FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

NACOGDOCHES COMMERCIAL BANCSHARES, INC.
Nacogdoches, Texas

December 31, 2020 and 2019

# CONTENTS

AXLEY & RODE LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2020 and 2019, 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, 2020 and 2019, 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 19, 2021



www.axleyrode.com

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

| | DECEMBER 31, 2020 | DECEMBER 31, 2019 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 12 119 | $ 10 508 |
| Interest-bearing deposits with banks | 80 871 | 15 955 |
| Federal funds sold | 15 000 | 8 000 |
| TOTAL CASH AND DUE FROM BANKS | 107 990 | 34 463 |
| Debt securities available for sale | 216 950 | 195 983 |
| Debt securities to be held to maturity | 3 550 | 1 069 |
| Equity Securities: | | |
| Marketable | 735 | 710 |
| Non-marketable | 3 285 | 3 224 |
| Investment in land | 1 537 | - |
| Loans held for sale | 919 | 2 240 |
| Loans, net of allowance for credit losses of $16,419 and $7,773, respectively | 629 776 | 511 013 |
| Property and equipment | 16 411 | 13 457 |
| Accrued interest receivable | 3 928 | 2 997 |
| Bank owned life insurance | 13 157 | 12 769 |
| Non-residential real estate owned | 809 | 2 197 |
| Goodwill | 3 628 | 3 640 |
| Other assets | 8 936 | 6 262 |
| TOTAL ASSETS | $ 1 011 611 | $ 790 023 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing deposits | $ 382 727 | $ 302 295 |
| Interest-bearing deposits | 483 253 | 376 944 |
| TOTAL DEPOSITS | 865 980 | 679 239 |
| Accrued interest payable | 331 | 275 |
| Notes payable | 1 500 | - |
| Federal Reserve Borrowings | 38 873 | - |
| Federal Home Loan Bank | 45 | 15 000 |
| Other liabilities | 7 909 | 7 652 |
| TOTAL LIABILITIES | 914 638 | 702 167 |
| Stockholders' Equity: | | |
| Preferred Stock, No Stated Value, 200,000 Shares Authorized and Unissued: | | |
| Series A, non-convertible, cumulative, 40,000 designated in 2020, 39,579 shares issued in 2019, 38,497 outstanding in 2019 | - | 3 958 |
| Series B, convertible, non-cumulative, 40,000 designated in 2020, 39,579 shares issued in 2019, 34,700 outstanding in 2019 | - | 3 958 |
| Common stock 2,800,000 shares at $10 par value authorized; 1,086,051 and 1,002,372 shares issued, respectively; 942,911 and 859,232 shares outstanding, respectively | 10 862 | 10 026 |
| Capital surplus | 7 363 | 4 495 |
| Retained earnings | 77 156 | 66 623 |
| Accumulated other comprehensive income (loss) | 3 163 | 798 |
| Less: Cost of shares held in treasury | (1 571) | (2 002) |
| TOTAL STOCKHOLDERS' EQUITY | 96 973 | 87 857 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1 011 611 | $ 790 023 |

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, 2020 and 2019
($000's)

| | DECEMBER 31, 2020 | DECEMBER 31, 2019 |
|---|---|---|
| **Interest Income:** | | |
| Interest and fees on loans | $ 34 622 | $ 27 811 |
| Interest and dividends on debt securities available for sale | 3 385 | 3 939 |
| Interest on debt securities to be held to maturity - Tax exempt | 62 | 19 |
| Interest and dividends on marketable equity securities | 26 | 47 |
| Interest and dividends on non-marketable equity securities | 84 | 95 |
| Interest on federal funds sold | 93 | 224 |
| Interest on deposits with banks | 31 | 9 |
| TOTAL INTEREST INCOME | 38 303 | 32 144 |
| **Interest Expense:** | | |
| Interest on deposits | 2 713 | 2 836 |
| Interest on bank loan and advances | 311 | 80 |
| TOTAL INTEREST EXPENSE | 3 024 | 2 916 |
| NET INTEREST INCOME | 35 279 | 29 228 |
| **Provision:** | | |
| Provision for credit losses | 9 170 | 2 795 |
| Provision for unfunded commitments | 80 | - |
| TOTAL PROVISION | 9 250 | 2 795 |
| NET INTEREST INCOME AFTER PROVISION | 26 029 | 26 433 |
| **Other Income:** | | |
| Fees on sales and servicing of loans | 6 692 | 2 910 |
| Income from fiduciary activities | 915 | 809 |
| Service charges on deposit accounts | 3 214 | 3 687 |
| Other service charges and fees | 3 911 | 3 545 |
| Net realized gains (losses) on sales of debt securities | 106 | (32) |
| Valuation changes of non-marketable securities | 40 | 30 |
| Other income | 1 313 | 491 |
| TOTAL OTHER INCOME | 16 191 | 11 440 |
| **Other Expenses:** | | |
| Salaries and benefits | 15 151 | 13 884 |
| Occupancy | 1 920 | 1 946 |
| Furniture and equipment | 2 193 | 1 807 |
| Deposit insurance and professional fees | 1 493 | 1 304 |
| Lending and collection | 600 | 508 |
| Advertising and community relations | 734 | 911 |
| Other operating | 5 770 | 5 405 |
| TOTAL OTHER EXPENSE | 27 861 | 25 765 |
| INCOME BEFORE FEDERAL INCOME TAXES | 14 359 | 12 108 |
| Federal income taxes | 2 878 | 2 469 |
| NET INCOME | $ 11 481 | $ 9 639 |
| **Earnings Per Common Share (Not Rounded):** | | |
| Basic | $ 12.07 | $ 10.73 |
| Diluted | $ 12.07 | $ 9.78 |

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, 2020 and 2019
($000's)

| | 2020 | 2019 |
|---|---|---|
| NET INCOME | $ 11 481 | $ 9 639 |
| 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 $657 in 2020 and $1,084 in 2019 | 2 471 | 4 079 |
| Reclassification adjustment for (gains) losses realized, net of income taxes of $28 in 2020 and $9 in 2019 | (106) | 32 |
| OTHER COMPREHENSIVE INCOME | 2 365 | 4 111 |
| COMPREHENSIVE INCOME | $ 13 846 | $ 13 750 |

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, 2020 and 2019
($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, 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 |
| Comprehensive income | - | - | - | - | - | 11 481 | 2 365 | - | 13 846 |
| Purchase of preferred stock | - | - | - | - | - | - | - | - | - |
| Stock based compensation | - | - | - | - | - | - | - | - | - |
| Cash Dividends Declared: | | | | | | | | | |
| Preferred, $1.43 per share | - | - | - | - | - | (105) | - | - | (105) |
| Common, $.92 per share | - | - | - | - | - | (848) | - | - | (848) |
| Preferred Series A Redemption | (3 958) | - | - | - | 17 | - | - | 92 | (3 849) |
| Preferred Series B Redemption | - | (3 958) | 82 804 | 828 | 2 785 | - | - | 338 | (7) |
| Stock bonus | - | - | 450 | 4 | 37 | - | - | - | 41 |
| Stock options exercised | - | - | 425 | 4 | 29 | 5 | - | - | 38 |
| **Balance, December 31, 2020** | $ - | $ - | 942 911 | $ 10 862 | $ 7 363 | $ 77 156 | $ 3 164 | $ (1 572) | $ 96 973 |

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, 2020 and 2019
($000's)

| | 2020 | 2019 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net income | $ 11 481 | $ 9 639 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 1 358 | 1 142 |
| Amortization core deposit intangible | 674 | 650 |
| Amortization of goodwill | 12 | 12 |
| Stock based compensation | - | 10 |
| Provision for credit losses and unfunded commitments | 9 250 | 2 795 |
| Deferred income taxes | (1 976) | (483) |
| Principal proceeds from sales of loans held for sale | 223 672 | 95 359 |
| Originations of loans held for sale | (216 690) | (94 663) |
| Net realized (gains) losses on debt securities available for sale | (106) | 32 |
| Net realized gains on sales of loans held for sale | (5 661) | (2 305) |
| Net amortization of premiums on debt securities available for sale | 278 | 68 |
| Net amortization of premiums on debt securities held to maturity | 18 | 18 |
| Decrease (increase) in accrued income | (931) | (437) |
| (Gain) Loss on sale or retirement of property and equipment | (41) | 101 |
| (Increase) decrease in bank owned life insurance | (387) | (382) |
| Decrease (increase) in other assets | (912) | 74 |
| Increase (decrease) in accrued expenses and other liabilities | 313 | (59) |
| Stock dividends on non-marketable equity securities | (20) | (66) |
| (Gain) Loss on valuation changes of marketable equity securities | (26) | (30) |
| (Gain) Loss on valuation changes of non-marketable equity securities | (40) | - |
| Loss on sale or exchange of foreclosed real estate | 8 | 177 |
| TOTAL ADJUSTMENTS | 8 792 | 2 013 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 20 273 | 11 652 |
| Cash Flows from Investing Activities: | | |
| Purchases of debt securities available for sale | (157 890) | (170 532) |
| Purchases of debt securities held to maturity | (2 500) | - |
| Purchases of non-marketable equity securities, FHLB and Federal Reserve stock | - | (91) |
| Proceeds from sales and maturities of debt securities available for sale | 139 744 | 186 029 |
| Proceeds from sales and maturities of debt securities held to maturity | - | 370 |
| Net decrease (increase) in loans held to maturity | (128 217) | (70 018) |
| (Purchases) sales of properties and equipment, net of retirements | (4 376) | (1 524) |
| Branch acquisition premium | (961) | - |
| Proceeds from sale of property and equipment | - | 131 |
| Proceeds from sale of foreclosed real estate | 47 | 835 |
| NET CASH USED BY INVESTING ACTIVITIES | (154 153) | (54 800) |
| Cash Flows from Financing Activities: | | |
| Net increase (decrease) in noninterest bearing deposits | 80 414 | 21 129 |
| Net increase (decrease) in interest bearing deposits | 106 309 | 12 444 |
| Net increase (decrease) in notes payable and advances | 25 418 | 15 000 |
| Stock options exercised and stock bonuses | 72 | 65 |
| Redemption of preferred stock | (3 853) | (2) |
| Payments of dividends | (953) | (1 211) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 207 407 | 47 425 |
| NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS | 73 527 | 4 277 |
| Cash and due from banks at January 1 | 34 463 | 30 186 |
| CASH AND DUE FROM BANKS AT DECEMBER 31 | $ 107 990 | $ 34 463 |
| Interest paid | $ 2 968 | $ 2 883 |
| Income taxes paid | $ 2 879 | $ 2 469 |
| Supplementary Schedule of Noncash Investing and Financing Activities: | | |
| Loans transferred to other real estate | $ 204 | $ 925 |
| Total (increase) decrease in net unrealized gain on debt securities available for sale (net of tax) | $ 2 365 | $ 5 204 |

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 five branches located in North Texas (Allen, Lewisville, Bedford, Farmersville and Roxton) and its two branches in Rains County. All locations are in the state of Texas. Its primary lending products consist of consumer 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 Wealth Management 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, 2020, 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. 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 or call date.

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.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2020 and 2019, 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.

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.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

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.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, principal 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.

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.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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).

Noninterest Income - The Bank 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 Bank 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 Bank's customer business practices, such as waiving certain fees related to customers' deposit accounts (i.e. NSF fees). The Bank'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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 76%) consist of interchange fees earned on debit cards and credit cards. The Bank 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, 24% 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 2020 and 2019. Goodwill in the amounts of $3,627,971 and $3,640,343 is being carried on the statement of condition as of December 31, 2020 and 2019.

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 2020 and 2019, advertising and community relations expenses amounted to $733,695 and $910,613, 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 2017.

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 19, 2021, the date the financial statements were available to be issued. On February 23, 2021, management announced the Bank’s upcoming acquisition of the San Augustine Branch of Texas Bank and Trust. The transaction has been approved by the Board of Directors from both banks, and applications to approve the transaction have been filed with the respective regulatory agencies. Closing on the transaction is anticipated to occur in the second quarter.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The amendments in this guidance to eliminate the requirement to calculate the implied fair value of goodwill to measure goodwill impairment charge (Step 2). As a result, an impairment charge will equal the amount by which a reporting unit s carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis. The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021, for nonpublic companies. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The impact of this guidance for the Company will depend on the outcomes of future goodwill impairment tests.

In March 2020, the FASB issued ASU NO. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,* an update that provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The option al guidance and subsequent scope modification are provided to ease the potential burden of accounting for reference rate reform. The guidance is effective and can be adopted no later than December 31, 2022. The Company is currently evaluating the potential impact of this standard on its financial statements.

ACCOUNTING CHANGES

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 was 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. The Company adoption of the guidance did not have a material impact on the consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvement to Topic 326, Financial Instruments- Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,* Issue 4B: Held-to- Maturity securities fair value disclosures. This guidance amends certain paragraphs and clarifies the exemption of entities other than public business entities from fair value disclosure requirements for financial instruments not measured at fair value on the balance sheet. Adoption of ASU 2019-04, which was effective for the Company on January 1, 2020, did not have a material impact on the Company’s financial statements and related disclosures.

## BRANCH ACQUISITION

Effective at the close of business May 15, 2020, the Bank acquired a branch in Farmersville, Texas. The following table reflects the fair value of the assets purchased and liabilities assumed at the purchase date.

| | | FAIR VALUE |
|---|---|---|
| Cash | $ | 18 535 973 |
| Loans | | 294 116 |
| Accrued interest receivable | | 701 |
| Property and equipment | | 82 264 |
| Prepaid expenses | | 15 582 |
| Demand and savings | | 14 866 822 |
| Time deposits | | 5 019 651 |
| Accrued interest payable | | 3 200 |
| NET CORE DEPOSIT INTANGIBLE | $ | 961 037 |

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 December 31, 2019 | $ | 906 832 |
| Branch purchase | | 961 037 |
| Amortization | | 674 297 |
| Balance December 31, 2020 | $ | 1 193 572 |

## 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, 2020 and 2019. 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 debt securities as of December 31, 2020 and 2019.

EQUITY SECURITIES - MARKETABLE & NON-MARKETABLE

| | | AMORTIZED COST | | UNREALIZED GAINS | | UNREALIZED LOSSES | | FAIR VALUE |
|---|---|---|---|---|---|---|---|---|
| December 31, 2020: | | | | | | | | |
| Community Reinvestment Act | $ | 735 672 | $ | - | $ | - | $ | 735 672 |
| The Independent BankersBank stock | | 52 500 | | - | | - | | 52 500 |
| Federal Reserve and FHLB stock | | 2 647 700 | | - | | - | | 2 647 700 |
| DCI (private company) | | 143 100 | | 441 365 | | - | | 584 465 |
| TOTALS | $ | 3 578 972 | $ | 441 365 | $ | - | $ | 4 020 337 |
| 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 |

DEBT SECURITIES AVAILABLE FOR SALE

| | | AMORTIZED COST | | UNREALIZED GAINS | | UNREALIZED LOSSES | | FAIR VALUE |
|---|---|---|---|---|---|---|---|---|
| December 31, 2020: | | | | | | | | |
| U.S. government | $ | 994 088 | $ | 62 997 | $ | - | $ | 1 057 085 |
| U.S. agency sponsored securities | | 93 108 696 | | 2 600 125 | | - | | 95 708 821 |
| Mortgage-backed securities | | 17 592 970 | | 247 538 | | 1 961 | | 17 838 547 |
| Collateralized mortgage obligations | | 20 125 592 | | 584 028 | | 106 275 | | 20 603 345 |
| State and municipal securities | | 41 800 893 | | 312 863 | | 234 700 | | 41 879 056 |
| State and municipal securities - taxable | | 39 322 889 | | 551 580 | | 11 811 | | 39 862 658 |
| TOTALS | $ | 212 945 128 | $ | 4 359 131 | $ | 354 747 | $ | 216 949 512 |

INVESTMENT SECURITIES - CONTINUED

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 |

The amortized cost and carrying value of held to maturity securities as of December 31, 2020 and 2019 are as follows:

DEBT SECURITIES TO BE HELD TO MATURITY

| | AMORTIZED COST |
|---|---|
| December 31, 2020: | |
| Bank subordinated debt | $ 2 500 000 |
| State and municipal securities | 1 050 350 |
| TOTALS | $ 3 550 350 |
| December 31, 2019: | |
| State and municipal securities | $ 1 068 701 |

Proceeds from the sale of equity securities were $-0- in 2020 and $-0- in 2019. Proceeds from the redemption of equity shares were $-0- in 2020 and $-0- in 2019. Proceeds from the sale and maturities of available for sale debt securities were $139,744,754 in 2020 and $186,028,540 in 2019. Gross realized gains from the sale of equity securities in 2020 were $-0- and $-0- in 2019. Gross recognized gains (losses) from the valuation of equity securities were $66,066 in 2020 and $30,166 in 2019. Gross realized gains from the sale of available for sale debt securities were $115,907 in 2020 and $22,385 in 2019. Gross realized losses from the sale of available for sale debt securities were $9,837 in 2020 and $54,641 in 2019. There were no held to maturity debt securities sold during 2020 and 2019.

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 1.06% and 0.38% from the Bank's amortized cost basis at December 31, 2020 and 2019, respectively. These securities are guaranteed by either the U.S. Government, agencies thereof, municipalities, or highly rated financial institutions. 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, 2020, 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, 2020: | | | |
| U.S. government | $ - | $ - | $ - |
| U.S. agency sponsored securities | - | - | - |
| Mortgage-backed securities | 3 303 671 | 1 961 | 3 301 710 |
| Collateralized mortgage obligations | 5 172 927 | 71 261 | 5 101 666 |
| Bank subordinated debt | 1 000 000 | 39 840 | 960 160 |
| State and municipal securities | 19 119 209 | 234 700 | 18 884 509 |
| State and municipal securities - Taxable | 5 519 765 | 11 812 | 5 507 953 |
| TOTALS | $ 34 115 572 | $ 359 574 | $ 33 755 998 |

INVESTMENT SECURITIES - CONTINUED

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

| | AMORTIZED COST | UNREALIZED LOSSES | FAIR VALUE |
|---|---|---|---|
| December 31, 2020: | | | |
| U.S. government | $ - | $ - | $ - |
| U.S. agency sponsored securities | - | - | - |
| Mortgage-backed securities | - | - | - |
| Collateralized mortgage obligations | 3 012 909 | 35 013 | 2 977 896 |
| Bank subordinated debt | - | - | - |
| State and municipal securities | - | - | - |
| State and municipal securities - Taxable | - | - | - |
| TOTALS | $ 3 012 909 | $ 35 013 | $ 2 977 896 |

Information pertaining to available for sale and held to maturity debt securities with gross unrealized losses at December 31, 2019, 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 |

The amortized cost and estimated fair value of available for sale securities and amortized cost of held to maturity debt securities at December 31, 2020 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 |
| Due in one year or less | $ 47 571 774 | $ 47 941 234 | $ 250 698 |
| Due after one through five years | 50 305 754 | 52 605 554 | 799 652 |
| Due after five through ten years | 18 266 560 | 18 430 977 | 2 500 000 |
| Due after ten years | 59 082 478 | 59 529 854 | - |
| Mortgage-backed securities | 17 592 971 | 17 838 549 | - |
| Collateralized mortgage obligation | 20 125 592 | 20 603 346 | - |
| TOTAL | $ 212 945 129 | $ 216 949 514 | $ 3 550 350 |

Securities carried at $153,039,740 and $129,105,821 at December 31, 2020 and 2019, 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.

LOANS - CREDIT QUALITY - CONTINUED

As of December 31, 2020, the real estate loan portfolio constituted 70% of the total loan portfolio. Included in this amount were 2% 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 24% of the loan portfolio at December 31, 2020 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.

Due to the COVID-19 crisis, Congress passed the CARES Act which included provisions for the SBA Paycheck Protection Program (PPP). PPP provides loans to help businesses keep their workforce employed during the crisis. Loans are 100% guaranteed by the Small Business Administration (SBA) and pay 1% interest in addition to an origination fee based on the amount of the loan. The Bank originated over 1,100 PPP loans in 2020 totaling over $84 million. At 12/31/20, there were 764 PPP loans still outstanding at a balance totaling $50,631,216. These loans are included in commercial secured and unsecured loans in the tables below. The Bank recognized $3,397,839 in origination income from PPP loans which is included in Interest and Fees on Loans in the Income Statement.

Outstanding Loans:

The tables below present total outstanding loans and an aging analysis at December 31, 2020 and 2019.

| | DECEMBER 31, 2020 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 144 182 | $ - | $ 144 182 | $ 233 655 353 | $ 233 799 535 |
| Commercial construction | - | - | - | 9 004 220 | 9 004 220 |
| 1-4 family residential | - | - | - | 20 395 006 | 20 395 006 |
| Residential mortgages | 761 137 | 298 939 | 1 060 076 | 132 350 600 | 133 410 676 |
| Home equity and home improvement | 514 140 | 71 525 | 585 665 | 23 144 203 | 23 729 868 |
| Agriculture | - | 23 247 | 23 247 | 7 671 148 | 7 694 395 |
| VA/FHA | 38 777 | 10 097 | 48 874 | 824 690 | 873 564 |
| SBA/FSA | - | - | - | 23 901 199 | 23 901 199 |
| TOTAL REAL ESTATE | 1 458 236 | 403 808 | 1 862 044 | 450 946 419 | 452 808 463 |
| Consumer and Credit Card: | | | | | |
| Indirect | - | - | - | 82 168 | 82 168 |
| Retail | 285 028 | 7 042 | 292 070 | 27 332 584 | 27 624 654 |
| CD secured | 20 830 | 21 362 | 42 192 | 7 142 210 | 7 184 402 |
| Fresh start | 357 | - | 357 | 26 141 | 26 498 |
| TOTAL CONSUMER | 306 215 | 28 404 | 334 619 | 34 583 103 | 34 917 722 |
| Commercial: | | | | | |
| Agriculture | 51 091 | - | 51 091 | 6 283 010 | 6 334 101 |
| Secured and unsecured | 347 105 | - | 347 105 | 147 438 204 | 147 785 309 |
| TOTAL COMMERCIAL | 398 196 | - | 398 196 | 153 721 214 | 154 119 410 |
| Loans in-process and dealer prepaid | | | | 4 877 261 | 4 877 261 |
| Overdrafts | | | | 390 639 | 390 639 |
| TOTAL LOANS | $ 2 162 647 | $ 432 212 | $ 2 594 859 | $ 644 518 636 | 647 113 495 |
| Allowance for credit losses | | | | | 16 418 559 |
| NET LOANS | | | | | $ 630 694 936 |

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 |

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, 2020 and 2019:

| | NONACCRUAL LOANS AND LEASES DECEMBER 31, | | ACCRUING PAST DUE 90 DAYS OR MORE DECEMBER 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Real Estate: | | | | |
| Commercial real estate | $ 262 300 | $ 305 680 | $ - | $ 18 815 |
| Residential mortgages | - | - | 298 939 | 34 364 |
| Home equity and home improvement | - | - | 71 525 | 191 402 |
| Agriculture | - | - | 23 247 | - |
| VA/FHA | - | - | 10 097 | 34 432 |
| SBA/FSA | 565 337 | 632 627 | - | - |
| TOTAL REAL ESTATE | 827 637 | 938 307 | 403 808 | 279 013 |
| Consumer and Credit Card: | | | | |
| CD secured | - | - | 21 362 | - |
| Retail | - | 6 217 | 7 042 | 99 211 |
| TOTAL CONSUMER | - | 6 217 | 28 404 | 99 211 |
| Commercial: | | | | |
| Secured and unsecured | 1 204 884 | 1 476 782 | - | 24 181 |
| TOTAL COMMERCIAL | 1 204 884 | 1 476 782 | - | 24 181 |
| TOTAL | $ 2 032 521 | $ 2 421 306 | $ 432 212 | $ 402 405 |

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.

LOANS - CREDIT QUALITY - CONTINUED

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.

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:

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | PASS | SPECIAL MENTION | SUBSTANDARD | DOUBTFUL | LOSS | TOTAL |
| Real Estate: | | | | | | |
| Commercial | $ 229 185 067 | $ 2 176 653 | $ 2 175 515 | $ 262 300 | $ - | $ 233 799 535 |
| Commercial construction | 9 004 220 | - | - | - | - | 9 004 220 |
| 1-4 family | 20 395 006 | - | - | - | - | 20 395 006 |
| Residential | 131 910 139 | 947 098 | 553 439 | - | - | 133 410 676 |
| Home equity | 23 374 158 | 355 710 | - | - | - | 23 729 868 |
| Agriculture | 7 030 700 | 640 448 | 23 247 | - | - | 7 694 395 |
| VA/FHA | 844 237 | - | 29 327 | - | - | 873 564 |
| SBA/FSA | 21 777 880 | 1 557 982 | - | 565 337 | - | 23 901 199 |
| TOTAL REAL ESTATE | 443 521 407 | 5 677 891 | 2 781 528 | 827 637 | - | 452 808 463 |
| Consumer: | | | | | | |
| Indirect | 79 626 | - | 2 542 | - | - | 82 168 |
| Retail | 27 462 347 | 63 876 | 98 431 | - | - | 27 624 654 |
| CD secured | 7 184 402 | - | - | - | - | 7 184 402 |
| Fresh start | 26 498 | - | - | - | - | 26 498 |
| TOTAL CONSUMER | 34 752 873 | 63 876 | 100 973 | - | - | 34 917 722 |
| Commercial: | | | | | | |
| Agriculture | 6 297 051 | - | 37 050 | - | - | 6 334 101 |
| Secured and unsecured | 144 426 262 | 204 081 | 1 950 082 | 1 204 884 | - | 147 785 309 |
| TOTAL COMMERCIAL | 150 723 313 | 204 081 | 1 987 132 | 1 204 884 | - | 154 119 410 |
| TOTAL | $ 628 997 593 | $ 5 945 848 | $ 4 869 633 | $ 2 032 521 | $ - | $ 641 845 595 |

| | 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 |

LOANS - CREDIT QUALITY - CONTINUED

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, 2020 | | | |
|---|---|---|---|---|
| | UNPAID PRINCIPAL BALANCE | CARRYING VALUE | RELATED ALLOWANCE | AVERAGE CARRYING AMOUNT |
| With an Allowance Recorded: | | | | |
| Real estate | $ - | $ - | $ - | $ - |
| Commercial | $ 1 608 518 | $ 417 518 | $ 1 191 000 | $ - |
| Consumer | $ - | $ - | $ - | $ - |

| | 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 | $ - | $ - | $ - | $ - |

The Bank is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the Cares Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, the Company modified 457 loans with outstanding balances of $105,706,000.

Information on troubled debt restructurings for the year ended December 31, 2020 is as follows:

| | DECEMBER 31, 2020 | | |
|---|---|---|---|
| | NUMBER OF CONTRACTS | PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT | POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT |
| Trouble Debt Restructurings: | | | |
| Real estate | - | $ - | $ - |
| Commercial | - | - | - |
| Consumer | - | - | - |
| TOTAL | - | $ - | $ - |

As of December 31, 2020, there were no loans that had been modified as troubled debt restructuring during the year and subsequently re-defaulted, and there was no commitment to lend additional funds to a borrower whose loan terms have been modified in a trouble debt restructuring. There were no troubled debt restructurings for the year ended December 31, 2019.

Allowance for Credit Losses:

The table below summarizes the changes in the allowance for credit losses for 2020 and 2019:

| | COMMERCIAL | REAL ESTATE | CONSUMER | UNALLOCATED | TOTAL ALLOWANCE 2020 |
|---|---|---|---|---|---|
| Allowance for loan and lease losses January 1 | $ 1 376 000 | $ 3 985 000 | $ 443 000 | $ 1 969 133 | $ 7 773 133 |
| Loans and leases charged off | (253 196) | - | (1 235 532) | - | (1 488 728) |
| Recoveries of loans and leases previously charged off | 875 | - | 963 279 | - | 964 154 |
| NET CHARGE OFFS | (252 321) | - | (272 253) | - | (524 574) |
| Provision for loan and lease losses | 2 357 321 | 5 730 000 | 867 253 | 215 426 | 9 170 000 |
| ALLOWANCE FOR LOAN AND LEASE LOSSES DECEMBER 31, 2020 | $ 3 481 000 | $ 9 715 000 | $ 1 038 000 | $ 2 184 559 | $ 16 418 559 |

| | 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

The table below represents the allowance and the carrying value of outstanding loans and leases by portfolio segment at December 31, 2020 and 2019.

| | COMMERCIAL | REAL ESTATE | CONSUMER | TOTAL |
|---|---|---|---|---|
| December 31, 2020 | | | | |
| Impaired Loans and Troubled Debt Restructurings: | | | | |
| Allowance for loans and lease losses | $ 1 191 000 | $ - | $ - | $ 1 191 000 |
| Unpaid principal balance | $ 1 608 518 | $ - | $ - | $ 1 608 518 |
| Allowance as a percentage of unpaid principal balance | 74.04% | - % | - % | 74.04% |
| Collectively Evaluated for Impairment: | | | | |
| Allowance for loans and lease losses | $ 2 290 000 | $ 9 715 000 | $ 1 038 000 | $ 13 043 000 |
| Unpaid principal balance | $ 101 879 676 | $ 503 439 679 | $ 34 917 722 | $ 640 237 077 |
| Allowance as a percentage of unpaid principal balance | 2.25% | 1.93% | 2.97% | 2.04% |
| Total: | | | | |
| Allowance for loans and lease losses | $ 3 481 000 | $ 9 715 000 | $ 1 038 000 | $ 14 234 000 |
| Unallocated allowance | | | | 2 184 559 |
| Total allowance | | | | $ 16 418 559 |
| Unpaid principal balance | $ 103 488 194 | $ 503 439 679 | $ 34 917 722 | $ 641 845 595 |
| Allowance as a percentage of unpaid principal balance | 3.36% | 1.93% | 2.97% | 2.56% |

| | 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% |

Mortgage loans held for sale at December 31, 2020 and 2019 totaled $919,171 and $2,239,579, 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 $5,661,285 and $2,305,112 in 2020 and 2019, 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, 2020 and 2019 were $320,247,178 and $262,990,841, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, totaled $2,150,962 and $1,766,440 at December 31, 2020 and 2019, 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, 2020 and 2019 were $1,878,942 and $1,488,933, respectively. During 2020 and 2019, $861,914 and $239,358 of MSRs were capitalized, respectively. These rights are being amortized concurrently with the associated loans. Amortization expense of MSR's in 2020 totaled $471,905 and in 2019 totaled $269,217. 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.

Fair value at year-end 2020 was determined using discount rates ranging from 0.83% to 1.64% and prepayment speeds ranging from 0.38% to 1.63%.

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.

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 and 2019 consisted of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Land | $ | 5 095 978 | $ | 4 549 532 |
| Buildings | | 15 193 228 | | 14 234 613 |
| Furniture and equipment | | 6 927 424 | | 6 130 187 |
| Vehicles | | 219 164 | | 210 461 |
| Construction in process | | 947 140 | | 33 525 |
| TOTAL COST | | 28 382 934 | | 25 158 318 |
| Accumulated depreciation | | 11 972 126 | | (11 701 294) |
| NET BOOK VALUE | $ | 16 410 808 | $ | 13 457 024 |

Depreciation expense totaled $1,358,241 and $1,142,086 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:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Balance at January 1 | $ | 2 197 494 | $ | 2 285 000 |
| Foreclosed during the year | | 204 201 | | 925 129 |
| Write-downs | | - | | (230 000) |
| Sales and other dispositions | | (1 592 340) | | (782 635) |
| BALANCE AT DECEMBER 31 | $ | 809 355 | $ | 2 197 494 |
| | | | | |
| As Shown on the Statement of Condition: | | | | |
| Non-residential real estate owned | $ | 809 355 | $ | 2 197 494 |
| Residential real estate owned | | - | | - |
| | $ | 809 355 | $ | 2 197 494 |

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:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Noninterest-bearing: | | | | |
| Demand | $ | 382 727 215 | $ | 302 295 051 |
| Interest-bearing: | | | | |
| Interest-bearing demand | | 168 475 360 | | 122 331 942 |
| Savings | | 88 672 728 | | 65 171 247 |
| Money market accounts | | 113 462 187 | | 79 995 117 |
| Time deposits less than $250,000 | | 86 076 244 | | 85 882 245 |
| Time deposits $250,000 and over | | 26 565 926 | | 23 563 479 |
| TOTAL INTEREST-BEARING | | 483 252 445 | | 376 944 030 |
| TOTAL DEPOSITS | $ | 865 979 660 | $ | 679 239 081 |

The maturity distribution of time deposits at December 31, 2020, was as follows:

| | | |
|---|---|---|
| Within one year | $ | 71 503 091 |
| One to two years | | 16 997 848 |
| Two to three years | | 10 675 613 |
| Three to five years | | 13 176 073 |
| Over five years | | 289 545 |
| | $ | 112 642 170 |

Interest on deposits for the years ended December 31, 2020 and 2019 consists of the following:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Savings | $ | 114 295 | $ | 116 143 |
| NOW accounts | | 468 597 | | 494 628 |
| Money market accounts | | 464 451 | | 486 579 |
| Certificates of deposit | | 1 665 554 | | 1 738 852 |
| | $ | 2 712 897 | $ | 2 836 202 |

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, 2020 and 2019 was $-0- and $15,000,000, 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, 2020 and 2019 were $2,003,800 and $1,984,800, respectively, which exceeded the minimum levels required by the FHLB. In August 2020, the Bank received $45,000 from FHLB as a Small Business Boost for one of its customers. The liability recorded corresponds to a customer loan of equal amount and will be paid off via customer payments.

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, 2021 and August 5, 2021, 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 $1,500,000 and $-0- at December 31, 2020 and 2019, 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.

To bolster the effectiveness of the PPP program previously discussed in the loan - credit quality note above, the Federal Reserve created the Paycheck Protection Program Liquidity Facility (PPPLF) to supply liquidity to participating financial institutions through term financing secured by the PPP loans. Advances from the PPPLF are made at a rate of 35 basis points and receive favorable capital treatment granted by the CARES Act - a risk weight of zero percent. As of December 31, 2020, the Bank owed $38,872,557 to the Federal Reserve through the PPPLF and recognized $217,000 of interest expense during 2020 related to the borrowing.

The future principal requirements of the long term debt are as follows:

| | | |
|---|---|---|
| Within one year | $ | 1 545 000 |
| One to two years | | 37 379 757 |
| Two to three years | | - |
| Three to four years | | - |
| Four to five years | | 1 492 800 |
| Over five years | | - |
| | $ | 40 417 557 |

LEASE OBLIGATIONS

The Bank has long term lease obligations for branch office space. The related lease expense for 2020 and 2019 was $73,000 and $75,876, 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 2020 and 2019, 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 2020 and 2019 was $34,800 and $32,676, respectively.

The Company had a long-term lease agreement for the land where the Starr Branch in Nacogdoches is located. The lease expires in January 2023 and includes four options to extend the lease with each option being for a period of five years. In September, 2020, the Company transferred the lease to the Bank. The related lease expense was $19,200 for 2020 and 2019.

The Bank entered into a lease agreement for branch facilities in Palestine. The Palestine lease expired in February 2020, and the Bank purchased the property in July 2020. The related lease expense was $7,000 and $12,000 for 2020 and 2019, respectively.

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

| | | |
|---|---|---|
| 2021 | $ | 59 000 |
| 2022 | | 19 200 |
| 2023 | | 5 600 |
| 2024 | | - |
| 2025 | | - |
| Over 5 years | | - |
| | $ | 83 800 |

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, 2020, that the Bank could declare, without the prior approval of the OCC, amounted to approximately $21,580,815.

STOCKHOLDERS' EQUITY - CONTINUED

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, 2020 and 2019.

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, 2020 that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, 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, 2020: | | | | | | |
| Total Risk Based Capital (to risk weighted assets) | $ 95 790 | 14.80% | $ 67 952 | ≥10.50% | $ 64 716 | ≥10.0% |
| Tier I Capital (to risk weighted assets) | $ 87 598 | 13.54% | $ 55 009 | ≥8.500% | $ 51 773 | ≥ 8.0% |
| Tier I Leverage Capital (to average total assets) | $ 87 598 | 10.19% | $ 34 403 | ≥4.000% | $ 43 003 | ≥ 5.0% |
| Common Equity Tier I Capital (to risk weighted assets) | $ 87 598 | 13.54% | $ 45 301 | ≥7.000% | $ 42 065 | ≥ 6.5% |
| 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% |

The above 2020 and 2019 risk-weighted capital ratios for capital adequacy purposes include a 2.50% capital conservation buffer, respectively. Financial institutions with a buffer greater than 2.50% (2020) and 2.50% (2019) 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 942,911 in 2020 and 859,232 in 2019. 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 since such a conversion would have been dilutive to earnings per common share. The Company redeemed all the Series B shares in June 2020. The weighted average Series B shares outstanding during 2019 was 34,700. The assumed number of additional common shares due to the conversion was 82,933 in 2019.

TREASURY STOCK

Shares held in treasury are being carried by the Company at original cost. At December 31, 2020 and 2019, the Company held 143,140 shares of its own common stock in treasury with a cost basis of $1,571,565. At December 31, 2020 and 2019, the Company held -0- and 1,082 shares of Series A preferred stock, respectively. At December 31, 2020 and 2019, the Company held -0- and 4,879 shares of Series B preferred stock, respectively. The preferred stock had a cost basis of $-0- at December 31, 2020 and $430,100 at December 31, 2019.

PREFERRED STOCK

The Company is authorized to issue up to 200,000 shares in 2020 and 200,000 shares in 2019 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, 38,497 shares of Series A stock were outstanding. The Board of Directors of the Company exercised their option to call and redeem all outstanding shares of Series A Preferred Stock in May 2020 at the stock's redemption value of $100 per share. As of December 31, 2019, 34,700 shares of Series B stock were outstanding. The Company issued a redemption notice to all holders of outstanding shares of Series B Preferred Stock in April 2020. Holders elected to either receive the redemption value of $100 per share or to convert the shares to common stock at a rate of 2.39 shares of common stock per share of Series B Preferred Stock. The redemption and conversion of all Series B shares occurred in June 2020.

Prior to the redemption, holders of the Series A Preferred Stock were 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 were 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.

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 2020 and 2019 were $252,400 and $216,892, 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 $409,500 in December 31, 2020 and $462,898 at December 31, 2019.

At December 31, 2020 and 2019, shares allocated, and shares remaining in suspense were as follows:

| | 2020 | 2019 |
|---|---|---|
| Numbers of Shares: | | |
| Released and allocated | 32 976 | 29 906 |
| Suspense | - | - |
| Fair Value: | | |
| Released and allocated | $ 3 396 528 | $ 2 529 749 |
| 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 $12,415,119 at December 31, 2020, and $12,052,705 at December 31, 2019. 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 $1,214,670 and $1,443,171 at December 31, 2020 and 2019, 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 $741,642 at December 31, 2020, and $716,642 at December 31, 2019. 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 $2,279,563 and $1,871,972 at December 31, 2020 and 2019, 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.

| | CONTRACT OR NOTIONAL AMOUNT | |
|---|---|---|
| | 2020 | 2019 |
| Financial Instruments Whose Contract Amounts Represent Credit Risk: | | |
| Commitments to fund loans | $ 102 496 000 | $ 102 209 000 |
| Standby letters of credit | $ 917 000 | $ 1 083 000 |

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 2020 or 2019. 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

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, 2020: | | |
| Available for Sale Securities: | | |
| U.S. government | $ | 1 057 085 |
| U.S. sponsored agency securities | $ | 95 708 821 |
| Mortgage-backed securities | $ | 17 838 547 |
| Collateralized mortgage obligations | $ | 20 603 345 |
| Municipal securities | $ | 41 879 056 |
| Municipal securities - Taxable | $ | 39 862 658 |
| Equity Securities: | | |
| Marketable equity securities | $ | 735 672 |
| Non-marketable equity securities | $ | 3 284 665 |
| Loans held for sale | $ | 919 171 |
| 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

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, 2020: | | | |
| Available for Sale Securities: | | | |
| U.S. government | $ 1 057 085 | $ - | $ - |
| U.S. sponsored agency securities | $ - | $ 95 708 821 | $ - |
| Mortgage-backed securities | $ - | $ 17 838 547 | $ - |
| Collateralized mortgage obligations | $ - | $ 20 603 345 | $ - |
| Municipal securities | $ - | $ 41 879 056 | $ - |
| Municipal securities - Taxable | $ - | $ 39 862 658 | $ - |
| Equity Securities: | | | |
| Marketable equity securities | $ 735 672 | $ - | $ - |
| Non-marketable equity securities | $ - | $ 3 284 665 | $ - |
| Loans held for sale | $ - | $ 919 171 | $ - |
| 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 | $ - |

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) |
| **12/31/2020** | | | | |
| Impaired loans | $ 417 518 | $ - | $ - | $ 417 518 |
| Other real estate owned | $ 809 355 | $ - | $ - | $ 809 355 |
| Goodwill | $ 3 627 971 | $ - | $ - | $ 3 627 971 |

| | | 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 |

INCOME TAXES

The provision for income taxes consisted of the following for the years ended December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Currently Payable: | | |
| Federal | $ 4 854 881 | $ 2 952 111 |
| Deferred: | | |
| Federal | (1 976 310) | (482 962) |
| TOTAL INCOME TAX EXPENSE | $ 2 878 571 | $ 2 469 149 |

INCOME TAXES - CONTINUED

The provision for federal income tax differs from that computed by applying the federal statutory rate of 21% in 2020 and 21% in 2019, as indicated in the following analysis:

| | 2020 | 2019 |
|---|---|---|
| Statutory rate | 21.00 % | 21.00 % |
| Increase (Decrease) Resulting from: | | |
| Effect of tax-exempt income | (0.46)% | (0.11)% |
| Nondeductible interest, entertainment and amortization expenses | 0.04 % | 0.03 % |
| Insurance cash surrender value increase | (0.63)% | (0.65)% |
| | 19.95 % | 20.27 % |

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

| | 2020 | 2019 |
|---|---|---|
| Deferred Tax Asset: | | |
| Federal | $ 4 291 233 | $ 2 314 421 |
| Deferred Tax Liability: | | |
| Federal | (922 454) | (285 373) |
| NET DEFERRED TAX ASSET | $ 3 368 779 | $ 2 029 048 |

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

| | 2020 | 2019 |
|---|---|---|
| Allowance for credit losses | $ 3 610 647 | $ 1 778 308 |
| Depreciation | (595 404) | (426 134) |
| Amortization of intangibles | 476 262 | 391 148 |
| Accretion of discounts | (78 158) | (69 186) |
| Benefit accruals | 776 158 | 735 620 |
| Interest accrued on non-accrual loans | 2 927 | 1 403 |
| Capitalization of loan origination costs | 129 189 | 101 295 |
| Stock dividends | (92 697) | (82 765) |
| Unrealized (gain) or loss on securities available for sale | (840 921) | (212 246) |
| Recognized unrealized (gain) loss on trading securities | (79 672) | (71 264) |
| Real estate owned expense | - | 92 925 |
| Other | 60 448 | (210 056) |
| BALANCE AT DECEMBER 31 | $ 3 368 779 | $ 2 029 048 |

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 2019 and 2020 is as follows:

| | |
|---|---|
| Balance, December 31, 2018 | $ 7 516 000 |
| New loans | 409 000 |
| Repayments | (2 898 000) |
| Balance, December 31, 2019 | 5 027 000 |
| New loans | 555 500 |
| Repayments | (24 500) |
| Balance, December 31, 2020 | $ 5 558 000 |

Deposits owed to such related parties consisted of approximately $25,782,000 and $20,418,000 at December 31, 2020 and 2019, respectively.

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.

CONCENTRATION OF CREDIT - CONTINUED

In 2019, the Bank was 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- at December 31, 2019. These reserves are included in the Consolidated Statements of Condition caption "Cash and due from banks." However, on March 15, 2020, the Board of Governors of the Federal Reserve System eliminated reserve requirements for all depository institutions effective March 26, 2020. Balances on deposit at the Federal Reserve totaled $35,695,500 and $6,110,914 at December 31, 2020 and 2019, 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, 2020 and 2019 was $233,281,668 and $196,333,147, 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 450 and 230 shares of common stock under this bonus stock plan during 2020 and 2019, 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, 2020, 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, 2020 | 2 140 | $ | 73.09 | | | |
| Granted | | $ | - | | | |
| Exercised | 425 | $ | 71.43 | | | |
| Forfeited or expired | - | $ | - | | | |
| Outstanding at December 31, 2020 | 1 715 | $ | 73.50 | 5 years | $ | 36 272 |
| Exercisable at December 31, 2020 | 940 | | | 5 years | $ | 24 869 |

As of December 31, 2020, there were 625 non-vested shares under option with a weighted-average grant-date fair value of $73.09 per share, and there was approximately $25,468 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, 2020 and 2019 was approximately $9,002 and $9,700, with approximately $3,277 and $3,550 of deferred federal income tax benefit recognized, respectively.

During 2020, total cash received from options exercised approximated $21,593.

COMPONENTS OF OTHER COMPREHENSIVE INCOME

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2020 and 2019.

| | YEARS ENDED | | | | | |
|---|---|---|---|---|---|---|
| | DECEMBER 31, 2020 | | | DECEMBER 31, 2019 | | |
| (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 | $ 3 127 953 | $ (656 870) | $ 2 471 083 | $ 5 162 679 | $ (1 084 163) | $ 4 078 516 |
| Reclassification adjustment for gains realized | (134 266) | 28 196 | (106 070) | 40 830 | (8 574) | 32 256 |
| OTHER COMPREHENSIVE INCOME (LOSS) | $ 2 993 687 | $ (628 674) | $ 2 365 013 | $ 5 203 509 | $ (1 092 737) | $ 4 110 772 |

The following table presents the changes in each component of accumulated other comprehensive income, net of tax, for the years ended December 31, 2020 and 2019.

| (DOLLARS IN THOUSANDS) | SECURITIES AVAILABLE FOR SALE | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) |
|---|---|---|
| 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 |
| Other comprehensive income before reclassifications | 2 471 083 | 2 471 083 |
| Amounts reclassified from accumulated other comprehensive income | (106 070) | (106 070) |
| Balance at December 31, 2020 | $ 3 163 463 | $ 3 163 463 |

SUPPLEMENTAL SCHEDULES

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CONDITION
December 31, 2020

| | NACOGDOCHES COMMERCIAL BANCSHARES, INC. | COMMERCIAL BANK OF TEXAS, N.A. | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and due from banks | $ 1 017 467 | $ 12 118 580 | $ (1 017 467) | $ 12 118 580 |
| Interest-bearing deposits with banks | - | 80 871 076 | - | 80 871 076 |
| Federal funds sold | - | 15 000 000 | - | 15 000 000 |
| Debt securities available for sale | - | 216 949 510 | - | 216 949 510 |
| Debt securities to be held to maturity | - | 3 550 350 | - | 3 550 350 |
| Equity securities: | | | | |
| Marketable | - | 735 672 | - | 735 672 |
| Non-marketable | 52 500 | 3 232 165 | - | 3 284 665 |
| Investment in subsidiary | 95 583 258 | - | (95 583 258) | - |
| Investment in land | 1 537 340 | - | - | 1 537 340 |
| Loans held for sale | - | 919 171 | - | 919 171 |
| Loans, net of allowance for credit losses of $16,418,559 | - | 629 775 765 | - | 629 775 765 |
| Property and equipment | 387 043 | 16 023 765 | - | 16 410 808 |
| Accrued interest receivable | - | 3 927 544 | - | 3 927 544 |
| Bank owned life insurance | - | 13 156 761 | - | 13 156 761 |
| Other real estate owned | - | 809 355 | - | 809 355 |
| Goodwill | - | 3 627 971 | - | 3 627 971 |
| Other assets | 795 719 | 8 563 659 | (422 843) | 8 936 535 |
| TOTAL ASSETS | $ 99 373 327 | $ 1 009 261 344 | $ (97 023 568) | $ 1 011 611 103 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Liabilities: | | | | |
| Deposits: | | | | |
| Noninterest bearing | $ - | $ 383 744 682 | $ (1 017 467) | $ 382 727 215 |
| Interest bearing | - | 483 252 445 | - | 483 252 445 |
| TOTAL DEPOSITS | - | 866 977 127 | (1 017 467) | 865 979 660 |
| Accrued interest payable | - | 331 037 | - | 331 037 |
| Notes payable | 1 500 000 | - | - | 1 500 000 |
| Fed Borrowings | - | 38 872 557 | - | 38 875 557 |
| Federal Home Loan Bank | - | 45 000 | - | 45 000 |
| Other liabilities | 899 852 | 7 432 365 | (422 843) | 7 909 374 |
| TOTAL LIABILITIES | 2 399 852 | 913 678 086 | (1 440 310) | 914 637 628 |
| Stockholders' Equity: | | | | |
| Preferred Stock, No Stated Value, 200,000 Shares Authorized and Unissued: | | | | |
| Series A, 40,000 designated | - | - | - | - |
| Series B, 40,000 designated | - | - | - | - |
| Common stock, 2,800,000 shares at $10 par value authorized; 1,086,051 shares issued; 942,911 shares outstanding | 10 862 010 | 1 000 000 | (1 000 000) | 10 862 010 |
| Capital surplus | 7 362 960 | 23 039 001 | (23 039 001) | 7 362 960 |
| Retained earnings | 77 156 607 | 68 380 794 | (68 380 794) | 77 156 607 |
| Accumulated other comprehensive income | 3 163 463 | 3 163 463 | (3 163 463) | 3 163 463 |
| Less: Cost of 143,140 shares held in treasury | (1 571 565) | - | - | (1 571 565) |
| TOTAL STOCKHOLDERS' EQUITY | 96 973 475 | 95 583 258 | (95 583 258) | 96 973 475 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 99 373 327 | $ 1 009 261 344 | $ (97 023 568) | $ 1 011 611 103 |

See independent auditors' report.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2020

| | NACOGDOCHES COMMERCIAL BANCSHARES, INC. | COMMERCIAL BANK OF TEXAS, N.A. | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|
| Interest Income: | | | | |
| Interest and fees on loans | $ - | $ 34 621 629 | $ - | $ 34 621 629 |
| Interest and dividends on debt securities available for sale | - | 3 384 857 | - | 3 384 857 |
| Interest on debt securities held to maturity | - | 62 422 | - | 62 422 |
| Interest and dividends on marketable equity securities | - | 26 033 | - | 26 033 |
| Interest and dividends on non-marketable equity securities | - | 84 444 | - | 84 444 |
| Interest on federal funds sold | - | 92 579 | - | 92 579 |
| Interest on deposits with banks | - | 31 427 | - | 31 427 |
| TOTAL INTEREST INCOME | - | 38 303 391 | - | 38 303 391 |
| Interest Expense: | | | | |
| Interest on deposits | - | 2 712 897 | - | 2 712 897 |
| Interest on bank loans and advances | 68 229 | 242 773 | - | 311 002 |
| TOTAL INTEREST EXPENSE | 68 229 | 2 955 670 | - | 3 023 899 |
| NET INTEREST INCOME | (68 229) | 35 347 721 | - | 35 279 492 |
| Provision: | | | | |
| Provision for credit losses | - | 9 170 000 | - | 9 170 000 |
| Provision for unfunded commitments | - | 80 000 | - | 80 000 |
| TOTAL PROVISION | - | 9 250 000 | - | 9 250 000 |
| NET INTEREST INCOME AFTER PROVISION | (68 229) | 26 097 721 | - | 26 029 492 |
| Other Income: | | | | |
| Fees on sales and servicing of loans | - | 6 691 935 | - | 6 691 935 |
| Income from fiduciary activities | - | 915 404 | - | 915 404 |
| Service charges on deposit accounts | - | 3 213 580 | - | 3 213 580 |
| Other service charges and fees | - | 3 910 836 | - | 3 910 836 |
| Net realized gains (losses) on sales of debt securities | - | 106 070 | - | 106 070 |
| Valuation changes of non-marketable securities | - | 40 033 | - | 40 033 |
| Other income | 797 815 | 759 443 | (244 174) | 1 313 084 |
| TOTAL OTHER INCOME | 797 815 | 15 637 301 | (244 174) | 16 190 942 |
| Other Expenses: | | | | |
| Salaries and benefits | 48 184 | 15 102 685 | - | 15 150 869 |
| Occupancy | 101 122 | 2 063 083 | (244 174) | 1 920 031 |
| Furniture and equipment | - | 2 192 753 | - | 2 192 753 |
| Deposit insurance and professional fees | 5 500 | 1 488 184 | - | 1 493 684 |
| Lending and collection | - | 600 246 | - | 600 246 |
| Advertising and community relations | - | 733 706 | - | 733 706 |
| Other operating | 3 450 | 5 766 089 | - | 5 769 539 |
| TOTAL OTHER EXPENSES | 158 256 | 27 946 746 | (244 174) | 27 860 828 |
| INCOME (LOSS) BEFORE FEDERAL INCOME TAXES | 571 330 | 13 788 276 | | 14 359 606 |
| Federal income taxes | 119 381 | 2 759 190 | - | 2 878 571 |
| NET INCOME BEFORE EQUITY IN INCOME OF SUBSIDIARY | 451 949 | 11 029 086 | - | 11 481 035 |
| Equity in income of subsidiary | 11 029 086 | - | (11 029 086) | - |
| NET INCOME | $ 11 481 035 | $ 11 029 086 | $ (11 029 086) | $ 11 481 035 |
| Earnings Per Common Share: | | | | |
| Basic | $ 12.07 | $ 110.29 | | $ 12.07 |
| Diluted | $ 12.07 | | | $ 12.07 |

See independent auditors' report.

NACOGDOCHES COMMERCIAL BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2020

| | NACOGDOCHES COMMERCIAL BANCSHARES, INC. | COMMERCIAL BANK OF TEXAS N.A. | ELIMINATIONS | CONSOLIDATED TOTAL |
|---|---|---|---|---|
| Preferred Stock - Series A: | | | | |
| Balance December 31, 2019 | $ 3 957 900 | $ - | $ - | $ 3 957 900 |
| Redemption of preferred shares | (3 957 900) | - | - | (3 957 900) |
| BALANCE DECEMBER 31, 2020 | - | - | - | - |
| Preferred Stock - Series B: | | | | |
| Balance December 31, 2019 | 3 957 900 | - | - | 3 957 900 |
| Conversion of preferred shares | (3 957 900) | - | - | (3 957 900) |
| BALANCE DECEMBER 31, 2020 | - | - | - | - |
| Common Stock: | | | | |
| Balance December 31, 2019 | 10 025 720 | 1 000 000 | (1 000 000) | 10 025 720 |
| Conversion of preferred shares Series B | 828 040 | - | - | 828 040 |
| Stock issued | 4 500 | - | - | 4 500 |
| Stock options exercised | 3 750 | - | - | 3 750 |
| BALANCE DECEMBER 31, 2020 | 10 862 010 | 1 000 000 | (1 000 000) | 10 862 010 |
| Capital Surplus: | | | | |
| Balance December 31, 2019 | 4 494 909 | 20 461 602 | (20 461 602) | 4 494 909 |
| Holding company investment in bank | - | 2 577 399 | (2 577 399) | - |
| Redemption of preferred shares Series A | 16 500 | - | - | 16 500 |
| Conversion of preferred shares Series B | 2 784 550 | - | - | 2 784 550 |
| Stock bonus | 37 998 | - | - | 37 998 |
| Stock options exercised | 29 003 | - | - | 29 003 |
| BALANCE DECEMBER 31, 2020 | 7 362 960 | 23 039 001 | (23 039 001) | 7 362 960 |
| Retained Earnings: | | | | |
| Balance December 31, 2019 | 66 623 412 | 61 854 048 | (61 854 048) | 66 623 412 |
| Property deeded to holding company | - | (1 537 340) | 1 537 340 | - |
| Net income | 11 481 035 | 11 029 086 | (11 029 086) | 11 481 035 |
| Stock options exercised | 5 222 | - | - | 5 222 |
| Preferred dividends declared | (104 672) | - | - | (104 672) |
| Common dividends declared | (848 390) | (2 965 000) | 2 965 000 | (848 390) |
| BALANCE DECEMBER 31, 2020 | 77 156 607 | 68 380 794 | (68 380 794) | 77 156 607 |
| Treasury Stock: | | | | |
| Balance December 31, 2019 | (2 001 665) | - | - | (2 001 665) |
| Redemption of preferred shares Series A | 91 700 | - | - | 91 700 |
| Conversion of preferred shares Series B | 338 400 | - | - | 338 400 |
| BALANCE DECEMBER 31, 2020 | (1 571 565) | - | - | (1 571 565) |
| Accumulated Other Comprehensive Income: | | | | |
| Balance December 31, 2019 | 798 450 | 798 450 | (798 450) | 798 450 |
| Other comprehensive income | 2 365 013 | 2 365 013 | (2 365 013) | 2 365 013 |
| BALANCE DECEMBER 31, 2020 | 3 163 463 | 3 163 463 | (3 163 463) | 3 163 463 |
| TOTAL STOCKHOLDERS' EQUITY | $ 96 973 475 | $ 95 583 258 | $ (95 583 258) | $ 96 973 475 |

See independent auditors' report.