Plains Acquisition Corporation and Subsidiary

Consolidated Financial Report

December 31, 2019

weaver

Assurance • Tax • Advisory

CONTENTS

Independent Auditor's Report

The Board of Directors and Stockholders of
Plains Acquisition Corporation and Subsidiary
Humble, Texas

We have audited the accompanying consolidated financial statements of Plains Acquisition Corporation and Subsidiary (the Company), which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

The Board of Directors and Stockholders of
Plains Acquisition Corporation and Subsidiary

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Plains Acquisition Corporation and Subsidiary at December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
February 21, 2020

Consolidated Financial Statements

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Financial Condition

December 31, 2019 and 2018

		2019		2018
ASSETS				
ASSETS				
Cash and due from banks	$	1,581,670	$	1,256,934
Total cash and cash equivalents		1,581,670		1,256,934
Interest bearing deposits in banks		92,234,551		33,287,301
Investment securities available-for-sale		50,210,306		42,187,789
Investment securities held-to-maturity		1,026,467		1,058,076
Loans receivable, net of allowance for loan and lease losses of $5,419,382 at December 31, 2019 and $4,785,737 at December 31, 2018		439,544,105		385,636,772
Accrued interest receivable		2,007,054		2,111,976
Premises and equipment, net		5,452,366		5,236,719
Prepaid expenses		236,624		291,477
Goodwill		1,602,252		1,602,252
Servicing asset, net		1,897,280		1,419,583
Foreclosed assets, net of allowances		6,845,588		-
Deferred tax asset, net		973,442		1,036,096
Federal Home Loan Bank stock		193,800		173,800
Other assets		951,485		1,313,238
TOTAL ASSETS	$	604,756,990	$	476,612,013
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Demand deposits	$	97,352,695	$	75,592,226
Savings deposits and NOW accounts		167,240,794		154,214,636
Time deposits		274,554,734		191,751,897
Total deposits		539,148,223		421,558,759
Accrued interest payable		103,653		90,456
Accrued expenses and other liabilities		1,811,789		863,999
Total liabilities		541,063,665		422,513,214
STOCKHOLDERS' EQUITY				
Common stock - $1 par value; 25,000,000 shares authorized, 2,368,275 and 2,312,575 issued and outstanding at December 31, 2019 and 2018, respectively		2,368,275		2,312,575
Additional paid-in capital		23,207,906		22,536,693
Additional paid-in capital stock options		1,380,006		946,276
Retained earnings		36,420,358		28,912,514
Accumulated other comprehensive (income) loss, net of tax (expense) benefit of ($84,207) at December 31, 2019 and $161,955 at December 31, 2018		316,780		(609,259)
Total stockholders' equity		63,693,325		54,098,799
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	604,756,990	$	476,612,013

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2019 and 2018

	2019	2018
INTEREST INCOME		
Loans, including fees	$ 27,899,020	$ 22,569,262
Debt securities		
Taxable	565,062	515,248
Tax exempt	501,490	526,456
Due from banks	462,467	582,203
Federal funds sold	770,242	-
Total interest income	30,198,281	24,193,169
INTEREST EXPENSE		
Deposits	8,365,194	5,157,090
Net interest income	21,833,087	19,036,079
Provision for loan losses	700,000	150,000
Net interest income after provision for loan losses	21,133,087	18,886,079
NONINTEREST INCOME		
Net premium on loan sales	3,216,489	1,537,481
Customer service fees	197,395	184,007
Net servicing fees	289,817	508,600
Foreclosed real estate income	50,524	-
Other income	105,782	96,297
Total noninterest income	3,860,007	2,326,385
NONINTEREST EXPENSES		
Salaries and employee benefits	8,081,842	6,852,672
Occupancy expenses	1,456,678	1,264,665
Business development	222,430	191,551
Data and check processing	679,990	664,758
Professional services	798,693	777,543
Loan origination and maintenance expense	853,998	711,077
Office expense	385,060	313,625
Advertising and contributions	326,203	300,167
Training, travel and periodicals	185,313	161,218
Insurance expense	82,350	73,689
Outside services	282,514	287,500
Foreclosed real estate expenses	1,146,773	-
Other expenses	598,397	429,613
Total noninterest expenses	15,100,241	12,028,078
Income before income taxes	9,892,853	9,184,386
Income tax expense	2,385,009	1,933,640
NET INCOME	$ 7,507,844	$ 7,250,746

The Notes to Consolidated Financial Statements are an integral part of these statements.

Plains Acquisition Corporation and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

	2019	2018
NET INCOME	$ 7,507,844	$ 7,250,746
OTHER ITEMS OF COMPREHENSIVE INCOME		
Change in unrealized appreciation (depreciation) on investment securities available for sale	1,172,201	(636,647)
Total other items of comprehensive income	1,172,201	(636,647)
Comprehensive income before tax	8,680,045	6,614,099
Income tax (expense) benefit related to other items of comprehensive income	(246,162)	133,696
COMPREHENSIVE INCOME	$ 8,433,883	$ 6,747,795

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2019 and 2018

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Additional Paid-In Capital Stock Options	Retained Earnings	Accumulated Other Comprehensive (Loss) Income Net of Tax	Total Stockholders' Equity
BALANCE, December 31, 2017	2,287,575	$2,287,575	$ 22,160,968	$ 795,014	$21,661,768	$ (106,308)	$ 46,799,017
Stock based compensation	-	-	-	291,987	-	-	291,987
Exercise of stock options	25,000	25,000	375,725	(140,725)	-	-	260,000
Net income	-	-	-	-	7,250,746	-	7,250,746
Change in net unrealized losses on available-for-sale securities	-	-	-	-	-	(502,951)	(502,951)
BALANCE, December 31, 2018	2,312,575	2,312,575	22,536,693	946,276	28,912,514	(609,259)	54,098,799
Stock based compensation	-	-	-	576,630	-	-	576,630
Exercise of stock options	55,700	55,700	671,213	(142,900)	-	-	584,013
Net income	-	-	-		7,507,844	-	7,507,844
Change in net unrealized losses on available-for-sale securities	-	-	-	-	-	926,039	926,039
BALANCE, December 31, 2019	2,368,275	$2,368,275	$ 23,207,906	$ 1,380,006	$36,420,358	$ 316,780	$ 63,693,325

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,507,844	$ 7,250,746
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	603,360	495,836
Amortization and disposals of servicing assets	437,468	183,611
Provision for loan losses	700,000	150,000
Net amortization of security discounts and premiums	309,685	319,868
Deferred income tax benefit	(183,508)	(151,382)
Net realized loss on sale of available for sale securities	8,578	-
Stock based compensation	576,630	291,987
Net premium on loan sales	(3,216,489)	(1,537,481)
Net realized loss on disposal of premises and equipment	25,616	8,557
(Increase) decrease in assets		
Accrued interest receivable	104,922	(384,282)
Prepaid expenses	54,853	(44,149)
Other assets	361,753	(905,980)
Increase (decrease) in liabilities		
Accrued interest payable	13,197	32,407
Accrued expenses and other liabilities	947,790	(667,503)
Net cash provided by operating activities	8,251,699	5,042,235
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest bearing deposits in banks	(58,947,250)	(2,903,265)
Activity in available-for-sale securities		
Sales	1,582,825	-
Purchases	(134,399,927)	(109,997,588)
Proceeds from paydowns, calls and maturities	125,662,900	114,669,508
Activity in held-to-maturity securities		
Purchases	-	(1,072,831)
Proceeds from paydowns, calls and maturities	17,232	10,731
Loan originations and principal collections, net	(101,809,242)	(66,754,585)
Additions to premises and equipment	(844,623)	(304,116)
Proceeds from sales of loans	42,657,645	19,422,630
Net change in Federal Home Loan Bank stock	(20,000)	(14,800)
Net cash used in investing activities	(126,100,440)	(46,944,316)

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Cash Flows – Continued
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	117,589,464	41,401,082
Issuance of stock, net of offering costs	584,013	260,000
Net cash provided by financing activities	118,173,477	41,661,082
Net change in cash and cash equivalents	324,736	(240,999)
CASH AND CASH EQUIVALENTS, beginning of year	1,256,934	1,497,933
CASH AND CASH EQUIVALENTS, end of year	$ 1,581,670	$ 1,256,934
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 8,351,997	$ 5,124,683
Income taxes paid	$ 2,300,000	$ 2,421,723
SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized gain (loss) on securities	$ 1,172,201	$ (636,647)

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Plains State Bank (the Bank) is a Texas state-chartered bank which offers a full range of banking services. The Bank's primary source of income is from providing loans to small and medium sized businesses and individuals in its market area. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC), subject to regulatory limits.

Plains Acquisition Corporation (a Texas corporation) was incorporated in Texas on February 1, 2008. Plains Acquisition Corporation (PAC) functions as a bank holding company whose primary asset is its 100% investment in Plains State Bank. The Bank operates full service branch locations in Humble, Houston and Plains Texas and limited service branches or loan production offices in Houston, Conroe and San Antonio, Texas.

Summary of Significant Accounting Policies

The accounting and reporting policies of Plains Acquisition Corporation and Subsidiary (the Company) conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. A summary of significant accounting policies is as follows.

Principles of Consolidation

The consolidated financial statements include the financial position, results of operations, and cash flows of Plains Acquisition Corporation and that of its wholly-owned subsidiary, Plains State Bank. All material intercompany transactions have been eliminated in consolidation.

Use of Estimates

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

Material estimates that are particularly susceptible to significant changes relate to deferred income taxes, valuation of goodwill and other intangibles and their respective analysis of impairment, the fair values of financial instruments, the valuation of stock options, the valuation of servicing rights, the valuation of foreclosed real estate, the valuation and potential impairment of investment securities, the determination of accrued expenses and the determination of the allowance for loan and lease losses.

Significant Group Concentration of Credit Risk

Most of the Company's loan and banking activity is with customers located throughout west and southeast Texas and their respective surrounding areas. A substantial portion of the debtors' ability to honor their obligations is dependent upon the economy in these regions. Should significant deterioration of the climate and economic conditions occur, these factors could impact the Company's collectability of its loans receivable and its deposit base. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of lending in which the Company engages. The Company's loan portfolio has a significant concentration in real estate.

The majority of cash and cash equivalents of the Company are maintained with major financial institutions in the United States. Interest bearing, non-transaction account deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk.

At December 31, 2019 and 2018, the Company had cash deposits in correspondent financial institutions in the amount of $92,670,572 and $33,866,434, respectively.

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, non-interest bearing balances due from banks and federal funds sold. There were no federal funds sold at December 31, 2019 and 2018. In monitoring credit risk associated with uninsured deposits, the Company periodically evaluates the stability of the correspondent financial institutions and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks mature within one year and are carried at cost.

Fair Values of Financial Instruments

The Company has determined the fair value of certain assets and liabilities through application of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 820, *Fair Value Measurement and Disclosures*. Under ASC 820, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure the fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. FASB ASC 820 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

<u>Level 1 inputs</u>: Unadjusted quoted prices in active markets for identical assets or liabilities.

<u>Level 2 inputs</u>: Inputs other than Level 1 inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

<u>Level 3 inputs</u>: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose nature is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Valuation techniques utilized to determine fair value are consistently applied. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company uses fair value to measure certain assets and liabilities on a recurring basis and on a nonrecurring basis. See Note 15 for disclosures about fair value of financial instruments for assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2019 and 2018.

Investment Securities

The Company reviews its financial position, liquidity, and future plans in evaluating the criteria for classifying investment securities. The Company classifies its debt securities in accordance with FASB ASC 320, *Investments – Debt and Equity Securities*.

Management determines the appropriate classification of securities at the time of purchase.

The methodology used to calculate fair market value of investment securities is outlined in Note 15.

Held-to-Maturity and Available-for-Sale Securities

Held-to-maturity securities consist of bonds which management has the positive intent and ability to hold to maturity. They are carried at amortized cost.

Available for sale securities consist of bonds, notes, debentures, and certain equity securities to be held for indefinite periods of time. They are carried at fair value, with the unrealized holding gains and losses reported as a component of stockholders' equity in accumulated other comprehensive income, net of tax, until realized. Declines in the fair value of individual available for sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value.

The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company's investments held at December 31, 2019 and 2018 were classified as available for sale and held-to-maturity. Management has determined there are no other-than-temporary impairment losses of available for sale securities during the years ended December 31, 2019 and 2018 and no other-than-temporary impairment losses of held-to-maturity securities during the years ended December 31, 2019 and 2018.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans.

Interest income is recognized based upon principal amounts outstanding. The accrual of interest on a loan is discontinued when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. Interest previously accrued but uncollected on such loans is reversed and charged against current income. Subsequent interest collected on such loans is credited to loan principal if, in the opinion of management, collectability of principal is doubtful; otherwise, the interest collected is recognized as income and resumption of interest accruals may occur. Loans are charged off as uncollectible when, in the opinion of management, collectability of principal is improbable. Loans are considered past due or delinquent based on the contractual terms in the loan agreement and how recently repayments have been received.

The Company discloses its loans based on portfolio segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables is defined as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. The Company's portfolio segments are commercial, real estate, real estate-hotels, auto leases, agricultural, and consumer. In addition, the allowance is presented by portfolio segment.

Allowance for Loan and Lease Losses

The allowance for credit losses, which is the allowance for loan and lease losses, represents management's estimate of probable losses inherent in the Company's lending activities. The allowance for loan and lease losses does not include amounts related to accrued interest receivable as the latter is reversed when a loan is placed on nonaccrual status.

The allowance for loan and lease losses represents the estimated probable credit losses in funded consumer and commercial loans and leases. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged off amounts is recorded as a recovery to these accounts.

The allowance consists of specific, general and unallocated components. The specific components relate to loans and leases that are classified as either doubtful or substandard. For such loans and leases that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan or lease is lower than the carrying value of the loan or lease. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Management evaluates the adequacy of the allowance for loan and lease losses based on the combined total of these three components. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and assess the overall collectability of those portfolios. The allowance on certain homogenous loan portfolios is based on aggregated portfolio segment evaluations.

Loss forecast models are utilized for these portfolios which consider a variety of factors including, but not limited to: competition; concentration and completion risk; historical loss experience; estimated defaults or foreclosures based on portfolio trends; delinquencies; bankruptcies; economic conditions; and credit scores.

The Company's real estate portfolio segment is comprised primarily of homogenous loans secured by residential and commercial real estate. The amount of losses incurred in the homogenous loan pools is estimated based upon how many of the loans will default and the loss in the event of default. Using modeling methodologies, the Company estimates how many of the homogenous loans will default based on the individual loans' attributes aggregated into pools of homogenous loans with similar attributes.

The attributes that are most significant to the probability of default and are used to estimate default include the loan-to-value, borrower credit score, months since origination, geography, and present collection status. The estimate is based on the Company's historical experience with the loan portfolio. The estimate is adjusted to reflect an assessment of environmental factors that are not reflected in the historical data, such as changes in real estate values, local and national economies, underwriting standards and the regulatory environment.

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

Nonperforming loans are reviewed in accordance with applicable accounting guidance on impaired loans and troubled debt restructurings (TDRs). A troubled debt restructured loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower’s financial difficulty, include but are not limited to a reduction in the stated interest rate; an extension of the maturity at lower interest rate; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A troubled debt restructured loan would generally be considered impaired. The Company restructured loans that met the TDR definition for the years ended December 31, 2019 and 2018, which is discussed in Note 4.

If necessary, a specific allowance is established for these loans if they are deemed to be impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The allowance for credit losses related to the loan and lease portfolio is reported as a part of loans in the consolidated statements of financial condition. Provision for credit losses related to the loan and lease portfolio is reported separately in the consolidated statements of income.

Nonperforming Loans and Leases, Charge-offs and Delinquencies

Nonperforming loans and leases generally include loans and leases that have been placed on nonaccrual status, including nonaccrual loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

The entire balance of a loan is contractually delinquent if the minimum payment is not received by the specified due date on the customer's billing statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

The outstanding balance of real estate secured loans, including all classes of financing receivables within the real estate portfolio segment, that is in excess of the estimated property value, less estimated costs to sell, is charged off no later than the end of the month in which the account becomes 180 days past due. The estimated property value, less costs to sell, is determined utilizing appraisals, sale contracts, or broker price opinions of the fair value of the collateral. The outstanding balance of loans within the remaining loan segments (agricultural and consumer) are charged off no later than the end of the month in which the account becomes 120 days past due. For secured loans, accounts are written down to the collateral value.

The fair value of the collateral is estimated by management based on current financial information, inspections, and appraisals. For unsecured loans, the outstanding balance is written off.

Loans within all portfolio segments are generally placed on nonaccrual status and classified as nonperforming at 90 days past due. Accrued interest receivable is reversed when a loan is placed on nonaccrual status.

Interest collections on non-accruing loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to interest income when received. These loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

Loans whose contractual terms have been modified in a TDR and are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and repayment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, generally six months.

TDRs that are on accrual status are reported as performing TDRs through the end of the calendar year in which the restructuring occurred or the year in which the loans are returned to accrual status. In addition, if accruing TDRs bear less than a market rate of interest at the time of modification, they are reported as performing TDRs throughout the remaining lives of the loans.

The allowance for loan and lease 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 collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan and lease losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions.

Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related allowance for loan and lease losses may change materially in the near-term.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. The classification as held-for-sale may be made upon origination or subsequent to the origination or purchase. Once a decision has been made to sell loans not previously classified as held-for-sale, such loans are transferred into the held-for-sale classification and carried at the lower of cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on loan sales (sales proceeds minus carrying amount) are recorded in noninterest income when realized. While the Company sold loans during the years ended December 31, 2019 and 2018, as of December 31, 2019 and 2018, the Company did not have any loans designated as held-for-sale.

Transfers and Servicing of Financial Assets

The accounting and reporting standards under GAAP for transfers and servicing of financial assets are set forth in FASB ASC 860, *Transfers and Servicing*, and the Company follows this guidance for accounting for transfers and servicing. Transfers of financial assets, typically commercial and commercial real estate loans for the Company, are accounted for by sale accounting when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when the following criteria are met:

1. The transferred assets have been isolated from the Company;
2. Each transferee obtains the unconditional right to pledge or exchange the assets it receives; and
3. The Company does not maintain effective control of the transferred assets.

If the transfer does not qualify for sale accounting, then it is considered a secured borrowing; which means that the full loan balance must be carried on the consolidated statements of financial condition in the loans receivable asset with a related liability recorded as secured borrowing for the portion participated out. For purposes of recognizing the premium or discount on the loan sales, the Company allocates the previous carrying amount of the entire financial asset between the portion sold and the portion of the loan that continues to be held, on the basis of fair value at the date of transfer. The premium or discount on the sale is allocated between the two portions, resulting in recognition of a gain or loss and recognition of a discount or premium on the retained portion that is amortized over the expected life of the loan.

The fair value of servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions.

For purposes of evaluating and measuring impairment of capitalized servicing assets that are accounted for under the amortization method, the amount of impairment recognized, if any, is the amount by which the capitalized servicing assets per stratum exceed their estimated fair value. Temporary impairment is recognized through a valuation allowance with changes included in results of operations for the period in which the change occurs. If it is later determined that all or a portion of the temporary impairment no longer exists for a particular stratum, the valuation allowance is reduced through a recovery in earnings.

Any fair value in excess of the cost basis of the servicing asset for a given stratum is not recognized. Servicing rights subsequently accounted for under the amortization method are also reviewed for other-than-temporary impairment. When the recoverability of an impaired servicing asset accounted for under the amortization method is determined to be remote, the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the servicing rights, precluding subsequent recoveries.

Servicing assets or liabilities are recognized as separate financial assets and liabilities when rights are acquired through a purchase or through a sale of financial assets. The Company measures the fair value of the servicing asset when acquired, using a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, a discount rate, custodial earnings rate, inflation rate, ancillary income, prepayment speeds, default rates and loss rates. The servicing fees are based on contractual percentages of the outstanding principal or a fixed amount per loan, and are recorded as income when earned. Subsequent to initial measurement, the Company utilizes the amortization method for accounting for the asset at each reporting date.

Premises and Equipment

Land is carried at cost. All other premises and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method based on the estimated useful lives of the related property. Leasehold improvements are amortized using the straight-line method over the period of the leases or the estimated useful lives of the improvements, whichever is shorter. Maintenance and repairs which do not extend the life of the banking premises and equipment are charged to expense when incurred.

Long-lived assets, which include premises and equipment, are evaluated for impairment when events or changes in circumstances have indicated that an asset may not be recoverable. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of the other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest charges) is less than the carrying value of the assets, the assets will be written down to the estimated fair value and a loss recognized in income from operations in the period in which the determination is made. Management has determined there to be no impairment of long-lived assets during the years ended December 31, 2019 and 2018.

Foreclosed Real Estate

Foreclosed real estate consists of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Such properties are carried at the lower of cost or fair value based on appraisal value, less estimated costs to sell. Loan losses arising from the acquisition of such properties are charged against the allowance for loan and lease losses. Subsequent valuation adjustments are charged to expense, included in write down of foreclosed real estate on the consolidated statements of income, and the basis of the properties are reduced accordingly by a reserve account. These properties are not held for the production of income and, therefore, are not depreciated. Significant improvements to increase resale value are capitalized and added to the value of the property.

The Company had foreclosed real estate with fair values, less costs to sell and write down, of $6,845,588 and $0 as of December 31, 2019 and 2018, respectively. During the holding period, the Company recognized operating income from foreclosed real estate held of $50,524 and $0 for the years ended December 31, 2019 and 2018, respectively. Also, during the holding period, the Company recognized operating expenses of $1,146,773 and $0 for the years ended December 31, 2019 and 2018, respectively, which are recorded in noninterest expenses. The Company recorded no gains or losses on the sales of foreclosed real estate during the years ended December 31, 2019 and 2018.

The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. No write downs were recorded during the years ended December 31, 2019 and 2018, based on a decline in fair value of the assets. Write downs, if taken, are recorded in noninterest expense on the consolidated statements of income.

Advertising and Contributions

The Company expenses advertising and contribution costs as incurred. The Company incurred advertising and contribution expenses of $326,203 and $300,167 for the years ended December 31, 2019 and 2018, respectively.

Goodwill

Goodwill is the price paid over the fair value of assets acquired in a business acquisition and is not amortized. Goodwill is evaluated for impairment at least annually, or more frequently in certain circumstances in accordance with FASB ASC 350, *Intangibles – Goodwill and Other*. Goodwill is subject to ongoing periodic impairment tests and is evaluated using a two-step impairment approach. If impaired, goodwill is recorded at fair value with a charge to earnings. Management has determined there are no impairment losses of goodwill during the years ended December 31, 2019 and 2018.

Financial Instruments with Off-Balance-Sheet Risk

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

Income Taxes

The Company uses the liability method of accounting for income taxes in accordance with FASB ASC 740, *Income Taxes*. Income taxes are provided for the tax effects of transactions reported in the consolidated statements of financial condition and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statements carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets or liabilities. As of December 31, 2019 and 2018, the Company had deferred tax assets and liabilities for differences between book and tax reporting for such items as allowance for loan losses, depreciation, start-up costs and accruals.

FASB ASC 740, *Income Taxes*, prescribes accounting for and disclosure of uncertainty in tax positions. This Topic defines the criteria that must be met for the benefits of a tax position to be recognized in the consolidated financial statements and the measurement of tax benefits recognized. For the years ended December 31, 2019 and 2018 the Company did not record a liability related to uncertain tax positions.

For the years ended December 31, 2019 and 2018, the Company did not recognize any interest or penalty expense related to uncertain tax positions or income taxes. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next twelve (12) months. At December 31, 2019, the Company's tax returns open for review by taxing authorities were 2016 and thereafter for both federal and state tax returns.

Franchise Taxes

The state of Texas franchise tax applies to legal entities conducting business in Texas. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and, therefore, has the characteristics of an income tax. The Company is also subject to various other state taxes. As a result, the Company incurred state tax expense of $48,048 and state tax benefit of ($17,774) for the years ended December 31, 2019 and 2018, respectively.

Stock-Based Compensation

The Company's stock-based compensation policy applies to all forms of stock-based compensation including stock options, restricted stock units, and incentive based stock units.

All stock-based compensation is accounted for under the fair value method as required by FASB ASC 718, *Compensation – Stock Compensation*. The Company values stock-based awards on the date of grant using the Black-Scholes option-pricing model. The Company recognizes compensation expense for its awards on a straight-line basis over the requisite service period for the entire award (straight-line attribution method), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date fair value of the award that is vested at that time. The Company recorded $576,630 and $291,987 in stock-based compensation expense for the years ended December 31, 2019 and 2018, respectively, which is included in salaries and employee benefits for employees' compensation and other expense for directors' compensation.

Revenue Recognition

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was effective on January 1, 2019 and using the modified retrospective transition approach did not have a significant impact on the consolidated financial statements. Adoption did not result in a change to the accounting for any of the Company's revenue streams which are included in the scope of Topic 606. The Company's revenue is largely comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non interest income. Non interest income is comprised largely of net premium on loan sales, customer service fees and net servicing fees. The Company determined that revenue recognized as net premium on loan sales and net servicing fees is not within the scope of Topic 606. As a result, no changes were made during the period related to these sources of revenue.

Customer Service Fees
Customer services fees include charges to customers with deposit accounts for certain transactions, including wire transfers and charges for insufficient funds in deposit accounts. The Company believes that its performance obligation is based on the services provided to its customers. Therefore, customer service fees revenue is recognized at the time the services are provided.

Subsequent Events

The Company evaluates subsequent events in accordance with FASB ASC 855, *Subsequent Events*. In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through February 21, 2020, the date the consolidated financial statements were available to be issued.

Recently Issued Accounting Pronouncements – Adoption of New Standards

Financial Instruments
ASU 2016-01, *No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 was effective on January 1, 2019 and did not have a significant impact on the consolidated financial statements.

Leases
ASU 2016-02, *Leases (Topic 842).* ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2016-02 will be effective for the Company on January 1, 2021 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Notwithstanding the foregoing, in January 2018, the Financial Accounting Standards Board issued a proposal to provide an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognized a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company is currently evaluating the potential impact of ASU 2016-02 on the consolidated financial statements.

Stock Compensation
ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur.

ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 was effective on January 1, 2018 and did not have a significant impact on the consolidated financial statements.

ASU 2017-09, *Compensation – Stock Compensation* (Topic 718): *Scope of Modification Accounting*. ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. ASU 2017-09 was effective for the Company on January 1, 2018 and did not have a significant impact on the consolidated financial statements.

Credit Losses
ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. The adoption of ASU 2016-13 is likely to result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, ASU 2016-13 will necessitate that the Company establish an allowance for expected credit losses on debt securities. The Company is currently unable to reasonably estimate the impact of adopting ASU 2016-13, but the Company expects that the impact of adoption will be significantly influenced by the composition, characteristics and quality of the loan and securities portfolios as well as prevailing economic conditions and forecasts at the adoption date.

The guidance of ASU 2016-13 was recently amended by ASU 2018-19, *Codification Improvements to Topic 326: Financial Instruments - Credit Losses*, which changed the effective date for non-public companies to January 1, 2022 and clarified that operating lease receivables are not within the scope of the standard.

Goodwill and Other
ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* ASU 2017-04 eliminates Step 2 from the goodwill impairment test which required entities to compute the implied fair value of goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective on January 1, 2021, with earlier adoption permitted and is not expected to have a significant impact on the Company's consolidated financial statements.

Nonrefundable Fees and Other Costs
ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* ASU 2017-08 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. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 will be effective for the Company on January 1, 2020, with early adoption permitted. The Company is currently evaluating the potential impact of ASU 2017-08 on the consolidated financial statements.

Income Taxes
Under ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, entities may elect to reclassify certain income tax effects related to the change in the U.S. statutory federal income tax rate under the Tax Cuts and Jobs Act, which was enacted on December 22, 2017, from accumulated other comprehensive income to retained earnings. ASU 2018-02 also requires certain accounting policy disclosures. ASU 2018-02 was effective on January 1, 2019 and did not have a significant impact on the Company's consolidated financial statements.

The guidance issued in ASU 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes* simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. ASU 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 will be effective for the Company on January 1, 2022, with early adoption permitted, and is not expected to have a significant impact on our financial statements.

Fair Value Measurement
ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in this update remove disclosures that no longer are considered cost beneficial, modify/clarify the specific requirements of certain disclosures, and add disclosure requirements identified as relevant. ASU 2018-13 will be effective for the Company on January 1, 2020, with early adoption permitted. The Company is currently evaluating the potential impact of ASU 2018-13 on the consolidated financial statements.

Note 2. Restrictions on Cash and Due from Bank Accounts

The Bank is required to set aside specified amounts of cash as reserves against transaction and time deposits, which fluctuate daily. These reserves may be held as cash on hand or on deposit with a district Federal Reserve Bank. Management believes that the Bank complies with these requirements.

Note 3. Investment Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. All other debt and equity securities have been classified as available for sale in the consolidated statements of financial condition according to management's intent at December 31, 2019 and 2018. All fair values as of December 31, 2019 and 2018 are measured on a recurring basis and considered Level 2 fair value measurements for reporting purposes in accordance with FASB ASC 820, *Fair Value Measurement and Disclosures.*

The amortized cost and fair values of securities available for sale and held to maturity at December 31, 2019 and 2018 were as follows:

	At December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Municipal securities	$ 19,985,629	$ 403,705	$ (5,633)	$ 20,383,701
Mortgage-backed securities	29,823,690	82,745	(79,830)	29,826,605
Total available for sale	$ 49,809,319	$ 486,450	$ (85,463)	$ 50,210,306
	Amortized Cost	**Gross Unrecognized Gains**	**Gross Unrecognized Losses**	**Fair Value**
Held to maturity				
Mortgage-backed securities	$ 1,026,467	$ 7,269	$ -	$ 1,033,736
Total held to maturity	$ 1,026,467	$ 7,269	$ -	$ 1,033,736

	At December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Municipal securities	$ 21,616,652	$ 121,771	$ (202,474)	$ 21,535,949
Mortgage-backed securities	21,342,351	8,651	(699,162)	20,651,840
Total available for sale	$ 42,959,003	$ 130,422	$ (901,636)	$ 42,187,789

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity				
Mortgage-backed securities	$ 1,058,076	$ -	$ (16,439)	$ 1,041,637
Total held to maturity	$ 1,058,076	$ -	$ (16,439)	$ 1,041,637

All mortgage-backed securities included in the above tables were issued by U.S. government agencies. The municipal securities held at December 31, 2019 are guaranteed by Texas municipalities and range from an A to an AAA bond rating. Included in municipal securities at December 31, 2019 is Plains Texas Independent School District (ISD) securities which are guaranteed by the Texas Permanent School Fund and have an AAA bond rating. The carrying value of Plains Texas ISD securities totaled $12,788,032, which is 63% of the total carrying value of municipal securities, at December 31, 2019.

The municipal securities held at December 31, 2018 are guaranteed by Texas municipalities and range from an A to an AAA bond rating. Included in municipal securities at December 31, 2018 is Plains Texas Independent School District (ISD) securities which are guaranteed by the Texas Permanent School Fund and have an AAA bond rating. The carrying value of Plains Texas ISD securities totaled $13,899,075, which is 65% of the total carrying value of municipal securities, at December 31, 2018.

Expected maturities of securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The contractual maturities of securities available for sale and held to maturity securities at December 31, 2019 were as follows:

`

	Available for Sale Securities	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,235,317	$ 2,241,506
Due from one year to five years	9,421,059	9,498,070
Due from five to ten years	8,057,872	8,364,483
Due after ten years	271,381	279,642
Mortgage-backed securities	29,823,690	29,826,605
Total	$ 49,809,319	$ 50,210,306

	Held to Maturity Securities	
	Amortized Cost	Fair Value
Mortgage-backed securities	$ 1,026,467	$ 1,033,736
Total	$ 1,026,467	$ 1,033,736

The Company does not own securities (other than Plains Texas ISD and the U.S. government and its agencies) that have an aggregate adjusted cost exceeding ten percent (10%) of consolidated stockholders' equity at December 31, 2019 and 2018. Securities with amortized cost totaling $27,530,000 and fair values totaling $22,462,191 were pledged to secure public deposits at December 31, 2019. Securities with amortized cost totaling $19,655,000 and fair values totaling $15,077,640 were pledged to secure public deposits at December 31, 2018.

Plains Acquisition Corporation and Subsidiary
Notes to Consolidated Financial Statements

Gross Unrealized Losses and Fair Value

Securities with unrealized losses, segregated by length of unrealized loss were as follows:

	At December 31, 2019					
	Less Than 12 Months		12 Months or Longer		Total	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale						
Municipal securities (8)	$ 2,029,474	$ (1,152)	$ 938,064	$ (4,481)	$ 2,967,538	$ (5,633)
Mortgage-backed securities (8)	7,369,052	(37,117)	4,779,546	(42,713)	12,148,598	(79,830)
Total available for sale	$ 9,398,526	$ (38,269)	$ 5,717,610	$ (47,194)	$15,116,136	$ (85,463)
Held to maturity						
Mortgage-backed securities (0)	-	-	-	-	-	-
Total held to maturity	$ -	$ -	$ -	$ -	$ -	$ -

	At December 31, 2018					
	Less Than 12 Months		12 Months or Longer		Total	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale						
Municipal securities (31)	$ 4,620,441	$ (26,299)	$ 8,225,385	$ (176,175)	$12,845,826	$ (202,474)
Mortgage-backed securities (13)	-	-	20,127,215	(699,162)	20,127,215	(699,162)
Total available for sale	$ 4,620,441	$ (26,299)	$28,352,600	$ (875,337)	$32,973,041	$ (901,636)
Held to maturity						
Mortgage-backed securities (1)	1,041,637	(16,439)	-	-	1,041,637	(16,439)
Total held to maturity	$ 1,041,637	$ (16,439)	$ -	$ -	$ 1,041,637	$ (16,439)

As of December 31, 2019 and 2018, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair values are expected to recover as the securities approach their maturity date or re-pricing date. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, management believes the impairments detailed in the tables above are temporary and no impairment loss has been realized in the Company's consolidated statements of income.

Realized Gains and Losses on Sales of Securities

The following table shows proceeds from calls and sales, and the gross realized gains and losses on the sales of investment securities available for sale for the years ended December 31, 2019 and 2018.

	2019	2018
Proceeds from sales of securities	$ 1,528,825	$ -
Gross realized gains	8,578	-
Gross realized losses	-	-

Note 4. Loans Receivable

At December 31, 2019 and 2018, the components of loans receivable in the consolidated statements of financial condition were as follows:

	2019	Percent	2018	Percent
Real estate	$ 283,165,854	63%	$ 246,394,580	63%
Real estate - hotels	45,291,758	10%	45,522,080	12%
Commercial	76,134,600	17%	57,153,139	15%
Auto Leases	31,591,080	7%	32,971,830	7%
Agricultural	6,877,598	2%	6,364,527	2%
Consumer and other	3,941,077	1%	3,650,486	1%
Subtotal	447,001,967	100%	392,056,642	100%
Less discount on retained portion of loan sales	(2,038,480)		(1,634,133)	
Less allowance for loan and lease losses	(5,419,382)		(4,785,737)	
Net loans receivable	$ 439,544,105		$ 385,636,772	

An analysis of the loan portfolio and other assets at December 31, 2019 and 2018 was as follows:

	2019	2018
Loans that are ninety days or more past due and still accruing interest	$ -	$ -
Loans whose accrual of interest had been discontinued	1,393,822	1,571,443
Interest income that would have been recorded if such loans had been on full-accrual status	472,043	81,705
Foreclosed and repossessed assets other than real estate	-	-
Overdraft balances classified as consumer loans	21,897	55,986

The Company's recorded investment in impaired loans and the related valuation allowance are as follows:

At December 31, 2019		At December 31, 2018	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
$ 6,168,936	$ -	$ 12,760,511	$ -

Non-accrual loans consisted of the following:

	2019	2018
Real estate	$ 1,393,822	$ 1,571,443
Real estate - hotels	-	-
Commercial	-	-
Auto Leases	-	-
Agricultural	-	-
Consumer and other	-	-
Total	$ 1,393,822	$ 1,571,443

No additional funds are committed to be advanced in connection with impaired loans.

At December 31, 2019 and 2018, total non-accrual loans had no government guarantees of the total principal balances.

The Company's impaired loans and related allowance as of December 31, 2019 and 2018 is summarized in the following tables:

December 31, 2019	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real estate	$ 5,407,013	$ 5,407,013	$ -	$ 5,407,013	$ -	$ 7,581,935
Real estate - hotels	761,923	761,923	-	761,923	-	1,299,668
Commercial	-	-	-	-	-	583,121
Auto leases	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
Total	$ 6,168,936	$ 6,168,936	$ -	$ 6,168,936	$ -	$ 9,464,724

December 31, 2018	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real estate	$ 9,756,856	$ 9,756,856	$ -	$ 9,756,856	$ -	$ 7,834,974
Real estate - hotels	1,837,413	1,837,413	-	1,837,413	-	5,273,718
Commercial	1,166,242	1,166,242	-	1,166,242	-	7,721,439
Auto leases	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	318,589
Total	$ 12,760,511	$ 12,760,511	$ -	$ 12,760,511	$ -	$ 21,148,720

At December 31, 2019 and 2018, total impaired loans had government guarantees of 43% and 31% of the total principal balances, respectively.

Interest payments received on impaired loans are recorded as interest income unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal. The Company recognized interest income on impaired loans in the amount of $472,043 during the year ended December 31, 2019 and received $96,575 of interest since impairment on a cash-basis. The Company recognized interest income on impaired loans in the amount of $81,705 during the year ended December 31, 2018 and received $0 of interest since impairment on a cash-basis. From a credit risk standpoint, the Company classifies its loans in one of four categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful. Loans classified as loss are charged-off. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits as part of its on-going monitoring of the credit quality of the loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

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

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

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

Plains Acquisition Corporation and Subsidiary

Notes to Consolidated Financial Statements

At December 31, 2019 and 2018, the following summarizes the Company's internal ratings of its loans:

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate	$ 268,997,781	$ 8,761,060	$ 5,407,013	$ -	$ -	$ 283,165,854
Real estate - hotels	44,529,835	-	761,923	-	-	45,291,758
Commercial	76,134,600		-	-	-	76,134,600
Auto leases	31,591,080	-	-	-	-	31,591,080
Agricultural	6,877,598	-	-	-	-	6,877,598
Consumer and other	3,941,077	-	-	-	-	3,941,077
Total	$ 432,071,971	$ 8,761,060	$ 6,168,936	$ -	$ -	$ 447,001,967

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate	$ 225,404,318	$ 11,233,406	$ 9,756,856	$ -	$ -	$ 246,394,580
Real estate - hotels	42,860,628	824,039	1,837,413	-	-	45,522,080
Commercial	55,039,463	947,434	1,166,242	-	-	57,153,139
Auto leases	32,971,830	-	-	-	-	32,971,830
Agricultural	6,364,527	-	-	-	-	6,364,527
Consumer and other	3,650,486	-	-	-	-	3,650,486
Total	$ 366,291,252	$ 13,004,879	$ 12,760,511	$ -	$ -	$ 392,056,642

At December 31, 2019 and 2018, the Company's past due loans are as follows:

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Real estate	$ -	$ -	$ -	$ -	$ 283,165,854	$ 283,165,854	$ -
Real estate - hotels	-	-	-	-	45,291,758	45,291,758	-
Commercial	99,826	-	136,348	236,174	75,898,426	76,134,600	-
Auto leases	61,181	65,432	-	126,613	31,464,467	31,591,080	-
Agricultural	-	-	-	-	6,877,598	6,877,598	-
Consumer and other	-	-	-	-	3,941,077	3,941,077	-
Total	$ 161,007	$ 65,432	$ 136,348	$ 362,787	$ 446,639,180	$ 447,001,967	$ -

December 31, 2018	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Real estate	$ 7,994,693	$ 1,571,443	$ -	$ 9,566,136	$ 236,828,444	$ 246,394,580	$ -
Real estate - hotels	-	-	-	-	45,522,080	45,522,080	-
Commercial	110,567	17,205	-	127,772	57,025,367	57,153,139	-
Auto leases	104,589	45,612	-	150,201	32,821,629	32,971,830	-
Agricultural	-	-	-	-	6,364,527	6,364,527	-
Consumer and other	-	-	-	-	3,650,486	3,650,486	
Total	$ 8,209,849	$ 1,634,260	$ -	$ 9,844,109	$ 382,212,533	$ 392,056,642	$ -

Management has evaluated the appropriateness of the allowance for loan and lease losses by estimating the losses in various categories of the loan portfolio which are identified below:

	At December 31, 2019	At December 31, 2018
Allowance for loan and lease losses provided for		
Loans specifically evaluated as impaired	$ -	$ -
Remaining portfolio	5,419,382	4,785,737
Total allowance for loan losses	$ 5,419,382	$ 4,785,737

The following tables detail the allowance for loan and lease loss at December 31, 2019 and 2018 by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

December 31, 2019	Real Estate	Real Estate - Hotels	Commercial	Auto Leases	Agricultural	Consumer and Other	Total
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	4,121,325	930,337	348,205	(68,453)	59,040	28,928	5,419,382
Total	$ 4,121,325	$ 930,337	$ 348,205	$ (68,453)	$ 59,040	$ 28,928	$ 5,419,382

December 31, 2018	Real Estate	Real Estate - Hotels	Commercial	Auto Leases	Agricultural	Consumer and Other	Total
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	3,421,325	930,337	339,258	6,986	59,040	28,791	4,785,737
Total	$ 3,421,325	$ 930,337	$ 339,258	$ 6,986	$ 59,040	$ 28,791	$ 4,785,737

The level of the allowance for loan and lease losses (the allowance) reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for loan losses is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates, and the regulatory environment. An analysis of the change in the allowance for loan losses during the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Balance, January 1	$ 4,785,737	$ 5,086,508
Loans charged off	(198,791)	(497,199)
Recoveries	132,436	46,428
Net loans charged off	(66,355)	(450,771)
Provision for loan losses	700,000	150,000
Balance, December 31	$ 5,419,382	$ 4,785,737

For the years ended December 31, 2019 and 2018 the changes in allowance for loan and lease loss are presented by classification:

December 31, 2019	Real Estate	Real Estate - Hotels	Commercial	Auto Leases	Agricultural	Consumer and Other	Total
Beginning balance	$ 3,421,325	$ 930,337	$ 339,258	$ 6,986	$ 59,040	$ 28,791	$ 4,785,737
Provision for loan losses	700,000	-	-	-	-	-	700,000
Recoveries	-	-	116,685	15,614	-	137	132,436
Charge-offs	-	-	(107,738)	(91,053)	-	-	(198,791)
Ending balance	$ 4,121,325	$ 930,337	$ 348,205	$ (68,453)	$ 59,040	$ 28,928	$ 5,419,382

December 31, 2018	Real Estate	Real Estate - Hotels	Commercial	Leases	Agricultural	Consumer and Other	Total
Beginning balance	$ 3,271,325	$ 968,069	$ 667,841	$ 91,445	$ 59,040	$ 28,788	$ 5,086,508
Provision for loan losses	150,000	-	-	-	-	-	150,000
Recoveries	-	-	4,992	25,526	-	15,910	46,428
Charge-offs	-	(37,732)	(333,575)	(109,985)	-	(15,907)	(497,199)
Ending balance	$ 3,421,325	$ 930,337	$ 339,258	$ 6,986	$ 59,040	$ 28,791	$ 4,785,737

The Company's recorded investment in loans as of December 31, 2019 and 2018 related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology was as follows:

December 31, 2019	Real Estate	Real Estate - Hotels	Commercial	Leases	Agriculture	Consumer and Other	Total
Loans individually evaluated for impairment	$ 5,407,013	$ 761,923	$ -	$ -	$ -	$ -	$ 6,168,936
Loans collectively evaluated for impairment	277,758,841	44,529,835	76,134,600	31,591,080	6,877,598	3,941,077	440,833,031
Total	$ 283,165,854	$ 45,291,758	$ 76,134,600	$ 31,591,080	$ 6,877,598	$ 3,941,077	$ 447,001,967

December 31, 2018	Real Estate	Real Estate - Hotels	Commercial	Leases	Agriculture	Consumer and Other	Total
Loans individually evaluated for impairment	$ 9,756,856	$ 1,837,413	$ 1,166,242	$ -	$ -	$ -	$ 12,760,511
Loans collectively evaluated for impairment	236,637,724	43,684,667	55,986,897	32,971,830	6,364,527	3,650,486	379,296,131
Total	$ 246,394,580	$ 45,522,080	$ 57,153,139	$ 32,971,830	$ 6,364,527	$ 3,650,486	$ 392,056,642

Troubled Debt Restructuring

The Company modified no loans during the year ended December 31, 2019 that would be considered trouble debt restructuring. The Company's loans that were modified during the year ended December 31, 2018 and considered a troubled debt restructuring are as follows:

	December 31, 2018		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real estate	1	$ 3,038,131	$ 3,038,131
Real estate - hotels	1	761,923	761,923
Commercial	-	-	-
Agricultural	-	-	-
Consumer and other	1	142,149	142,149
Total	3	$ 3,942,203	$ 3,942,203

The modifications during the reporting period related to deferral of certain principal and interest payments. The modifications did not significantly impact the Company's determination of the allowance for loan and lease losses. The restructured balances during the year ended December 31, 2018 were related to three separate relationships. There were no balances restructured during 2019 classified as troubled debt restructuring.

As of December 31, 2019 and 2018, there were no loans restructured during the year that were in excess of 90 days past due. All remaining troubled debt restructurings are classified as accrual with payments received applied in accordance with accrual loans.

As of December 31, 2019 and 2018, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

SBA and USDA Loan Sales

In the ordinary course of business, the Company originates certain SBA and USDA loans for resale in the secondary market. The Company sells the guaranteed portion of SBA and USDA loans (guaranteed portions) for a premium and retains the unguaranteed portions. The Company received proceeds of $42,657,645 and $19,422,630 from the sale of the guaranteed portions of loans during the years ended December 31, 2019 and 2018, respectively, resulting in net realized gains on sales of $3,216,489 and $1,537,481 for the years ended December 31, 2019 and 2018, respectively. A discount was recognized on the retained portion of the loans in the amount of $878,557 and $459,751 for the years ended December 31, 2019 and 2018, respectively, which is to be amortized into income over the estimated lives of the related loans. Additionally, a servicing asset was recognized on the sold loans in the amount of $915,165 and $418,209 for the years ended December 31, 2019 and 2018, respectively, which is to be amortized into income over the estimated lives of the related loans.

Note 5. Federal Home Loan Bank Stock and Line of Credit

The Federal Home Loan Bank (FHLB) of Dallas requires that the Company maintain a minimum investment in stock of the FHLB. This requirement is determined annually on December 31 and is computed as a percentage of net mortgage loans and contracts secured by residential properties and FHLB advances. The Company's investment in FHLB stock totaled $193,800 and $173,800 at December 31, 2019 and 2018, respectively. No ready market exists for the FHLB stock, it has no quoted market value and is therefore carried at cost. As of December 31, 2019 and 2018, the Company had an unfunded line of credit with the FHLB totaling $141,263,447 and $122,100,799, respectively, secured by a blanket pledge of certain loan categories totaling $191,315,811 and $163,687,650, respectively. Additionally $15,347,636 and $20,013,149 of investment securities have been pledged against the line as of December 31, 2019 and 2018 respectively.

Note 6. Premises and Equipment

Components of premises and equipment included in the consolidated statements of financial condition at December 31, 2019 and 2018 were as follows:

	2019	2018
Bank premises	$ 4,857,101	$ 4,501,077
Furniture and fixtures	614,333	608,887
Equipment	1,839,349	1,558,334
Software and intellectual property	590,724	425,869
Depreciable assets	7,901,507	7,094,167
Land	1,445,122	1,445,122
Total cost	9,346,629	8,539,289
Less accumulated depreciation	3,894,263	3,302,570
Net book value	$ 5,452,366	$ 5,236,719

Depreciation expense was $591,693 and $495,836 for the years ended December 31, 2019 and 2018, respectively, and are included in occupancy expenses on the consolidated statements of income. Premises and equipment are depreciated on a straight-line basis over estimated useful lives of three to forty years. During the years ended December 31, 2019 and 2018, the Company recognized losses on disposal of premises and equipment of $25,616 and $8,557, respectively.

Rental Expense

Certain bank facilities are leased under various non-cancelable operating leases. Expenses under leases was $115,640 and $92,337 for the years ended December 31, 2019 and 2018, respectively, and is included in the consolidated statement of income in occupancy expenses. Future minimum rental commitments under non-cancelable leases are as follows:

Year Ending December 31,	Amount
2020	$ 69,416
2021	70,494
2022	71,571
2023	72,649
2024	67,500
Thereafter	-
Total	$ 351,630

Note 7. Goodwill and Other Intangibles

On May 21, 2008, Plains Acquisition Corporation acquired all of the common stock of Plains State Financial Corporation, a Texas corporation, which included its wholly-owned subsidiary, Plains Bancshares, Inc. and its wholly-owned subsidiary, Plains State Bank. Plains State Financial Corporation and Plains Bancshares, Inc. were immediately dissolved upon the acquisition. The acquisition was made primarily to provide Plains Acquisition Corporation access to Plains State Bank customers and operations. The purchase was accounted for using the purchase method of accounting. As a result of the purchase, the Company recorded $1,602,252 of goodwill.

Based on the Company's annual goodwill and intangible impairment review, management did not determine goodwill or intangibles to be impaired as of December 31, 2019 and 2018.

Note 8. Deposits

A summary of interest-bearing deposits at December 31, 2019 and 2018 is as follows:

	2019	2018
Savings deposits and NOW accounts	$ 167,240,794	$ 154,214,636
Time deposits less than $100,000	93,069,267	64,189,263
Time deposits of $100,000 or more	181,485,467	127,562,634
Deposits	$ 441,795,528	$ 345,966,533

At December 31, 2019 and 2018, the scheduled maturities of time deposits are as follows:

	2019		2018	
Due in	Balance of Time Deposits	Percent	Balance of Time Deposits	Percent
One year or less	$ 226,376,823	82%	$ 158,263,737	83%
One through three years	44,068,202	16%	33,380,029	17%
Over three years	4,109,709	2%	108,131	0%
Total	$ 274,554,734	100%	$ 191,751,897	100%

Interest expense on time deposits in denominations of $100,000 or more amounted to $3,946,724 and $2,070,819 during the years ended December 31, 2019 and 2018, respectively.

Overdraft balances reclassified to loans were $21,897 and $55,986 as of December 31, 2019 and 2018, respectively. The Company provides for expected losses on overdrafts through a component of the allowance for loan losses.

Note 9. Commitments and Contingencies

In the normal course of business, the Company has outstanding commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments to extend credit as it does for instruments that are included in the consolidated financial statements.

Financial instruments whose contract amounts represent off-balance-sheet credit risk at December 31, 2019 and 2018 are as follows:

	Contract Amount December 31,	
	2019	2018
Commitments to extend credit	$ 74,236,733	$ 51,095,672

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company, upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies and may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

	Contract Amount December 31,	
	2019	2018
Standby letters of credit	$ 1,054,628	$ 586,595

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. In the event of nonperformance by the customers, the Company has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities. The credit risk to the Company in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company’s consolidated financial statements.

Note 10. Servicing Asset

Capitalized servicing rights are reported as a servicing asset and are amortized into noninterest income in proportion to, and over the period of, the estimated future servicing of the underlying financial assets. The Company's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted periodically to consider market consensus loan prepayment predictions at that date. The carrying value of the servicing asset totaled $1,897,280 and $1,419,583, at December 31, 2019 and 2018 respectively. The principal balance of new loans serviced by the Company on behalf of investors amounted to $41,182,782 and $17,749,456 as of December 31, 2019 and 2018 respectively. The servicing asset is evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions.

The Company used the discounted cash flow market-based analysis to determine the fair value of the servicing asset generated during the years ended December 31, 2019 and 2018. Key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale include the following:

	2019	2018
Discount rate	5.8% - 18.1%	10.5% - 15.2%
Constant prepayment rate (CPR)	6.7% - 17.6%	8.8% - 11.7%
Range of servicing rate	1.0%	1.0%
Range of annual servicing cost	0.40%	0.40%
Expected weighted-average life of financial assets	5.2 years	6.6 years

The discount rate is equal to a risk-free interest rate premium plus an applicable margin to reflect the risk premium. This discount rate is updated periodically based upon data from the principal market for the underlying assets. The CPR is determined based on the actual behavior of similar assets in the principal market for the underlying assets.

The CPR reflects a rolling twelve-month average of voluntary prepayments and defaults, and the information is updated periodically based on raw data updates from the market. The servicing fee rate is contractually specified in the asset transfer agreements and has been applied on an individual basis to the underlying assets. The range of annual servicing costs has been determined based upon rates in the principal market for the underlying assets. The expected weighted-average life of the underlying financial assets has been determined based upon management's expectation and from historical performance of similar assets.

The Company recorded service fee income (net of amortization of the servicing asset) of $289,817 and $508,600 on loans serviced on behalf of investors for the years ended December 31, 2019 and 2018, respectively. This service fee income is included in noninterest income in the consolidated statements of income.

The following summarizes the activity pertaining to servicing rights measured using the amortization method:

	2019	2018
Balance, January 1	$ 1,419,583	$ 1,184,985
Additions		
Servicing obligations that result from transfers	915,165	418,209
Less		
Disposals	228,184	3,962
Amortization	209,284	179,649
	$ 1,897,280	1,419,583
Valuation allowances, December 31	-	-
Balance, December 31	$ 1,897,280	$ 1,419,583
Estimated fair value, December 31	$ 1,900,057	$ 1,419,583

Note 11. Lines of Credit

Amounts of unused lines of credit, subject to terms of the related agreements with correspondent financial institutions, available were $16,000,000 as of December 31, 2019 and 2018, with no balances outstanding as of December 31, 2019 and 2018. Of the available amounts, agreements for $13,000,000 will expire in 2020 and agreements for $3,000,000 have no stated expiration. The Company also has available letters of credit with the Federal Home Loan Bank of $65,400,000, which will expire from 2020 – 2022.

Note 12. 401(k) Plan

Employees become eligible to participate in the Plains State Bank 401(k) Plan immediately upon employment, and must meet certain minimum age requirements. Employees may make salary reduction contributions, which may be matched by the Company as a percentage of the employee's compensation. Such contributions shall not exceed the maximum deferral percentage computed in accordance with Internal Revenue Code 401(k)(3). Company matches are discretionary and are fully vested. Matching contributions made during the years ended December 31, 2019 and 2018 were $249,840 and $217,200, respectively, and are included in salaries and employee benefits in the consolidated statements of income.

Note 13. Stock Option Plan and Stock Warrants

The Plains Acquisition Corporation 2009 Stock Option Plan, as amended, (the Plan), which has been approved by the stockholders, permits the granting of certain options intended to qualify as Incentive Stock Options (ISOs), while other options granted under this Plan will be nonqualified options which are not intended to qualify as ISOs (Nonqualified Options). The Company believes that such awards better align the interests of its employees with those of its stockholders. The individuals eligible for participation in the Plan include key employees, directors and advisory directors of the Company at the time the options were approved and granted by the Board of Directors. The Plan allows a maximum and aggregate amount of 333,816 common stock shares to be optioned. These shares are to come from the Company's authorized but unissued common stock shares. Such shares shall be held for purposes of the Plan until the termination date of the Plan or the latest expiration date of the options granted under the Plan, whichever is latest. Should any option expire or be cancelled prior to its exercise in full, the shares therefore subject to such option may again be made subject to an option under the plan. The number of options available to be granted under the Plan was 36,816 as of December 31, 2019 and 2018.

In addition, during the years ended December 31, 2019 and 2018, the Company's Board approved the issuance of 6,000 and 90,000 warrants, respectively, for the purchase of shares of common stock to the Bank's employees, directors and advisory directors.

The fair value of each option and warrant is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock, the volatility of peer group stock, and other factors.

The expected term of options and warrants granted is derived from the output of the option valuation model and represents the period of time that options and warrants granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option or warrant is based on the five (5) year U.S. Treasury yield curve at the date of grant. Option and warrant awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option and warrant awards generally vest over five (5) years of continuous service and have contractual terms not to exceed ten (10) years. Certain option awards provide for accelerated vesting if there is a change in control as defined in the Plan.

A summary of the option valuation model assumptions for the options and warrants granted during the years ended December 31, 2019 and 2018 are noted below.

	2019	2018
Expected volatility	28.22	28.22 - 35.00
Expected dividends	-	-
Risk-free rate	1.77%	1.55% - 2.87%
Expected term	10 years	10 years

A summary of option and warrant activity as of December 31, 2019 and 2018 and changes during the years then ended is presented below:

	2019			2018		
	Number of Shares		Exercise Price Weighted-Average	Number of Shares		Exercise Price Weighted-Average
Outstanding at beginning of year	326,500	$	16.37	179,000	$	13.67
Granted	6,000		21.20	174,500		18.31
Exercised	(55,700)		10.48	(25,000)		10.40
Forfeited	(800)		17.51	(2,000)		17.51
Outstanding at end of year	276,000	$	17.66	326,500	$	16.37
Exercisable at end of year	73,700	$	15.71	89,500	$	11.65

The following table summarizes information about stock options and warrants outstanding at December 31, 2019:

	Options & Warrants Outstanding				Options & Warrants Exercisable		
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Life (Years)		Weighted-Average Exercise Price	Number of Shares		Weighted-Average Exercise Price
$10.00 - $21.20	276,000	7.39	$	17.66	73,700	$	15.71

A summary of the status of the Company's non-vested options and warrants as of December 31, 2019 and 2018 and changes during the years ended December 31, 2019 and 2018 is presented below:

	2019			2018		
	Number of Shares		Weighted-Average Grant Date Fair Value	Number of Shares		Weighted-Average Grant Date Fair Value
Nonvested, beginning of year	237,000	$	7.86	75,600	$	7.23
Granted	6,000		8.54	174,500		8.04
Exercised	-		-	-		-
Vested	(39,900)		7.30	(11,100)		6.52
Forfeited	(800)		7.30	(2,000)		7.30
Nonvested at end of year	202,300	$	7.98	237,000	$	7.86

A summary of the status of the Company's fully vested options and warrants as of December 31, 2019 and 2018 and changes during the years ended December 31, 2019 and 2018 is presented below:

	2019		2018	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Vested, beginning of year	89,500	$ 11.65	103,400	$ 11.07
Granted	-	-	-	-
Vested	39,900	17.51	11,100	14.00
Exercised	(55,700)	10.48	(25,000)	10.40
Forfeited	-	-	-	-
Vested at end of year	73,700	$ 15.71	89,500	$ 11.65

For the years ended December 31, 2019 and 2018, the Company recognized $576,630 and $291,987 of compensation expense in connection with these options and warrants, respectively, based on the assumptions noted above. The Company recognized an income tax benefit of $121,092 and $61,317 for the years ended December 31, 2019 and 2018, respectively, in connection with these options and warrants. As of December 31, 2019 and 2018, there was $1,112,972 and $1,466,427, respectively, of total unrecognized compensation cost, including forfeiture estimates related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a remaining period of less than five (5) years.

Note 14. Related-Party Transactions

The Company has entered into transactions with its executive officers, directors, stockholders, and their affiliates (related parties). Fees paid to directors during the years ended December 31, 2019 and 2018, respectively, totaled $272,900 and $225,450. Expense related to stock options and warrants granted to directors and advisory directors during the years ended December 31, 2019 and 2018, respectively, totaled $197,303 and $55,682. Deposits from related parties held by the Company at December 31, 2019 and 2018 amounted to $5,334,250 and $3,170,049 respectively.

In the ordinary course of business, the Company has granted loans to such related parties as follows:

	Year Ended December 31,	
	2019	2018
Beginning balance	$ 9,190,244	$ 9,369,143
New loans	5,558,780	3,280,295
Participations sold	(1,366,961)	(3,018,452)
Repayments	(2,628,434)	(440,742)
Ending balance	$ 10,753,629	$ 9,190,244

Note 15. Fair Value Measurements

In general, fair value is based upon quoted market prices, where available. If such quoted prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below. Transfers, if any, between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's quarterly or annual valuation process. The Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis.

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

Foreclosed Real Estate: The fair values are estimated based upon recent appraisal values of the property, less estimated costs to sell the property or based upon applicable sale contract. Certain inputs in appraisals are not observable, and, therefore, foreclosed real estate is categorized as Level 3 within the fair value hierarchy. Fair values are based upon the appraisals performed by appraisers approved by the Company. The assumptions in the appraisals are unadjusted by management; however, estimated costs to sell the assets of 5% to 7% are deducted from the appraised value. The Company did not hold any foreclosed real estate as of December 31, 2019 and 2018.

Servicing Asset: The servicing asset is subject to impairment testing. A valuation model which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used for impairment testing and initial recording. If the valuation model reflects a value less than the carrying value, the servicing asset is adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies the servicing asset as Level 3. As of December 31, 2019 and 2018, the Company determined that there was no impairment.

Impaired Loans: Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria. As of December 31, 2019 and 2018, there was no valuation allowance on impaired loans; however, impaired loans with an initial carrying value of $23,750 and $0, respectively, were reduced by charge-offs during the years then ended totaling $3,562 and $0, respectively, resulting in a net fair value of $20,188 and $0, respectively.

The tables below present the assets and liabilities measured at fair value on a recurring basis aggregated by the level in the fair value hierarchy within which those measurements fall.

	At December 31, 2019			
	Total Fair Value	Level 1	Level 2	Level 3
Financial assets				
Investment securities available for sale	$ 50,210,306	$ -	$ 50,210,306	$ -
Total assets	$ 50,210,306	$ -	$ 50,210,306	$ -

	At December 31, 2018			
	Total Fair Value	Level 1	Level 2	Level 3
Financial assets				
Investment securities available for sale	$ 42,187,789	$ -	$ 42,187,789	$ -
Total assets	$ 42,187,789	$ -	$ 42,187,789	$ -

Certain assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, evidence of impairment). Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values.

Non-Financial Assets and Non-Financial Liabilities: The Company does not have any non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. Non-financial assets measured at fair value on a non-recurring basis during the reported periods include certain foreclosed assets which, upon initial recognition, were re-measured and reported at fair value through a charge-off to the allowance for loan losses and certain foreclosed assets which, subsequent to their initial recognition, were re-measured at fair value through a write-down included in other non-interest expense. The fair value of a foreclosed asset is estimated using Level 3 inputs based on third party appraisals. During the year ended December 31, 2019, all fair value measurements for foreclosed assets utilized Level 3 inputs. The following table presents foreclosed assets that were re-measured and reported at fair value during the year ended December 31, 2019:

Forclosed assets remeasured at initial recognition:	
Carrying value of foreclosed assets prior to remeasurement	$ 6,845,588
Charge-offs recognized in the allowance for loan losses	-
Fair value	$ 6,845,588
Forclosed assets remeasured subsequent to initial recognition:	
Carrying value of foreclosed assets prior to remeasurement	$ -
Write-downs included in non-interest expense	-
Fair value	$ -

The following table below presents the non-financial assets measured at fair value on a non-recurring basis aggregated by the level in the fair value hierarchy within which those measurements fall.

	At December 31, 2019			
	Total Fair Value	Level 1	Level 2	Level 3
Non-financial assets				
Foreclosed real estate	$ 6,845,588	$ -	$ -	$ 6,845,588
Total assets	$ 6,845,588	$ -	$ -	$ 6,845,588

There were no non-financial assets and liabilities measured at fair value as of December 31, 2018.

There were no non-financial assets and liabilities measured at fair value after initial recognition on a nonrecurring basis during the years ended December 31, 2019 and 2018.

FASB ASC 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and liabilities, including those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above. The Company's lending commitments have variable interest rates and "escape" clauses if the customer's credit quality deteriorates. Therefore, the fair values of these instruments are not significant and are not recognized in the consolidated financial statements or the schedule below. The methodologies for other financial assets and financial liabilities are discussed below:

a) *Cash and cash equivalents and interest bearing deposits in banks*. The estimated fair value approximates carrying (book) value based on the short-term nature of the instrument.
b) *Accrued interest receivable and accrued interest payable*. The estimated fair value approximates carrying value based on the short-term nature of the instrument.
c) *Federal Home Loan Bank stock*. No ready market exists for the stock and it has no quoted market value. The carrying value of the stock is accounted for using the cost basis of accounting, which approximates fair value as that is the amount it will be repurchased by the FHLB.
d) Loans, net of allowance for loan and lease losses. The estimated fair value approximates carrying value for variable rate loans that re-price frequently and with no significant change in credit risk. The fair value of fixed rate loans and variable rate loans which re-price on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality. An overall valuation adjustment is made for specific credit risks as well as general portfolio credit risk.
e) *Deposits*. The estimated fair value approximates carrying value for demand deposits, savings and NOW deposits. The fair value of time deposits is estimated by discounting future cash flows using the interest rates currently offered for deposits of similar remaining maturities. The estimated fair value of deposits does not take into account the Company's long-term relationships with depositors, commonly known as core deposit intangibles, which are separate intangible assets, and not considered financial instruments. Nonetheless, the Company would likely realize a core deposit premium if its portfolio were sold in the principal market for such deposits.

The following table presents the carrying amounts and estimated fair values (in thousands) of the Company's financial instruments at December 31, 2019 and 2018. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a transaction between willing parties.

	December 31, 2019		December 31, 2018	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 1,582	$ 1,582	$ 1,257	$ 1,257
Interest bearing deposits in banks	92,235	92,235	33,287	33,287
Investment securities available-for-sale	50,210	50,210	42,188	42,188
Investment securities held-to-maturity	1,026	1,034	1,058	1,042
Loans, net allowance for loan and lease losses	439,544	430,592	385,637	373,647
Accrued interest receivable	2,007	2,007	2,112	2,112
Servicing asset, net	1,897	1,900	1,420	1,420
FHLB bank stock	194	194	174	174
Financial liabilities				
Deposits	539,148	521,587	421,559	406,931
Accrued interest payable	104	104	90	90

Note 16. Federal Income Tax

The components of the provision for income taxes for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Federal income tax expense	$ 2,520,469	$ 2,102,796
Deferred income tax benefit	(183,508)	(151,382)
State income tax expense (benefit)	48,048	(17,774)
Income tax expense	$ 2,385,009	$ 1,933,640

Federal income tax expense is computed by applying the federal income tax rate of 21% to earnings before federal income tax expense for the years ended December 31, 2019 and 2018, respectively. The Tax Cuts and Jobs Act of 2018 lowered the statutory tax rate for corporations from 34% to 21%. Accordingly, the Company has calculated its deferred taxes at 21% in accordance with ASC 740, *Income Taxes*, which stipulates that the effects of deferred income taxes should be measured at the rate effective during the period that the deferred tax assets or liabilities are expected to be realized. These differences are primarily caused by expenses that are not deductible for tax purposes and tax adjustments related to prior federal income tax returns. The tax effects of temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets		
Accrued interest on nonperforming loans	$ 209,210	$ 117,811
Unrealized loss on available for sale securities	-	161,955
Servicing asset	12,305	13,067
Loan loss reserves	1,138,070	1,099,667
Total deferred tax assets	1,359,585	1,392,500
Deferred tax liabilities		
Prepaid expenses	(10,436)	(23,873)
Unrealized gain on available for sale securities	(84,207)	-
Depreciation	(290,355)	(331,006)
Intangible / goodwill	(1,145)	(1,525)
Total deferred tax liabilities	(386,143)	(356,404)
Net deferred tax asset	$ 973,442	$ 1,036,096

No valuation allowance for deferred tax assets was recorded at December 31, 2019 and 2018 as management believes that it is more likely than not that all of the deferred tax assets will be realized. The Company files income tax returns in the U.S. federal jurisdiction, and one state jurisdiction.

Note 17. Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the state 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 consolidated financial statements. The regulations require the Bank to meet specific capital adequacy 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 classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Basel III Capital Rules, a new comprehensive capital framework for U.S. banking organizations, became effective for the Company on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

The Company's Common Equity Tier 1 capital includes common stock and related paid-in capital, net of treasury stock, and retained earnings. In connection with the adoption of the Basel III Capital Rules, the Company elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 for the Company is reduced by, goodwill and other intangible assets, net of associated deferred tax liabilities, and subject to transition provisions.

Fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Company. The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Management believes, as of December 31, 2019, that the Bank meets all capital requirements to which it is subject. As of December 31, 2019, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The Bank's actual and required capital amounts and ratios are as follows:

As of December 31, 2019	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		Required to be Considered Well Capitalized	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 (to risk-weighted assets)	$ 60,244	13.04%	$ 29,454	6.38%	$ 32,342	7.00%	$ 30,032	6.50%
Total Capital (to risk-weighted assets)	$ 65,663	14.21%	$ 41,005	8.88%	$ 48,513	10.50%	$ 46,202	10.00%
Tier I Capital (to risk-weighted assets)	$ 60,244	13.04%	$ 36,384	7.88%	$ 39,272	8.50%	$ 3,962	8.00%
Tier I Capital (to average assets)	$ 60,244	10.43%	$ 23,115	4.00%	$ 23,115	4.00%	$ 28,894	5.00%

As of December 31, 2018	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		Required to be Considered Well Capitalized	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 (to risk-weighted assets)	$ 52,139	13.40%	$ 24,814	6.38%	$ 27,246	7.00%	$ 25,300	6.50%
Total Capital (to risk-weighted assets)	$ 56,925	14.62%	$ 34,545	8.88%	$ 40,870	10.50%	$ 38,923	10.00%
Tier I Capital (to risk-weighted assets)	$ 52,139	13.40%	$ 30,652	7.88%	$ 33,085	8.50%	$ 31,139	8.00%
Tier I Capital (to average assets)	$ 52,139	10.96%	$ 19,032	4.00%	$ 19,032	4.00%	$ 23,790	5.00%

The amount of dividends or distributions which the Company may pay is subject to restrictions and minimum levels of capital required by bank regulatory agencies. At December 31, 2019 and 2018, the Bank exceeded all minimum regulatory capital standards. There were no dividends paid for the years ended December 31, 2019 and 2018.