peers, this was a stellar performance. PPP loans represented 23.1% of our total loans as of December 31, 2020, which placed us in the top 3% of Texas banks based on the percentage of loans and the top 6% of Texas banks based on the amount of PPP loans made. We were able to serve not only our existing customers, but we established over 300 new relationships as a result of our team's willingness and ability to quickly process the applications, with many of our team members working horrific hours in March and April to accommodate the loan demand. We are now working through SBA forgiveness of the first round of PPP loans and expect to book another $75 million to $85 million of PPP loans in round two. The PPP program has helped us increase our demand deposit balances, and we anticipate increasing amounts of liquidity as loans are forgiven/paid off by the SBA. Most importantly, this program has allowed us to begin developing new relationships with so many interesting and desirable clients.

Our team also successfully completed the conversion of its core banking system to the Jack Henry Silverlake platform and implemented Q2 as its online banking system. This was a huge undertaking, and the team's extensive preparation resulted in only minimal issues in the weeks following the Labor Day conversion. We are now better positioned to scale our business and provide leading-edge treasury management products to our clients.

We were disappointed to terminate the planned merger with SouthWest Bank in Odessa. We believe they are a superb team, and we remain friends, however we decided it was the best course of action for our shareholders, given the economic uncertainty due to both the pandemic and the instability of the energy markets triggered by the economic contraction.

We have been successful in recruiting several new lending teams recently and are expanding our footprint to include Dallas and San Antonio branches. We are also developing new branches in Arlington and the North Fort Worth market. We are very encouraged about these additions to our team and the strong pipeline of loan demand we are seeing from our newest team members and some of our tenured producers. As we continue our growth trajectory, we envision a possible need for additional capital later this year or in 2022 in the form of debt, a "friends and family" equity raise, or a combination of both.

We hope you can join us at the Annual Shareholder Meeting, where we will provide additional details on 2020 performance, our current goals for 2021 and how we are preparing for the future. The Board and Management Team continue to be grateful to our Shareholders for your confidence and support demonstrated by your investment in Susser Banc Holdings Corporation. We are especially appreciative of the business you do with us, and for the referrals you make.

Very truly yours,

Sam L. Susser	Jeffrey R. Schmid
Chairman	President, Chief Executive Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The earnings of BancAffiliated, Inc. (the "Company") depend primarily on its level of net interest income, which is the difference between interest earned on interest-earning assets, consisting primarily of mortgage loans, commercial business loans (which include equipment loans, consumer loans and finance leases) and short term investments and the interest paid on interest-bearing liabilities, consisting of deposits and borrowings. The interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other financial institutions, is subject to interest-rate risk to the degree that its interest-earning assets mature or reprice at different times, or on a different basis, than its interest-bearing liabilities. Earnings are impacted by the credit worthiness of its borrowers and the amount of reserves that must be established in its allowance for loan losses.

To a lesser extent, the Company's operating results are also affected by noninterest income and the control of its noninterest expense. Noninterest income includes service charges, income from the origination, sale, and servicing of mortgage and Small Business Administration ("SBA") loans, and other income. Noninterest expense consists primarily of compensation and benefits, occupancy and equipment, federal insurance premiums, technology, and other operating expenses. The Company's operating results are significantly affected by general economic conditions, in particular, the changes in market interest rates, government policies and actions by regulatory authorities.

The Company, through its wholly owned subsidiary, Susser Bank (operating as Affiliated Bank, N.A. prior to December 31, 2020) (the "Bank"), primarily serves the Dallas/Fort Worth MSA and Austin MSA in Texas. The Company currently has five full-service banking offices located in the Texas markets of Bedford, Arlington, Garland, Fort Worth and Round Rock, with new branch locations under development in Fort Worth, Dallas, Arlington, and San Antonio, and loan production/deposit production offices in Omaha and Des Moines. In addition, the Company has a residential mortgage operation located in Arlington, Texas with production offices in several other Texas markets.

Financial Condition

December 31, 2020 Compared to December 31, 2019

Total assets increased $277.7 million or 28.5% to $1,251.0 million at December 31, 2020 from $973.3 million at December 31, 2019. Asset growth was primarily tied to $214.6 million in loans made under the Paycheck Protection Program ("PPP") administered by the SBA. Cash and cash equivalents held for liquidity purposes grew by $121.9 million and loans held for investment, excluding PPP loans, decreased $104.0 million during the year ended December 31, 2020.

Overall cash and cash equivalents increased by $121.9 million or 112.1% to $230.7 million at December 31, 2020 from $108.8 at December 31, 2019. This increase is a result of management's risk administration decisions to slow core loan funding and hold excess liquidity during the coronavirus ("COVID-19") pandemic combined with an influx of deposits related to PPP lending. The Company began building a portfolio of securities available for sale in December 2020, adding $27.2 million to the balance sheet with an average yield of 0.61%. Loans held for investment, excluding PPP loans, decreased by $104.0 million or 13.4% to $672.0 million at December 31, 2020 from $776.1 million at December 31, 2019, as shown in the following table. This decrease is primarily centered in the commercial and industrial ("C&I"), 1-4 residential mortgage, and construction and development lines of business. In the earlier part of 2020, in response to the uncertainty that the COVID-19 pandemic presented and with the goal of lowering risk in balance sheet concentrations, management made the decision to temporarily halt new construction and development lending. At the same time, historically low mortgage rates spurred a 1-4 residential refinance boom and the Bank saw increased payoffs in that segment of its portfolio.

Loan Growth in thousands:	2019	2020	Change in Balance	% Change in Balance
Commerical Real Estate	$ 205,272	$ 270,646	$ 65,374	31.8%
C &I	119,019	85,686	(33,333)	-28.0%
Constr, Land, Dev	224,506	144,170	(80,336)	-35.8%
1-4 Residential	216,316	170,744	(45,572)	-21.1%
Consumer	16,474	14,472	(2,002)	-12.2%
Unearned income	(1,585)	(3,863)	(2,278)	143.7%
Less allowance for loan losses	(3,935)	(9,835)	(5,900)	149.9%
Loans excluding PPP	776,067	672,020	(104,047)	-13.4%
PPP	0	214,645	214,645	
Total loans	$ 776,067	$ 886,665	$ 110,598	14.3%

The allowance for loan loss was $9.8 million at December 31, 2020 compared to $3.9 million for fiscal year 2019. Continuing management's risk management actions taken to protect and strengthen the Bank in the face of economic uncertainty caused by the global pandemic, the Company conservatively increased its allowance for loan loss in 2020, adding $5.9 million. Loans originated prior to July 2, 2018 have unamortized fair value credit and interest rate marks. The Company's allowance for loan loss plus the unamortized fair value mark was 2.05% of loans at December 31, 2020, compared to 1.28% at the prior year end. Past due loans remain low, ending fiscal 2020 at 0.49% of total loans, less than the internal target of 1%.

The Company has observed an increase in classified assets and is closely monitoring at-risk relationships. While classified assets at December 31, 2020 were 21.5% of tier 1 capital compared to 13.6% the prior year end, they remain well within regulatory tolerance. Some of the Company's borrowers have experienced financial difficulty related to the COVID-19 pandemic and the Company granted short term (six months or less) payment deferrals to these customers on 179 loans. There are 17 loans remaining, or $10.9 million, at December 31, 2020 with active COVID-19 related deferrals that are not reflected as past due. The Company believes its reserve was appropriate at year-end and continues to closely monitor the credit quality of its loan portfolio.

Liabilities increased approximately $264.6 million or 31.7% to $1,100.0 million at December 31, 2020 from $835.4 million at December 31, 2019. Deposits increased by $154.2 million or 19.1% to $963.3 million at December 31, 2020 from $809.1 million at December 31, 2019. As the PPP lending program was funded through $120.0 million in Federal Home Loan Bank ("FHLB") advances, borrowings increased by $93.0 million or 547.1% to $110.0 million at December 31, 2020 from $17.0 million at December 31, 2019. Other liabilities increased by $17.4 million to $26.7 million at December 31, 2020 from $9.3 million at December 31, 2019, an increase of 188.3%. The increase is due to recording a $17.3 million payable for future settlement of purchased securities available for sale which settled in January of 2021.

Shareholders' equity increased by $13.1 million or 9.5% to $151.0 million at December 31, 2020 from $137.9 million at December 31, 2019, as reflected in the table below. The increase in stockholder's equity is comprised of retained earnings and additional paid in capital including $3.6 million in common stock sold.

Stockholders' Equity in thousands:	
Balance as of December 31, 2019	$ 137,941
Earnings	8,247
Stock Compensation	1,251
Common Stock Issued	3,600
Balance as of December 31, 2020	$ 151,039

Tangible Stockholders' Equity in thousands:	
Shareholders' Equity	$ 151,039
Less: Intangibles	(32,632)
Balance as of December 31, 2020	$ 118,407

	As of December 31,	
	2019	2020
Common Shares Outstanding	1,438,920	1,477,289
Tangible Book Value per Share	$ 72.73	$ 80.15

Operating Results

Comparison of Operating Results for the Years Ended December 31, 2020 and December 31, 2019
(In thousands)

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2020
Total interest income	$ 49,409	$ 50,776
Total interest expense	13,737	10,792
Net interest income	35,672	39,984
Provision for loan losses	2,281	5,942
Net interest income after provision for loan losses	33,391	34,042
Noninterest income:		
Mortgage loan origination and fee income	1,344	2,127
Rental income	449	455
Net gain on sales of loans	9,326	17,055
Other	495	429
Total noninterest income	11,614	20,066
Noninterest expense:		
Salaries and employee benefits	24,332	30,280
Occupancy expense	1,971	1,914
Loan servicing expense net of amortization	486	546
Other	9,071	9,810
Expenses associated with terminated merger	788	1,006
Total noninterest expense	36,648	43,556
Income before income tax expense	8,357	10,552
Income tax expense	1,513	2,305
Net income	$ 6,844	$ 8,247

Performance Summary. The Company reported net income of $8.2 million for the twelve months ended December 31, 2020 compared to $6.8 million for the year ended December 31, 2019. The Company's earnings increase was primarily the result of fees and interest on PPP loans and income from the origination and sale of mortgage loans. PPP interest and fees totaled $5.9 million in fiscal year 2020. During 2020, the mortgage industry experienced a refinance boom with historically low interest rates. Driven by these rates, the Company originated 65% more mortgage loans in the twelve months ending December 31, 2020 than in 2019. Gain on sales of mortgage loans of $16.2 million are included in net gains on sales of loans during fiscal 2020 compared to $8.6 million in 2019.

On December 8, 2019, the Company entered into an Agreement and Plan of Merger with Odessa SouthWest Bancshares ("OSWB") whereby the Company would obtain control of OSWB through the purchase of 100% of the outstanding stock. On July 2, 2020, the parties mutually agreed to terminate the agreement. The company paid $1.0 million in the year ended December 31, 2020, including a termination fee of $0.5 million, related to the terminated merger. The Company had expenses of $0.8 million related to the merger with OSWB in the year ended December 31, 2019. The Company also incurred $0.5 million in expense in 2020 related to the conversion of its core operating system. For the years ended December 31, 2020 and December 31, 2019, the returns on average assets were 0.73% and 0.78% respectively. Returns on average tangible equity were 7.55% and 7.96% for 2020 and 2019, respectively. Excluding the non-recurring expenses for the terminated merger and system conversion, return on average assets and return on average tangible equity for 2020 would have been 0.84% and 8.58%, respectively.

Net Interest Income. Net interest income increased by $4.3 million for fiscal 2020 compared to 2019. This is the result of an increase of $1.4 million in interest income and a decrease in interest expense of $2.9 million. The net improvement was primarily due to a decrease in cost of funds, which was the result of the low interest rate environment spurred by the Federal Reserve cutting the fed funds target rate to 0.0%-0.25% in March 2020 coupled with a shift in funding from CDs to lower cost demand and money market deposits, one of the Company's key initiatives. The Company's ratio of average interest-earning assets to average interest-bearing liabilities for 2020 and 2019 are 131.9% and 126.9%, respectively.

For the year ended December 31, 2020, the average yield on interest-earning assets was 4.79% compared to 6.03% for 2019. The average cost of interest-bearing liabilities was 1.34% for the year ended December 31, 2020, compared to 2.13% for 2019. The average balance of interest-earning assets increased by $247.9 million to $1,059.7 million at December 31, 2020 compared to $811.8 million for December 31, 2019. During this same time period, the average balance of interest-bearing liabilities increased by $163.7 million to $803.3 million for the year ended December 31, 2020, compared to $639.6 million for fiscal 2019.

The interest rate spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Due to the decrease in yields on earning assets coupled with the decreased cost of funds, the average interest rate spread was 3.45% for the year ended December 31, 2020, compared to 3.90% for fiscal 2019. The net interest margin measures net interest income as a percentage of interest-earning assets. The average net interest margin was 3.77% for the year ended December 31, 2020 compared to 4.34% for 2019.

Provision for Loan Losses. The allowance for loan loss as of July 2, 2018 was eliminated as part of purchase accounting, as loans were marked to fair value. During the year ended December 31, 2020, the Company recorded a provision for loan losses of $5.9 million compared to $2.3 million in 2019. There were net loan losses during the twelve months ended December 31, 2020 of $42 thousand compared to $44 thousand for the year ended December 31, 2019. At December 31, 2020, $4.3 million in unamortized credit mark adjustment remained in the loan balance. This amount, coupled with the $9.8 million in allowance for loan losses, provides an effective reserve of 2.05% of loans at year-end.

Management will continue to monitor its allowance for loan losses and make additions to the allowance through the provision for loan losses as economic conditions and other factors dictate. Although the Company maintains its allowance for loan losses at a level which it considers to be adequate to provide for loan losses, there can be no assurance that future losses will not exceed estimated amounts or that additional provisions for loan losses will not be required in the future.

Noninterest Income. For the year ended December 31, 2020, noninterest income increased by $8.5 million to $20.1 million, compared to $11.6 million for fiscal 2019. Most of the Company's noninterest income is generated from mortgage activities and SBA loan activities. The increased level of noninterest income was primarily the result of increased mortgage activity.

Noninterest Expense. Noninterest expense increased by $6.9 million or 18.8% to $43.6 million for the twelve months ended December 31, 2020, from $36.6 million for the year ended December 31, 2019. The increase in compensation expense of $5.9 million accounts for 86% of the increase.

Income Taxes. The Company recorded an expense of $2.3 million for federal income taxes for the twelve months ended December 31, 2020, compared to $1.5 million recorded for the year ended December 31, 2019.

Asset/Liability Management

One of the Company's principal financial objectives is to achieve long-term profitability while reducing its exposure to fluctuations in interest rates. The Company has sought to reduce exposure of its earnings to changes in market interest rates by managing the mismatch between asset and liability maturities and interest rates. The principal element in achieving this objective has been to increase the interest rate sensitivity of the Company's assets by originating loans with interest rates subject to periodic repricing to market conditions. Accordingly, the Company has emphasized the origination of loans that reprice at short durations.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If the Company's assets mature or reprice more quickly or to a greater extent than its liabilities, the Company's net portfolio value and net interest income would tend to increase during periods of rising interest rates but decrease during periods of falling interest rates. If the Company's assets mature or reprice more slowly or to a lesser extent than its liabilities, the Company's net portfolio value and net interest income would tend to decrease during periods of rising interest rates but increase during periods of falling interest rates.

The Company's Board of Directors has adopted an Asset/Liability Management Policy designed to promote long-term profitability while managing interest-rate risk. The Company recognizes the inherent risk in its portfolio, particularly in periods of fluctuating interest rates. Management's principal strategy in managing the Company's interest rate risk has been to maintain short and intermediate term assets in the portfolio, including three and five year balloon mortgage loans, as well as increased levels of commercial business and real estate loans and consumer loans, which typically are for short or intermediate terms and carry higher interest rates than residential mortgage loans. The Company does engage in hedging activities in relation only to its held for sale mortgage loans.

Liquidity and Commitments

The Bank's liquidity, represented by cash and cash equivalents that are readily available as well as securities available for sale, is a product of its operating, investing, and financing activities. The Bank's primary sources of funds are deposits, repayments, and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. In addition, the Bank can invest excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. Cash is also generated through borrowings, and the Bank utilizes FHLB advances to leverage its capital base and provide funds for lending and investment activities and to enhance interest rate risk management.

Liquidity management is both a daily and long-term function of the Bank. During 2020, as PPP activity and lending strategy have resulted in higher levels of excess liquidity, and as the economic landscape was ever-changing throughout the pandemic, the Bank held excess funds at the Federal Reserve Bank. The Bank uses its sources of funds primarily to meet ongoing commitments, to pay maturing time deposits and savings withdrawals, and to fund loan commitments. Bank management has long term plans to deploy excess liquidity into a securities portfolio, and had invested $27.2 million at year end 2020. At December 31, 2020, the total approved unfunded loan commitments amounted to $146.5 million. The unfunded commitments on standby letters of credit totaled $23.9 million. Time deposits and advances from the FHLB scheduled to mature in one year or less at December 31, 2020 and 2019, totaled $352.9 million and $314.4 million, respectively. Due to the Bank's excess liquidity position, initiatives to grow deposits, and anticipated PPP forgiveness cash inflows, management believes that a significant portion of maturing deposits will not be renewed. The Bank anticipates that it will continue to have sufficient funds, through deposits and borrowings, to meet its current commitments.

One of management's ongoing initiatives is to shift the mix of funding sources by replacing higher cost CDs with non-maturity money market and demand accounts originated within the Bank's market. Management has been successful in this initiative and will continue in those efforts. From December 31, 2019 to December 31, 2020, the Bank replaced $113.4 million of CDs with non-maturity deposits and grew $154.2 million in overall deposits. Borrowings have increased by $93.0 million in this same time period.

Funding Sources in thousands	December 31, 2019	December 31, 2020	Change in Balance
Noninterest bearing demand deposits	$ 120,895	$ 200,358	$ 79,463
Transaction accounts	40,831	57,813	16,982
Savings accounts	13,436	23,924	10,488
Money markets	229,750	390,409	160,659
Certificates of deposit	377,029	280,880	(96,149)
Certificates of deposit - brokered	508	3,479	2,971
Certificates of deposit - deposit listing	26,654	6,431	(20,223)
Total Deposits	809,103	963,294	154,191
Borrowings	17,000	110,000	93,000
Total Funding Sources	$ 826,103	$ 1,073,294	$ 247,191

The Bank had additional borrowing capacity from the FHLB on an unsecured basis of approximately $165.3 million and $306.3 respectively, at December 31, 2020 and 2019. Additionally, at December 31, 2020 the Bank had borrowing capacity from the FHLB on a secured basis of approximately $30.5 million. At December 31, 2020 and 2019 a portion of the blanket lien was being used to collateralize letters of credit for Bank customers in the amount of $19.9 million and $9.4 million, respectively.

Impact of Inflation and Changing Prices

The Financial Statements and Notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which generally requires the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Nearly all the assets and liabilities of the Company are financial, unlike most industrial companies. As a result, the Company's performance is directly impacted by changes in interest rates, which are indirectly influenced by inflationary expectations. The Company's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its financial liabilities in its asset/liability management may tend to minimize the effect of change in interest rates on the Company's performance. Changes in interest rates do not necessarily move to the same extent as changes in the price of goods and services. In the current interest rate environment, liquidity and the maturity structure of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

Current Events

The effects of the COVID-19 pandemic have significantly and adversely impacted the global and domestic financial markets. As a result of this health crisis, many countries including the United States have experienced a significant slowdown in economic activity. The extent to which the COVID-19 crisis impacts the Company’s trade area and related operations has depended largely on the impact of the pandemic on its customers and their ability to repay loans. While the Bank had seen some financial difficulty in its customer base, management believes that it was short term in nature, primarily contained to certain industries (entertainment, hospitality, and restaurants) and is still being closely monitored. The Bank was proud to serve its customer base and surrounding communities through the PPP program and believes it was an important part of supporting businesses through the rough economic terrain presented by the pandemic. On December 27, 2020 the Consolidated Appropriations Act, 2021 was signed into law setting the stage for another round of PPP lending. The Bank anticipates funding another $75 million to $85 million in PPP loans which is expected to generate $3 million to $4 million in fee income in fiscal 2021. Management is also optimistic that vaccination efforts that began in late 2020 and have continued at a strong pace in 2021 will begin to lead to economic recovery in Texas and the rest of the United States. As the Company is preparing for recovery and positioning itself for growth, in the first two months of 2021 the Bank has hired nine producers that are poised to produce significant growth in loans and deposits in the coming years. Future developments, which are highly uncertain and cannot be predicted as of the date of this report, could adversely impact future operations of the Company.

Effective February 22, 2021, the Company changed its legal name from BancAffiliated, Inc. to Susser Banc Holdings Corporation.

BANCAFFILIATED, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
and Additional Information

December 31, 2020 and 2019

(With Independent Auditor's Report Thereon)

PAYNE & SMITH, LLC
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors and Stockholders
of BancAffiliated, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of BancAffiliated, Inc. and Subsidiaries, 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 Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based upon our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BancAffiliated, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

Internal Control Over Financial Reporting and Compliance

In accordance with *Government Auditing Standards*, we have also issued reports dated March 5, 2021 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Payne & Smith, LLC

March 5, 2021

12240 Inwood Rd. • Suite 440 • Dallas, TX 75244 •214 / 363-9927• Fax 214 / 363-9980

BANCAFFILIATED, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2020 and 2019

(In thousands of dollars, except share amounts)

ASSETS	2020	2019
Cash and cash equivalents	$ 230,711	$ 108,764
Securities available for sale	27,209	-
Loans held for sale	34,156	21,337
Loans	886,665	776,067
Premises and equipment	18,704	17,930
Loan servicing rights	3,695	3,296
Core deposit - intangible asset	4,934	5,591
Goodwill	27,698	27,698
Other assets	17,274	12,626
	$ 1,251,046	$ 973,309
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 200,358	$ 120,895
Interest bearing	762,936	688,208
Total deposits	963,294	809,103
Other borrowings	110,000	17,000
Junior subordinated debentures	4,124	4,124
Other liabilities	22,589	5,141
Total liabilities	1,100,007	835,368
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, $0.01 par value, 4,000,000 shares authorized, 1,527,463 and 1,489,094 shares issued, and 1,477,289 and 1,438,920 shares outstanding at December 31, 2020 and 2019	15	14
Additional paid-in capital	135,719	130,869
Retained earnings	18,456	10,209
	154,190	141,092
Treasury stock	(3,151)	(3,151)
Total stockholders' equity	151,039	137,941
	$ 1,251,046	$ 973,309

The accompanying notes are an integral part of these consolidated financial statements.

BANCAFFILIATED, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the Years Ended December 31, 2020 and 2019

(In thousands of dollars)

	2020	2019
Interest income:		
Interest and fees on loans	$ 50,005	$ 47,599
Other	771	1,810
Total interest income	50,776	49,409
Interest expense:		
Interest on deposit accounts	9,964	12,171
Other	828	1,566
Total interest expense	10,792	13,737
Net interest income	39,984	35,672
Provision for loan losses	5,942	2,281
Net interest income after provision for loan losses	34,042	33,391
Noninterest income:		
Loan origination and fee income	2,127	1,344
Service charges on deposit accounts	281	284
Rental income	455	449
Net gain on sales of loans	17,055	9,326
Other	148	211
Total noninterest income	20,066	11,614
Noninterest expense:		
Salaries and employee benefits	30,280	24,332
Occupancy expense	1,914	1,971
Loan servicing and amortization expense	546	486
FDIC insurance assessment	660	634
Other	10,156	9,225
Total noninterest expense	43,556	36,648
Income before income tax expense	10,552	8,357
Income tax expense	2,305	1,513
Net income	$ 8,247	$ 6,844

The accompanying notes are an integral part of these consolidated financial statements.

BANCAFFILIATED, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2020 and 2019

(In thousands of dollars)

	2020	2019
Net income	$ 8,247	$ 6,844
Other comprehensive income, net of tax	-	-
Total comprehensive income	$ 8,247	$ 6,844

The accompanying notes are an integral part of these consolidated financial statements.

BANCAFFILIATED, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2020 and 2019

(In thousands of dollars)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 1, 2019	$ 11	$ 109,655	$ 3,365	$ (3,151)	$ -	$ 109,880
Issuance of common stock	3	19,797	-	-	-	19,800
Net income	-	-	6,844	-	-	6,844
Stock compensation	-	989	-	-	-	989
Restricted stock granted	-	428	-	-	-	428
Dividends	-	-	-	-	-	-
Balance at December 31, 2019	14	130,869	10,209	(3,151)	-	137,941
Issuance of common stock	1	3,599	-	-	-	3,600
Net income	-	-	8,247	-	-	8,247
Stock compensation	-	1,024	-	-	-	1,024
Restricted stock granted	-	227	-	-	-	227
Dividends	-	-	-	-	-	-
Balance at December 31, 2020	$ 15	$ 135,719	$ 18,456	$ (3,151)	$ -	$ 151,039

The accompanying notes are an integral part of these consolidated financial statements.

BANCAFFILIATED, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Years Ended December 31, 2020 and 2019

(In thousands of dollars)

	2020	2019
Cash flows from operating activities:		
Net income	$ 8,247	$ 6,844
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,638	2,367
Stock compensation	1,024	989
Director stock compensation	227	428
Provision for loan losses	5,942	2,281
Provision for indemnification reserve	10	24
Deferred tax benefit	(1,075)	(209)
Net gain on sales of loans	(17,055)	(9,326)
Mortgage loans originated for sale	(468,585)	(269,200)
Proceeds from sales of mortgage loans	472,545	266,682
Change in right-of-use lease asset	(5)	40
Originations of servicing rights	(2,187)	(1,154)
Impairment of servicing rights	869	714
Net (gain) loss on sales of other real estate owned	(63)	19
Increase in other assets	(3,457)	(4,249)
Increase in other liabilities	481	1,238
Net cash used in operating activities	(444)	(2,512)
Cash flows from investing activities:		
Purchase of securities available for sale	(9,914)	-
Net loans originated	(116,540)	(140,567)
Proceeds from sales of other real estate owned	-	1,925
Capitalized costs on other real estate owned	-	(196)
Net additions to premises and equipment	(1,946)	(5,485)
Net cash used in investing activities	(128,400)	(144,323)
Cash flows from financing activities:		
Net increase in deposits	154,191	229,502
Net increase (decrease) in borrowed funds	93,000	(41,876)
Issuance of common stock	3,600	19,800
Net cash provided by financing activities	250,791	207,426
Net increase in cash and cash equivalents	121,947	60,591
Cash and cash equivalents at beginning of period	108,764	48,173
Cash and cash equivalents at end of period	$ 230,711	$ 108,764

The accompanying notes are an integral part of these consolidated financial statements.

1. Business and Summary of Significant Accounting Policies

Description of the Business

BancAffiliated, Inc. (BAI) is a bank holding company and a financial holding company based in Arlington, Texas. BAI's primary banking operations are conducted through its wholly-owned subsidiary, Susser Bank (Bank), a Texas state member bank. Prior to December 31, 2020 the Bank operated as Affiliated Bank, National Association. The primary source of revenue for BAI and its subsidiaries (together referred to as Company) is interest on loans and revenue from the origination and sale of mortgage loans. The Company is subject to competition from other financial institutions. The Company is also subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The following is a summary of the significant accounting policies used by the Company in the preparation of its consolidated financial statements. The accounting policies conform to generally accepted accounting principles and practices generally followed within the banking industry. A description of the more significant of these policies follows.

Global Pandemic

In March 2020, COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the President of the United States. Efforts to limit the spread of COVID-19 have led to shelter-in place orders, the closure of non-essential businesses, travel restrictions, supply chain disruptions and prohibitions on public gatherings, among other things, throughout many parts of the United States and, in particular, the markets in which the Company operates. The Company's business has been, and continues to be, impacted by the ongoing outbreak of COVID-19. As the current pandemic is ongoing and dynamic in nature, there are many uncertainties related to COVID-19 including, among other things, its ultimate geographic spread; its severity; the duration of the outbreak; the impact to the Company's customers, employees and vendors; the impact to the financial services and banking industry; and the impact to the economy as a whole. COVID-19 has negatively affected, and is expected to continue to negatively affect, the Company's business, financial position and operating results. In light of the uncertainties, the ultimate adverse impact of COVID-19 cannot be reliably estimated at this time.

Termination of Merger Agreement

On December 8, 2019, the Company entered into an Agreement and Plan of Merger (Merger Agreement) with Odessa SouthWest Bancshares, Inc. (OSWB) whereby the Company would obtain control of OSWB through the purchase of 100% of the outstanding shares of common stock. On July 2, 2020, the parties mutually agreed to terminate the agreement and the Company paid a termination fee of $500,000 to OSWB as provided in the Merger Agreement. Included in other noninterest expense in the accompanying statements of income for 2020 and 2019, are expenses related to the failed merger including the termination fee, legal fees, diligence and other expenses of approximately $1,000,000 and $800,000, respectively.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of BAI and the Bank. All significant intercompany accounts and transactions have been eliminated.

In September 2005, BAI formed BancAffiliated Statutory Trust I for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures in the Company. In accordance with Accounting Standards Codification Topic 810, *Consolidations,* BancAffiliated Statutory Trust I is not consolidated for financial reporting purposes.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of other real estate owned. While management uses available information to recognize losses on loans and other real estate owned, future provisions may be necessary based on changes in local economic conditions. In addition, banking regulators, as an integral part of their examination process, periodically review the Company's allowance for loan and other real estate losses. They may require the Company to record additional provisions for losses based on their judgment about information available to them at the time of their examination.

A significant portion of the Company's loans are secured by real estate and related assets located in local markets. Accordingly, the ultimate collectibility of this portion of the Company's loan portfolio is susceptible to changes in local market conditions.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, due from banks, money market accounts, and highly liquid short-term investments with original maturities of three months or less.

Debt Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Investment Securities

Restricted investment securities include Federal Home Loan Bank stock and Federal Reserve Bank stock, which are carried at cost on the consolidated balance sheets. These equity securities are restricted, in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other marketable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. No impairment has been recorded on these securities.

Loans Held for Sale

The Company originates mortgage loans both for sale and for investment purposes. The designation of mortgage loans is made by management at the time of origination. Loans held for sale include residential mortgages originated for sale and securitization in the secondary market or for sale as whole loans.

All loans held for sale are measured under the fair value option permitted by ASC Topic 825, *Financial Instruments*. Management believes the fair value election for loans held for sale reduces timing differences and better matches the changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets.

Transfers and Servicing of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Small Business Administration (SBA) Servicing Rights

The Company sells the guaranteed portion of certain loans originated with the partial guarantee of the SBA and retains servicing rights at the time of sale. Gain or loss on sale of the receivables depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows. Future expected cash flows are estimated by management based on key assumptions such as credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

The related servicing rights represent the estimated present values of future cash flows related to rights to service SBA loans for other investors. Loan servicing rights are amortized against loan servicing fee income in proportion to, and over the period of, estimated net future loan servicing fee income. Service fee income is recognized as the related loan payments are collected.

Deferred gain on sale of loans represents the relative value of the loan sale proceeds of the retained, unguaranteed portion of the loan retained, net of amounts capitalized and the gain immediately recognized. Deferred gain is recognized into income in proportion to, and over the period of, estimated net future loan servicing fee income.

Servicing rights are evaluated for impairment based on the excess if any, of the carrying amount of the servicing right over their value. Any necessary adjustment is reflected as an adjustment to the current period amortization in the accompanying consolidated statements of income and comprehensive income.

Mortgage Servicing Rights

The Company retains mortgage servicing rights (MSRs) through the sale of loans it originates. Generally, purchased MSRs are capitalized at the cost to acquire the rights and are carried at the lower of cost, net of accumulated amortization, or fair value. Originated MSRs are capitalized based on the relative fair value of the servicing right to the fair value of the loan and the servicing right and are carried at the lower of the capitalized amount, net of accumulated amortization, or fair value.

Fair values of servicing rights are determined at the date of transfer. For originations, a portion of the cost of originating a mortgage loan is allocated to the mortgage servicing right based on its relative fair value. To determine the fair value of MSRs the Company uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates, late fees and losses. See Note 10 for more information on the valuation of MSRs.

MSRs are amortized in proportion to, and over the period of, estimated net servicing income. The amortization of the MSRs is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates.

Servicing fee income is recorded for fees earned for servicing mortgage loans under servicing agreements with the Federal National Mortgage Association (FNMA). The fees are based on a contractual percentage of the outstanding principal balance or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

MSRs are evaluated for impairment based on the excess if any, of the carrying amount of the MSRs over their fair value. Fair value is estimated based on the market prices of similar mortgage servicing assets and on discounted future net cash flows considering market prepayment estimates, historical prepayment rates, portfolio characteristics, interest rates and other economic factors. For purposes of measuring impairment, MSRs are evaluated on a loan-by-loan basis in conjunction with the assessment of the estimated future net servicing revenues. Any necessary adjustment is reflected as an adjustment to the current period amortization in the accompanying consolidated statements of income and comprehensive income.

Loans

The Company grants commercial, real estate, agricultural, and consumer loans to customers. 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 that management has the intent and ability to hold for the foreseeable future or until maturity or pay off generally are reported at their outstanding unpaid principal balances adjusted for charge offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions typically require the placement of a loan on nonaccrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest on nonaccrual loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment based on historical loss experience, current economic conditions, and performance trends.

Interest payments on impaired loans are typically applied to principal unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Troubled Debt Restructured (TDR) Loans

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

COVID-19 Loan Deferments

Certain of the Bank's borrowers are currently unable to meet their contractual payment obligations because of the adverse effects of COVID-19. To help mitigate these effects, loan customers may apply for a deferral of payments, or portions thereof, not to exceed six months. A portion of the Bank's customers have requested such deferrals. In the absence of other intervening factors, such short-term modifications made on a good faith basis are not categorized as troubled debt restructurings, nor are loans granted payment deferrals related to COVID-19 reported as past due or placed on non-accrual status (provided the loans were not past due or on non-accrual status prior to the deferral). At December 31, 2020, there were approximately 17 loans in COVID-19 related deferment with an aggregate outstanding balance of approximately $10,919,000.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to provide for estimated loan losses inherent in the loan portfolio. The allowance for possible loan losses includes allowance allocations calculated in accordance with ASC Topic 310, *Receivables* and allowance allocations calculated in accordance with ASC Topic 450, *Contingencies*. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The allowance consists of specific and general allocations. The specific allocation relates to loans that are 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 allocation is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity, and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves, which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Loan Origination and Fee Income

Loan origination income includes mortgage origination fees and other income associated with the origination of loans.

Loan origination fees and certain direct loan origination costs related to loans held for investment are deferred. These deferred fees and costs are recognized over the estimated lives of the related loans as an adjustment of yield. The estimated lives of the loans are based upon management's assessment of historical and expected prepayment trends.

Liability for Mortgage Loan Repurchase Losses

The Company has established a liability for mortgage loan repurchase losses which is included in other liabilities in the accompanying consolidated balance sheets. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies, and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. Management maintains regular contact with the Government Sponsored Enterprises (GSEs), the Federal Housing Finance Agency (FHFA), and other significant investors to monitor their repurchase demand practices and issues as part of their process to update the repurchase liability estimate as new information becomes available.

Other Real Estate Owned

Real estate acquired in settlement of loans is recorded at estimated fair value at the date acquired, plus capital improvements made thereafter to facilitate sale. Adjustments are made by a charge to income, if necessary, to reflect declines in fair values less estimated selling costs below the recorded amounts. Costs of holding real estate acquired in settlement of loans are charged to income. Gains and losses of such real estate are recognized in income.

Intangible Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. The Company's intangible assets relate to core deposits. Intangible assets with definite useful lives are amortized over the estimated life.

Goodwill

Goodwill represents the excess of cost over fair value of assets of a business acquired. Goodwill acquired in a purchase business combination is recorded at fair value as of the date acquired. Acquired intangibles determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired.

As of December 31, 2020, the Company evaluated recent potential triggering events that might be indicators that goodwill was impaired. The events include the economic disruption and uncertainty surrounding the COVID-19 pandemic and the circumstances surrounding recent volatility in the market price of crude oil. Based on this evaluation, the Company concluded that goodwill was not more than likely impaired as of that date.

Premises and Equipment

Office properties and equipment are recorded at cost less accumulated depreciation. Depreciation expense is computed using the straight-line or accelerated methods over the expected useful lives of the assets. Expenditures for normal maintenance and repairs are charged to income, while expenditures for betterments and major renewals are capitalized. The cost of assets sold or abandoned and the related accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Effective January 1, 2019, the Company adopted Accounting Standards Update 2016-02, *Leases (Topic 842)* and subsequent applicable updates related to accounting for leases. Under these standards, for operating leases other than those considered to be short-term, right-of-use lease assets and related lease liabilities are recognized. Such amounts are reported as components of premises and equipment and other liabilities, respectively, on the accompanying consolidated balance sheet. Short-term operating leases are not recognized on the balance sheet. A short-term operating lease has an original term of 12 months or less and does not have a purchase option that is likely to be exercised.

In recognizing right-of-use lease assets and related lease liabilities, lease and non-lease components (such as taxes, insurance, and common area maintenance costs) are accounted for separately as such amounts are generally readily determinable under lease contracts. Lease payments over the expected term are discounted using an incremental borrowing rate referenced to the Federal Home Loan Bank Secure Connect advance rates for borrowings of similar terms. Renewal and termination options are also considered in the determination of the term of the lease. If it is reasonably certain that a renewal or termination option will be exercised, the effects of such options are included in the determination of the expected lease term.

The Company adopted these updates using a modified-retrospective transition approach and recognized right of use lease assets and related lease liabilities totaling $1,003,000 as of January 1, 2019.

Derivative Instruments

The Company records derivatives on its consolidated balance sheet at fair value. Derivative instruments are recognized as either assets or liabilities on the consolidated balance sheet and are measured at fair value and the corresponding change in fair value is reported in earnings. Derivative instruments that are used as part of the Company's market risk management strategy consist of interest rate swaps, interest rate lock commitments,and forward sale commitments. These instruments are utilized to manage market rate risk on certain of the Company's loans and mortgage pipeline. The Company uses the forward sale commitments and options to hedge the risk of changes in the fair value of the pipeline due to changes in market interest rates.

Income Taxes

BAI files a consolidated income tax return with its subsidiaries. Federal income tax expense or benefit has been allocated on a separate return basis.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Generally accepted accounting principles require Company management to evaluate tax positions taken by the Company. Management evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Therefore, no liability for tax penalties has been included in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2017.

Advertising

Advertising consists of the Company's advertising in its local market area. Advertising expense was approximately $491,000 and $408,000, respectively, for the years ended December 31, 2020 and 2019.

Comprehensive Income (Loss)

Comprehensive income (loss) includes both net income (loss) and other comprehensive income (loss).

Loss Contingencies

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

Stock Based Compensation

Compensation expense for stock-based awards is based on the fair value of the award on the measurement date, which, for the Company, is the date of the grant and is recognized ratably over the service period of the award. The fair value of stock options is estimated using the Black-Scholes option-pricing model. The fair value on non-vested stock awards is generally the estimated fair value of the Company's stock on the date of grant.

Treasury Stock

Treasury stock is recorded at cost. Cost is determined by the first-in, first-out method. At December 31, 2020 and 2019, the Company had 50,174 shares held in treasury.

Financial Instruments

In the ordinary course of business the Company has entered into certain off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Fair Values of Financial Instruments

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. In general, fair values of financial instruments are 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. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Subsequent Events

The Company has evaluated events and transactions for potential recognition or disclosure through March 5, 2021, the date the consolidated financial statements were available to be issued.

Effective February 22, 2021, the Company changed its legal name from BancAffiliated, Inc. to Susser Banc Holdings Corporation (SBH). SBH is currently in the process of changing its legal name to SBH Partners, LLC.

Reclassification

Certain amounts previously reported have been reclassified to conform to the current format.

2. Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update 2016-13*, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The update and subsequent updates require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as the credit quality and underwriting standards of an organization's portfolio. The guidance replaces the incurred loss model with a current expected loss model, which is referred to as the current expected credit loss (CECL) model. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In April 2019, The FASB issued Accounting Standards Update 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses (Topic 815)*, *Derivatives and Hedging, and Financial Instruments* (*Topic 825*) to address certain codification improvements and to provide certain accounting policy electives related to accrued interest as well as the disclosure related to credit losses, among other things. In May 2019, the FASB issued Accounting Standards Update 2019-05, *Financial Instruments—Credit Losses* (*Topic 326*): *Targeted Transition Relief*, to provide transition relief in connection with the adoption of ASU 2016-03, whereby entities would have the option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. The amendments for non-public business entities will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal year beginning after December 15, 2018. The Company has formed a CECL committee and is evaluating the impact this amendment will have on the Company's consolidated financial statements. The adoption of ASU 2016-13 is not expected to have a significant impact on the regulatory capital ratios. The ultimate impact of adoption could be significantly different than current expectation as modeling processes will be significantly influenced by the composition, characteristics and quality of the loan and securities portfolios as the prevailing economic conditions and forecasts as of that date, notwithstanding any further refinements to the expected credit loss models.

In January 2017, the FASB issued Accounting Standards Update 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The update simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. ASU 2017-04 is effective for fiscal years beginning after December 15, 2022. Early application is permitted. The adoption of ASU 2017-04 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2020, the FASB issued Accounting Standards Update 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The update provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-4 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2020-04 did not have a material impact on the Company's consolidated financial statements.

In August 2020, the FASB issued Accounting Standards Update 2020-08, *Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs.* The update clarifies the accounting for the amortization of purchase premiums for callable debt securities with multiple call dates. ASU 2020-08 is effective for fiscal years beginning after December 15, 2020. Early application is permitted. The adoption of ASU 2020-08 is not expected to have a material impact on the Company's consolidated financial statements.

3. Statement of Cash Flows

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, loans made to customers and principal collections on those loans. The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information is presented as follows (in thousands):

	2020	2019
Cash transactions:		
Interest expense paid	$ 10,538	$ 13,708
Federal income taxes paid	$ 2,850	$ 1,100
Noncash transactions:		
Initial recording of right-of-use lease asset	$ -	$ 1,003
Purchases of securities available for sale settled in subsequent period	$ 17,295	$ -

4. Debt Securities

Debt securities have been classified in the consolidated balance sheet according to management's intent. There were no debt securities at December 31, 2019. The carrying amount of securities and their approximate fair values at December 31, 2020 is as follows (in thousands):

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agency obligations	$ 3,000	$ -	$ -	$ 3,000
Mortgage-backed securities	12,961	-	-	12,961
Municipal securities	4,336	-	-	4,336
Other debt securities	6,912	-	-	6,912
	$ 27,209	$ -	$ -	$ 27,209

There were no securities pledged to secure public fund deposits or for other purposes required by law at December 31, 2020.

There were no sales of securities during the years ended December 31, 2020 and 2019.

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The amortized cost and estimated fair value of debt securities at December 31, 2020, by contractual maturity, are shown below (in thousands):

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 3,000	$ 3,000
Due from one year to five years	-	-
Due from five years to ten years	4,378	4,378
Due after ten years	19,831	19,831
	$ 27,209	$ 27,209

There were no debt securities with unrealized losses at December 31, 2020.

5. Loans Held for Sale

Loans held for sale consist of the following (in thousands):

	2020	2019
Mortgage loans (at cost)	$ 32,960	$ 20,674
Fair value adjustment	1,196	663
	$ 34,156	$ 21,337

As more fully discussed in Note 1 to the accompanying consolidated financial statements, the Company accounts for its loans held for sale under the fair value option permitted under ASC Topic 825.

6. Loans

A summary of the balances of loans receivable at December 31, 2020 and 2019 is as follows (in thousands):

	2020	2019
Commercial	$ 294,433	$ 115,158
Real estate	585,598	646,094
Cash secured	6,281	4,380
Consumer and other	14,051	15,955
Subtotal	900,363	781,587
Unearned income	(3,863)	(1,585)
Less allowance for loan losses	(9,835)	(3,935)
Total	$ 886,665	$ 776,067

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At December 31, 2020 and 2019, the majority of the Company's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. The weakening of real estate markets may have an adverse effect on the Company's profitability and asset quality. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Company has loans secured by inventory, accounts receivable, equipment, marketable securities, or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (Cares Act) was passed into law. Among other provisions, the Cares Act created the Paycheck Protection Program (PPP) for loans to small businesses to pay certain payroll, group health care benefit costs and qualifying mortgage, rent and utility payments. A second legislative act was passed into law on April 24, 2020 to provide additional funding to the PPP. The PPP is administered by the Small Business Administration (SBA). Under the PPP, a borrower may have a portion or all of its loan forgiven if the proceeds were for qualified expenditures within a "covered period." Loans deemed to meet the PPP criteria for loan forgiveness are reimbursed by the SBA. During 2020, the Bank funded approximately $214,914,000 of PPP loans and received reimbursement from the SBA of approximately $269,000. At December 31, 2020, the Bank had outstanding PPP loans of approximately $214,645,000 included in commercial loans. Management believes substantially all PPP loans outstanding at December 31, 2020 meet the criteria for loan forgiveness and expects to receive future reimbursement from the SBA.

Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending (CRE) program for a financial institution. 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-weighted assets, or total non-owner occupied commercial real estate loans representing 300% or more of the institution's 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. At December 31, 2020 and 2019, the Bank had total commercial real estate loans of $414,188,000 and $429,165,000, respectively. Included in these amounts, the Bank had construction, land development, and other land loans representing 112% and 202%, respectively, of its tier 1 capital plus allowance for loan losses at December 31, 2020 and 2019. Construction, land development, and land loans included $58,571,000 and $131,144,000 of 1-4 family residential construction loans at December 31, 2020 and 2019, respectively. The Bank had non-owner occupied commercial real estate loans representing 248% and 324% of its tier 1 capital plus allowance for loan losses during the years ending December 31, 2020 and 2019, respectively.

Included in real estate loans at December 31, 2020 and 2019 are participation loans purchased from other financial institutions amounting to $14,492,000 and $28,239,000, respectively. The original balance on these loans amounted to $22,833,000 and $50,500,000, respectively.

The following table sets forth the activity in the allowance for loan losses for December 31, 2020 and 2019 (in thousands):

	Commercial	Real Estate	Cash Secured	Consumer and Other	Total
Allowance for loan losses:					
Beginning balance, January 1, 2019	$ 325	$ 1,333	$ -	$ 40	$ 1,698
Charge-offs	-	(1)	-	(64)	(65)
Recoveries	12	-	-	9	21
Provision	622	1,491	-	168	2,281
Ending balance, December 31, 2019	$ 959	$ 2,823	$ -	$ 153	$ 3,935
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance allocated to loans collectively evaluated for impairment	$ 959	$ 2,823	$ -	$ 153	$ 3,935
Loans receivable:					
Ending balance December 31, 2019	$ 115,158	$ 646,094	$ 4,380	$ 15,955	$ 781,587
Ending balance of loans individually evaluated for impairment at December 31, 2019	$ -	$ 2,501	$ -	$ 25	$ 2,526
Ending balance of loans collectively evaluated for impairment at December 31, 2019	$ 115,158	$ 643,593	$ 4,380	$ 15,930	$ 779,061
Allowance for loan losses:					
Beginning balance, January 1, 2020	$ 959	$ 2,823	$ -	$ 153	$ 3,935
Charge-offs	(3)	-	-	(48)	(51)
Recoveries	1	-	-	8	9
Provision	460	5,361	-	121	5,942
Ending balance December 31, 2020	$ 1,417	$ 8,184	$ -	$ 234	$ 9,835
Ending balance allocated to loans individually evaluated for impairment	$ -	$ 14	$ -	$ 3	$ 17
Ending balance allocated to loans collectively evaluated for impairment	$ 1,417	$ 8,170	$ -	$ 231	$ 9,818
Loans receivable:					
Ending balance December 31, 2020	$ 294,433	$ 585,598	$ 6,281	$ 14,051	$ 900,363
Ending balance of loans individually evaluated for impairment at December 31, 2020	$ 552	$ 2,430	$ -	$ 26	$ 3,008
Ending balance of loans collectively evaluated for impairment at December 31, 2020	$ 293,881	$ 583,168	$ 6,281	$ 14,025	$ 897,355

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

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

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

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

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

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

The following table sets forth information regarding the internal classifications of the loan portfolio, the primary credit quality indicator, as of December 31, 2020 and 2019, as indicated (in thousands):

	Commercial	Real Estate	Cash Secured	Consumer and Other	Total
December 31, 2020					
Grade:					
Pass	$ 276,838	$ 569,887	$ 6,281	$ 14,011	$ 867,017
Special mention	-	-	-	-	-
Substandard nonimpaired	17,043	13,281	-	14	30,338
Pass impaired	406	537	-	-	943
Special mention impaired	-	-	-	-	-
Substandard impaired	146	1,893	-	26	2,065
Total	$ 294,433	$ 585,598	$ 6,281	$ 14,051	$ 900,363
Credit risk profile based on payment activity:					
Performing	$ 293,881	$ 583,767	$ 6,281	$ 14,025	$ 897,954
Nonperforming	552	1,831	-	26	2,409
Total	$ 294,433	$ 585,598	$ 6,281	$ 14,051	$ 900,363
December 31, 2019					
Grade:					
Pass	$ 103,872	$ 641,627	$ 4,380	$ 15,930	$ 765,809
Special mention	-	-	-	-	-
Substandard nonimpaired	11,286	1,966	-	-	13,252
Pass impaired	-	927	-	-	927
Special mention impaired	-	-	-	-	-
Substandard impaired	-	1,574	-	25	1,599
Total	$ 115,158	$ 646,094	$ 4,380	$ 15,955	$ 781,587
Credit risk profile based on payment activity:					
Performing	$ 115,158	$ 644,585	$ 4,380	$ 15,930	$ 780,053
Nonperforming	-	1,509	-	25	1,534
Total	$ 115,158	$ 646,094	$ 4,380	$ 15,955	$ 781,587

The following table sets forth information regarding the delinquencies within the loan portfolio (excluding nonaccrual loans) as of December 31, 2020 and 2019 (in thousands):

	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment >90 Days and Still Accruing
December 31, 2020						
Commercial	$ -	$ -	$ -	$ 293,881	$ 293,881	$ -
Real estate	2,216	500	2,716	581,051	583,767	500
Cash secured	-	-	-	6,281	6,281	-
Consumer and other	39	-	39	13,986	14,025	-
Total	$ 2,255	$ 500	$ 2,755	$ 895,199	$ 897,954	$ 500
December 31, 2019						
Commercial	$ 113	$ 145	$ 258	$ 114,900	$ 115,158	$ 145
Real estate	1,064	670	1,734	642,851	644,585	670
Cash secured	-	-	-	4,380	4,380	-
Consumer and other	-	-	-	15,930	15,930	-
Total	$ 1,177	$ 815	$ 1,992	$ 778,061	$ 780,053	$ 815

As stated in Note 1, at December 31, 2020 there are approximately $10,919,000 of loans related to COVID-19 deferments that are not shown as past due in the above schedule.

The following table sets forth information regarding the nonaccrual status within the loan portfolio as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Commercial	$ 552	$ -
Real estate	1,831	1,509
Consumer and other	26	25
Total	$ 2,409	$ 1,534

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, but also include loans modified in troubled debt restructurings when concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection. No significant interest income was recognized on a cash basis on nonaccrual loans in the years ended December 31, 2020 and 2019.

The following table sets forth information regarding impaired loans as of the dates indicated (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2020					
With no related allowance:					
Commercial	$ 552	$ 583	$ -	$ 553	$ -
Real estate	2,286	2,462	-	2,481	80
Consumer	16	32	-	20	-
With a related allowance:					
Commercial	-	-	-	-	-
Real estate	144	144	14	144	4
Consumer	10	12	3	12	-
Total impaired loans:					
Commercial	552	583	-	553	-
Real estate	2,430	2,606	14	2,625	84
Consumer	26	44	3	32	-
Total	$ 3,008	$ 3,233	$ 17	$ 3,210	$ 84
December 31, 2019					
With no related allowance:					
Real estate	$ 2,501	$ 2,690	$ -	$ 2,556	$ 100
Consumer	25	25	-	38	1
With a related allowance:					
Real estate	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired loans:					
Real estate	2,501	2,690	-	2,556	100
Consumer	25	25	-	38	1
Total	$ 2,526	$ 2,715	$ -	$ 2,594	$ 101

The total of troubled debt restructurings (TDR) included in impaired loans was $1,151,000 and $992,000 as of December 31, 2020 and 2019, respectively. There were no modifications within the loan portfolio during the year ended December 31, 2019. The following table sets forth information regarding modifications within the loan portfolio during the year ended December 31, 2020 (in thousands):

	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2020			
Troubled debt restructuring:			
TDR - commercial	1	$ 583	$ 583
TDR - subsequently defaulted	-	-	-

At December 31, 2020 and 2019, the Company had no commitments to lend additional funds to customers with loans classified as TDRs.

7. Premises and Equipment

Bank premises and equipment at December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Land	$ 3,942	$ 3,942
Building and improvements	14,409	10,797
Furniture and equipment	1,827	911
Right-of-use lease asset	453	723
Capital expenditures in process	30	2,612
	20,661	18,985
Accumulated depreciation	(1,957)	(1,055)
	$ 18,704	$ 17,930

At December 31, 2019, bank premises and equipment included approximately $2,566,000 of capital expenditures in process related to multiple building projects.

Depreciation expense was approximately $912,000 and $703,000, respectively, for the years ended December 31, 2020 and 2019.

Pursuant to the terms of non-cancelable lease agreements in effect, pertaining to banking premises, future minimum rent commitments under various operating leases are as follows (in thousands):

Year	Amount
2021	$ 257
2022	89
2023	85
2024	79
2025	-
Thereafter	-
	$ 510

Lease expense amounted to approximately $360,000 and $492,000, respectively, for the years ended December 31, 2020 and 2019.

A portion of the bank premises which the Company occupies is leased to certain tenants under month-to-month and term leases. Rental income totaled approximately $455,000 and $449,000, respectively, for the years ended December 31, 2020 and 2019. Minimum future rentals to be received on non-cancelable leases in effect are as follows (in thousands):

Year	Amount
2021	$ 263
2022	184
2023	138
2024	71
2025	73
Thereafter	183
	$ 912

On January 1, 2019, right-of-use lease assets and related lease liabilities of $1,003,000 were recorded in accordance with adoption of *Topic 842 – Leases.* As of December 31, 2020 and 2019, right-of-use lease assets totaled approximately $453,000 and $723,000, respectively. As of December 31, 2020 and 2019, lease liabilities totaled approximately $488,000 and $763,000, respectively, and are included in other liabilities in the accompanying consolidated balance sheets.

8. Core Deposit - Intangible Asset

The core deposit intangible asset resulted from the change in ownership of the Company in 2018 and is being amortized using the straight-line method over a period of 10 years beginning July 3, 2018.

Changes in the carrying amount of the intangible asset for the years ended December 31, 2020 and 2019 are summarized as follows (in thousands):

	2020	2019
Balance at beginning of period	$ 5,591	$ 6,249
Additions	-	-
Amortization	(657)	(658)
Balance at end of period	$ 4,934	$ 5,591

9. Goodwill

Goodwill in the amount of $27,698,000 resulted from the change in ownership discussed in Note 1 and is assessed at least annually for impairment. At December 31, 2020 and 2019, management has determined that it is not more likely than not that goodwill is impaired.

10. Loan Servicing Rights

Small Business Administration (SBA) Loan Servicing Rights

The Company sells the guaranteed portion of certain loans originated with the partial guarantee of the Small Business Administration. The unpaid principal balance of such loans aggregated approximately $39,056,000 and $31,472,000 at December 31, 2020 and 2019, respectively. The Company retains servicing responsibilities for all of the loans sold. The Company generally receives servicing fees approximating 1.00% of the outstanding loan balance.

An analysis of SBA loan servicing rights is as follows (in thousands):

	2020	2019
Balance at the beginning of the period	$ 454	$ 476
Originations	190	151
Amortization expense	(86)	(177)
Reduction in valuation allowance	7	4
Balance at the end of the period	$ 565	$ 454

Deferred gain on sales of loans with servicing retained in the approximate amount of $478,000 and $243,000 has been offset against loans in the accompanying consolidated financial statements at December 31, 2020 and 2019, respectively. The estimated fair value of the SBA servicing rights was approximately $565,000 and $454,000 at December 31, 2020 and 2019, respectively. Management determined that a valuation allowance of $23,000 and $30,000 was necessary at December 31, 2020 and 2019, respectively.

Mortgage Servicing Rights

The Company retains the servicing rights on certain of its mortgage loans sold. Mortgage servicing rights (MSRs) are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSRs by risk stratification. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost, over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSRs and the valuation allowance, precluding subsequent reversals. (See Note 1 Transfers and Servicing of Financial Assets for additional discussion.)

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was approximately $518,061,000 and $325,323,000 at December 31, 2020 and 2019, respectively.

An analysis of net mortgage servicing rights is as follows (in thousands):

		2020		2019
Balance at the beginning of the period	$	2,842	$	3,235
Originations		1,997		1,003
Amortization expense		(833)		(678)
Impairment		(876)		(718)
Balance at the end of the period	$	3,130	$	2,842

The estimated fair value of mortgage servicing rights using a constant prepayment rate of 17.81% and 14.22% and a discount rate of 9.93% and 10.08%, at December 31, 2020 and 2019, was approximately $3,805,000 and $2,842,000, respectively.

Management evaluates impairment by stratifying the loan servicing portfolio into three tranches. At December 31, 2020, two of the tranches had an amortized cost totaling approximately $3,134,000 and a fair value of approximately $1,511,000. The fair value of the third tranche exceeded its amortized cost. Accordingly, management determined that a valuation allowance of $1,623,000 was necessary at December 31, 2020. At December 31, 2019, all of the tranches were in a loss position with an amortized cost totaling $3,589,000 and a fair value of $2,842,000. Acccordingly, management determined that a valuation allowance of $747,000 was necessary at December 31, 2019.

11. Liability for Mortgage Loan Repurchase Losses

Included in other liabilities in the accompanying consolidated balance sheets is the liability for mortgage loan repurchase losses. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies, and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. Management maintains regular contact with the GSEs, the FHFA, and other significant investors to monitor their repurchase demand practices and issues as part of its process to update the repurchase liability estimate as new information becomes available. Because of the uncertainty in the various estimates underlying the mortgage repurchase liability, there is a range of losses in excess of the recorded mortgage repurchase liability that is reasonably possible. The estimate of the range of possible loss for representations and warranties does not represent a probable loss, and is based on currently available information, significant judgment, and a number of assumptions that are subject to change. An analysis of the changes in the liability for mortgage loan repurchase losses is as follows (in thousands):

		2020		2019
Balance at the beginning of the period	$	229	$	205
Provision for indemnification reserve		10		24
Losses		(25)		-
Balance at the end of the period	$	214	$	229

12. Deposits

Deposits are summarized as follows (amounts in thousands):

	Amount	Percent
December 31, 2020		
Noninterest bearing demand accounts	$ 200,358	20.8
Transaction accounts	57,813	6.0
Savings accounts	23,924	2.5
Limited access money markets	390,409	40.5
Certificates of deposit, less than $250,000	195,475	20.3
Certificates of deposit, $250,000 or greater	95,315	9.9
	$ 963,294	100.0
December 31, 2019		
Noninterest bearing demand accounts	$ 120,895	14.9
Transaction accounts	40,831	5.0
Savings accounts	13,436	1.7
Limited access money markets	229,750	28.4
Certificates of deposit, less than $250,000	267,905	33.1
Certificates of deposit, $250,000 or greater	136,286	16.9
	$ 809,103	100.0

Scheduled maturities of certificates of deposit are as follows (in thousands):

Year	2020	2019
Less than one year	$ 242,895	$ 297,389
One to three years	42,569	93,136
Over three years	5,326	13,666
	$ 290,790	$ 404,191

13. Other Borrowings

Advances from the Federal Home Loan Bank

At December 31, 2020 and 2019, the Company had advances from the Federal Home Loan Bank (FHLB) in the amount of approximately $110,000,000 and $17,000,000, respectively.

The FHLB advances are secured by the Company's investment in FHLB Dallas stock, loan collateral delivered into FHLB's custody providing for secured borrowing capacity, and by a blanket security agreement. This agreement requires the Company to maintain as collateral certain qualifying assets not otherwise pledged. The advances mature in January, March and April 2021, and bear interest at rates ranging from 0.55% to 0.70%.

The Company had additional borrowing capacity from the FHLB on an unsecured basis of approximately $165,281,000 and $306,262,000, respectively, at December 31, 2020 and 2019. At December 31, 2020 and 2019, the bank had additional borrowing capacity from the FHLB on a secured basis of approximately $30,536,000 and $35,830,000, respectively. At December 31, 2020 and 2019 a portion of the blanket lien was being used to collateralize letters of credit for bank customers in the amount of $19,946,000 and $9,441,000, respectively.

Other

The Company has unused federal funds lines and informal lines available from commercial banks of approximately $15,000,000 at both December 31, 2020 and 2019.

14. Junior Subordinated Debentures

In September 2005, BancAffiliated Statutory Trust I issued 4,000 shares, with a liquidation amount of $1,000 per share, of floating rate capital securities. Gross proceeds from the sale of these trust preferred debt securities of $4,000,000 and proceeds from the sale of the trust's common securities of $124,000, were used to purchase approximately $4,124,000 aggregate principal amount of the Company's floating rate junior subordinated debt securities due in 2035. The trust preferred debt securities are redeemable at par beginning on or after September 18, 2008 at the option of the Company and have a mandatory redemption date of September 15, 2035. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of three-month LIBOR plus 1.70% (1.92% and 3.59% at December 31, 2020 and 2019, respectively).

The trust preferred securities are tax-advantaged issues that currently qualify as Tier 1 Capital for the Company. Distributions on these securities are included as interest expense on other borrowings. The underlying trust is a statutory business trust organized for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The trust preferred securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust securities issued by the trust.

The Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital for depository institution holding companies. However, because the Company had less than $15 billion of consolidated assets as of June 30, 2011, the Company will be permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier 1 capital, but not be able to include any trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital. Further, the Board of Governors of the Federal Reserve System (Board) has determined that trust preferred securities are restrictive core capital elements in computing Tier I capital of bank holding companies. The Board has limited restricted core capital elements (as defined) to 25% of core capital elements.

15. Income Taxes

The provision for income tax expense for the years ending December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Income tax expense:		
Current	$ 3,380	$ 1,722
Deferred	(1,075)	(209)
Income tax expense	$ 2,305	$ 1,513

For the year ended December 31, 2020, the Company's effective income tax rate is different than what would be expected if the federal statutory rate were applied to income before tax expense primarily due to nondeductible meals and entertainment. For the year ended December 31, 2019, the Company's effective income tax rate is different than what would be expected if the federal statutory rate were applied to income before income tax expense primarily due to tax exempt interest income and other adjustments partially mitigated by nondeductible professional fees and meals and entertainment expenses.

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 return purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Deferred tax assets:		
Loan discount	$ 898	$ 1,332
Allowance for loan losses	2,065	826
Reserve for mortgage loan repurchase losses	50	48
Certificates of deposit	29	59
Stock compensation	427	247
Other	64	151
Total deferred tax assets	3,533	2,663
Deferred tax liabilities:		
Fair value adjustment on loans held for sale	320	139
Loan servicing rights	608	692
Bank premises and equipment	866	867
Core deposit intangible asset	1,036	1,174
Deferred loan fees, net	102	218
Other	37	84
Total deferred tax liabilities	2,969	3,174
Net deferred tax asset (liability)	$ 564	$ (511)

Included in other assets in the accompanying consolidated balance sheets at December 31, 2020 and 2019 is a current income tax receivable of approximately $79,000 and $606,000, respectively.

16. 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 amount of those instruments. The Company generally uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The approximate amounts of these financial instruments were as follows (in thousands):

	2020	2019
Financial instruments whose contract amounts		
represent credit risk:		
Commitments to extend credit	$ 146,499	$ 253,115
Standby letters of credit	23,895	10,384
	$ 170,394	$ 263,499

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. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

17. Derivatives

Interest Rate Swap Agreement

During 2020, the Company participated in an interest rate swap with a counterparty to mitigate the interest rate risk related to one of its loan customers. At December 31, 2020, the notional amount of the interest rate swap was approximaely $4,834,000. While this undesignated derivative represents an economic hedge, it does not qualify as a hedge for accounting purposes and, accordingly, is recognized at fair value.

The fair value of the interest rate swap of ($46,000) at December 31, 2020 is reflected in other liabilities in the accompanying consolidated balance sheet with a corresponding charge to income recorded as a reduction of noninterest income in the consolidated statement of income.

The Company had no interest rate swaps during the year ended December 31, 2019.

Mortgage Banking Derivatives

The Company enters into interest rate lock commitments to fund mortgage loans at specified rates within specified time frames. Substantially all of these commitments are for periods of 60 days or less. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. Commitments to fund certain mortgage loans (interest rate lock commitments) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. These banking derivatives are not designated in a hedge relationship and, accordingly, are recognized at fair value.

The net gains (losses) included in the consolidated statement of income relating to free-standing derivative instruments used for risk management for the years ending December 31, 2020 and 2019 are summarized as follows (in thousands):

	Location	2020	2019
Forward contracts related to mortgage loans held for sale	Net gains on sales of loans	$ (262)	$ (44)
Interest rate lock commitments	Net gains on sales of loans	538	69

The following table reflects the amount and fair value of mortgage banking derivatives included in the consolidated balance sheets at December 31, 2020 and 2019 as follows (in thousands):

	2020		2019	
	National Amount	Fair Value	National Amount	Fair Value
Included in other assets:				
Forward contracts related to mortgage loans held for sale	$ -	$ -	$ -	$ -
Interest rate lock commitments	66,396	607	24,533	69
Total included in other assets	$ 66,396	$ 607	$ 24,533	$ 69
Included in other liabilities:				
Forward contracts related to mortgage loans held for sale	$ 70,158	$ 306	$ 34,366	$ 44
Interest rate lock commitments	-	-	-	-
Total included in other liabilities	$ 70,158	$ 306	$ 34,366	$ 44

18. Fair Value Disclosures

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, *Fair Value Measurements and Disclosures*, 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 might 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 (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different medologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Assets and liabilities measured at fair value on a recurring basis are as follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 31, 2020			
Securities available for sale (1)	$ -	$ 27,209	$ -
Loans held for sale (2)	-	34,156	-
Forward sale commitments (3)	-	(306)	-
Interest rate lock commitments (3)	-	607	-
Interest rate swap participation (4)	-	(46)	-
December 31, 2019			
Loans held for sale (2)	$ -	$ 21,337	$ -
Forward sale commitments (3)	-	(44)	-
Interest rate lock commitments (3)	-	69	-

(1) Securities are measured at fair value on a recurring basis, generally monthly.
(2) Fair values of loans held for sale are measured at fair value on a recurring basis, generally monthly using significant observable inputs.
(3) Fair values of interest rate locks and forward sale commitments are measured at fair value on a recurring basis, generally monthly using significant observable inputs.
(4) The interest rate swap partcipation is measured at fair value on a recurring basis, generally monthly using significant observable inputs.

Certain financial and non-financial assets are measured at fair value on a non-recurring 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). The following table summarizes financial assets and non-financial assets, measured at fair value on a non-recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2020				
Financial assets - impaired loans	$ -	$ -	$ 2,991	$ 2,991
Mortgage servicing rights	-	1,511	-	1,511
SBA loan servicing rights	-	565	-	565
December 31, 2019				
Financial assets - impaired loans	$ -	$ -	$ 2,526	$ 2,526
Mortgage servicing rights	-	2,842	-	2,842
SBA loan servicing rights	-	454	-	454

At December 31, 2020 and 2019, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. For the year ended December 31, 2020, impaired loans with a carrying value of $3,008,000 were reduced by specific valuation allowance allocations totaling $17,000 to a reported fair value of $2,991,000, based on collateral valuations utilizing Level 3 valuation inputs at December 31, 2020. At December 31, 2019, impaired loans with a carrying value of $2,526,000, with no specific valuation allowance allocations, was based on collateral valuations utilizing Level 3 valuation inputs.

Foreclosed assets are valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third-party appraisals, less estimated costs to sell. Appraisals based upon comparable sales result in a Level 2 classification while appraisals based upon expected cash flows of the property result in a Level 3 classification. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the customer and customer's business. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above. There were no acquisitions of other real estate owned for the years ended December 31, 2020 and 2019. During the years ended December 31, 2020 and 2019 there were no writedowns of other real estate owned.

At December 31, 2020 and 2019, SBA loan servicing rights were remeasured and reported at fair value of $565,000 and $454,000, respectively, through an impairment charge of $23,000 and $30,000, respectively, based on valuations using Level 2 valuation inputs.

At December 31, 2020 and 2019, mortgage loan servicing rights were remeasured and reported at fair value of $1,511,000 and $2,842,000, respectively, through an impairment charge of $1,623,000 and $747,000, respectively, based on valuations using Level 2 valuation inputs.

Those financial instruments not recorded at fair value are required to have their fair value disclosed, both assets and liabilities recognized and not recognized in the consolidated balance sheet, for which it is practicable to estimate fair value. The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Following is a table that summarizes the carrying amounts and estimated fair values of all financial instruments of the Company followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments not covered by ASC Topic 820 (in thousands):

		Total Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
December 31, 2020				
Financial assets:				
Cash and cash equivalents	$ 230,711	$ 230,711	$ -	$ -
Securities available for sale	27,209	-	27,209	-
Loans held for sale	34,156	-	34,156	-
Loans	886,665	-	-	897,848
Interest rate locks	607	-	607	-
Mortgage servicing rights	3,130	-	3,805	-
Other loan servicing rights	565	-	565	-
Accrued interest receivable	4,379	4,379	-	-
Financial liabilities:				
Deposits	963,294	-	-	953,194
Other borrowings	110,000	-	110,136	-
Junior subordinated debentures	4,124	-	-	4,124
Forward sale commitments	306	-	306	-
Interest rate swap	46	-	46	-
Accrued interest payable	306	306	-	-
Off-balance sheet instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-
December 31, 2019				
Financial assets:				
Cash and cash equivalents	$ 108,764	$ 108,764	$ -	$ -
Loans held for sale	21,337	-	21,337	-
Loans	776,067	-	-	776,166
Interest rate locks	69	-	69	-
Mortgage servicing rights	2,842	-	2,842	-
Other loan servicing rights	454	-	454	-
Accrued interest receivable	3,006	3,006	-	-
Financial liabilities:				
Deposits	809,103	-	-	795,397
Other borrowings	17,000	-	17,055	-
Junior subordinated debentures	4,124	-	-	4,124
Forward sale commitments	44	-	44	-
Accrued interest payable	560	560	-	-
Off-balance sheet instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-

The following methods and assumptions were used in estimating fair value disclosures for financial instruments.

Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents approximate the fair values of those assets.

Securities available for sale

Fair values for securities available for sale are based on quoted market prices.

Loans held for sale

Fair values of loans held for sale are based on the contract prices at which the underlying mortgage loans will be sold, or, if the loans are not committed for sale, the current market price.

Loans

For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for fixed-rate commercial real estate, mortgage, consumer and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Forward sale commitments and interest rate locks

Interest rate locks and forward sale commitments are carried at fair value in the consolidated balance sheet. Fair values of interest rate lock commitments are primarily based on quoted market prices for the sale of individual loans with similar terms as those represented by the rate locks. Fair values of forward sale commitments are based on quoted market prices for mortgage backed securities with similar terms as those represented by the forward contract.

Mortgage servicing rights and other loan servicing rights

Fair values for mortgage servicing rights are estimated based on their respective present values of future expected cash flows, which are projected using management's best estimate of certain key assumptions, such as credit losses, prepayment speeds, forward yield curves, and discount rates with the risks involved.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate certificates of deposit (CD's) approximate their fair values at the reporting date. Fair values for fixed-rate CD's are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Other borrowings and junior subordinated debentures

Fair values for variable rate advances from the Federal Home Loan Bank and junior subordinated debentures are equal to their carrying amounts. Fair values for fixed rate advances are estimated using a discounted cash flow calculation that applies interest rates currently being offered for advances of similar remaining maturities.

Interest rate swap participation

Interest rate swap participations are carried at fair value in the balance sheet. Fair values of interest rate swap agreements are primarily based on quoted market prices for loans with similar terms as those represented by the swap agreements.

Accrued interest

The carrying amounts of accrued interest approximate their fair values.

Off-balance sheet instruments

Fair values for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties' credit standings.

19. Employee Benefits

As of January 1, 2020 the Bank adopted a 401(k) plan (Plan) covering substantially all employees. Under the Plan, the Bank will contribute a matching contribution of 50% of the employee's contribution up to 6% of the eligible employee's compensation. Additional matching contributions may be made annually based on pre-defined performance goals. Plan matching contributions vest over a five year period, with 20% vesting each year. Plan contributions were approximately $734,000 for the year ended December 31, 2020.

Prior to January 1, 2020, the Bank had adopted a safe harbor 401(k) plan (Prior Plan) covering substantially all employees. Under the Prior Plan, the Bank contributed a safe harbor matching contribution of 100% of the employee's contribution up to 3% of the eligible employee's compensation. Prior Plan safe harbor matching contributions were fully vested at all times and could not be forfeited. The Bank made discretionary profit sharing contributions to the Prior Plan in the amounts determined each year by the Board of Directors. Prior Plan contributions were approximately $588,000 for the year ended December 31, 2019.

20. Common Equity

A total of 4,000,000 shares of common stock have been authorized, $0.01 par value, which consists of 2,000,000 shares of regular voting common stock that are entitled to one vote per share and 2,000,000 shares of super voting common stock that are entitled to ten votes per share. At December 31, 2020 and 2019, respectively, 485,143 and 446,774 shares of regular voting common stock were issued, of which 434,969 and 396,600 were outstanding. Super voting common stock issued and outstanding consist of 1,042,320 shares as of December 31, 2020 and 2019. All of the super voting shares are held by SBH. Included in the regular voting common shares at December 31, 2019 are 4,161 shares which represent restricted shares that were not yet vested (see Note 21). Treasury shares consist of 50,174 shares as of December 31, 2020 and 2019.

Included in the super voting common shares at December 31, 2019, are 289,897 shares which were purchased by SBH for $20,000,000 during 2019, fully exercising its option under an investment agreement.

1,000,000 shares of preferred stock have been authorized, none of which have been issued or are outstanding at December 31, 2020 and 2019.

21. Share-Based Compensation

Restricted Stock and Restricted Stock Units

In 2018, the Company adopted the 2018 Equity Incentive Plan (2018 Plan). The 2018 Plan provides for the issuance of up to 200,000 shares of common stock to employees, directors and consultants in the form of options, restricted stock, restricted stock units (RSUs), stock appreciation rights or other stock-based awards. The maximum aggregate number of shares that may be issued pursuant to all awards under the 2018 Plan will increase annually on the first day of each fiscal year after the adoption of the 2018 Plan by one percent of the total issued and outstanding common shares of the Company on the first day of each fiscal year, or such lesser amount determined by the Board of Directors.

Restricted Stock

During the years ended December 31, 2020 and 2019, 2,031, and 4,161 shares of restricted stock were granted to Directors of BAI and Susser Bank. The shares of restricted stock issued during 2020 vested on December 31, 2020. The shares of restricted stock issued during 2019 vested on April 22, 2020.

A summary of the activity for restricted stock under the 2018 Plan for the years end December 31, 2020 and 2019 are as follows:

	Restricted Stock			
	2020		2019	
	Number of Shares	Grant-Date Average Fair Value per Share	Number of Shares	Grant-Date Average Fair Value per Share
Nonvested at beginning of period	4,161	$ 102.87	2,194	$ 96.00
Granted	2,031	112.00	4,161	102.87
Vested	(6,192)	105.86	(2,194)	96.00
Forfeited	-	-	-	-
Nonvested at end of period	-	$ -	4,161	$ 102.87

Restricted Stock Units

During the years ended December 31, 2020 and 2019, 4,018 and 1,944 RSUs were granted to certain key officers of the Company which will vest from 2021 to 2025. During 2020, 10,594 RSUs were granted to certain key officers of the Company which are dependent on achieving certain performance measures over the period January 1, 2020 through December 31, 2022. Any RSUs awarded in 2020 under the performance-based grants will vest ratably on October 1, 2023 and 2024. During 2019, 12,735 RSUs were granted to certain key officers of the Company which are dependent on achieving certain performance measures over the period January 1, 2019 through December 31, 2021. Any RSUs awarded in 2019 under the performance-based grants will vest ratably on October 1, 2022 and 2023. During 2018, RSUs were granted to certain key officers which were dependent on achieving performance measures over July 3, 2018 through December 31, 2020. The measurement period has closed on the 2018 grants, a total of 9,827 RSUs will be awarded, which will vest ratably on October 1, 2021 and October 1, 2022.

A summary of the activity for RSUs under the 2018 Plan for the years end December 31, 2020 and 2019 are as follows:

	Restricted Stock Units			
	2020		2019	
	Number of Shares	Grant-Date Average Fair Value per Share	Number of Shares	Grant-Date Average Fair Value per Share
Nonvested at beginning of period	35,059	$ 98.59	23,070	$ 96.00
Granted	14,612	105.08	14,679	102.87
Performance adjustments	405	96.00	-	-
Vested	(1,342)	99.32	(694)	96.00
Forfeited	(3,410)	99.64	(1,996)	100.18
Nonvested at end of period	45,324	100.69	35,059	98.59
Remain subject to performance criteria (1)	20,266	$ 102.87	21,985	$ 99.60

(1) 21,985 of the RSUs outstanding at December 31, 2019 remained subject to performance criteria for 30 and 36 month periods ending December 31, 2020 and 2021, respectively. 20,266 of the RSUs outstanding at December 31, 2020 remain subject to performance criteria for 36 month periods ending December 31, 2021 and December 31, 2022. The number of RSUs subject to performance criteria reflected assumes the target performance level will be met. However, the number of common shares that may ultimately be issued may be more or less than this amount, or none at all, depending on the actual performance results.

The Company recognized $1,251,000 and $1,417,000, respectively, of compensation expense related to the granting of the restricted stock and RSUs for the years ended December 31, 2020 and 2019.

22. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including borrowings, with its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons. The aggregate amounts of such loans was approximately $5,100,000 and $4,551,000 at December 31, 2020 and 2019, respectively. During the year ended December 31, 2020 there were advances on existing loans totaling $638,000 and repayments totaling $89,000. The Company has unfunded commitments with related parties of approximately $24,000 and $2,921,000, respectively, at December 31, 2020 and 2019.

23. Commitments and Contingencies

From time to time, the Company is involved in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial position or results of operations of the Company.

The Company does not anticipate any material losses as a result of commitments and contingent liabilities.

24. Regulatory Matters

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020 and 2019, the Bank meets all capital adequacy requirements to which it is subject.

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

Additionally, Basel III added a 2.5% "capital conservation buffer" which was designed for banking institutions to absorb losses during periods of economic stress. Banking institutions with capital ratios below the minimum for capital adequacy purposes plus the capital conservation buffer may face constraints on dividends, equity repurchases and executive compensation relative to the amount of the shortfall.

Actual and required capital amounts and ratios of the Bank are presented below (amounts in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum for Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum to be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020								
Total capital to risk weighted assets	$ 127,495	17.07%	$ 59,736	8.00%	$78,403	10.500%	$ 74,670	10.00%
Tier 1 (core) capital to risk weighted assets	118,155	15.82%	44,802	6.00%	63,469	8.500%	59,736	8.00%
Common Tier 1 (CET1)	118,155	15.82%	33,601	4.50%	52,269	7.000%	48,535	6.50%
Tier 1 (core) capital to average assets	118,155	9.96%	47,433	4.00%	47,433	4.000%	59,291	5.00%
December 31, 2019								
Total capital to risk weighted assets	$ 111,057	13.05%	$ 68,099	8.00%	$89,380	10.500%	$ 85,124	10.00%
Tier 1 (core) capital to risk weighted assets	107,097	12.58%	51,074	6.00%	72,355	8.500%	68,099	8.00%
Common Tier 1 (CET1)	107,097	12.58%	38,306	4.50%	59,587	7.000%	55,331	6.50%
Tier 1 (core) capital to average assets	107,097	11.44%	37,450	4.00%	37,450	4.000%	46,812	5.00%

The Bank's capital plan is to maintain a total capital to risk weighted assets at a targeted internal ratio of 10.5%. Additionally, the Bank's capital plan is to maintain capital ratios of 9% for common equity tier 1, tier 1 risk based capital and tier 1 (core) capital to average assets.

25. Condensed Parent Company Financials

Set forth below is the condensed parent only balance sheets as of December 31, 2020 and 2019 of the Company together with the related condensed parent only statements of operations and cash flows for the years then ended.

Condensed Balance Sheets

	2020	2019
Assets		
Cash and cash equivalents	$ 5,070	$ 2,551
Investment in subsidiaries	149,751	139,212
Other assets	346	308
Total assets	$ 155,167	$ 142,071
Liabilities and stockholders' equity		
Junior subordinated debentures	$ 4,124	$ 4,124
Other liabilities	4	6
Stockholders' equity	151,039	137,941
Total liabilities and stockholders' equity	$ 155,167	$ 142,071

Condensed Statement of Operations

	December 31, 2020	December 31, 2019
Interest income:		
Interest and fees on loans	$ -	$ 162
Other	3	-
Total interest income	3	162
Interest expense	101	237
Net interest expense	(98)	(75)
Noninterest income:		
Equity in undistributed income of subsidiary	9,323	7,521
Total noninterest income	9,323	7,521
Noninterest expense:		
Other	1,178	842
Total noninterest expense	1,178	842
Income before income tax expense	8,047	6,604
Income tax benefit	(200)	(240)
Net income	$ 8,247	$ 6,844

Condensed Statement of Cash Flows

	2020	2019
Cash flows from operating activities:		
Net income	$ 8,247	$ 6,844
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(9,323)	(7,521)
Director stock compensation	35	100
Increase in other assets	(38)	(34)
Decrease in other liabilities	(2)	(39)
Net cash used in operating activities	(1,081)	(650)
Cash flows from investing activities:		
Contributed capital to subsidiary	-	(20,000)
Net repayments of loans	-	3,512
Net cash used in investing activities	-	(16,488)
Cash flows from financing activities:		
Net repayment of borrowed funds	-	(1,876)
Issuance of common stock net of direct costs	3,600	19,800
Net cash provided by financing activities	3,600	17,924
Net increase in cash and cash equivalents	2,519	786
Cash and cash equivalents at beginning of period	2,551	1,765
Cash and cash equivalents at end of period	$ 5,070	$ 2,551

SUSSER BANC HOLDINGS CORPORATION
STOCKHOLDER AND CORPORATE INFORMATION

The ANNUAL MEETING of stockholders will be held at 10:00 a.m., Tuesday, April 27, 2021, at the Debate Chamber in the Pavilion Building at Old Parkland located at 3819 Maple Avenue, Dallas, Texas 75219.

BOARD OF DIRECTORS

Sam L. Susser, Chairman (1) (2)
President, Susser Holdings II, L.P.
Dallas, Texas

Jeffrey R. Schmid (1) (2)
President & CEO, Susser Banc Holdings Corporation
Dallas, Texas

Garry J. Graham (2)
Chief Risk Officer
Susser Bank
Arlington, Texas

T. Randall Cain, CPA (1) (2)
Retired – Vice Chair EY
San Antonio, Texas

David P. Engel (1) (2)
Principal, Engel and Associates, LLC
Corpus Christi, Texas

James R. Huffines (1) (2)
Principal – JRH Partners, LLC
Dallas, Texas

Rob L. Jones (1)
President, Cinnabar Investments, LLC
Houston, Texas

Kenneth L. Lee (2)
K. Lee Partnership
Mansfield, Texas

Eric J. Nelson (2)
President/Owner, Tricon Commercial Building Group, Ltd
Arlington, Texas

Scott R. Plantowsky (2)
Managing Member, RSR Finance, LLC
Bellaire, Texas

Ronald G. Steinhart (1)
Retired - Bank One Corporation
Dallas, Texas

Donald H. Stone (2)
President, StoneDome Holdings, LLC
Southlake, Texas

Mary E. Sullivan, CPA (2)
CFO, Susser Holdings II, L.P.
Dallas, Texas

Sam J. Susser (2)
Susser Holdings II, L.P.
Dallas, Texas

ADVISORY DIRECTORS

Tom Cravens (2)
Retired – Bank President
Arlington, Texas

Mark Holder (2)
Retired – OCC
Arlington, Texas

Samuel Todd Maclin (1)
Maclin Management
Dallas, Texas

Jerry Susser (1)
Susser Holdings II, L.P.
Corpus Christi, Texas

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Alston & Bird LLP
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Dallas, TX 75201

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Freedom Place at Old Parkland
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Dallas, Texas 75219

BANK ADDRESS

Susser Bank Support Center
3030 Matlock Road, Suite 101
Arlington, Texas 76015
(817) 987-2400

(1) Member of Board of Susser Banc Holdings Corporation
(2) Member of Board of Susser Bank

SUSSER BANK
CORPORATE INFORMATION

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Garry J. Graham
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Bedford, Texas 76021
(817) 719-8800

Fort Worth
4200 S Hulen Street, Suite 110
Fort Worth, Texas 76109
(817) 928-5200

Garland
2302 Guthrie Road, Suite 100
Garland, Texas 75043
(972) 424-7000

Round Rock
920 North Interstate Hwy 35
Round Rock, Texas 78681
(512) 572-6100

NEW BRANCH LOCATIONS CURRENTLY UNDER DEVELOPMENT

Arlington
3030 Matlock Road
Arlington, Texas 76015

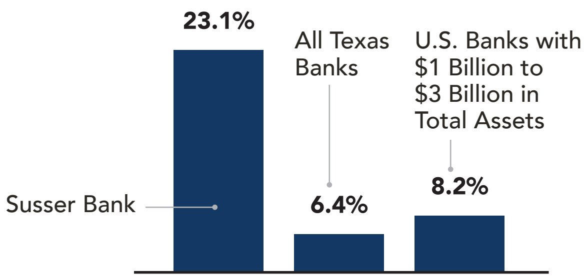
Dallas
100 Crescent Court, Suite 575
Dallas, Texas 75201

San Antonio
11503 NW Military Highway
San Antonio, Texas 78231

Strengthening Our Communities Through the SBA Paycheck Protection Program (PPP)

Susser Bank supported more than 1,600 companies, benefiting over 18,000 of their employees throughout the COVID-19 crisis.

PPP Loans as a % of Total Loans

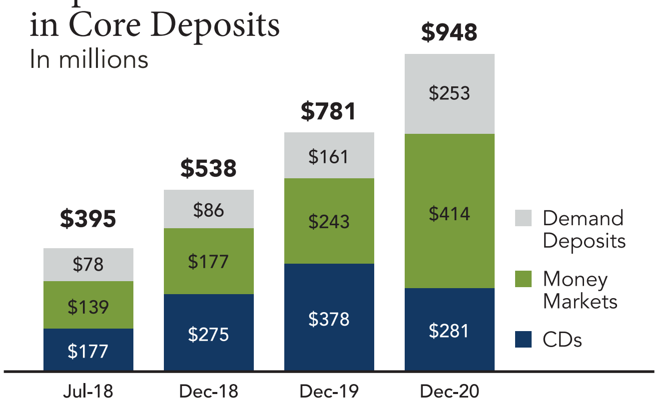


> “The team at Susser clearly put their clients’ interests first and tirelessly worked to be on the forefront of processing the loans ... Many businesses in my industry who applied at or near the time we did were not funded. We are grateful to Susser and consider ourselves very lucky to have such a great partner.
>
> CURRENT CLIENT

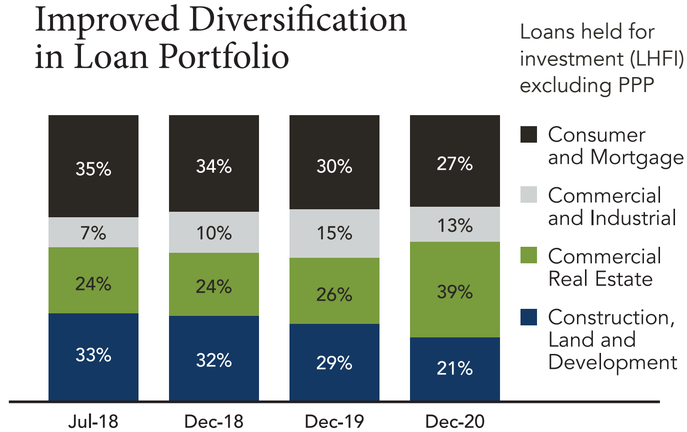
> “In my 11 years as a business owner, I have never encountered this level of proactivity from a bank. While this entire SBA lending process has been riddled with uncertainty and ambiguity, Susser’s attentiveness and response time has never wavered.
>
> CURRENT CLIENT

Impressive Growth in Core Deposits

In millions



Improved Diversification in Loan Portfolio



Improved Balance Sheet Strength

	2019	2020
Leverage Ratio	11.44 %	9.96 %
Tier 1 Capital Ratio	12.50	15.82
Total RBC Ratio	12.96	17.07
ALLL + Discounts / LHFI Excluding PPP	1.29	2.05
Asset Based Liquidity	10.78	20.70

Susser Bank

Member FDIC | EQUAL HOUSING LENDER

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