FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

NACOGDOCHES COMMERCIAL BANCSHARES, INC.
Nacogdoches, Texas

December 31, 2019 and 2018

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

Board of Directors
Nacogdoches Commercial Bancshares, Inc.
and Subsidiary
Nacogdoches, Texas

We have audited the accompanying consolidated financial statements of Nacogdoches Commercial Bancshares, Inc. and Subsidiary, which comprise the consolidated statements of condition as of December 31, 2019 and 2018, and 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 on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

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 consolidated financial position of Nacogdoches Commercial Bancshares, Inc. and Subsidiary as of December 31, 2019 and 2018, and the results of their consolidated operations and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
March 12, 2020

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CONDITION
($000's)

		DECEMBER 31, 2019		DECEMBER 31, 2018
ASSETS				
Cash and due from banks	$	10 508	$	10 864
Interest-bearing deposits with banks		15 955		14 322
Federal funds sold		8 000		5 000
TOTAL CASH AND DUE FROM BANKS		34 463		30 186
Debt securities available for sale		195 983		206 375
Debt securities to be held to maturity		1 069		1 457
Equity Securities:				
Marketable		710		663
Non-marketable		3 224		3 085
Loans held for sale		2 240		630
Loans, net of allowance for credit losses of $7,773 and $5,440, respectively		511 013		444 715
Property and equipment		13 457		13 307
Accrued interest receivable		2 997		2 559
Bank owned life insurance		12 769		12 387
Non-residential real estate owned		2 197		2 285
Goodwill		3 640		3 653
Other assets		6 262		7 596
TOTAL ASSETS	$	790 023	$	728 898
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits:				
Noninterest-bearing deposits	$	302 295	$	281 166
Interest-bearing deposits		376 944		364 500
TOTAL DEPOSITS		679 239		645 666
Accrued interest payable		275		242
Federal Home Loan Bank advances		15 000		-
Other liabilities		7 652		7 744
TOTAL LIABILITIES		702 167		653 652
Stockholders' Equity:				
Preferred Stock, No Stated Value, 200,000 Shares Authorized:				
Series A, non-convertible, cumulative, 39,579 shares issued, 38,497 outstanding in 2019 and 38,506 in 2018		3 958		3 958
Series B, convertible, non-cumulative, 39,579 issued, 34,700 outstanding in 2019, 34,706 in 2018		3 958		3 958
Common stock 2,800,000 shares at $10 par value authorized; 1,002,372 shares issued, 859,232 and 858,593 shares outstanding, respectively		10 026		10 017
Capital surplus		4 495		4 435
Retained earnings		66 623		58 190
Accumulated other comprehensive income (loss)		798		(3 312)
Less: Cost of common and preferred shares held in treasury		(2 002)		(2 000)
TOTAL STOCKHOLDERS' EQUITY		87 857		75 246
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	790 023	$	728 898

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

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2019 and 2018
($000's)

	DECEMBER 31, 2019	DECEMBER 31, 2018
Interest Income:		
Interest and fees on loans	$ 27 811	$ 22 980
Interest and dividends on debt securities available for sale	3 939	3 314
Interest on debt securities to be held to maturity - Tax exempt	19	26
Interest and dividends on marketable equity securities	47	(8)
Interest and dividends on non-marketable equity securities	95	76
Interest on federal funds sold	224	246
Interest on deposits with banks	9	291
TOTAL INTEREST INCOME	32 144	26 925
Interest Expense:		
Interest on deposits	2 836	1 850
Interest on bank loan and advances	80	294
TOTAL INTEREST EXPENSE	2 916	2 144
NET INTEREST INCOME	29 228	24 781
Provision for credit losses	2 795	1 675
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	26 433	23 106
Other Income:		
Fees on sales and servicing of loans	2 910	2 083
Income from fiduciary activities	809	671
Service charges on deposit accounts	3 687	3 669
Other service charges and fees	3 545	3 220
Net realized gains (losses) on sales of debt securities	(32)	-
Valuation changes of non-marketable securities	30	28
Other income	491	770
TOTAL OTHER INCOME	11 440	10 441
Other Expenses:		
Salaries and benefits	13 884	13 283
Occupancy	1 946	1 662
Furniture and equipment	1 807	1 611
Deposit insurance and professional fees	1 304	1 199
Lending and collection	508	382
Advertising and community relations	911	819
Other operating	5 405	5 099
TOTAL OTHER EXPENSE	25 765	24 055
INCOME BEFORE FEDERAL INCOME TAXES	12 108	9 492
Federal income taxes	2 469	1 918
NET INCOME	$ 9 639	$ 7 574
Earnings Per Common Share (Not Rounded):		
Basic	$ 10.73	$ 8.33
Diluted	$ 9.78	$ 7.60

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

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019 and 2018
($000's)

	2019	2018
NET INCOME	$ 9 639	$ 7 574
Other Comprehensive Income, Net of Tax:		
Unrealized Gains (Losses) on Securities:		
Changes in net unrealized losses on debt securities available for sale, net of income taxes of $1,084 in 2019 and $(206) in 2018	4 079	(776)
Reclassification adjustment for gains realized, net of income taxes of $9 in 2019 and $-0- in 2018	32	-
OTHER COMPREHENSIVE INCOME	4 111	(776)
COMPREHENSIVE INCOME	$ 13 750	$ 6 798

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

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2019 and 2018
($000's)

	PREFERRED STOCK SERIES A	PREFERRED STOCK SERIES B	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	CAPITAL SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL STOCK-HOLDERS' EQUITY
Balance, December 31, 2017	$ 3 958	$ 3 958	858 050	$ 10 012	$ 4 407	$ 51 756	$ (2 536)	$ (1 988)	$ 69 567
Comprehensive income	-	-	-	-	-	7 574	(776)	-	6 798
Purchase of preferred stock	-	-	-	-	-	-	-	(6)	(6)
Stock based compensation	-	-				-	-	-	
Cash Dividends Declared:									
Preferred, $5.75 per share	-	-	-	-	-	(421)	-	-	(421)
Common, $.84 per share	-	-	-	-	-	(721)	-	-	(721)
Conversion of preferred stock	-	-	138	1	-	-	-	(6)	(5)
Stock issued	-	-	140	1	10	-	-	-	11
Stock options exercised	-	-	265	3	18	2	-	-	23
Balance, December 31, 2018	3 958	3 958	858 593	10 017	4 435	58 190	(3 312)	(2 000)	75 246
Comprehensive income	-	-	-	-	-	9 639	4 111	-	13 750
Purchase of preferred stock	-	-	-	-	-	-	-	-	-
Stock based compensation	-	-	-	-	-	-	-	-	-
Cash Dividends Declared:									
Preferred, $5.75 per share	-	-	-	-	-	(421)	-	-	(421)
Common, $.84 per share	-	-	-	-	-	(790)	-	-	(790)
Conversion of preferred stock	-	-	14	1	-	-	-	(2)	(1)
Stock issued	-	-	230	4	35	-	-	-	39
Stock options exercised	-	-	395	4	25	5	-	-	34
Balance, December 31, 2019	$ 3 958	$ 3 958	859 232	$ 10 026	$ 4 495	$ 66 623	$ 799	$ (2 002)	$ 87 857

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

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
($000's)

	2019	2018
Cash Flows from Operating Activities:		
Net income	$ 9 639	$ 7 574
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1 142	1 119
Amortization core deposit intangible	650	534
Amortization of goodwill	12	12
Stock based compensation	10	5
Provision for credit losses	2 795	1 675
Gain on disposal of property and equipment	101	(129)
Deferred income taxes	(483)	(329)
Principal proceeds from sales of loans held for sale	95 359	65 826
Originations of loans held for sale	(94 663)	(64 720)
Net realized (gains) losses on debt securities available for sale	32	-
Net realized gains on sales of loans held for sale	(2 305)	(1 418)
Net amortization of premiums on investment securities	86	144
Decrease (increase) in accrued income	(437)	(248)
(Increase) decrease in bank owned life insurance	(382)	(384)
Decrease (increase) in other assets	74	10
Increase (decrease) in accrued expenses and other liabilities	(59)	1 437
Stock dividends	(66)	(33)
Valuation changes of non-marketable equity securities	(30)	(28)
Loss on sale or exchange of foreclosed real estate	177	-
TOTAL ADJUSTMENTS	2 013	3 473
NET CASH PROVIDED BY OPERATING ACTIVITIES	11 652	11 047
Cash Flows from Investing Activities:		
Purchases of debt securities available for sale	(170 532)	(144 735)
Purchases of non-marketable equity securities, FHLB and Federal Reserve stock	(91)	(540)
Proceeds from sales and maturities of debt securities available for sale	186 029	140 102
Proceeds from sales and maturities of debt securities held to maturity	370	955
Net decrease (increase) in loans held to maturity	(70 018)	(62 376)
(Purchases) sales of properties and equipment, net of retirements	(1 524)	(955)
Branch acquisition premium	-	(1 047)
Proceeds from sale of property and equipment	131	1 363
Proceeds from sale of foreclosed real estate	835	14
NET CASH USED BY INVESTING ACTIVITIES	(54 800)	(67 219)
Cash Flows from Financing Activities:		
Net increase (decrease) in noninterest bearing deposits	21 129	36 779
Net increase (decrease) in interest bearing deposits	12 444	13 979
Net increase (decrease) in notes payable and advances	15 000	(6 700)
Stock options exercised and stock issued	65	30
Purchase of treasury stock	(2)	(12)
Payments of dividends	(1 211)	(1 142)
NET CASH PROVIDED BY FINANCING ACTIVITIES	47 425	42 934
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	4 277	(13 238)
Cash and due from banks at January 1	30 186	43 424
CASH AND DUE FROM BANKS AT DECEMBER 31	$ 34 463	$ 30 186

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
For the Years Ended December 31, 2019 and 2018
($000's)

		2019		2018
Interest paid	$	2 883	$	2 015
Income taxes paid	$	2 469	$	1 918
Supplementary Schedule of Noncash Investing and Financing Activities:				
Loans transferred to other real estate	$	925	$	114
Total (increase) decrease in unrealized loss on debt securities available for sale (net of tax)	$	5 204	$	(982)

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

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Nacogdoches Commercial Bancshares, Inc. (the Company) is a holding company whose principal activity is the ownership and management of its wholly-owned subsidiary Commercial Bank of Texas, N.A. (the Bank). The Bank provides a variety of financial services to individuals and corporate customers through its five branches located in Nacogdoches County, its four branches located in Angelina County, its two branches located in Anderson County, its single branches located in Cherokee and Houston Counties, its four branches located in North Texas (Allen, Lewisville, Bedford and Roxton) and its two branches in Rains County. All locations are in the state of Texas. Its primary lending products consist of automobile loans, single family residential loans, and loans to locally owned businesses, including business loans secured by real estate. Its primary deposit products consist of regular and interest-bearing checking accounts and certificates of deposit. The Bank offers fiduciary and investment services through its Trust Department and insurance products through its Insurance Department.

NCBI Properties LLC (Properties) is a wholly- owned subsidiary of the Bank. Properties was created to handle certain real estate transactions. At December 31, 2019, Properties had approximately $20,000 in assets and no liabilities. The assets of Properties are included in the Bank's total assets on the consolidated financial statements.

Basis of Accounting - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and conform with practices within the banking industry. The following is a summary of the Company's significant accounting policies.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company, the Bank and Properties. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the loan portfolio is diversified, its debtors' ability to honor their contracts is heavily dependent upon economic conditions in the service area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

Cash Equivalents - For the purpose of presentation in the Consolidated Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in the Statement of Condition caption "Cash and due from banks," all of which mature within 90 days.

Investments in Securities - The Bank's investment portfolio is classified into three categories and accounted for as follows:

> Securities classified as equity securities not using the equity method are carried at estimated fair value with changes in fair value and realized gains or losses reported in noninterest income. If fair value is not readily determinable, the equity security is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments. All equity securities are classified as either marketable or non-marketable and evaluated at least annually for impairment.
>
> Debt securities classified as held to maturity are those debt securities for which the Bank has the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

These securities are reported at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

Debt securities classified as available for sale are debt securities with readily determinable fair values and those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders' equity, net of the related deferred tax effect.

Premiums and discounts on investment securities are recognized in interest income using the interest method over the period to maturity.

Declines in the fair value of individual securities to be held to maturity and securities available for sale below their cost that are other than temporary are accounted for as a write-down of the individual securities to their fair value. Any related write-downs are included in earnings as realized losses. Unrealized holding gains and losses on securities available for sale are reported in other comprehensive income.

Realized gains and losses on securities available for sale are included in other income or expense and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on the sale of securities are determined using the specific-identification method. Investment securities are accounted for on a trade date basis.

Professional standards require the Bank to recognize all financial derivatives on the balance sheet at fair value. At December 31, 2019 and 2018, the Bank had no derivative instruments.

Loans Receivable - Loans are carried at the amount of unpaid principal. The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout the northern and eastern region of Texas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area.

Loans held for investment are stated at the amount of unpaid principal and reduced by an allowance for loan losses.

Mortgage loans held for sale are recorded at the lower of cost or market. Gains and losses on sales are computed on the basis of specific identification.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Income on impaired loans is recognized in accordance with the accounting principles employed in the recognition of income on non-impaired loans, unless, in the opinion of management, the accrual of income should be discontinued due to the inability of the borrower to meet payments as they become due.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loans that have been categorized by management as nonaccrual are included in the total loan portfolio being reported. Loans are deemed nonaccrual because collection of interest is doubtful. When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on nonaccrual status unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan. When a loan is placed on nonaccrual status, all interest previously accrued is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Loan origination and commitment fees are recognized as income when received. Direct loan origination costs are expensed when paid. Professional accounting standards require the net effect of loan origination and commitment fees and certain direct loan origination costs to be deferred and recognized over the life of the related loan as an adjustment of yield. The application of these standards would not have a material effect on the consolidated financial position or results of operations.

Allowance for Credit Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, real estate, or consumer and credit card). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements). The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have been paying as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such an extent as to require the loan be put into a nonaccruing status. Cash receipts on impaired loans are recorded as interest income is received, unless the loan is in a nonaccrual status.

Loan Charge-Offs - The Bank uses the Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Account Management Policy for loan charge-offs.

For consumer and commercial loans, the Bank generally fully or partially charges down to the fair value of collateral securing the asset when:

- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Bank's internal loan review process or external examiners;
- the borrower has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is 180 days past due unless both well secured and in the process of collection.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Bank's charge-off policies by segment of the loan portfolio are as follows:

- *Real Estate* - The Bank generally writes down to the net realizable value when the loan is no later than 180 days past due.
- *Auto Loans* - The Bank generally fully or partially charges down to the net realizable value when the loan is 60 days past due.
- *Unsecured Loans* - The Bank generally charges off when the loan is 90 days past due.
- *Credit Cards* - The Bank generally fully charges off when the loan is 90 days past due.
- *Other Secured Loans* - The Bank generally fully or partially charges down to the net realizable value when the loan is 120 days past due for closed-end loans and 180 days past due for open-end loans.

Troubled Debt Restructurings - In situations where, for economic or legal reasons related to a member's financial difficulties, the Bank grants a concession for other than an insignificant period of time to the member that the Bank would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Bank strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principle forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Bank grants the member new terms that provide for a reduction of either interest or principal, the Bank measures any impairment on the restructuring as previously noted for impaired loans.

In addition to the allowance for the pooled portfolios, the Bank develops a separate allowance for loans that are identified as impaired through TDR. After a period of time, usually 6 months, if the loan is performing under the restructured payment amount, and after review, the Bank believes the status will continue, the loan is moved back into the respective segment or class and the allowance is calculated using the pooling method for the respective pool.

Property and Equipment - Land is carried at cost. Bank premises, furniture, and equipment are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method and is charged to operations over the estimated useful lives of the assets. Buildings are depreciated over 39 years, equipment over 3 to 10 years, and vehicles over 5 years. Maintenance and repairs of property and equipment are charged to operations; however, major improvements are capitalized. A capitalization threshold of $2,000 is used. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in operations.

Bank Owned Life Insurance - Bank-owned life insurance is carried at the aggregated cash surrender value of the life insurance policies owned where the Company is named beneficiary. Increases in cash surrender value derived from crediting rates for underlying insurance policies are credited to noninterest income.

Other Real Estate Owned - Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of foreclosure less estimated cost to sell. Any write-downs at the time of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of (1) cost or (2) fair value minus estimated costs to sell. Gains and losses realized on the sale, and any adjustments resulting in periodic re-evaluation of the property are included in noninterest income and expense, as appropriate. Net cost of maintaining and operating the properties are expensed as incurred.

Financial Instruments - In the ordinary course of business, the Bank has entered into off balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Values of Financial Instruments - FASB Codification Section 825-10-50 requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. This standard excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Income Taxes - Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or 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. Provisions for income taxes are based on amounts reported in the consolidated statements of income (after exclusion of non-taxable income such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Items of deferral include differences related to the allowance for credit losses, allowance for losses on foreclosed real estate, accumulated depreciation, accretion of discounts, Federal Home Loan Bank and mutual fund stock dividends, the unrealized gains or losses on securities held as available for sale, and liabilities being accrued for the payment of insurance benefits to officers and directors. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The Company files a consolidated return with its wholly owned subsidiary, the Bank. Federal income taxes are allocated to members of the controlled group on a separate entity basis.

Transfers of Financial Assets - The Bank accounts for transfers and servicing of financial assets in accordance with FASB ASC 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loans Held for Sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains and losses on the sales of loans are determined by differences between the yield rate guaranteed to the buyer on those loans and the contract interest rate being collected and are recognized in the financial statements in the year of sale.

Mortgage Servicing Rights - The Bank services some mortgage loans that it has originated and sold. Such loan balances are not included in the accompanying consolidated Statements of Condition. Mortgage servicing rights on loans originated by the Bank, and on those purchased, are capitalized as assets at the estimated fair value on the date of origination or purchase. Management periodically evaluates mortgage servicing rights for impairment. Mortgage servicing rights are considered to be impaired when the carrying value exceeds the estimated fair value at the date of evaluation. Mortgage servicing rights are amortized against servicing income over the lives of the respective loans.

Earnings Per Share - Basic earnings per common share is computed on the basis of the weighted-average number of shares of common stock outstanding and includes net income less dividends paid on preferred stock. Diluted earnings per common share reflects the assumed effects of converting Series B preferred shares to common shares, if those effects are dilutive (reducing earnings per share).

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Noninterest Income - The Company recognizes revenue when the performance obligations related to the transfer of goods or services under the terms of a contract are satisfied. Some obligations are satisfied at a point in time while others are satisfied over a period of time. Revenue is recognized as the amount of consideration to which the Company expects to be entitled to in exchange for transferring goods or services to a customer. When consideration includes a variable component, the amount of consideration attributable to variability is included in the transaction price only to the extent it is probable that significant revenue recognized will not be reversed when uncertainty associated with the variable consideration is subsequently resolved. Generally, the variability relating to the consideration is explicitly stated in the contracts but may also arise from the Company's customer business practices, such as waiving certain fees related to customers' deposit accounts (i.e. NSF fees). The Company's contracts generally do not contain terms that require significant judgement to determine the variability impacting the transaction price.

Control is transferred to a customer either at a point in time or over time. A performance obligation is deemed satisfied when the control over goods or services is transferred to the customer. To determine when control is transferred at a point in time, the Company considers indicators, including but not limited to the right to payment for the asset, transfer of significant risk and rewards of ownership of the asset and acceptance of the asset by the customer. When control is transferred over a period of time, for different performance obligations, either the input or output method is used to determine the progress. The measure of progress used to assess completion of the performance obligations varies between performance obligations and may be based on time throughout the period of service or on the value of goods and services transferred to the customer. As each distinct service or activity is performed, the Company transfers control to the customer based on the services performed as the customer simultaneously receives the benefits of those services. This timing of revenue recognition aligns with the resolution of any uncertainty related to variable consideration. Costs to obtain a revenue producing contract are expensed when incurred as a practical expedient as the contractual period for majority of contracts is one year or less.

Revenue is segregated based on the nature of product and services offered as part of contractual arrangements. Revenue from contracts with customers is broadly segregated as follows:

- Income from Fiduciary Activities - The Company provides trust or asset management services to customers on a continuous scale and customers are invoiced quarterly and annually. Fees are automatically deducted from customer accounts. Income is derived as management fees and is recorded in accordance with end of month fee schedules. ASC 606 allows for the variable consideration allocation exception which allows entities to recognize revenue based on outputs or work performed thru the date of the invoice; therefore, revenue should be recognized when the customer is invoiced. Though this could cause immaterial differences in the timing of revenue recognition for quarterly reports, it does not impact the amount to be recorded for the year.

- Service Charges on Deposit Accounts - Service charges on deposit accounts include fees and other charges the Company receives to provide various services, including but not limited to, maintaining an account with a customer, providing overdraft services, and EFTs. The consideration includes both fixed (e.g. account maintenance fee) and transaction fees (e.g. wire-transfer fee). The fixed fee is recognized over a period of time while the transaction fee is recognized when a specific service (e.g. execution of wire-transfer) is rendered to the customer. The Company may, from time to time, waive certain fees (e.g. NSF fee) for customers but generally does not reduce the transaction price to reflect variability for future reversals due to the insignificance of the amounts. Additionally, waiver of fees reduces the revenue in the period the waiver is granted to the customer.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Other Service Charges and Fees - The majority of this account (approximately 74%) consist of interchange fees earned on debit cards and credit cards. The Company recognized interchange fees for services performed related to authorization and settlement of a cardholder's transaction with a merchant. Revenue is recognized when a cardholder's transaction is approved and settled. The revenue may be constrained due to inherent uncertainty related to cardholder's right to return goods and services but as the uncertainty is resolved within a short period of time (generally within 30 days) interchange revenue is reduced by the amount of returns in the period the return is made by the customer. The remainder of income noted in this line item is triggered under customer account agreements and publicized fee sheets (the contract with the customer) when either the customer requests a specific transaction or service (purchase of a money order, check cashing, etc.).

- Other Income - Contains insurance commissions and gains and losses related to the sale of OREO. This line item also includes rental income and other income for TIB dividends, small royalties, and for the current year, revenue recorded for work performed on a property in the prior year. However, 45% of the account is made-up of income recognized on the valuation on the cash value of life insurance which is derived from a financial instrument, and as such, is excluded. The exclusion of this valuation leaves an immaterial balance for this line item in the financial statements as well as for the underlying accounts of this line item. The underlying accounts are considered for the current year due to the netting that occurred to produce this line item balance.

Goodwill - In acquisitions accounted for using the purchase method, the Company allocates any excess of the purchase price over the book value of the acquired company first to the assets and liabilities of the acquired company based on their respective current fair values, then to goodwill. The Company conducts impairment tests for goodwill and other intangible assets with indefinite useful lives as deemed necessary based on the fair value of the applicable reporting unit. If the reporting unit's fair value is greater than its carrying amount, goodwill is not impaired and no loss is recognized. If the implied fair value of a reporting unit's goodwill is less than its recorded amount, goodwill is considered impaired and the Company must recognize a loss. Management recorded $185,554 of goodwill in 2016 related to the acquisition of the Emory branch and has elected to amortize it over 15 years. Management amortized $12,372 and $12,372 of goodwill in 2019 and 2018. Goodwill in the amounts of $3,640,343 and $3,652,715 is being carried on the statement of condition as of December 31, 2019 and 2018.

Core Deposit Intangible - Core deposit intangible is recorded at fair value at the date of acquisition and is being amortized over 5 years using the sum-of-the-years digits method.

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

Advertising - The Company expenses all advertising costs when incurred. For 2019 and 2018, advertising and community relations expenses amounted to $910,613 and $819,246, respectively.

Uncertain Tax Positions - Financial Accounting Standards Board Codification Section 740 requires recognition, measurement and disclosure of uncertain tax positions. The Company currently accounts for uncertain tax positions based on the estimated likelihood of assessment and has not determined that any tax positions require an accrual based on current standards of accounting. The Company is generally no longer subject to Federal tax examinations for years before 2016.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Stock-Based Compensation - The Company has a stock-based employee compensation plan, which is described more fully in Stock Option Plan disclosure, which provides for grants of incentive stock options. The plan has been presented to and approved by the Company's shareholders. Professional standards require that all equity-based compensation, including grants of stock options, to employees be expensed based on the fair value on the date of grant recognized over the service period for awards expected to vest. For awards with graded vesting schedules, the Company uses the straight-line method of attributing the value of stock-based compensation expense based on the applicable vesting schedule.

Segment Reporting - FASB ASC 280, *Segmenting Reporting*, requires that an enterprise report selected information about operating segments in its financial reports issued to its shareholders. Based on the analysis performed by the Company, management has determined that the Company only has one operating segment, which is commercial banking. The chief operating decision-makers use consolidated results to make operating and strategic decisions, and therefore, are not required to disclose any additional segment information.

Subsequent Events - Management has evaluated subsequent events through March 12, 2020, the date the financial statements were available to be issued.

New Authoritative Accounting Guidance - The FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Current GAAP requires an *incurred loss* methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Users of financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the *probable* threshold. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by the reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU will be effective for financial institutions other than public entities for fiscal years beginning after December 15, 2022, and interim periods within fiscal years beginning after December 15, 2022. At this time, the Company has not determined the impact on its financial statements.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB is amending the FASB Accounting Standards Codification and creating Topic 842, Leases. Leasing is utilized by many entities. It is a means of gaining access to assets, of obtaining financing, and/or of reducing an entity's exposure to the full risks of asset ownership. The prevalence of leasing, therefore, means that it is important to users of financial statements to have a complete and understandable picture of an entity's leasing activities. Previous lease accounting was criticized for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions. In particular, it did not require lessees to recognize assets and liabilities arising from operating leases on the balance sheet. As a result, there had been longstanding requests from many users of financial statements and others to change the accounting requirements so that lessees would be required to recognize the rights and obligations resulting from leases as assets and liabilities. This ASU will be effective for financial institutions other than public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. At this time, the Company has not determined the impact of this Update on its financial statements.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The FASB issued ASU No. 2017-08, *Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities*. This Update shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. This Update does not change the accounting for callable debt securities held at a discount. This Update will be effective for entities other than public business entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. At this time, the Company has not determined the impact of this Update on its financial statements.

ACCOUNTING CHANGES

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which makes targeted improvements in the recognition, measurement, presentation, and disclosure of financial instruments. For entities other than public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management adopted ASU 2016-01 in 2019, and it did not have a material impact on the 2019 consolidated financial statement.

In May of 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718)-Scope of Modification Accounting*. This Update clarifies whether changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under this Update, an entity will not apply modification accounting to a share-based award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. This Update was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. There have been no modifications, and the adoption of the guidance did not have a material impact on the consolidated financial statements.

The FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows from financing activities. (2) Proceeds from Settlement of Bank-Owned Life Insurance Policies: Cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash flows from investing activities. The cash payments for premiums on bank-owned policies may be classified as cash flows for investing activities, operating activities, or a combination of investing and operating. The amendments in the ASU was effective for entities other than public business entities for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company adoption of the guidance did not have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to replace a wide range of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company's revenue is composed of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities, including loans, leases, securities, and derivatives. Accordingly, the majority of the Company's revenues were not affected.

ACCOUNTING CHANGES - CONTINUED

Adoption, which was effective on January 1, 2019, did not have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10)*: *Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies certain aspects of the guidance issued in ASU No. 2016-01. Among other items, the amendment clarifies that an entity that uses the measurement alternative for equity securities without readily determinable fair values can change its measurement approach to fair value. Once the election is made, the measurement approach is irrevocable and the entity is required to apply the selected approach to that security and all identical or similar investments of the same issuer. This standard was effective for the Company beginning in the first quarter of fiscal year 2019 and did not have a material impact on the Company's consolidated financial statements.

BRANCH ACQUISITION

Effective at the close of business October 12, 2018, the Bank acquired a branch in Cushing, Texas. The following table reflects the fair value of the assets purchased and liabilities assumed at the purchase date.

		FAIR VALUE
Cash	$	28 443 472
Loans		2 343 861
Accrued interest receivable		8 681
Property and equipment		225 000
Demand and savings		(16 378 614)
Time deposits		(15 635 366)
Accrued interest payable		(50 135)
Accrued expenses		(4 055)
NET CORE DEPOSIT INTANGIBLE	$	1 047 156

The core deposit intangible is included in other assets on the consolidated statement of condition. The following table represents the activity in the core deposit intangible for the years presented.

		AMOUNT
Balance at beginning of year	$	959 892
Amortization		331 602
Balance December 31, 2019	$	628 290

EQUITY SECURITIES

The Bank invests in stock of the Federal Reserve Bank, Federal Home Loan Bank, and The Independent BankersBank. No ready market exists for these stocks and they have no quoted market value. They are therefore carried at cost in the financial statements. These stocks are included in non-marketable equity securities in the consolidated statements of condition.

As required by contract, the Bank invests in equity securities of Data Center, Inc. (DCI). DCI is a private company and no ready market exists for these stocks, therefore, their value is calculated via the equity method. These securities are included in non-marketable equity securities in the consolidated statement of condition.

INVESTMENT SECURITIES

The following tables reflect the amortized cost and estimated fair values of debt, equity, and mortgage-backed securities held at December 31, 2019 and 2018. In addition, gross recognized but unrealized gains and losses are disclosed for equity securities and gross unrealized gains and losses are disclosed for available for sale and held to maturity debt securities as of December 31, 2019 and 2018.

EQUITY SECURITIES - MARKETABLE & NON-MARKETABLE

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
December 31, 2019:				
Community Reinvestment Act	$ 709 639	$ -	$ -	$ 709 639
The Independent BankersBank stock	52 500	-	-	52 500
Federal Reserve and FHLB stock	2 627 300	-	-	2 627 300
DCI (private company)	143 100	401 332	-	544 432
TOTALS	$ 3 532 539	$ 401 332	$ -	$ 3 933 871
December 31, 2018:				
Community Reinvestment Act	$ 662 577	$ -	$ -	$ 662 577
The Independent BankersBank stock	52 500	-	-	52 500
Federal Reserve and FHLB stock	2 517 800	-	-	2 517 800
DCI (private company)	143 100	371 166	-	514 266
TOTALS	$ 3 375 977	$ 371 166	$ -	$ 3 747 143

DEBT SECURITIES AVAILABLE FOR SALE

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
December 31, 2019:				
U.S. government	$ 992 055	$ 25 982	$ -	$ 1 018 037
U.S. agency sponsored securities	167 854 395	1 306 830	251 680	168 909 545
Mortgage-backed securities	16 488 751	9 321	36 160	16 461 912
Collateralized mortgage obligations	8 678 844	697	44 312	8 635 229
State and municipal securities	317 489	15	-	317 504
State and municipal securities - taxable	640 721	2	-	640 723
TOTALS	$ 194 972 255	$ 1 342 847	$ 332 152	$ 195 982 950
December 31, 2018:				
U.S. government	$ 2 986 897	$ -	$ 29 497	$ 2 957 400
U.S. agency sponsored securities	185 502 050	70 571	3 442 109	182 130 512
Mortgage-backed securities	22 079 470	-	791 776	21 287 694
TOTALS	$ 210 568 417	$ 70 571	$ 4 263 382	$ 206 375 606

DEBT SECURITIES TO BE HELD TO MATURITY

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
December 31, 2019:				
State and municipal securities	$ 1 068 701	$ -	$ 4 371	$ 1 064 330
December 31, 2018:				
State and municipal securities	$ 1 456 888	$ 1 196	$ 31 976	$ 1 426 108

INVESTMENT SECURITIES - CONTINUED

Proceeds from the sale of equity securities were $-0- in 2019 and $-0- in 2018. Proceeds from the redemption of equity shares were $-0- in 2019 and $-0- in 2018. Proceeds from the sale and maturities of available for sale debt securities were $186,028,540 in 2019 and $140,102,167 in 2018. Gross realized gains from the sale of equity securities in 2019 were $-0- and $-0- in 2018. Gross recognized gains (losses) from the valuation of equity securities were $30,166 in 2019 and $27,975 in 2018. Gross realized gains from the sale of available for sale debt securities were $22,385 in 2019 and $-0- in 2018. Gross realized losses from the sale of available for sale debt securities were $54,641 in 2019 and $-0- in 2018. There were no held to maturity debt securities sold during 2019 and 2018.

Management evaluates securities for other-than-temporary impairment on a periodic basis. Consideration is given to 1) the length of time and the extent to which the fair value has been less than cost, 2) the financial condition and near term prospects of the issuer, 3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Debt securities with unrealized losses have depreciated 0.38% and 1.83% from the Bank's amortized cost basis at December 31, 2019 and 2018, respectively. These securities are guaranteed by either the U.S. Government agencies thereof or municipalities. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Information pertaining to available for sale and held to maturity debt securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time that the individual securities have been in a continuous loss position follows:

AVAILABLE FOR SALE AND HELD TO MATURITY - LESS THAN 12 MONTHS

	AMORTIZED COST	UNREALIZED LOSSES	FAIR VALUE
December 31, 2019:			
U.S. government	$ -	$ -	$ -
U.S. agency sponsored securities	7 025 109	11 249	7 013 860
Mortgage-backed securities	1 804 246	163	1 804 083
Collateralized mortgage obligations	4 118 056	44 312	4 073 744
State and municipal securities	-	-	-
State and municipal securities - Taxable	-	-	-
TOTALS	$ 12 947 411	$ 55 724	$ 12 891 687

AVAILABLE FOR SALE AND HELD TO MATURITY - GREATER THAN 12 MONTHS

	AMORTIZED COST	UNREALIZED LOSSES	FAIR VALUE
December 31, 2019:			
U.S. government	$ -	$ -	$ -
U.S. agency sponsored securities	63 532 527	240 431	63 292 096
Mortgage-backed securities	10 684 683	35 997	10 648 686
Collateralized mortgage obligations	-	-	-
State and municipal securities	1 068 701	4 371	1 064 330
State and municipal securities - Taxable	-	-	-
TOTALS	$ 75 285 911	$ 280 799	$ 75 005 112

INVESTMENT SECURITIES - CONTINUED

Information pertaining to debt securities with gross unrealized losses at December 31, 2018, aggregated by investment category and length of time that the individual securities have been in a continuous loss position follows:

AVAILABLE FOR SALE AND HELD TO MATURITY - LESS THAN 12 MONTHS

	AMORTIZED COST	UNREALIZED LOSSES	FAIR VALUE
December 31, 2018:			
U.S. government	$ -	$ -	$ -
U.S. agency sponsored securities	2 977 303	9 613	2 967 690
Mortgage-backed securities	-	-	-
State and municipal securities	150 162	15	150 147
TOTALS	$ 3 127 465	$ 9 628	$ 3 117 837

AVAILABLE FOR SALE AND HELD TO MATURITY - GREATER THAN 12 MONTHS

	AMORTIZED COST	UNREALIZED LOSSES	FAIR VALUE
December 31, 2018:			
U.S. government	$ 2 986 897	$ 29 497	$ 2 957 400
U.S. agency sponsored securities	158 763 724	3 432 496	155 331 228
Mortgage-backed securities	22 079 472	791 778	21 287 694
State and municipal securities	1 086 844	31 959	1 054 885
TOTALS	$ 184 916 937	$ 4 285 730	$ 180 631 207

The amortized cost and estimated fair value of available for sale and held to maturity debt securities held at fair value at December 31, 2019 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	AVAILABLE FOR SALE		HELD TO MATURITY	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 55 727 832	$ 55 765 437	$ -	$ -
Due after one through five years	113 118 617	114 162 146	551 717	549 377
Due after five through ten years	958 211	958 226	516 984	514 953
Due after ten years	-	-	-	-
Mortgage-backed securities	16 488 751	16 461 912	-	-
Collateralized mortgage obligation	8 678 844	8 635 229	-	-
TOTAL	$ 194 972 255	$ 195 982 950	$ 1 068 701	$ 1 064 330

Securities carried at $129,105,821 and $121,692,816 at December 31, 2019 and 2018, respectively, were pledged to secure deposits and for other purposes required or permitted by law.

LOANS - CREDIT QUALITY

The Bank's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

As of December 31, 2019, the real estate loan portfolio constituted 75% of the total loan portfolio. Included in this amount were 4% construction and land development, 52% commercial real estate and 34% residential real estate loans.

The Bank's construction and land development loans are secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan.

These loans are generally underwritten with a term not greater than 5 years at a fixed rate then adjusting annually with a maximum amortization based on 20 years. The preferred term is 3 years, with a balloon payment based on a 15 year amortization.

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years, but may be underwritten with terms up to 30 years.

The Bank also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represents about 18% of the loan portfolio at December 31, 2019 and was generally with a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

Outstanding Loans:

The table below presents total outstanding loans at December 31, 2019 and 2018 and an aging analysis at December 31, 2019.

LOANS - CREDIT QUALITY - CONTINUED

	DECEMBER 31, 2019				
	30-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE 30 DAYS OR MORE	TOTAL CURRENT OR LESS THAN 30 DAYS PAST DUE	TOTAL OUT-STANDING
Real Estate:					
Commercial real estate	$ 133 678	$ 18 815	$ 152 493	$ 202 431 525	$ 202 584 018
Commercial construction	-	-	-	15 271 520	15 271 520
1-4 family residential	-	-	-	19 301 971	19 301 971
Residential mortgages	1 247 946	34 364	1 282 310	110 815 289	112 097 599
Home equity and home improvement	651 597	191 402	842 999	17 625 454	18 468 453
Agriculture	-	-	-	8 258 847	8 258 847
VA/FHA	22 281	34 432	56 713	655 026	711 739
SBA/FSA	-	632 627	632 627	12 090 659	12 723 286
TOTAL REAL ESTATE	2 055 502	911 640	2 967 142	386 450 291	389 417 433
Consumer and Credit Card:					
Indirect	17 869	-	17 869	351 640	369 509
Retail	238 780	99 211	337 991	26 028 675	26 366 666
CD secured	51 000	-	51 000	7 652 116	7 703 116
Fresh start	-	-	-	27 499	27 499
TOTAL CONSUMER	307 649	99 211	406 860	34 059 930	34 466 790
Commercial:					
Agriculture	60 742	-	60 742	6 522 519	6 583 261
Secured and unsecured	1 245 785	24 181	1 269 966	84 051 025	85 320 991
TOTAL COMMERCIAL	1 306 527	24 181	1 330 708	90 573 544	91 904 252
Loans in-process and dealer prepaid				4 731 088	4 731 088
Overdrafts				505 839	505 839
TOTAL LOANS	$ 3 669 678	$ 1 035 032	$ 4 704 710	$ 516 320 692	521 025 402
Allowance for credit losses					7 773 133
NET LOANS					$ 513 252 269

	DECEMBER 31, 2018				
	30-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE 30 DAYS OR MORE	TOTAL CURRENT OR LESS THAN 30 DAYS PAST DUE	TOTAL OUT-STANDING
Real Estate:					
Commercial real estate	$ 991 081	$ 571 924	$ 1 563 005	$ 176 484 395	$ 178 047 400
Commercial construction	-	-	-	14 965 201	14 965 201
1-4 family residential	-	-	-	16 871 955	16 871 955
Residential mortgages	1 029 228	250 946	1 280 174	94 874 186	96 154 360
Home equity and home improvement	937 061	41 630	978 691	17 532 132	18 510 823
Agriculture	33 508	-	33 508	8 226 779	8 260 287
VA/FHA	24 787	39 157	63 944	747 101	811 045
SBA/FSA	-	16 682	16 682	9 803 270	9 819 952
TOTAL REAL ESTATE	3 015 665	920 339	3 936 004	339 505 019	343 441 023
Consumer and Credit Card:					
Indirect	18 290	-	18 290	1 294 028	1 312 318
Retail	334 885	63 813	398 698	24 041 135	24 439 833
CD secured	6 701	-	6 701	6 540 314	6 547 015
Fresh start	-	-	-	20 486	20 486
TOTAL CONSUMER	359 876	63 813	423 689	31 895 963	32 319 652
Commercial:					
Agriculture	-	-	-	7 389 309	7 389 309
Secured and unsecured	571 710	738 611	1 310 321	64 289 113	65 599 434
TOTAL COMMERCIAL	571 710	738 611	1 310 321	71 678 422	72 988 743
Loans in-process and dealer prepaid				1 511 439	1 511 439
Overdrafts				524 039	524 039
TOTAL LOANS	$ 3 947 251	$ 1 722 763	$ 5 670 014	$ 445 114 882	450 784 896
Allowance for credit losses					5 439 911
NET LOANS					$ 445 344 985

LOANS - CREDIT QUALITY - CONTINUED

Nonaccrual Loans:

The table below includes the Bank's nonaccrual loans, including nonperforming troubled debt restructures, and loans past due 90 days or more at December 31, 2019 and 2018:

	NONACCRUAL LOANS AND LEASES DECEMBER 31,		ACCRUING PAST DUE 90 DAYS OR MORE DECEMBER 31,	
	2019	2018	2019	2018
Real Estate:				
Commercial real estate	$ 305 680	$ 349 371	$ 18 815	$ 571 925
Residential mortgages	-	38 153	34 364	212 793
Home equity and home improvement	-	-	191 402	41 630
VA/FHA	-	-	34 432	39 157
SBA/FSA	632 627	673 640	-	-
TOTAL REAL ESTATE	938 307	1 061 164	279 013	865 505
Consumer and Credit Card:				
Indirect	-	11 299	-	-
Retail	6 217	25 534	99 211	61 211
TOTAL CONSUMER	6 217	36 833	99 211	61 211
Commercial:				
Secured and unsecured	1 476 782	1 815 482	24 181	253 689
TOTAL COMMERCIAL	1 476 782	1 815 482	24 181	253 689
TOTAL	$ 2 421 306	$ 2 913 479	$ 402 405	$ 1 180 405

Credit Quality Indicators:

The Bank monitors credit quality within its four segments based on primary credit quality indicators. Those with some level of identification risk are evaluated and internally classified by the Bank as pass, watch, substandard, or loss. These classification categories are defined as follows:

Pass - loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Special Mention - loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard - loans in this category show signs of continuing negative financial trends and unprofitability and therefore, are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful - loans in this category are illiquid and highly leveraged, have negative net worth, cash flow, and continuing trend serious losses. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as loss is deferred until its more exact status may be determined.

Loss - loans in this category are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the loan has no recovery value, but that it is not practical to defer writing it off, even though partial recovery may be affected in the future. Such credits should be recommended for charge-off.

LOANS - CREDIT QUALITY - CONTINUED

The information for each of the credit quality indicators is updated on a quarterly basis in conjunction with the determination of the adequacy of the allowance for loan losses.

Credit risk profile by internally assigned grade:

	2019					
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS	TOTAL
Real Estate:						
Commercial	$ 197 336 405	$ 3 085 392	$ 1 856 541	$ 305 680	$ -	$ 202 584 018
Commercial construction	15 271 520	-	-	-	-	15 271 520
1-4 family	19 301 971	-	-	-	-	19 301 971
Residential	111 407 552	170 721	519 326	-	-	112 097 599
Home equity	17 942 846	492 946	32 661	-	-	18 468 453
Agriculture	7 572 326	659 448	27 073	-	-	8 258 847
VA/FHA	677 307	-	34 432	-	-	711 739
SBA/FSA	10 337 787	1 752 872	-	632 627	-	12 723 286
TOTAL REAL ESTATE	379 847 714	6 161 379	2 470 033	938 307	-	389 417 433
Consumer:						
Indirect	336 575	3 406	29 528	-	-	369 509
Retail	26 074 629	128 882	156 938	6 217	-	26 366 666
CD secured	7 703 116	-	-	-	-	7 703 116
Fresh start	27 499	-	-	-	-	27 499
TOTAL CONSUMER	34 141 819	132 288	186 466	6 217	-	34 466 790
Commercial:						
Agriculture	5 325 150	1 221 115	36 996	-	-	6 583 261
Secured and unsecured	83 358 876	274 557	210 776	1 476 782	-	85 320 991
TOTAL COMMERCIAL	88 684 026	1 495 672	247 772	1 476 782	-	91 904 252
TOTAL	$ 502 673 559	$ 7 789 339	$ 2 904 271	$ 2 421 306	$ -	$ 515 788 475

	2018					
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS	TOTAL
Real Estate:						
Commercial	$ 174 025 939	$ 814 929	$ 2 857 161	$ 349 371	$ -	$ 178 047 400
Commercial construction	14 965 201	-	-	-	-	14 965 201
1-4 family	16 871 955	-	-	-	-	16 871 955
Residential	95 343 813	319 235	453 159	38 153	-	96 154 360
Home equity	18 271 908	203 392	35 523	-	-	18 510 823
Agriculture	7 543 688	683 091	33 508	-	-	8 260 287
VA/FHA	771 888	-	39 157	-	-	811 045
SBA/FSA	6 936 522	2 209 790	-	673 640	-	9 819 952
TOTAL REAL ESTATE	334 730 914	4 230 437	3 418 508	1 061 164	-	343 441 023
Consumer:						
Indirect	1 236 205	19 238	45 576	11 299	-	1 312 318
Retail	23 831 976	286 064	303 507	18 286	-	24 439 833
CD secured	6 547 015	-	-	-	-	6 547 015
Fresh start	20 486	-	-	-	-	20 486
TOTAL CONSUMER	31 635 682	305 302	349 083	29 585		32 319 652
Commercial:						
Agriculture	5 394 999	1 984 172	10 138	-	-	7 389 309
Secured and unsecured	63 475 639	104 093	204 220	1 815 482	-	65 599 434
TOTAL COMMERCIAL	68 870 638	2 088 265	214 358	1 815 482	-	72 988 743
TOTAL	$ 435 237 234	$ 6 624 004	$ 3 981 949	$ 2 906 321	$ -	$ 448 749 418

Impaired Loans and Trouble Debt Restructurings:

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan.

	DECEMBER 31, 2019			
	UNPAID PRINCIPAL BALANCE	CARRYING VALUE	RELATED ALLOWANCE	AVERAGE CARRYING AMOUNT
With an Allowance Recorded:				
Real estate	$ -	$ -	$ -	$ -
Commercial	$ 1 940 619	$ 648 619	$ 1 292 000	$ -
Consumer	$ -	$ -	$ -	$ -

LOANS - CREDIT QUALITY - CONTINUED

	DECEMBER 31, 2018			
	UNPAID PRINCIPAL BALANCE	CARRYING VALUE	RELATED ALLOWANCE	AVERAGE CARRYING AMOUNT
With an Allowance Recorded:				
Real estate	$ 38 153	$ 37 153	$ 1 000	$ 37 153
Commercial	$ 2 316 306	$ 1 659 306	$ 657 000	$ 2 599 392
Consumer	$ -	$ -	$ -	$ -

Information on troubled debt restructurings for the year ended December 31, 2019 is as follows:

	DECEMBER 31, 2019		
	NUMBER OF CONTRACTS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Trouble Debt Restructurings:			
Real estate	-	$ -	$ -
Commercial	-	-	-
Consumer	-	-	-
TOTAL	-	$ -	$ -

There were no loans as of December 31, 2019 that had been modified as troubled debt restructuring during the year and subsequently re-defaulted. At December 31, 2019, there is no commitment to lend additional funds to a borrower whose loan terms have been modified in a trouble debt restructuring.

Allowance for Credit Losses:

The table below summarizes the changes in the allowance for credit losses for 2019 and 2018:

	COMMERCIAL	REAL ESTATE	CONSUMER	UNALLOCATED	TOTAL ALLOWANCE 2019
Allowance for loan and lease losses January 1	$ 932 000	$ 2 936 000	$ 375 000	$ 1 196 911	$ 5 439 911
Loans and leases charged off	(63 742)	(192 439)	(797 244)	-	(1 053 425)
Recoveries of loans and leases previously charged off	24 661	4 341	562 645	-	591 647
NET CHARGE OFFS	(39 081)	(188 098)	(234 599)	-	(461 778)
Provision for loan and lease losses	483 081	1 237 098	302 599	772 222	2 795 000
ALLOWANCE FOR LOAN AND LEASE LOSSES DECEMBER 31, 2019	$ 1 376 000	$ 3 985 000	$ 443 000	$ 1 969 133	$ 7 773 133

LOANS - CREDIT QUALITY - CONTINUED

	COMMERCIAL	REAL ESTATE	CONSUMER	UNALLOCATED	TOTAL ALLOWANCE 2018
Allowance for loan and lease losses January 1	$ 580 000	$ 2 244 000	$ 392 000	$ 994 695	$ 4 210 695
Loans and leases charged off	(221 452)	(76 340)	(715 446)	-	(1 013 238)
Recoveries of loans and leases previously charged off	13 567	106	553 781	-	567 454
NET CHARGE OFFS	(207 885)	(76 234)	(161 665)	-	(445 784)
Provision for loan and lease losses	559 885	768 234	144 665	202 216	1 675 000
ALLOWANCE FOR LOAN AND LEASE LOSSES DECEMBER 31, 2018	$ 932 000	$ 2 936 000	$ 375 000	$ 1 196 911	$ 5 439 911

The table below represents the allowance and the carrying value of outstanding loans and leases by portfolio segment at December 31, 2019 and 2018.

	COMMERCIAL	REAL ESTATE	CONSUMER	TOTAL
December 31, 2019				
Impaired Loans and Troubled Debt Restructurings:				
Allowance for loans and lease losses	$ 1 292 000	$ -	$ -	$ 1 292 000
Unpaid principal balance	$ 1 940 619	$ -	$ -	$ 1 940 619
Allowance as a percentage of unpaid principal balance	66.58%	%	%	66.58%
Collectively Evaluated for Impairment:				
Allowance for loans and lease losses	$ 84 000	$ 3 985 000	$ 443 000	$ 4 512 000
Unpaid principal balance	$ 89 963 633	$ 389 417 433	$ 34 466 790	$ 513 847 856
Allowance as a percentage of unpaid principal balance	0.09%	1.02%	1.29%	0.88%
Total:				
Allowance for loans and lease losses	$ 1 376 000	$ 3 985 000	$ 443 000	$ 5 804 000
Unallocated allowance				1 969 000
Total allowance				$ 7 773 000
Unpaid principal balance	$ 91 904 252	$ 389 417 433	$ 34 466 790	$ 515 788 475
Allowance as a percentage of unpaid principal balance	1.50%	1.02%	1.29%	1.51%

	COMMERCIAL	REAL ESTATE	CONSUMER	TOTAL
December 31, 2018				
Impaired Loans and Troubled Debt Restructurings:				
Allowance for loans and lease losses	$ 657 000	$ 1 000	$ -	$ 658 000
Unpaid principal balance	$ 2 316 306	$ 38 153	$ -	$ 2 354 459
Allowance as a percentage of unpaid principal balance	28.36%	2.62%	%	27.95%
Collectively Evaluated for Impairment:				
Allowance for loans and lease losses	$ 275 000	$ 2 935 000	$ 375 000	$ 3 585 000
Unpaid principal balance	$ 70 672 437	$ 343 402 870	$ 32 319 652	$ 446 394 959
Allowance as a percentage of unpaid principal balance	0.39%	0.85%	1.16%	0.80%
Total:				
Allowance for loans and lease losses	$ 932 000	$ 2 936 000	$ 375 000	$ 4 243 000
Unallocated allowance				1 197 000
Total allowance				$ 5 440 000
Unpaid principal balance	$ 72 988 743	$ 343 441 023	$ 32 319 652	$ 448 749 418
Allowance as a percentage of unpaid principal balance	1.28%	0.85%	1.16%	1.21%

LOANS - CREDIT QUALITY - CONTINUED

Mortgage loans held for sale at December 31, 2019 and 2018 totaled approximately $2,239,579 and $629,862, respectively. These loans consisted of loans which management intended to sell in the secondary market at the next available opportunity. Since these mortgage loans were originated shortly before year end at current market rates, the carrying value of the held for sale loan portfolio approximated the market value and no provisions for unrealized losses were made. Aggregate gains on sales of mortgage loans amounted to $2,305,112 and $1,419,557 in 2019 and 2018, respectively. These are included in "Fees on sales and servicing of loans" on the Consolidated Statements of Income.

LOAN SERVICING

Mortgage loans serviced for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation are not included in the accompanying consolidated Statements of Condition. The unpaid balances of those loans at December 31, 2019 and 2018 were $262,990,841 and $266,623,383, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, totaled $1,766,440 and $1,433,445 at December 31, 2019 and 2018, respectively.

Mortgage servicing rights (MSR) originated by the Bank are capitalized and included in "other assets" in the Consolidated Statements of Condition. These balances at December 31, 2019 and 2018 were $1,488,933 and $1,518,793, respectively. During 2019 and 2018, $239,358 and $220,808 of MSRs were capitalized, respectively. These rights are being amortized concurrently with the associated loans. Amortization expense of MSR's in 2019 totaled $269,217 and in 2018 totaled $234,463. Amortization is recorded as a reduction of servicing income under the caption "fees on sales and servicing of loans" in the Consolidated Statements of Income.

For measuring impairment, mortgage service rights are stratified based on one or more of the predominant risk characteristics of the underlying loans. Such characteristics include (1) loan type, (2) loan size, (3) interest rate and (4) loan term.

The estimated aggregate fair value of mortgage service rights equals book value. Fair value is based on the present value of expected future cash inflows. In estimating fair value, assumptions are made regarding prepayment, default, and interest rates.

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019 and 2018 consisted of:

	2019	2018
Land	$ 4 549 532	$ 4 087 031
Buildings	14 234 613	14 126 818
Furniture and equipment	6 130 187	5 635 981
Vehicles	210 461	193 607
Construction in process	33 525	39 950
TOTAL COST	25 158 318	24 083 387
Accumulated depreciation	(11 701 294)	(10 776 002)
NET BOOK VALUE	$ 13 457 024	$ 13 307 385

Depreciation expense totaled $1,142,086 and $1,119,417 for the years presented and is included in occupancy expense on the statements of income.

OTHER REAL ESTATE OWNED

A comparative summary of activity on foreclosed real estate follows:

	2019	2018
Balance at January 1	$ 2 285 000	$ 2 185 000
Foreclosed during the year	925 129	114 000
Write-downs	(230 000)	-
Sales and other dispositions	(782 635)	(14 000)
BALANCE AT DECEMBER 31	$ 2 197 494	$ 2 285 000
As Shown on the Statement of Condition:		
Non-residential real estate owned	$ 2 197 494	$ 2 285 000
Residential real estate owned	-	-
	$ 2 197 494	$ 2 285 000

During the years presented, there were no significant investments in mortgage loans secured by residential real estate properties where formal foreclosure procedures were in process at year end.

DEPOSITS

The following table summarizes deposits by category at December 31:

	2019	2018
Noninterest-bearing:		
Demand	$ 302 295 051	$ 281 166 013
Interest-bearing:		
Interest-bearing demand	122 331 942	119 850 970
Savings	65 171 247	61 258 697
Money market accounts	79 995 117	75 212 225
Time deposits less than $250,000	85 882 245	86 039 276
Time deposits $250,000 and over	23 563 479	22 138 863
TOTAL INTEREST-BEARING	376 944 030	364 500 031
TOTAL DEPOSITS	$ 679 239 081	$ 645 666 044

The maturity distribution of time deposits at December 31, 2019, was as follows:

Within one year	$ 59 029 487
One to two years	19 707 058
Two to three years	12 002 729
Three to five years	18 450 436
Over five years	256 014
	$ 109 445 724

Interest on deposits for the years ended December 31, 2019 and 2018 consists of the following:

	2019	2018
Savings	$ 116 143	$ 100 841
NOW accounts	494 628	434 617
Money market accounts	486 579	261 750
Certificates of deposit	1 738 852	1 053 052
	$ 2 836 202	$ 1 850 260

NOTES PAYABLE AND FEDERAL HOME LOAN BANK ADVANCES

In December, 2019, the Bank borrowed $15,000,000 from FHLB to fund new loans closing in December. The advance is not amortizing with final maturity on January 6, 2020 and bears interest at 1.55%. The outstanding balance at December 31, 2019 and 2018 was $15,000,000 and $-0-, respectively. The advance was collateralized by a blanket lien on the Bank's mortgage loans and may be subject to prepayment fees. The Bank may borrow up to 65% of the book value of its first lien mortgage loans, not to exceed 35% of its total assets, without specifically listing, segregating, or delivering collateral to the FHLB. Additionally, the Bank is required to own stock in the FHLB which varies in relation to the level of debt. FHLB stock balances held by the Bank at December 31, 2019 and 2018 were $1,984,800 and $1,938,200, respectively, which exceeded the minimum levels required by the FHLB.

The Bank also has Federal Funds Purchase Lines available with two separate institutions with limits of $5,000,000 and $10,000,000. The lines expire on September 30, 2020 and August 5, 2020, respectively. The Bank has a third Federal Funds Purchase Line available up to $15,000,000 with no expiration.

The Company has a $5,000,000 line of credit with a bank with a balance of $-0- and $-0- at December 31, 2019 and 2018, respectively. The line is secured by 100,000 shares of Commercial Bank of Texas common stock, requires quarterly interest payments at prime plus .75%, and has a final maturity date of March 2021.

LEASE OBLIGATIONS

The Bank has long term lease obligations for branch office space. The related lease expense for 2019 and 2018 was $75,876 and $79,876, respectively.

The Bank has a long-term lease agreement with Stephen F. Austin State University for a branch office. The lease expires on May 31, 2021. The Bank has options to extend the lease for one year. The related lease expense was $12,000 and $12,000 for 2019 and 2018, respectively.

The Bank has a yearly agreement for its Gaslight Branch in Lufkin. The lease expires on December 31, 2021 and does not have an option to renew. The related lease expense for 2019 and 2018 was $32,676 and $32,676, respectively.

The Company has a long-term lease agreement for the land where the Starr Branch in Nacogdoches is located. The lease expires in December 2023 and includes four options to extend the lease with each option being for a period of five years. The related lease expense was $19,200 for 2019 and 2018.

The Bank entered into a lease agreement in Elkhart with a related party. The related lease expense was $4,000 in 2019 and 2018. In 2018, NCBI Properties, LLC, a wholly-owned subsidiary of the Company, purchased the property, so the lease expense for 2019 was eliminated in consolidation.

The Bank entered into a lease agreement for branch facilities in Palestine. The Palestine lease will expire in February 2020. The related lease expense was $12,000 and $12,000 for 2019 and 2018, respectively.

LEASE OBLIGATIONS - CONTINUED

Future long term lease payments to third parties under their current terms are as follows:

2020	$	68 000
2021		59 000
2022		19 200
2023		19 200
2024		19 200
Over 5 years		19 200
	$	203 800

STOCKHOLDERS' EQUITY

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. National banks may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's earnings plus the retained earnings from the prior two years. The dividends, as of December 31, 2019, that the Bank could declare, without the prior approval of the OCC, amounted to approximately $17,492,000.

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Company may pay in the future. In 1985, the Federal Reserve Board issued a policy statement on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve Board expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing.

Restrictions on Lending from Subsidiary to Parent:

Federal law imposes certain restrictions limiting the ability of the Bank to transfer funds to the Company in the forms of loans or advances. Section 23A of the Federal Reserve Act prohibits the Bank from making loans or advances to Bancshares in excess of 10 percent of its capital stock and surplus, as defined therein. There were no loans or advances outstanding at December 31, 2019 and 2018.

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

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

STOCKHOLDERS' EQUITY - CONTINUED

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

Actual capital amounts and ratios are presented in the table for the Bank (in thousands). Bank only amounts and percentages are presented as they do not differ materially from bank holding company amounts and percentages.

	ACTUAL		MINIMUM CAPITAL REQUIRED UNDER BASEL III PHASE IN FOR CAPITAL ADEQUACY PURPOSES		REQUIRED TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	(000's) AMOUNT	RATIO	(000's) AMOUNT	RATIO	(000's) AMOUNT	RATIO
As of December 31, 2019:						
Total Risk Based Capital (to risk weighted assets)	$ 85 743	15.39%	$ 58 500	≥10.50%	$ 55 714	≥10.0%
Tier I Capital (to Risk (weighted assets)	$ 78 769	14.14%	$ 47 357	≥8.500%	$ 44 572	≥ 8.0%
Tier I Leverage Capital (to average total assets)	$ 78 769	10.27%	$ 30 684	≥4.000%	$ 38 355	≥ 5.0%
Common Equity Tier I Capital (to risk weighted assets)	$ 78 769	14.14%	$ 39 000	≥7.000%	$ 36 214	≥ 6.5%
As of December 31, 2018:						
Total Risk Based Capital (to risk weighted assets)	$ 75 257	15.07%	$ 49 310	≥9.875%	$ 49 934	≥10.0%
Tier I Capital (to Risk (weighted assets)	$ 69 817	13.98%	$ 39 323	≥7.875%	$ 39 947	≥ 8.0%
Tier I Leverage Capital (to average total assets)	$ 69 817	9.68%	$ 28 845	≥4.000%	$ 36 056	≥ 5.0%
Common Equity Tier I Capital (to risk weighted assets)	$ 69 817	13.98%	$ 31 833	≥6.375%	$ 32 457	≥ 6.5%

The above 2019 and 2018 risk-weighted capital ratios for capital adequacy purposes include a 2.50% and 1.875% capital conservation buffer, respectively. Financial institutions with a buffer greater than 2.50% (2019) and 1.875% (2018) are not subject to limits on capital distributions or discretionary bonus payments beyond those currently included in regulations. As reflected above, the Bank's capital was sufficient to exceed its minimum capital requirements including the required capital conservation buffer.

INCOME PER SHARE

The weighted average number of shares outstanding used in computing earnings per common share was 859,232 in 2019 and 858,593 in 2018. Dividends on preferred stock were deducted from net income in computing earnings per common share. The effects of the conversion of the Company's outstanding Series B preferred stock to common stock have been reflected in the earnings per share disclosures for 2019 and 2018 since such a conversion would have been dilutive to earnings per common share. The weighted average Series B shares outstanding during 2019 and 2018 were 34,700 and 34,706, respectively. The assumed number of additional common shares due to the conversion was 82,933 and 82,947 in 2019 and 2018, respectively.

TREASURY STOCK

Shares held in treasury are being carried by the Company at original cost. At December 31, 2019 and 2018, the Company held 143,140 shares of its own common stock in treasury with a cost basis of $1,571,565. At December 31, 2019 and 2018, the Company held 1,082 and 1,073 shares of Series A preferred stock, respectively. At December 31, 2019 and 2018, the Company held 4,879 and 4,873 shares of Series B preferred stock, respectively. The preferred stock had a cost basis of $430,100 at December 31, 2019 and $428,600 at December 31, 2018.

PREFERRED STOCK

The Company is authorized to issue up to 200,000 shares in 2019 and 200,000 shares in 2018 of Serial Preferred Stock with no stated value. In 1998, the Company issued 39,579 shares of Series A Preferred Stock and 39,579 shares of Series B Preferred Stock in connection with the acquisition of the Bank of East Texas, SSB. As of December 31, 2019 and 2018, 38,497 and 38,506 shares of Series A stock were outstanding, respectively. As of December 31, 2019 and 2018, 34,700 and 34,706 shares of Series B stock were outstanding, respectively.

Holders of the Series A Preferred Stock are entitled to receive cumulative cash dividends at an annual rate of 5.75% based upon the stock's redemption value of $100 per share.

Holders of the Series B Preferred Stock are entitled to receive non-cumulative cash dividends at an annual rate of 5.75% based upon the stock's redemption value of $100 per share. The holders of Series B Preferred Stock may convert those shares into shares of the Company's common stock. Each outstanding share of Series B Preferred Stock is convertible into 2.39 shares of the Company's common stock. The Board of Directors of the Company may, at any time after 20 years after the date of issuance, redeem the whole, or from time to time redeem any part, of either Series A or Series B Preferred Stock by paying in cash the sum of $100 per share plus all accrued dividends.

EMPLOYEE STOCK OWNERSHIP PLAN

Effective January 1, 1994, the Company adopted an Employee Stock Ownership Plan (Plan) containing Internal Revenue Code 401(k) provisions for all employees of the subsidiary Bank who have attained age 18 and have completed one year of service with the Bank. Three types of contributions can be made to the Plan by the Company: 1) discretionary contributions made for all non-highly compensated participants in order to satisfy the nondiscrimination requirements of the IRS Code, 2) matching contributions which are currently set at 50% of the first 6% of each employee's salary reduction contribution, and 3) optional contributions which, when made by the Company, are allocated to the accounts of participants on the basis of total relative compensation. All Company contributions except for the optional contributions are automatically 100% vested. The optional contributions are vested evenly over a 4 year period.

Total contributions expensed for the Plan by the Company during 2019 and 2018 were $216,892 and $204,820, respectively, which were recognized as salary and benefits expense in the consolidated statement of income. All participants have the option to put their shares back to the Plan at fair value in the event of termination of employment. Cash available in the plan for future stock purchases or debt service (temporarily invested in money market funds) totaled $462,898 in December 31, 2019 and $227,234 at December 31, 2018.

EMPLOYEE STOCK OWNERSHIP PLAN - CONTINUED

At December 31, 2019 and 2018, shares allocated, and shares remaining in suspense were as follows:

	2019	2018
Numbers of Shares:		
Released and allocated	29 906	42 100
Suspense	-	-
Fair Value:		
Released and allocated	$ 2 529 749	$ 3 420 625
Suspense	$ -	$ -

Dividends declared and paid on stock held by the Plan were charged against retained earnings in the same manner as dividends paid to other shareholders. Stock held by the Plan was included in the calculation of average shares outstanding and in the earnings per share computation.

EXECUTIVE SUPPLEMENTAL INCOME PLAN

Certain officers of the Bank are covered by an Executive Supplemental Income Plan (ESI) which provides retirement and/or life insurance benefits to each participant. The Plan is funded by life insurance products purchased and owned by the Bank which is designed to be self-sustaining after the first five years. The asset values of the policies totaled $12,052,705 at December 31, 2019, and $11,695,292 at December 31, 2018. A portion of the future retirement benefits which will be paid to the participants are accrued and expensed annually. The total accrued retirement benefit was $1,443,171 and $1,466,999 at December 31, 2019 and 2018, respectively. This benefit is included in "Other liabilities" in the consolidated statements of condition.

DIRECTORS' DEFERRED INCOME PLAN

The Directors' Deferred Income Plan (DDI) provides retirement and/or life insurance benefits to each participating director. The Plan is substantially funded by the deferral of fees otherwise payable to those directors who elect to participate. The asset values of the policies totaled $716,642 at December 31, 2019, and $691,643 at December 31, 2018. A portion of the future retirement benefits which will be paid to the participants are accrued and expensed annually. The total accrued retirement benefit was $1,871,972 and $2,015,984 at December 31, 2019 and 2018, respectively. This benefit is included in "Other liabilities" in the consolidated statement of condition.

FINANCIAL INSTRUMENTS, COMMITMENTS, AND CONTINGENCIES

The Bank 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 commitments to extend credit card lines, fund loans and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Consolidated Statements of Condition. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments that are reflected on the Consolidated Statements of Condition.

FINANCIAL INSTRUMENTS, COMMITMENTS, AND CONTINGENCIES - CONTINUED

	CONTRACT OR NOTIONAL AMOUNT	
	2019	2018
Financial Instruments Whose Contract Amounts Represent Credit Risk:		
Commitments to fund loans	$ 102 209 000	$ 88 851 000
Standby letters of credit	$ 1 083 000	$ 510 000

Commitments to fund loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. The collateral held varies but may include accounts receivable, inventory, property, equipment, commercial properties, and single-family residences. Credit card lines are generally unsecured.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private arrangements in which the customer has guaranteed payment to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank has not incurred materially significant losses on its commitments in either 2019 or 2018. The Bank primarily serves customers located in Texas. As such, the Bank's loans, commitments, and standby letters of credit have been granted to customers in that area.

In the normal course of business, the Company and its subsidiaries are involved in various legal proceedings. Management has concluded based upon advice of counsel, that the result of these proceedings will not have a material effect on the Company's consolidated financial condition or results of operations.

FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Bank does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include less liquid mortgage products, less liquid equities, and state, municipal and provincial obligations, such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Bank. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be 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 client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified previously.

The following are the assets accounted for and carried at fair value on a recurring basis on the statements of condition.

December 31, 2019:		
Available for Sale Securities:		
U.S. government	$	1 018 037
U.S. sponsored agency securities	$	168 909 545
Mortgage-backed securities	$	16 461 910
Collateralized mortgage obligations	$	8 635 229
Municipal securities	$	317 504
Municipal securities - Taxable	$	640 723
Equity Securities:		
Marketable equity securities	$	709 639
Non-marketable equity securities	$	3 224 232
Loans held for sale	$	2 239 579

FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

December 31, 2018:		
Available for Sale Securities:		
U.S. government	$	2 957 400
U.S. sponsored agency securities	$	182 130 512
Mortgage-backed securities	$	21 287 694
Equity Securities:		
Marketable equity securities	$	662 577
Non-marketable equity securities	$	3 084 566
Loans held for sale	$	629 862

The following table presents the Company's fair value hierarchy for the above assets measured at fair value on a recurring basis as of December 31:

	QUOTED MARKET PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2019:			
Available for Sale Securities:			
U.S. government	$ 1 018 037	$ -	$ -
U.S. sponsored agency securities	$ -	$ 168 909 545	$ -
Mortgage-backed securities	$ -	$ 16 461 910	$ -
Collateralized mortgage obligations	$ -	$ 8 635 229	$ -
Municipal securities	$ -	$ 317 504	$ -
Municipal securities - Taxable	$ -	$ 640 723	$ -
Equity Securities:			
Marketable equity securities	$ 709 639	$ -	$ -
Non-marketable equity securities	$ -	$ 3 224 232	$ -
Loans held for sale	$ -	$ 2 239 579	$ -
December 31, 2018:			
Available for Sale Securities:			
U.S. government	$ 2 957 400	$ -	$ -
U.S. sponsored agency securities	$ -	$ 182 130 512	$ -
Mortgage-backed securities	$ -	$ 21 287 694	$ -
Equity Securities:			
Marketable equity securities	$ 662 577	$ -	$ -
Non-marketable equity securities	$ -	$ 3 084 566	$ -
Loans held for sale	$ -	$ 629 862	$ -

Each major category of assets and liabilities presented on the consolidated balance sheets measured at fair value on a nonrecurring basis during the period are presented as follows:

		FAIR VALUE MEASUREMENTS USING		
DESCRIPTION	APPROXIMATE FAIR VALUE	QUOTED MARKET PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)
12/31/2019				
Impaired loans	$ 648 619	$ -	$ -	$ 648 619
Other real estate owned	$ 2 197 494	$ -	$ -	$ 2 197 494
Goodwill	$ 3 640 343	$ -	$ -	$ 3 640 343

		FAIR VALUE MEASUREMENTS USING		
DESCRIPTION	APPROXIMATE FAIR VALUE	QUOTED MARKET PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)
12/31/2018				
Impaired loans	$ 1 696 459	$ -	$ -	$ 1 696 459
Other real estate owned	$ 2 285 000	$ -	$ -	$ 2 285 000
Goodwill	$ 3 652 715	$ -	$ -	$ 3 652 715

INCOME TAXES

The provision for income taxes consisted of the following for the years ended December 31, 2019 and 2018:

		2019		2018
Currently Payable:				
Federal	$	2 952 111	$	2 246 885
Deferred:				
Federal		(482 962)		(328 955)
TOTAL INCOME TAX EXPENSE	$	2 469 149	$	1 917 930

The provision for federal income tax differs from that computed by applying the federal statutory rate of 21% in 2019 and 21% in 2018, as indicated in the following analysis:

	2019	2018
Statutory rate	21.00 %	21.00 %
Increase (Decrease) Resulting from:		
Effect of tax-exempt income	(.11)%	(.03)%
Nondeductible interest, entertainment and amortization expenses	.03 %	.02 %
Insurance cash surrender value increase	(.65)%	(.21)%
	20.27 %	20.77 %

The components of deferred income taxes included in the Consolidated Statements of Condition in the captions "Other assets" or "Other liabilities," are as follows:

		2019		2018
Deferred Tax Asset:				
Federal	$	2 314 421	$	2 711 432
Deferred Tax Liability:				
Federal		(285 373)		(66 792)
NET DEFERRED TAX ASSET	$	2 029 048	$	2 644 640

The tax effects of each type of significant item that gave rise to deferred taxes are:

		2019		2018
Allowance for credit losses	$	1 778 308	$	1 240 031
Depreciation		(426 134)		(433 363)
Amortization of intangibles		391 148		269 325
Accretion of discounts		(69 186)		(97 998)
Benefit accruals		735 620		714 067
Interest accrued on non-accrual loans		1 403		3 453
Capitalization of loan origination costs		101 295		103 044
Stock dividends		(82 765)		(63 244)
Unrealized (gain) or loss on securities available for sale		(212 246)		982 830
Recognized unrealized (gain) loss on trading securities		(71 264)		(64 930)
Real estate owned expense		92 925		92 925
Other		(210 056)		(101 500)
BALANCE AT DECEMBER 31	$	2 029 048	$	2 644 640

RELATED PARTY TRANSACTIONS

The Bank has entered into transactions with its executive officers, directors, significant shareholders, and their affiliates (related parties). In the opinion of management, such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal credit risk or present other unfavorable features. An analysis of the approximate activity during 2018 and 2019 is as follows:

Balance, December 31, 2017	$	5 955 000
New loans		1 692 000
Repayments		(131 000)
Balance, December 31, 2018		7 516 000
New loans		409 000
Repayments		2 898 000
Balance, December 31, 2019	$	5 027 000

Deposits owed to such related parties consisted of approximately $20,418,000 and $28,532,000 at December 31, 2019 and 2018, respectively.

The Bank rented the parking lot at the Elkhart branch from a company that is owned by the President of the Bank and the retired Chairman of the Board. The lease was to expire in January 2020 and had an annual rental fee of $4,000. In 2018, NCBI Properties, LLC, a wholly-owned subsidiary of the Company, purchased the property for $20,000.

CONCENTRATION OF CREDIT

Substantially all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market areas. Many such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in the notes above. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of the legal lending limit.

The Bank is required to maintain certain reserves in cash and on deposit with the Federal Reserve Bank against outstanding domestic deposit liabilities. The required reserve was approximately $-0- and $-0- at December 31, 2019 and 2018, respectively. These reserves are included in the Consolidated Statements of Condition caption "Cash and due from banks." Balances on deposit at the Federal Reserve totaled $6,110,914 and $8,753,011 at December 31, 2019 and 2018, respectively.

The Bank may from time to time carry certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. Management monitors the financial stability of correspondent banks and considers any amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Bank.

TRUST ASSETS

Trust assets and other property (except cash deposits), held by the Bank in agency or other fiduciary capacities for its customers are not included in the financial statements as they are not assets of the Bank. The market value of the trust assets at December 31, 2019 and 2018 was approximately $196,333,147 and $157,901,549, respectively.

STOCK OPTION PLAN

The stockholders of the Company have approved the 2012 employee incentive stock option plan which provides for the granting of qualified incentive stock options to key employees of the Company and the Bank. The period of time over which options may be exercised is ten years from the date of grant for each option agreement. The purchase price of each option is determined at the date of grant, but cannot be less than 100% of fair market value. In the case of incentive stock options granted to an existing holder of 10% or more of common stock, the option price cannot be less than 110% of fair market value. Options vest on a graduated scale and are fully vested in the fourth year.

In 2013, the stockholders of the Company approved to amend the Certificate of Formation to conform with Texas law to have the ability to issue bonus stock to certain key officers in lieu of, or addition to, cash without triggering any preemptive rights held by the shareholders. The Company has set aside 10,000 shares of common stock to be considered available for the bonus stock plan. The Company issued 230 and 140 shares of common stock under this bonus stock plan during 2019 and 2018, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Volatility is based on changes observed in the price of the stock as it has been internally-traded as well as changes observed in price/earnings ratios and multiples of regional banks that have been sold in recent years. The expected term of options granted is based on historical data regarding time frames that options have been outstanding. Expected dividends are based on historical data of dividends declared in recent years. The risk-free rate is based on the yield of 10-year Treasury notes as of the date of grant.

Volatility	30%
Expected dividends	$0.68
Expected term (in years)	10
Risk-free rate	1.75%

A summary of option activity under the plans as of December 31, 2019, and changes during the year then ended is presented below:

OPTIONS	NUMBER OF SHARES		WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM		AGGREGATE INTRINSIC VALUE
Outstanding at January 1, 2019	2 535	$	72.22			
Granted	-	$	-			
Exercised	395	$	67.53			
Forfeited or expired	-	$	-			
Outstanding at December 31, 2019	2 140	$	73.09	7 years	$	45 691
Exercisable at December 31, 2019	540			7 years	$	28 814

As of December 31, 2019, there were 1,380 non-vested shares under option with a weighted-average grant-date fair value of $73.09 per share, and there was approximately $34,470 of unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over the next 4 years.

Total compensation cost related to the stock option plan for the years ended December 31, 2019 and 2018 was approximately $9,700 and $5,500, with approximately $3,550 and $1,800 of deferred federal income tax benefit recognized, respectively.

During 2019, total cash received from options exercised approximated $26,600.

COMPONENTS OF OTHER COMPREHENSIVE INCOME

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2019 and 2018.

	YEARS ENDED					
	DECEMBER 31, 2019			DECEMBER 31, 2018		
(DOLLARS IN THOUSANDS)	BEFORE TAX	TAX EFFECT	NET OF TAX	BEFORE TAX	TAX EFFECT	NET OF TAX
Changes in net unrealized gains on securities available for sale	$ 5 162 679	$ 1 084 163	$ 4 078 516	$ (982 830)	$ (206 394)	$ (776 436)
Reclassification adjustment for gains realized	40 830	8 574	32 256	-	-	-
OTHER COMPREHENSIVE INCOME (LOSS)	$ 5 203 509	$ 1 092 737	$ 4 110 772	$ (982 830)	$ (206 394)	$ (776 436)

The following table presents the changes in each component of accumulated other comprehensive income, net of tax, for the years ended December 31, 2019 and 2018.

(DOLLARS IN THOUSANDS)	SECURITIES AVAILABLE FOR SALE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Balance at December 31, 2017	$ (2 535 886)	$ (2 535 886)
Other comprehensive income before reclassifications	(776 436)	(776 436)
Amounts reclassified from accumulated other comprehensive income	-	-
Balance at December 31, 2018	(3 312 322)	(3 312 322)
Other comprehensive income before reclassifications	4 078 516	4 078 516
Amounts reclassified from accumulated other comprehensive income	32 256	32 256
Balance at December 31, 2019	$ 798 450	$ 798 450

SUPPLEMENTAL SCHEDULES

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CONDITION
December 31, 2019

	NACOGDOCHES COMMERCIAL BANCSHARES, INC.	COMMERCIAL BANK OF TEXAS, N.A.	ELIMINATIONS	CONSOLIDATED TOTAL
ASSETS				
Cash and due from banks	$ 1 038 838	$ 10 507 969	$ (1 038 838)	$ 10 507 969
Interest-bearing deposits with banks	-	15 954 569	-	15 954 569
Federal funds sold	-	8 000 000	-	8 000 000
Debt securities available for sale	-	195 982 948	-	195 982 948
Debt securities to be held to maturity	-	1 068 701	-	1 068 701
Equity securities:				
Marketable	-	709 639	-	709 639
Non-marketable	52 500	3 171 732	-	3 224 232
Investment in subsidiary	84 114 100	-	(84 114 100)	-
Loans held for sale	-	2 239 579	-	2 239 579
Loans, net of allowance for credit losses of $7,773,133	-	511 012 871	-	511 012 871
Property and equipment	2 653 426	10 803 599	-	13 457 024
Accrued interest receivable	-	2 996 646	-	2 996 646
Bank owned life insurance	-	12 769 348	-	12 769 348
Other real estate owned	-	2 197 494	-	2 197 494
Goodwill	-	3 640 343	-	3 640 343
Other assets	776 516	5 790 428	(305 000)	6 261 944
TOTAL ASSETS	$ 88 635 380	$ 786 845 866	$ (85 457 938)	$ 790 023 308
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits:				
Noninterest bearing	$ -	$ 303 333 889	$ (1 038 838)	$ 302 295 051
Interest bearing	-	376 944 030	-	376 944 030
TOTAL DEPOSITS	-	680 277 919	(1 038 838)	679 239 081
Accrued interest payable	-	275 405	-	275 405
Notes payable	-	-	-	-
Federal Home Loan Bank advances	-	15 000 000	-	15 000 000
Other liabilities	778 753	7 178 442	(305 000)	7 652 196
TOTAL LIABILITIES	778 753	702 731 766	(1 343 838)	702 166 682
Stockholders' Equity:				
Preferred Stock, No Stated Value, 200,000 Shares Authorized:				
Series A, 39,579 shares issued; 38,497 shares outstanding	3 957 900	-	-	3 957 900
Series B, 39,579 shares issued; 34,700 shares outstanding	3 957 900	-	-	3 957 900
Common stock, 2,800,000 shares at $10 par value authorized; 1,002,372 shares issued; 859,232 shares outstanding	10 025 720	1 000 000	(1 000 000)	10 025 720
Capital surplus	4 494 909	20 461 602	(20 461 602)	4 494 909
Retained earnings	66 623 412	61 854 048	(61 854 048)	66 623 412
Accumulated other comprehensive income	798 450	798 450	(798 450)	798 450
Less: Cost of 143,140 common and 5,946 preferred shares held in treasury	(2 001 665)	-	-	(2 001 665)
TOTAL STOCKHOLDERS' EQUITY	87 856 627	84 114 100	(84 114 100)	87 856 627
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 88 635 380	$ 786 845 866	$ (85 457 938)	$ 790 023 308

See independent auditors' report.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2019

	NACOGDOCHES COMMERCIAL BANCSHARES, INC.	COMMERCIAL BANK OF TEXAS, N.A.	ELIMINATIONS	CONSOLIDATED TOTAL
Interest Income:				
Interest and fees on loans	$ -	$ 27 810 926	$ -	$ 27 810 926
Interest and dividends on debt securities available for sale	-	3 938 821	-	3 938 821
Interest on debt securities held to maturity	-	19 237	-	19 237
Interest and dividends on marketable equity securities	-	47 061	-	47 061
Interest and dividends on non-marketable equity securities	-	94 533	-	94 533
Interest on federal funds sold	-	224 585	-	224 585
Interest on deposits with banks	-	8 733	-	8 733
TOTAL INTEREST INCOME	-	32 143 897	-	32 143 897
Interest Expense:				
Interest on deposits	-	2 836 202	-	2 836 202
Interest on bank loans and advances	-	79 745	-	79 745
TOTAL INTEREST EXPENSE	-	2 915 947	-	2 915 947
NET INTEREST INCOME	-	29 227 950	-	29 227 950
Provision for credit losses	-	2 795 000	-	2 795 000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	-	26 432 950	-	26 432 950
Other Income:				
Fees on sales and servicing of loans	-	2 910 212	-	2 910 212
Income from fiduciary activities	-	808 502	-	808 502
Service charges on deposit accounts	-	3 687 280	-	3 687 280
Other service charges and fees	-	3 544 982	-	3 544 982
Net realized gains (losses) on sales of debt securities	-	(32 256)	-	(32 256)
Valuation changes of non-marketable securities	-	30 166	-	30 166
Other income	477 330	339 731	(325 566)	491 495
TOTAL OTHER INCOME	477 330	11 288 617	(325 566)	11 440 381
Other Expenses:				
Salaries and benefits	45 318	13 838 995	-	13 884 313
Occupancy	155 605	2 116 243	(325 566)	1 946 282
Furniture and equipment	-	1 807 264	-	1 807 264
Deposit insurance and professional fees	5 500	1 298 507	-	1 304 007
Lending and collection	-	507 698	-	507 698
Advertising and community relations	-	910 613	-	910 613
Other operating	7 661	5 397 424	-	5 405 085
TOTAL OTHER EXPENSES	214 084	25 876 744	(325 566)	25 765 262
INCOME (LOSS) BEFORE FEDERAL INCOME TAXES	263 246	11 844 823	-	12 108 069
Federal income taxes	64 458	2 404 691	-	2 469 149
NET INCOME BEFORE EQUITY IN INCOME OF SUBSIDIARY	198 788	9 440 132	-	9 638 920
Equity in income of subsidiary	9 440 132	-	(9 440 132)	-
NET INCOME	$ 9 638 920	$ 9 440 132	$ (9 440 132)	$ 9 638 920
Earnings Per Common Share:				
Basic	$ 10.73	$ 94.40		$ 10.73
Diluted	$ 9.78			$ 9.78

See independent auditors' report.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2019

	NACOGDOCHES COMMERCIAL BANCSHARES, INC.	COMMERCIAL BANK OF TEXAS N.A.	ELIMINATIONS	CONSOLIDATED TOTAL
Preferred Stock - Series A:				
Balance December 31, 2018	$ 3 957 900	$ -	$ -	$ 3 957 900
BALANCE DECEMBER 31, 2019	3 957 900	-	-	3 957 900
Preferred Stock - Series B:				
Balance December 31, 2018	3 957 900	-	-	3 957 900
BALANCE DECEMBER 31, 2019	3 957 900	-	-	3 957 900
Common Stock:				
Balance December 31, 2018	10 017 330	1 000 000	(1 000 000)	10 017 330
Conversion of preferred stock	140	-	-	140
Stock issued	4 300	-	-	4 300
Stock options exercised	3 950	-	-	3 950
BALANCE DECEMBER 31, 2019	10 025 720	1 000 000	(1 000 000)	10 025 720
Capital Surplus:				
Balance December 31, 2018	4 434 525	20 416 427	20 416 427	4 434 525
Holding company investment in bank	-	45 175	45 175	-
Stock issued	34 764	-	-	34 764
Stock based compensation	9 699	-	-	9 699
Stock options exercised	15 921	-	-	15 921
BALANCE DECEMBER 31, 2019	4 494 909	20 461 602	20 461 602	4 494 909
Retained Earnings:				
Balance December 31, 2018	58 190 157	53 610 916	(53 610 916)	58 190 157
Net income	9 638 920	9 440 132	(9 440 132)	9 638 920
Stock options exercised	5 713	-	-	5 713
Preferred dividends declared	(420 891)	-	-	(420 891)
Common dividends declared	(790 487)	(1 197 000)	1 197 000	(790 487)
BALANCE DECEMBER 31, 2019	66 623 412	61 854 048	61 854 048	66 623 412
Treasury Stock:				
Balance December 31, 2018	(2 000 165)	-	-	(2 000 165)
Conversion of preferred stock	(900)	-	-	(900)
Purchase of preferred shares Series A and B	(600)	-	-	(600)
BALANCE DECEMBER 31, 2019	(2 001 665)	-	-	(2 001 665)
Accumulated Other Comprehensive Income:				
Balance December 31, 2018	(3 312 322)	(3 312 322)	3 312 322	(3 312 322)
Other comprehensive income	4 110 772	4 110 772	(4 110 772)	4 110 772
BALANCE DECEMBER 31, 2019	798 450	798 450	(798 450)	798 450
TOTAL STOCKHOLDERS' EQUITY	$ 87 856 627	$ 84 114 100	$ (84 114 100)	$ 87 856 627

See independent auditors' report.