1836 Spirit of Texas Way
Conroe, Texas 77301
(936) 521-1836

Spirit of Texas Bancshares, Inc.

2020 ANNUAL REPORT

under Rule 14a-3(b) of the
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2020
For the annual meeting of shareholders on May 27, 2021

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-38484

Spirit of Texas Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Texas	**90-0499552**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1836 Spirit of Texas Way	
Conroe, TX	**77301**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (936) 521-1836

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Ticker symbol	Name of each exchange on which registered
Common Stock, no par value per share	STXB	NASDAQ

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The NASDAQ Stock Market on June 30, 2020, was $198.3 million.

The number of shares of Registrant's Common Stock outstanding as of March 1, 2021 was 17,127,808.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on May 27, 2021, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Important Notice about Information in this Annual Report

Unless we state otherwise or the context otherwise requires, references in this Annual Report on Form 10-K to “we,” “our,” “us,” “the Company” and “Spirit” refer to Spirit of Texas Bancshares, Inc. and its consolidated subsidiaries, including Spirit of Texas Bank SSB, which we sometimes refer to as “the Bank” or “our Bank.”

The information contained in this Annual Report on Form 10-K is accurate only as of the date of this Annual Report on Form 10-K and as of the dates specified herein.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including information included or incorporated by reference in this document, contains statements which constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Forward-looking statements speak only as of the date they are made and may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of our company. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words “may,” “would,” “could,” “should,” “will,” “expect,” “anticipate,” “predict,” “project,” “potential,” “continue,” “assume,” “believe,” “intend,” “plan,” “forecast,” “goal,” and “estimate,” as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, without limitation:

- risks related to the concentration of our business in Texas, and specifically in the Houston, Dallas/Fort Worth, Bryan/College Station, San Antonio-New Braunfels, Corpus Christi, Tyler and Austin metropolitan areas and North Central Texas, including risks associated with any downturn in the real estate sector and risks associated with a decline in the values of single family homes in our Texas markets;
- general market conditions and economic trends nationally, regionally and particularly in our Texas markets, including a decrease in or the volatility of oil and gas prices;
- the impact, duration and severity of the COVID-19 pandemic, the response of governmental authorities to the pandemic and our participation in COVID-19-related government programs such as the Paycheck Protection Program and Main Street Lending Program;
- risks related to our concentration in our primary markets, which are susceptible to severe weather events that could negatively impact the economies of our markets, our operations or our customers, any of which could have a material adverse effect on our business, financial condition and results of operations;
- our ability to implement our growth strategy, including identifying and consummating suitable acquisitions;
- risks related to the integration of any acquired businesses, including exposure to potential asset quality and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel, retention of customers and employees, the need for additional capital to finance such transactions, and possible failures in realizing the anticipated benefits from acquisitions;
- changes in Small Business Administration (“SBA”) loan products, including specifically the Section 7(a) program and Section 504 loans, or changes in SBA standard operating procedures;
- risks associated with our loans to and deposit accounts from foreign nationals;
- our ability to develop, recruit and retain successful bankers that meet our expectations in terms of customer relationships and profitability;
- risks associated with the relatively unseasoned nature of a significant portion of our loan portfolio;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- the accuracy and sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses and other estimates;

- the risk of deteriorating asset quality and higher loan charge-offs;
- the time and effort necessary to resolve nonperforming assets;
- risks associated with our commercial loan portfolio, including the risk for deterioration in value of the general business assets that generally secure such loans;
- risks associated with our nonfarm nonresidential and construction loan portfolios, including the risks inherent in the valuation of the collateral securing such loans;
- potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;
- risks related to the significant amount of credit that we have extended to a limited number of borrowers and in a limited geographic area;
- our ability to maintain adequate liquidity and to raise necessary capital to fund our acquisition strategy and operations or to meet increased minimum regulatory capital levels;
- material decreases in the amount of deposits we hold, or a failure to grow our deposit base as necessary to help fund our growth and operations;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income, as well as the potential discontinuance of London Interbank Offer Rate ("LIBOR") and the uncertainty around its replacement;
- potential fluctuations in the market value and liquidity of our investment securities;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- our ability to maintain an effective system of disclosure controls and procedures and internal control over financial reporting;
- risks associated with fraudulent, negligent, or other acts by our customers, employees or vendors;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- risks associated with system failures or failures to protect against cybersecurity threats, such as breaches of our network security;
- risks associated with data processing system failures and errors;
- potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;
- the initiation and outcome of litigation and other legal proceedings against us or to which we become subject;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions, including regulatory requirements to maintain minimum capital levels;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as implementation of the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA");
- changes in tariffs and trade barriers;
- governmental monetary and fiscal policies, including the policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve");
- our ability to comply with supervisory actions by federal and state banking agencies;

- changes in the scope and cost of Federal Deposit Insurance Corporation (the “FDIC”) insurance and other coverage; and
- systemic risks associated with the soundness of other financial institutions.

Because of these and other risks and uncertainties, our actual future results may be materially different from the results indicated by any forward-looking statements. For additional information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see “Risk Factors” under Part I, Item 1A of this Annual Report on Form 10-K. In addition, our past results of operations do not necessarily indicate our future results. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. Except as required by law, we undertake no obligation to update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Part I

Item 1. Business

General

Spirit of Texas Bancshares, Inc. is a Texas corporation and a registered bank holding company located in the Houston metropolitan area with headquarters in Conroe, Texas. We offer a broad range of commercial and retail banking services through our wholly-owned bank subsidiary, Spirit of Texas Bank SSB. As of the date of this Annual Report on Form 10-K, we operate through 38 locations primarily in the Houston, Dallas/Fort Worth, Bryan/College Station, San Antonio-New Braunfels, Corpus Christi, Tyler and Austin metropolitan areas, along with North Central Texas. As of December 31, 2020, we had total assets of \$3.08 billion, loans held for investment of \$2.39 billion, total deposits of \$2.46 billion and total stockholders' equity of \$360.8 million.

We are a business-focused bank that delivers relationship-driven financial services to small and medium-sized businesses and individuals in our market areas. Our philosophy is to target commercial customers whose businesses generate between \$3 to \$30 million of annual revenue. Our product offerings consist of a wide range of commercial products, including term loans and operating lines of credit to commercial and industrial companies; commercial real estate loans; construction and development loans; SBA loans; commercial deposit accounts; and treasury management services. In addition, our retail offerings include consumer loans, 1-4 single family residential real estate loans and retail deposit products.

We operate in one reportable segment of business, community banking, which includes Spirit of Texas Bank SSB, our sole banking subsidiary.

Acquisition Activities

Since our inception in 2008, we have implemented a growth strategy that includes organic loan and deposit generation through the establishment of *de novo* branches, as well as strategic acquisitions that have either strengthened our presence in existing markets or expanded our operations into new markets with attractive business prospects. We have completed eleven acquisitions in eleven years, four of which followed our initial public offering in May 2018.

On November 14, 2018, we completed our acquisition (the "Comanche acquisition") of Comanche National Corporation and its subsidiary, The Comanche National Bank (together, "Comanche"). This transaction resulted in eight additional branches in the North Central Texas region. The Company issued 2,142,857 shares of its common stock, as well as a net cash payment to Comanche shareholders of \$12.2 million, for total consideration of \$52.9 million.

On April 2, 2019, Spirit completed its acquisition (the "Beeville acquisition") of First Beeville Financial Corporation and its subsidiary, The First National Bank of Beeville (together, "Beeville"). This transaction resulted in three additional branches and two loan production offices in the South Texas region. The Company issued 1,579,191 shares of its common stock, as well as a net cash payment to Beeville shareholders of \$32.4 million, for total consideration of \$65.9 million.

On November 5, 2019, Spirit completed its acquisition (the "Citizens acquisition") of Chandler Bancorp, Inc. and its subsidiary, Citizens State Bank (together, "Citizens"). This transaction resulted in seven additional branches in the Northeast Texas region. The Company issued 2,100,000 shares of its common stock, as well as \$17.9 million in cash, for total consideration of \$62.5 million.

On February 28, 2020, Spirit completed its acquisition of certain assets and assumption of certain liabilities associated with five banking locations of Simmons Bank (the "Simmons branch acquisition"). The offices are located in Austin, San Antonio and Tilden, Texas. The Company paid total consideration of \$131.6 million in the Simmons branch acquisition.

Market Area and Market Share

We have 38 locations primarily in the Houston, Dallas/Fort Worth, Bryan/College Station, San Antonio-New Braunfels, Corpus Christi, Tyler and Austin metropolitan areas, along with North Central Texas. We believe our exposure to these dynamic and complementary markets provides us with economic diversification and the opportunity for expansion across Texas.

Our top four markets include the Houston-The Woodlands-Sugar Land MSA, Dallas-Fort Worth-Arlington MSA, College Station-Bryan MSA and San Antonio-New Braunfels MSA. As of December 31, 2020, our deposit market share in each of these respective markets was 0.19%, 0.04%, 4.81% and 0.09%. Overall, in the State of Texas, we rank 42nd in total deposits according to SNL Financial.

Competition

The banking business is highly competitive, and our profitability will depend principally upon our ability to compete with other banks and non-bank financial institutions located in each of our banking center locations for lending opportunities, deposit funds, bankers and acquisition candidates. Our banking competitors in our target markets include various community banks and national and regional banks. There were over 409 FDIC-insured depository institutions that operate in the State of Texas as of December 31, 2020.

We are subject to vigorous competition in all aspects of our business from banks, savings banks, savings and loan associations, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, asset-based non-bank lenders, insurance companies and certain other non-financial entities, including retail stores which may maintain their own credit programs and certain governmental organizations which may offer more favorable financing than we can. Many of the banks and other financial institutions with which we compete have significantly greater financial resources, marketing capability and name recognition than us and operate on a local, statewide, regional or nationwide basis.

Our strategy to compete effectively in our markets is to emphasize our identity as a community-oriented bank in contrast to larger, national and regional banks. As a community bank, we can respond to loan requests quickly and flexibly through decisions made locally. Our marketing strategy is relationship and referral-based. We rely heavily on our bankers and the efforts of our officers and directors for building and strengthening those relationships. Additionally, our bankers, directors and officers are actively involved in our primary markets and are a strong source of introductions and referrals.

Human Capital Resources

As of December 31, 2020, we had 383 employees of which 370 were full-time employees. None of our employees are represented by a union. Management believes that our relationship with employees is good.

Lending Activities

Lending Limits. Our lending activities are subject to a variety of lending limits imposed by state and federal law. In general, we are subject to a legal limit on loans to a single borrower equal to 25% of the Bank's tier 1 capital. This limit increases or decreases as the Bank's capital increases or decreases. As of December 31, 2020, our legal lending limit was $69.8 million and our largest relationship was $35.8 million. In order to ensure compliance with legal lending limits and in accordance with our strong risk management culture, we maintain internal lending limits that are significantly less than the legal lending limits. We are able to sell participations in our larger loans to other financial institutions, which allows us to manage the risk involved in these loans and to meet the lending needs of our customers requiring extensions of credit in excess of these limits.

Credit Department. The Bank maintains a large credit department under the direction of the Bank's Chief Credit Officer. The credit department prepares and provides in-depth credit administration reporting to the Bank's Asset Quality Committee on a quarterly basis to aid the committee in monitoring and adjusting the Bank's loan focus as it grows. In addition, the credit department provides analytical and underwriting services in support of the loan officers developing their respective loan portfolios. The credit department also serves as a training ground for the Bank's newest credit analysts who will be used to support our most senior loan officers as they are further trained to be our future lending officers.

Loan Review. The Bank utilizes an internal loan review system called the Relationship Review Process. Generally, all loan relationships greater than $500 thousand are reviewed by the loan officer at least annually. The loan officer will prepare a Relationship Review Memo that updates the credit file with new financials, review of the collateral status, and provide any meaningful commentary that documents changes in the borrower's overall condition. For loan relationships greater than $2 million, the Relationship Review Process is done semi-annually. Upon completion of the Relationship Review Memo, the loan officer must present the memo to the Chief or Deputy Chief Credit Officer for final review, appropriate grade change, if needed, and then approval to place in the credit file for future reference. We believe this process gives the Chief Credit Officer and executive management strong insight into the underlying performance of the Bank's loan portfolio allowing for accurate and proper real-time grading of the loan portfolio.

Additionally, we employ an external third-party loan review team to review up to 70% of the Bank's entire loan portfolio on an annual basis. This review will include all large loan relationships, insider loans, all criticized loans and the Bank's allowance for loan and lease losses calculations.

Nonperforming Loans. We stringently monitor loans that are classified as nonperforming. Nonperforming loans include nonaccrual loans, loans past due 90 days or more, and loans renegotiated or restructured because of a borrower's financial difficulties. Loans are generally placed on nonaccrual status if any of the following events occur: (i) the classification of a loan as nonaccrual internally or by regulatory examiners; (ii) delinquency on principal for 90 days or more unless we are in the process of collection; (iii) a balance remains after repossession of collateral; (iv) notification of bankruptcy; or (v) we determine that nonaccrual status is appropriate.

Allowance for Loan and Lease Losses. The allowance for loan and lease losses (the "allowance") is maintained at a level that we believe is adequate to absorb all probable losses on loans then present in the loan portfolio. The amount of the allowance is affected by: (i) loan charge-offs, which decrease the allowance; (ii) recoveries on loans previously charged-off, which increase the allowance; and (iii) the provision of possible loan losses charged to income, which increases the allowance. In determining the provision for possible loan losses, we monitor fluctuations in the allowance resulting from actual charge-offs and recoveries, and we periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions in an effort to evaluate portfolio risks. The amount of the provision is based on our judgment of those risks.

Investments

We maintain a portfolio of investments, primarily in obligations of the United States or obligations guaranteed as to principal and interest by the United States and other taxable securities, to provide liquidity and an additional source of income, to manage interest rate risk, to meet pledging requirements and to meet regulatory capital requirements.

We invest in U.S. Treasury bills and notes, as well as in securities of federally-sponsored agencies, such as Federal Home Loan Bank bonds. We may invest in federal funds, negotiable certificates of deposit, banker's acceptances, mortgage-backed securities, corporate bonds and municipal or other tax-free bonds. No investment in any of those instruments will exceed any applicable limitation imposed by law or regulation. Our asset/liability/investment committee reviews the investment portfolio on an ongoing basis in order to ensure that the investments conform to our internal policy set by our board.

Sources of Funds

General. Deposits traditionally have been our primary source of funds for our investment and lending activities. Our primary outside borrowing source is the Federal Home Loan Bank of Dallas ("FHLB" or "FHLB of Dallas"). Our additional sources of funds are scheduled loan payments, maturing investments, loan repayments, retained earnings, income on other earning assets and the proceeds of loan sales.

Core Deposits. Our core deposits include checking accounts, money market accounts, savings accounts, a variety of certificates of deposit and individual retirement accounts. To attract core deposits, we employ an aggressive marketing plan in our primary service areas and feature a broad product line and competitive offerings. The primary sources of core deposits are residents and businesses located in the markets we serve. We obtain these core deposits through personal solicitation by our lenders, officers and directors, direct mail solicitations and advertisements in the local media.

Borrowings. To supplement our core deposits, we maintain borrowings consisting of advances from the FHLB of Dallas, borrowings under the Paycheck Protection Program Liquidity Facility ("PPPLF"), long-term subordinated notes, and a holding company line of credit with a third-party lender. At December 31, 2020, FHLB advances totaled $61.9 million, or 2.3% of total liabilities. At December 31, 2020, we had additional capacity to borrow from the FHLB of $654.9 million. At December 31, 2020, borrowings under the PPPLF totaled $149.8 million, or 5.5% of total liabilities, and subordinated notes, net of debt issuance costs totaled $36.3 million, or 1.3% of total liabilities. We had $50.0 million available to be drawn on a line of credit with a third-party lender as of December 31, 2020.

Other Banking Services

We offer banking products and services that we believe are attractively priced and easily understood by our customers. In addition to traditional bank accounts such as checking, savings, money markets and CDs, we offer a full range of ancillary banking services, including a full suite of treasury management services, consumer and commercial online banking services, mobile applications, safe deposit boxes, wire transfer services, debit cards and ATM access. Merchant services (credit card processing) and co-branded credit card services are offered through a correspondent bank relationship. We do not exercise trust powers.

SUPERVISION AND REGULATION

General

We are extensively regulated under U.S. federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Texas Department of Savings and Mortgage Lending (the "TDSML"), the Federal Reserve, the FDIC and the Consumer Financial Protection Bureau (the "CFPB"). Furthermore, tax laws administered by the Internal Revenue Service (the "IRS") and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board ("FASB"), securities laws administered by the Securities and Exchange Commission ("SEC") and state securities authorities and anti-money laundering laws enforced by the U.S. Department of the Treasury (the "Treasury Department"), also impact our business, financial condition and results of operations. The nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of banks, their holding companies and their affiliates. These laws are intended primarily for the protection of depositors, customers and the Deposit Insurance Fund (the "DIF") rather than for shareholders. Federal and state laws, and the related regulations of the bank regulatory agencies, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that, while not publicly available, can affect the conduct and growth of their businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management's ability and performance, earnings, liquidity and various other factors. These regulatory agencies have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Bank. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Holding Company Regulation

As a registered bank holding company, the Company is required to furnish to the Federal Reserve periodic reports of its financial condition and results of operations and may also be required to furnish such additional information and reports as the Federal Reserve may require.

Permitted Activities

Under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), a bank holding company that is not a financial holding company, as discussed below, is generally permitted to engage in, or acquire direct or indirect control of more than five percent of any class of the voting shares of any company that is not a bank or bank holding company and that is engaged in, the following activities (in each case, subject to certain conditions and restrictions and prior approval of the Federal Reserve unless otherwise exempt): banking or managing or controlling banks; furnishing services to or performing services for our subsidiaries; and any activity that the Federal Reserve determines by regulation or order to be so closely related to banking as to be a proper incident to the business of banking. The Federal Reserve has the authority to order a bank holding company or its subsidiaries to terminate any of its activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Under the BHC Act, as amended by the Gramm-Leach-Bliley Act (the "GLBA"), a bank holding company may also file an election with the Federal Reserve to become a financial holding company and engage, directly or through its non-bank subsidiaries, in any activity that is financial in nature or incidental to such financial activity or in any other activity that is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. These activities include securities underwriting and dealing, insurance underwriting and making merchant banking investments. Such an election is subject to certain eligibility requirements, including the requirement that the bank holding company be both "well capitalized" and "well managed", as defined in the BHC Act and implementing regulations. The Company has not made an election to become a financial holding company.

Acquisitions, Activities and Change in Control

The BHC Act generally requires the prior approval by the Federal Reserve for (x) any merger involving a bank holding company, (y) a bank holding company's acquisition of more than 5% of a class of voting securities of any additional bank or bank holding company, or (z) to acquire all or substantially all of the assets of any additional bank or bank holding company. In reviewing applications seeking approval of merger and acquisition transactions, the Federal Reserve considers, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act (the "CRA") and the effectiveness of all organizations involved in the merger or acquisition in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

Subject to certain conditions (including deposit concentration limits established by the BHC Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to complete interstate mergers or acquisitions. For a discussion of the capital requirements, see "Regulatory Capital Requirements" below.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 5.00% and 24.99% voting ownership. In January 2020, the Federal Reserve adopted a final rule to revise its regulations related to determinations of whether a company with an ownership interest between 5% and 25% of any class of voting securities of another company has the ability to exercise a controlling influence over such company for purposes of the BHC Act, which became effective on September 30, 2020. The final rule expands and codifies the presumptions for use in such control determinations according to a tiered methodology using 5%, 10% and 15% as the presumption thresholds. By codifying the presumptions, the final rule provides greater transparency on the types of relationships that the Federal Reserve generally views as supporting a facts-and-circumstances determination that one company controls another company. The Federal Reserve's final rule applies to questions of control under the BHC Act, but does not extend to Change in Bank Control Act, as amended (the "Change in Bank Control Act").

The Change in Bank Control Act defines "control" as the direct or indirect power to vote 25% or more of any class of voting securities or to direct the management or policies of a bank holding company or an insured bank. A rebuttable presumption of control arises under the Change in Bank Control Act where a person or group controls 10% or more, but less than 25%, of a class of the voting stock of a company or insured bank which is a reporting company under the Exchange Act, such as the Company, or such ownership interest is greater than the ownership interest held by any other person or group.

In addition, the Change in Bank Control Act prohibits any entity from acquiring 25% (or 5% in the case of an acquirer that is a bank holding company) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the Federal Reserve. On September 22, 2008, the Federal Reserve issued a policy statement on equity investments in bank holding companies and banks, which allows the Federal Reserve to generally be able to conclude that an entity's investment is not "controlling" if the investment in the form of voting and nonvoting shares represents in the aggregate (i) less than one-third of the total equity of the banking organization (and less than one-third of any class of voting securities, assuming conversion of all convertible nonvoting securities held by the entity) and (ii) less than 15% of any class of voting securities of the banking organization.

Bank Holding Company Obligations to Bank Subsidiaries

Under current law and Federal Reserve policy, a bank holding company is expected to act as a source of financial and managerial strength to its depository institution subsidiaries and to maintain resources adequate to support such subsidiaries, which could require us to commit resources to support the Bank in situations where additional investments in a bank may not otherwise be warranted. These situations include guaranteeing the compliance of an "undercapitalized" bank with its obligations under a capital restoration plan, as described further under "Bank Regulation—Capitalization Requirements and Prompt Corrective Action" below. As a result of these obligations, a bank holding company may be required to contribute additional capital to its subsidiaries including in the form of capital notes or other instruments that qualify as capital under regulatory rules. Any such loan from a holding company to a subsidiary bank is likely to be unsecured and subordinated to the bank's depositors and perhaps to other creditors of the bank.

Restrictions on Bank Holding Company Dividends and Stock Redemptions and Repurchases

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. The Federal Reserve possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. Further, the Company's ability to pay dividends could be impaired if its capital levels fall below the capital conservation buffer discussed below.

Bank holding companies must consult with the Federal Reserve before redeeming any equity or other capital instrument included in tier 1 or tier 2 capital prior to stated maturity, if (x) such redemption could have a material effect on the level or composition of the organization's capital base or (y) as a result of such repurchase, there is a net reduction of the outstanding amount of common stock or preferred stock outstanding at the beginning of the quarter in which the redemption or repurchase occurs. In addition, bank holding companies are unable to repurchase shares equal to 10% or more of their net worth if they would not be well-capitalized (as defined by the Federal Reserve) after giving effect to such repurchase. Bank holding companies experiencing financial weaknesses, or that are at significant risk of developing financial weaknesses, must consult with the Federal Reserve before redeeming or repurchasing common stock or other regulatory capital instruments.

Generally, a Texas corporation may not make distributions to its shareholders if (i) after giving effect to the dividend, the corporation would be insolvent, or (ii) the amount of the dividend exceeds the surplus of the corporation. Dividends may be declared and paid in a corporation's own treasury shares that have been reacquired by the corporation's own authorized but unissued shares out of the surplus of the corporation upon the satisfaction of certain conditions. In addition, since our legal entity is separate and distinct from the Bank and does not conduct stand-alone operations, our ability to pay dividends depends on the ability of the Bank to pay dividends to us, which is also subject to regulatory restrictions as described in "Bank Regulation—Bank Dividends" below.

Capital Regulations

The federal banking agencies have adopted risk-based capital adequacy guidelines for banks and bank holding companies. These risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure, to minimize disincentives for holding liquid assets and to achieve greater consistency in evaluating the capital adequacy of major banks throughout the world.

The Basel III Capital Rules became effective on January 1, 2015 and became fully phased-in as of January 1, 2019. In addition to establishing new minimum capital requirements, the Basel III Capital Rules implement a capital conservation buffer on top of its minimum risk-based capital requirements that must be met in order to avoid restrictions on capital distributions or discretionary bonus payments to executives. This buffer must consist solely of tier 1 common equity, but the buffer applies to all three risk-based ratios (CET 1 Capital (as defined below), tier 1 capital and total capital). The capital conservation buffer was phased in incrementally over time, becoming fully effective on January 1, 2019, and consists of an additional amount of common equity equal to 2.5% of risk-weighted assets.

Accordingly, the Basel III Capital Rules require the following minimum capital requirements:

- a common equity tier 1 risk-based capital ratio of 4.5%, plus the 2.5% capital conservation buffer, effectively resulting in a minimum ratio of CET1 Capital to risk-weighted assets of at least 7%;
- a tier 1 risk-based capital ratio of 6%, plus the capital conservation buffer, effectively resulting in a minimum tier 1 capital ratio of 8.5%;
- a total risk-based capital ratio of 8%, plus the capital conservation buffer, effectively resulting in a minimum total capital ratio of 10.5%; and
- a leverage ratio of 4%.

As of December 31, 2020, the Company and the Bank exceeded all capital adequacy requirements under the Basel III Capital Rules.

Under the Basel III Capital Rules, tier 1 capital is defined to include two components: common equity tier 1 capital ("CET1 Capital") and additional tier 1 capital. CET1 Capital consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income and limited amounts of minority interests that are in the form of common stock. Additional tier 1 capital includes other perpetual instruments historically included in tier 1 capital, such as non-cumulative perpetual preferred stock.

The Basel III Capital Rules require certain deductions from or adjustments to capital. Deductions from CET1 Capital are required for goodwill (net of associated deferred tax liabilities); intangible assets such as non-mortgage servicing assets and purchased credit card relationships (net of associated deferred tax liabilities); deferred tax assets that arise from net operating loss and tax credit carryforwards (net of any related valuations allowances and net of deferred tax liabilities); any gain on sale in connection with a securitization exposure; any defined benefit pension fund net asset (net of any associated deferred tax liabilities) held by a bank holding company (this provision does not apply to a bank or savings association); the aggregate amount of outstanding equity investments (including retained earnings) in financial subsidiaries; and identified losses. Other deductions are necessary from different levels of capital. The Basel III Capital Rules also increased the risk weight for certain assets, meaning that more capital must be held against such assets. For example, commercial real estate loans that do not meet certain underwriting requirements must be risk-weighted at 150%.

Additionally, the Basel III Capital Rules provide for the deduction of three categories of assets: (i) deferred tax assets arising from temporary differences that cannot be realized through net operating loss carrybacks (net of related valuation allowances and of deferred tax liabilities), (ii) mortgage servicing assets (net of associated deferred tax liabilities) and (iii) investments in more than 10% of the issued and outstanding common stock of unconsolidated financial institutions (net of associated deferred tax liabilities). The amount in each category that exceeds 10% of CET1 Capital must be deducted from CET1 Capital. The remaining, non-deducted amounts are then aggregated, and the amount by which this total amount exceeds 15% of CET1 Capital must be deducted from CET1 Capital. Amounts of minority investments in consolidated subsidiaries that exceed certain limits and investments in unconsolidated financial institutions may also have to be deducted from the category of capital to which such instruments belong.

Accumulated other comprehensive income ("AOCI") is presumptively included in CET1 Capital and often would operate to reduce this category of capital. The Basel III Capital Rules provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI and we determined to opt out.

Furthermore, in an effort to support our communities during the COVID-19 pandemic, we are participating in the Paycheck Protection Program ("PPP") established by the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and implemented by the SBA and, as a result, have access to the PPPLF established by the Federal Reserve. At December 31, 2020, borrowings under the PPPLF totaled $149.8 million and $149.8 million in PPP loans were pledged as collateral for the PPPLF. Any PPP loans pledged as collateral for the PPPLF would be excluded from average assets used in the leverage ratio calculation. All PPP loans are fully guaranteed by the SBA and have no impact on our risk-based capital ratios.

Community Bank Leverage Ratio

On September 17, 2019, the federal banking agencies jointly finalized a rule to be effective January 1, 2020 and intended to simplify the regulatory capital requirements described above for qualifying community banking organizations that opt into the Community Bank Leverage Ratio ("CBLR") framework, as required by Section 201 of the EGRRCPA. The final rule became effective on January 1, 2020, and the CBLR framework became available for banks to use beginning with their March 31, 2020 Call Reports. Under the final rule, if a qualifying community banking organization opts into the CBLR framework and meets all requirements under the framework, it will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations described below and will not be required to report or calculate risk-based capital. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9%, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. However, Section 4012 of the CARES Act required that the CBLR be temporarily lowered to 8%. The federal regulators issued a rule implementing the lower CBLR effective April 23, 2020. The rule also established a two-quarter grace period for a qualifying institution whose leverage ratio falls below the 8% CBLR requirement so long as the bank maintains a leverage ratio of 7% or greater. Another rule was issued to transition back to the 9% CBLR by increasing the ratio to 8.5% for calendar year 2021 and 9% thereafter. Although the Company and the Bank are qualifying community banking organizations, the Company and the Bank have elected not to opt in to the CBLR framework at this time and will continue to follow the Basel III capital requirements as described above.

Tie in Arrangements

Federal law prohibits bank holding companies and any subsidiary banks from engaging in certain tie in arrangements in connection with the extension of credit. For example, the Bank may not extend credit, lease or sell property, or furnish any services, or fix or vary the consideration for any of the foregoing on the condition that (i) the customer must obtain or provide some additional credit, property or services from or to the Bank other than a loan, discount, deposit or trust services, (ii) the customer must obtain or provide some additional credit, property or service from or to the Company or the Bank, or (iii) the customer must not obtain some other credit, property or services from competitors, except reasonable requirements to assure soundness of credit extended.

Executive Compensation

In 2010, the federal banking agencies issued guidance to regulated banks and holding companies intended to ensure that incentive compensation arrangements at financial organizations take into account risk and are consistent with safe and sound practices. The guidance is based on three “key principles” calling for incentive compensation plans to: appropriately balance risks and rewards; be compatible with effective controls and risk management; and be backed up by strong corporate governance. Further, in 2016 the federal banking regulators re-proposed rules that would prohibit incentive compensation arrangements that would encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss, and include certain prescribed standards for governance and risk management for incentive compensation for institutions, such as us, that have over $1 billion in consolidated assets.

The Dodd-Frank Act requires public companies to include, at least once every three years, a separate non-binding “say-on-pay” vote in their proxy statement by which shareholders may vote on the compensation of the public company’s named executive officers. The Dodd-Frank Act also requires public companies to conduct a separate shareholder vote on the future frequency of the “say-on-pay” vote. The vote on the frequency of “say-on-pay,” frequently referred to as “say-on-frequency,” must be held every six years. In addition, if such public companies are involved in a merger, acquisition, or consolidation, or if they propose to sell or dispose of all or substantially all of their assets, shareholders have a right to an advisory vote on any golden parachute arrangements in connection with such transaction (frequently referred to as “say-on-golden parachute” vote). As an emerging growth company, we are not required to obtain “say-on-pay,” “say-on-frequency” or “say-on-golden-parachute” votes from our shareholders for so long as we remain an emerging growth company.

Bank Regulation

The Bank is a state savings bank that is chartered by and headquartered in the State of Texas. The Bank is subject to supervision and regulation by the TDSML and the FDIC. The TDSML supervises and regulates all areas of the Bank’s operations including, without limitation, the making of loans, the issuance of securities, the conduct of the Bank’s corporate affairs, the satisfaction of capital adequacy requirements, the payment of dividends, and the establishment or closing of banking offices. The FDIC is the Bank’s primary federal regulatory agency, which periodically examines the Bank’s operations and financial condition and compliance with federal consumer protection laws. In addition, the Bank’s deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over the Bank.

As a state savings bank in Texas, the Bank is empowered by statute, subject to the limitations contained in those statutes, to take and pay interest on savings and time deposits, to accept demand deposits, to make loans on residential and other real estate, to make consumer and commercial loans, to invest, with certain limitations, in equity securities and in debt obligations of banks and corporations and to provide various other banking services for the benefit of the Bank’s clients. Various state consumer laws and regulations also affect the operations of the Bank, including state usury laws and consumer credit laws.

The Texas Finance Code further provides that, subject to the limitations established by rule of the Texas Finance Commission, a Texas savings bank may make any loan or investment or engage in any activity permitted under state law for a bank or savings and loan association or under federal law for a federal savings and loan association, savings bank or national bank if such institution's principal office is located in Texas. This provision is commonly referred to as the "Expansion of Powers" provision of the Texas Finance Code applicable to state savings banks.

Under federal law, a Texas state savings bank is a state bank. The Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA") provides that no state bank or subsidiary thereof may engage as a principal in any activity not permitted for national banks, unless the institution complies with applicable capital requirements and the FDIC determines that the activity poses no significant risk to the DIF.

Texas state-chartered savings banks are required to maintain at least 50% of their portfolio assets in qualified thrift investments as defined by 12 U.S.C. § 1467a(m)(4)(C) and other assets determined by the commissioner of the TDSML under rules adopted by the Texas Finance Commission, to be substantially equivalent to qualified thrift investments or which further residential lending or community development.

Capital Adequacy

See "Holding Company Regulation—Capital Regulations" above.

Prompt Corrective Action

Federal law and regulations establish a capital-based regulatory framework designed to promote early intervention for troubled banks and require the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." To qualify as a "well capitalized" institution for these purposes, a bank must have a leverage ratio of no less than 5%, a tier 1 capital ratio of no less than 8%, a CETI Capital ratio of no less than 6.5% and a total risk-based capital ratio of no less than 10%, and a bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. Generally, a financial institution must be "well capitalized" before the Federal Reserve will approve an application by a bank holding company to acquire a bank or merge with a bank holding company. The FDIC applies the same requirement in approving bank merger applications.

Immediately upon becoming undercapitalized, a depository institution becomes subject to the provisions of Section 38 of the Federal Deposit Insurance Act of 1950 ("FDIA"), which: (i) restrict payment of capital distributions and management fees; (ii) require that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital; (iii) require submission of a capital restoration plan; (iv) restrict the growth of the institution's assets; and (v) require prior approval of certain expansion proposals. Bank holding companies controlling financial institutions can be called upon to boost the institutions' capital and to partially guarantee the institutions' performance under their capital restoration plans. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions are necessary to resolve the problems of the institution at the least possible long-term cost to the deposit insurance fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: (i) requiring the institution to raise additional capital; (ii) restricting transactions with affiliates; (iii) requiring divestiture of the institution or the sale of the institution to a willing purchaser; (iv) requiring the institution to change and improve its management; (iv) prohibiting the acceptance of deposits from correspondent banks; (v) requiring prior Federal Reserve approval for any capital distribution by a bank holding company controlling the institution; and (vi) any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

As of December 31, 2020, the Bank had sufficient capital to qualify as "well capitalized" under the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy, and it is unaware of any material violation or alleged material violation of these regulations, policies or directives. Rapid growth, poor loan portfolio performance, or poor earnings performance, or a combination of these factors, could change the Bank's capital position in a relatively short period of time, making additional capital infusions necessary.

It should be noted that the minimum ratios referred to above in this section are merely guidelines, and the Bank's regulators possess the discretionary authority to require higher capital ratios.

Bank Dividends

The FDIC prohibits any distribution that would result in the Bank being "undercapitalized" (<4% leverage, <4.5% CET1 risk-based, <6% tier 1 risk-based, or <8% total risk-based). Unless the approval of the FDIC is obtained, the Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years. Under Texas law, the Bank is permitted to declare and pay a dividend on capital stock only out of current or retained income.

Insurance of Accounts and Other Assessments

The Bank pays deposit insurance assessments to the DIF, which is determined through a risk-based assessment system. The Bank's deposit accounts are currently insured by the DIF, generally up to a maximum of $250,000 per separately insured depositor.

The Bank pays assessments to the FDIC for such deposit insurance. Under the current assessment system, the FDIC assigns an institution to a risk category based on the institution's most recent supervisory and capital evaluations, which are designed to measure risk. For deposit insurance assessment purposes, an insured depository institution is placed in one of four risk categories each quarter. An institution's assessment is determined by multiplying its assessment rate by its assessment base. Under the FDIA, the FDIC may terminate a bank's deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, agreement or condition imposed by the FDIC.

In connection with the Dodd Frank Act's requirement that insurance assessments be based on assets, in July 2016, the FDIC redefined its deposit insurance premium assessment base to be an institution's average consolidated total assets minus average tangible equity and revised its deposit insurance assessment rate schedule. In addition, the FDIC is considering, and is expected to adopt, a final rule to apply the CBLR framework to the deposit insurance assessment system.

On September 30, 2018, the DIF reserve ratio reached 1.36%. Because the reserve ratio exceeded the targeted 1.35% by the Dodd-Frank Act, two deposit assessment changes occurred under FDIC regulations: (i) surcharges on large banks ended, and the last surcharge on large banks was collected on December 28, 2018; and (ii) small banks were awarded assessment credits for the portion of their assessment that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%. The Bank's assessment credit as calculated by the FDIC was $427 thousand and was applied to the Bank's September 2019 Quarterly Invoice for Deposit Insurance, and was fully utilized during the first quarter of 2020. As of September 30, 2020, the FDIC announced that the ratio had declined to 1.30% due largely to consequences of the COVID-19 pandemic. The FDIC adopted a plan to restore the DIF to the 1.35% ratio within eight years but did not change its assessment schedule.

The Bank is also required to pay quarterly assessments to the TDSML to support the activities and operations of the agency.

Audit Reports

For insured institutions with total assets of $1.0 billion or more, financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), management's certifications signed by our and the Bank's chief executive officer and chief accounting or financial officer concerning management's responsibility for the financial statements, and an attestation by the auditors regarding the Bank's internal controls must be submitted. For institutions with total assets of more than $3.0 billion, independent auditors may be required to review quarterly financial statements. FDICIA requires that the Bank have an independent audit committee, consisting of outside directors only, or that we have an audit committee that is entirely independent. The committees of such institutions must include members with experience in banking or financial management, must have access to outside counsel and must not include representatives of large customers. The Company’s audit committee consists entirely of independent directors.

Restrictions on Transactions with Affiliates

The Bank is subject to sections 23A and 23B of the Federal Reserve Act of 1913 (the “FRA”), and the Federal Reserve’s Regulation W, as made applicable to state nonmember banks by Section 18(j) of the FDIA. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with such bank. Accordingly, transactions between the Bank, on the one hand, and the Company or any affiliates, on the other hand, will be subject to a number of restrictions. Sections 23A and 23B of the FRA impose restrictions and limitations on the Bank from engaging in certain types of transactions between the Bank, on the one hand, and the Company or any affiliates, on the other hand, including making extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, the Company or other affiliates, the purchase of, or investment in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of the Company or other non-bank affiliates. Such restrictions and limitations prevent the Company or other affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Furthermore, such “covered transactions” are limited, individually, to 10% of the Bank’s capital and surplus and in the aggregate to 20% of the Bank’s capital and surplus.

All such transactions must be on terms that are no less favorable to the Bank than those that would be available from nonaffiliated third parties. Federal Reserve policies also forbid the payment by bank subsidiaries of management fees which are unreasonable in amount or exceed the fair market value of the services rendered or, if no market exists, actual costs plus a reasonable profit.

Financial Subsidiaries

Under the GLBA, subject to certain conditions imposed by their respective banking regulators, national and state-chartered banks are permitted to form “financial subsidiaries” that may conduct financial activities or activities incidental thereto, thereby permitting bank subsidiaries to engage in certain activities that previously were impermissible. The GLBA imposes several safeguards and restrictions on financial subsidiaries, including that the parent bank’s equity investment in the financial subsidiary be deducted from the bank’s assets and tangible equity for purposes of calculating the bank’s capital adequacy. In addition, the GLBA imposed new restrictions on transactions between a bank and its financial subsidiaries similar to restrictions applicable to transactions between banks and non-bank affiliates. As of December 31, 2020, the Bank did not have any financial subsidiaries.

Loans to Insiders

Loans to executive officers, directors or to any person who directly or indirectly, or acting through or in concert with one or more persons, owns, controls or has the power to vote more than 10% of any class of voting securities of a bank (“10% Shareholders”) or to any political or campaign committee the funds or services of which will benefit those executive officers, directors, or 10% Shareholders or which is controlled by those executive officers, directors or 10% Shareholders, are subject to Sections 22(g) and 22(h) of the FRA and their corresponding regulations, which is referred to as Regulation O. Among other things, these loans must be made on terms substantially the same as those prevailing on transactions made to unaffiliated individuals and certain extensions of credit to those persons must first be approved in advance by a disinterested majority of the entire board of directors. Regulation O prohibits loans to any of those individuals where the aggregate amount exceeds an amount equal to 15% of an institution’s unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral, or when the aggregate amount on all of the extensions of credit outstanding to all of these persons would exceed the Bank’s unimpaired capital and unimpaired surplus. Section 22(g) of the FRA identifies limited circumstances in which the Bank is permitted to extend credit to executive officers. Furthermore, the Bank must periodically report all loans made to directors and other insiders to the bank regulators.

Branching

The Dodd-Frank Act permits insured state banks to engage in interstate branching if the laws of the state where the new banking office is to be established would permit the establishment of the banking office if it were chartered by a bank in such state. Under current Texas law, our Bank can establish a branch in Texas or in any other state. All branch applications of the Bank require prior approval of the TDSML and the FDIC. Finally, the Company may also establish banking offices in other states by merging with banks or by purchasing banking offices of other banks in other states, subject to certain restrictions.

Liquidity Requirements

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III Capital Rules liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests. The federal banking agencies adopted final Liquidity Coverage Ratio rules in September 2014 and proposed Net Stable Funding Ratio rules in May 2016. These rules introduced two liquidity related metrics: (i) Liquidity Coverage Ratio is intended to require financial institutions to maintain sufficient high-quality liquid resources to survive an acute stress scenario that lasts for one month; and (ii) Net Stable Funding Ratio is intended to require financial institutions to maintain a minimum amount of stable sources relative to the liquidity profiles of the institution's assets and contingent liquidity needs over a one-year period.

While the Liquidity Coverage Ratio and the proposed Net Stable Funding Ratio rules apply only to the largest banking organizations in the country, certain elements may filter down and become applicable to or expected of all insured depository institutions and bank holding companies.

Reserve Requirements

In accordance with regulations of the Federal Reserve, all banking organizations are required to maintain average daily reserves at mandated ratios against their transaction accounts (primarily NOW and Super NOW checking accounts). In addition, reserves must be maintained on certain non-personal time deposits. These reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank.

Brokered Deposits

The FDIA restricts the use of brokered deposits by depository institutions that are not well capitalized. Under the applicable regulations, (i) a well-capitalized insured depository institution may solicit and accept, renew or roll over any brokered deposit without restriction, (ii) an adequately capitalized insured depository institution may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC and (iii) an undercapitalized insured depository institution may not accept, renew or roll over any brokered deposit. The FDIC may, on a case-by-case basis and upon application by an adequately capitalized insured depository institution, waive the restriction on brokered deposits upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution. As of December 31, 2020, the Bank was eligible to accept brokered deposits without a waiver from the FDIC.

Lending Limit

Because of the availability of the savings bank expansion of powers language in the Texas Finance Code, savings banks have flexibility in the calculation of their applicable lending limit. The lending limit applicable to state banks in Texas is broader than the limit applicable to national banks. The Texas Finance Code adopts the lending limit applicable to federal savings associations under the Home Owners' Loan Act for state savings banks, however, Texas savings bank are permitted under the expansion of power authority to adopt the legal lending limit applicable to national banks or state banks. Generally (subject to certain exceptions) the lending limit for loans to one person for national banks and federal savings associations is 15% of unimpaired capital and unimpaired surplus plus an additional 10% of unimpaired capital and unimpaired surplus if the loan is fully secured by readily marketable collateral. The lending limit for state banks in Texas is generally 25% of unimpaired capital and unimpaired surplus plus an additional 15% of unimpaired capital and unimpaired surplus if the loan is fully secured by readily marketable collateral. The adoption of the lending limit for national banks or state banks must incorporate the limitations applicable to the standard adopted.

The Bank has adopted the lending limit applicable to state banks or 25% of unimpaired capital and unimpaired surplus plus an additional 15% of unimpaired capital and unimpaired surplus if the loan is fully secured by readily marketable collateral.

Concentrated Commercial Real Estate Lending Regulations

The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total capital or (ii) total reported loans secured by commercial real estate loans represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing and maintenance of increased capital levels as needed to support the level of commercial real estate lending. Commercial real estate loans are land development and construction loans (including 1 to 4 family residential and commercial construction loans) and other land and development, commercial real estate loans secured by multifamily property and certain nonfarm nonresidential property (excluding loans secured by owner-occupied properties) and certain loans to real estate investment trusts and unsecured loans to developers.

The Basel III Rules also require loans categorized as "high-volatility commercial real estate" ("HVCRE") to be assigned a 150% risk weighting and require additional capital support. However, the EGRRCPA prohibits federal banking regulators from imposing this higher capital standards on HVCRE exposures unless they are for higher risk loans for acquisition, development or construction ("ADC") and clarifying ADC status.

On November 20, 2019, federal banking regulators jointly issued a final rule revising the definition of a HVCRE exposure and providing interpretations of certain aspects of Acquisition Development and Construction loans. The interpretation under this final rule took effect on April 1, 2020 and may impact the Banks' Consolidated Report of Condition and Income.

Examination and Examination Fees

The FDIC periodically examines and evaluates state savings banks that are not member banks of the Federal Reserve System. Based on such an examination, the Bank, among other things, may be required to revalue its assets and establish specific reserves to compensate for the difference between the Bank's assessment and that of the FDIC. The TDSML also conducts examinations of state savings banks and generally conducts joint examinations with the FDIC. The TDSML charges assessments and fees which recover the costs of examining state savings banks, processing applications and other filings and covering direct and indirect expenses in regulating state savings banks. The federal banking agencies also have the authority to assess additional supervision fees.

Bank Secrecy Act, Anti-Money Laundering and OFAC

Under federal laws, including the Bank Secrecy Act, as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") and as further amended by the National Defense Authorization Act for Fiscal Year 2021 (the "National Defense Authorization Act"), financial institutions must maintain anti-money laundering ("AML") programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with non-U.S. financial institutions and non-U.S. customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and law enforcement authorities have been granted increased access to financial information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's compliance with such obligations in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. The Treasury Department's Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. The regulatory authorities have imposed "cease and desist" orders and civil money penalty sanctions against institutions found to be violating these obligations.

Additionally, the USA PATRIOT Act requires each financial institution to develop a customer identification program ("CIP") as part of its AML program. The key components of the CIP are identification, verification, government list comparison, notice and record retention. The purpose of the CIP is to enable the financial institution to determine the true identity and anticipated account activity of each customer. To make this determination, among other things, the financial institution must collect certain information from customers at the time they enter into the customer relationship with the financial institution. This information must be verified within a reasonable time through documentary and non-documentary methods. Furthermore, all customers must be screened against any CIP-related government lists of known or suspected terrorists. Financial institutions are also required to comply with various reporting and recordkeeping requirements. The Federal Reserve and the FDIC consider an applicant's effectiveness in combating money laundering, among other factors, in connection with an application to approve a bank merger or acquisition of control of a bank or bank holding company.

Likewise, OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If we or the Bank find a name on any transaction, account or wire transfer that is on an OFAC list, we or the Bank must freeze or block such account or transaction, file a suspicious activity report and notify the appropriate authorities.

The Financial Crimes Enforcement Network ("FinCEN") issued a final rule regarding customer due diligence requirements for covered financial institutions in connection with their Bank Secrecy Act and Anti-Money Laundering policies, that became effective in May 2018. The final rule adds a requirement to understand the nature and purpose of customer relationships and identify the "beneficial owner" (25% or more ownership interest) of legal entity customers. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's anti-money laundering compliance when considering regulatory applications filed by the institution, including applications for bank mergers and acquisitions. The regulatory authorities have imposed "cease and desist" orders and civil money penalty sanctions against institutions found to be violating these obligations.

Further, on January 1, 2021, Congress passed the National Defense Authorization Act, which enacted the most significant overhaul of the Bank Secrecy Act and related AML laws since the USA PATRIOT Act. Notable amendments include (1) significant changes to the collection of beneficial ownership information and the establishment of a beneficial ownership registry, which requires corporate entities (generally, any corporation, limited liability company, or other similar entity with 20 or fewer employees and annual gross income of $5 million or less) to report beneficial ownership information to FinCEN (which will be maintained by FinCEN and made available upon request to financial institutions); (2) enhanced whistleblower provisions, which provide that one or more whistleblowers who voluntarily provide original information leading to the successful enforcement of violations of the anti-money laundering laws in any judicial or administrative action brought by the Secretary of the Treasury or the Attorney General resulting in monetary sanctions exceeding $1 million (including disgorgement and interest but excluding forfeiture, restitution, or compensation to victims) will receive not more than 30 percent of the monetary sanctions collected and will receive increased protections; (3) increased penalties for violations of the Bank Secrecy Act; (4) improvements to existing information sharing provisions that permit financial institutions to share information relating to suspicious activity reports (SARs) with foreign branches, subsidiaries, and affiliates (except those located in China, Russia, or certain other jurisdictions) for the purpose of combating illicit finance risks; and (5) expanded duties and powers of FinCEN. Many of the amendments, including those with respect to beneficial ownership, require the Department of Treasury and FinCEN to promulgate rules.

Failure of a financial institution to maintain and implement adequate AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Privacy and Data Security

Under the GLBA, federal banking regulators adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The GLBA also directed federal regulators, including the FDIC, to prescribe standards for the security of consumer information. The Bank is subject to such standards, as well as standards for notifying clients in the event of a security breach.

Consumer Laws and Regulations

Banking organizations are subject to numerous laws and regulations intended to protect consumers. These laws include, among others:

- Truth in Lending Act;
- Truth in Savings Act;
- Electronic Funds Transfer Act;
- Expedited Funds Availability Act;
- Equal Credit Opportunity Act;
- Fair and Accurate Credit Transactions Act;
- Fair Housing Act;
- Fair Credit Reporting Act;
- Fair Debt Collection Act;
- Gramm-Leach-Bliley Act;
- Home Mortgage Disclosure Act;
- Right to Financial Privacy Act;
- Real Estate Settlement Procedures Act;
- laws regarding unfair and deceptive acts and practices; and
- usury laws.

Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These federal, state and local laws mandate certain disclosure requirements and regulate the manner in which financial institutions deal with customers when taking deposits, making loans, or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability. The creation of the CFPB by the Dodd-Frank Act has led to enhanced enforcement of consumer financial protection laws.

Community Reinvestment Act

The CRA and its corresponding regulations is intended to encourage banks to help meet the credit needs of their communities, including low and moderate-income neighborhoods, consistent with safe and sound operations. The federal bank agencies examine and assign each bank a public CRA rating. The CRA then requires the federal banking agencies to take into account the federally-insured bank’s record in meeting the needs of its communities when considering an application by a bank to establish or relocate a branch or the bank or its holding company to conduct certain mergers or acquisitions. In the case of a bank holding company, the CRA performance record of all banks involved in the merger or acquisition are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other financial holding company. An unsatisfactory record can substantially delay, block or impose conditions on the transaction. The Bank received a satisfactory rating on its most recent CRA assessment.

On December 12, 2019, the Office of the Comptroller of the Currency (the “OCC”) and the FDIC issued a joint proposal to revamp how the agencies will assess banks' performance under the CRA. Among other changes, the proposal (i) expands the concept of assessment area (“AA”) to include geographies outside of a bank's current AAs and in which the bank receives at least 5% of its retail deposits and (ii) introduces a series of objective tests for determining a bank's presumptive CRA rating. While the OCC adopted a final rule on May 20, 2020 that was generally consistent with the proposed rule, the FDIC did not join in the final rule and has indicated it is not ready to adopt a final rule at this time, particularly in light of the ongoing COVID-19 pandemic. Members of Congress and community groups have expressed hostility to the new OCC rule, and have raised the possibility of repealing it through legislative action. In light of this uncertainty, and the fact that the FDIC has not yet taken action on new rule, it is impossible to predict the substance and timing of a revised CRA rule from the FDIC. The Company and the Bank will continue to monitor this proposal.

Environmental Laws Potentially Impacting the Bank

We are subject to state and federal environmental laws and regulations. The Comprehensive Environmental Response, Compensation and Liability Act, ("CERCLA"), is a federal statute that generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress acted to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan, which costs often substantially exceed the value of the property.

The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018

Key provisions of the EGRRCPA as it relates to community banks and bank holding companies include, but are not limited to: (i) designating mortgages held in portfolio as "qualified mortgages" for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading; (iii) establishing the CBLR framework; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; (vi) clarifying definitions pertaining to HVCRE, which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (vii) changing the eligibility for use of the small bank holding company policy statement from institutions with under $1 billion in assets to institutions with under $3 billion in assets.

For those regulations that have been implemented, most will have little to no impact on the Company. However, the Company may be impacted by future agency rulemaking in connection with implementation of the EGRRCPA and it is difficult to anticipate the continued impact this expansive legislation may have on the Company, its customers and the financial industry generally.

For more information on the EGRRCPA, please see the following sections "Permissible Activities," "Community Bank Leverage Ratio," and "Concentrated Commercial Real Estate Lending Regulations," above, and "Consumer Financial Protection Bureau" and "HMDA," below.

Consumer Financial Protection Bureau

The CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts, including the Equal Credit Opportunity Act, Truth-in Lending Act ("TILA"), Real Estate Settlement Procedures Act ("RESPA"), Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. Banking institutions with total assets of $10 billion or less, such as the Bank, remain subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws and such additional regulations as may be adopted by the CFPB.

The "Ability-to-Repay/Qualified Mortgage" rules, which amended TILA's implementing regulation, Regulation Z generally requires creditors to make a reasonable, good faith determination of a consumer's ability to repay for certain consumer credit transactions secured by a dwelling and establishes certain protections from liability under this requirement for "qualified mortgages." The EGRRCPA provides that for certain insured depository institutions and insured credit unions with less than $10 billion in total consolidated assets, mortgage loans that are originated and retained in portfolio will automatically be deemed to satisfy the “ability to repay” requirement. To qualify for this treatment, the insured depository institutions and credit unions must meet conditions relating to prepayment penalties, points and fees, negative amortization, interest-only features and documentation.

The Dodd-Frank Act implemented significant increases in the regulation of mortgage lending and servicing by banks and non-banks. In particular, the Dodd-Frank Act includes, among other things, (i) requirements that mortgage originators act in the best interests of a consumer and seek to ensure that a consumer will have the capacity to repay a loan that the consumer enters into; (ii) requirements that mortgage originators be properly qualified, registered, and licensed and comply with any regulations designed by the CFPB to monitor their operations; (iii) mandates of comprehensive additional and enhanced residential mortgage loan related disclosures, both prior to loan origination and after; and (iv) mandates of additional appraisal practices for loans secured by residential dwellings, including potential additional appraisals at the banks cost.

Home Mortgage Disclosure Act (“HMDA”)

On October 15, 2015, pursuant to Section 1094 of the Dodd-Frank Act, the CFPB issued amended rules in regard to the collection, reporting and disclosure of certain residential mortgage transactions under the Home Mortgage Disclosure Act (the "HMDA Rules"). The Dodd-Frank Act mandated additional loan data collection points in addition to authorizing the Bureau to require other data collection points under implementing Regulation C. Most of the provisions of the HMDA Rule went into effect on January 1, 2018 and apply to data collected in 2018 and reporting in 2019 and later years. The HMDA Rule adopts a uniform loan volume threshold for all financial institutions, modifies the types of transactions that are subject to collection and reporting, expands the loan data information being collected and reported, and modifies procedures for annual submission and annual public disclosures. EGRRCPA amended provisions of the HMDA Rule to exempt certain insured institutions from most of the expanded data collection requirements required of the Dodd-Frank Act. Institutions originating fewer than 500 dwelling secured closed-end mortgage loans or fewer than 500 dwelling secured open-end lines are exempt from the expanded data collection requirements that went into effect January 1, 2018. The Bank does not receive this reporting relief based on the number of dwelling secured mortgage loans reported annually.

UDAP and UDAAP

Banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act, referred to as the FTC Act, which is the primary federal law that prohibits unfair or deceptive acts or practices, referred to as UDAP, and unfair methods of competition in or affecting commerce. "Unjustified consumer injury" is the principal focus of the FTC Act. UDAP laws and regulations were expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices," referred to as UDAAP, which have been delegated to the CFPB for rule-making. The federal banking agencies have the authority to enforce such rules and regulations.

Government and Regulatory Response to the COVID-19 Pandemic

The onset of the COVID-19 pandemic in the United States has in certain respects, at least temporarily, impacted the Company’s operations and risk management and resulted in changes to its safety and soundness regulation. For instance, the federal banking agencies have encouraged banking organizations to work constructively and prudently with borrowers impacted by the COVID-19 pandemic in order to meet the borrowers’ financial needs. Guidance published by the Federal Reserve encourages banking organizations to consider undertaking a variety of efforts during a major disaster or national emergency such as the COVID-19 pandemic, including: waiving ATM, overdraft, and late fees, as well as early withdrawal penalties on time deposits; increasing ATM daily cash withdrawal limits; easing credit terms for new loans; increasing credit limits for creditworthy customers; offering payment accommodations such as allowing loan customers to defer or skip some payments or extending payment due dates, which would avoid delinquencies and negative credit bureau reporting caused by disaster-related disruptions; and conducting a review of an affected borrower's financial condition in an effort to implement a prudent loan workout arrangement. The federal banking agencies have stated that they will not criticize a banking organization that implements prudent loan workouts for affected customers even if the restructured loans result in adverse classifications or credit risk downgrades. In addition, the agencies temporarily suspended examination activity in the second quarter of 2020 to allow banking organization to focus on the needs of their customers and revised examination guidance to require examiners to consider, in conducting supervisory assessments, whether banking organizations have taken appropriate actions in response to the stress caused by the COVID-19 pandemic and managed associated risk appropriately. Consistent with the regulators' guidance, the Company has and continues to work with its customers during the COVID-19 pandemic to provide them with greater access to their funds, waive certain fees and provide short-term payment deferrals for borrowers requiring assistance.

In response to the COVID-19 pandemic, Congress, through the enactment of the CARES Act, and the federal banking agencies, though rulemaking, interpretive guidance and modifications to agency policies and procedures, have taken a series of actions to address regulatory capital, liquidity risk management, financial management and reporting, and operational considerations for banking organizations. Notable developments not otherwise discussed above include the following.

- On March 15, 2020, the Federal Reserve issued a statement encouraging banks to use their capital and liquidity buffers to lend to households and businesses impacted by the COVID-19 pandemic. The following day, the Federal Reserve issued a statement encouraging banks to access the Federal Reserve's discount window to assist with capital and liquidity management in light of the increased credit needs of banking customers.
- The Bank is also typically required by the Federal Reserve Bank of Dallas ("FRB") to maintain in reserves certain amounts of vault cash and/or deposits with the FRB, however, in response to the COVID-19 pandemic, this requirement has been eliminated until further notice.
- Section 4013 of the CARES Act provides financial institutions the option to suspend the application of GAAP to any loan modification related to COVID-19 from treatment as a troubled debt restructuring ("TDR") for the period between March 1, 2020 and the earlier of (i) 60 days after the end of the national emergency proclamation or (ii) December 31, 2020. Section 541 of the Consolidated Appropriations Act, 2021, amended Section 4013 of the CARES Act to extend this relief to the earlier of (i) 60 days after the end of the national emergency proclamation or (ii) January 1, 2022. A financial institution may elect to suspend GAAP only for a loan that was not more than 30 days past due as of December 31, 2019. In addition, the temporary suspension of GAAP does not apply to any adverse impact on the credit of a borrower that is not related to COVID-19. The suspension of GAAP is applicable for the entire term of the modification, including an interest rate modification, a forbearance agreement, a repayment plan, or other agreement that defers or delays the payment of principal and/or interest. Accordingly, a financial institution that elects to suspend GAAP should not be required to increase its reported TDRs at the end of the period of relief, unless the loans require further modification after the expiration of that period.

For additional information regarding actions taken by regulatory agencies to provide relief to consumers who have been adversely impacted by the ongoing COVID-19 pandemic, see the discussion below under Item 1A, "Risk Factors—Risks Related to our Business," of this Form 10-K.

Future Legislative Developments

Various legislative acts are from time to time introduced in the U.S. Congress and the Texas Legislature. This legislation may change banking statutes and the environment in which we operate in substantial and unpredictable ways. With the change in U. S. Presidential administration, numerous regulations have been identified for potential revision, including laws and regulations associated with the Dodd-Frank Act and EGRRCPA. We cannot determine the ultimate effect that potential legislation, if enacted, or implementing regulations and interpretations with respect thereto, would have on our financial condition or results of operations.

AVAILABLE INFORMATION

We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports available free of charge on www.sotb.com as soon as reasonably practicable after the reports are electronically filed with the SEC. Our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q are also available our internet website in interactive data format using the eXtensible Business Reporting Language ("XBRL"), which allows financial statement information to be downloaded directly into spreadsheets, analyzed in a variety of ways using commercial off-the-shelf software and used within investment models in other software formats. These filings are also accessible on the SEC's website at www.sec.gov.

Additionally, our corporate governance policies, including the charters of the Audit, Compensation and Corporate Governance and Nominating Committees, and our Code of Business Conduct and Ethics may also be found under the "Investor Relations" section of our website. A written copy of the foregoing corporate governance policies is available upon written request. Except as explicitly provided, information furnished by the Company and information on, or accessible through, the SEC's or the Company's website is not incorporated into this Annual Report on Form 10-K or our other securities filings and is not a part of them.

Item 1A. Risk Factors

Risks Related to Our Business

The COVID-19 pandemic is adversely affecting us and our customers, employees, and third-party service providers, and the adverse impacts on our business, financial position, results of operations, and prospects could be significant.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, increased unemployment levels and decreased consumer confidence generally. In addition, many state and local governments responded to the COVID-19 pandemic with the temporary closure of brick-and-mortar "non-essential" businesses, schools, and limitations on social gatherings, stay-at-home advisories and mandates, and travel bans and restrictions. Although many of these restrictions have eased or been lifted, these restrictions have resulted in significant adverse effects on our customers and business partners, particularly those in the retail, hospitality and food and beverage industries, among many others, including a significant number of layoffs and furloughs of employees nationwide, and in the regions and communities in which we operate. The COVID-19 pandemic could cause us to experience higher credit losses in our lending portfolio, impairment of our goodwill and other financial assets, impairment of the ability of borrowers to repay outstanding loans, impairment of the value of collateral securing loans, reduced demand for our products and services, lost revenue and other negative impacts on our financial position, results of operations and prospects. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize OTTI in future periods on the securities we hold as well as reductions in other comprehensive income. Furthermore, in addition to the express risks set forth in this Risk Factors section, the COVID-19 pandemic may exacerbate and magnify the other risks described in this Risk Factors section.

The extent of the impact of the COVID-19 pandemic on our capital, liquidity and other financial positions and on our business, results of operations, and prospects will depend on a number of evolving factors, including: (i) the duration, extent and severity of the pandemic, (ii) the response of governmental and nongovernmental authorities, (iii) the effect on our customers, counterparties, employees and third-party service providers, (iv) the effect on economies and markets, and (v) the success of hardship relief efforts to bridge the gap to reopening the economy. The duration of the pandemic and the resulting business interruptions and related impacts on our business and operations, which will depend on future developments, are highly uncertain and cannot be reasonably estimated at this time. Even after the COVID-19 pandemic has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future.

The U.S. government has implemented programs to directly compensate individuals and grant or loan money to businesses in an effort to provide funding while the economy is shut down and in the process of re-opening. Many banks, including the Bank, have implemented hardship relief programs that include payment deferrals and short-term funding options. The success of these programs could mute the effect on the Company's credit losses, which may be difficult to determine.

A significant number of our borrowers have requested and received short-term loan payment deferrals. Although most of these loans have returned to normal payment schedules upon the expiration of their deferral, outstanding deferrals may negatively impact our revenue and other results of operations in the near term and, if not effective in mitigating the effect of COVID-19 on our customers, may adversely affect our business and results of operations more substantially over a longer period of time. Moreover, the cumulative effects of the COVID-19 pandemic and the measures implemented by governments to combat the pandemic on the mortgaged properties may cause borrowers to be unable to meet their payment obligations under mortgage loans that we hold and may result in significant losses.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole.

Changes in market interest rates or capital markets, including volatility resulting from the COVID-19 pandemic, could affect our revenues and expenses, the value of assets and obligations, and the availability and cost of capital or liquidity.

The COVID-19 pandemic has significantly affected the financial markets and has resulted in a number of Federal Reserve actions. Market interest rates have declined significantly over the past year. We expect that these reductions in interest rates, especially if prolonged, could adversely affect our net interest income and margins and our profitability.

Given our business mix, and the fact that most of our assets and liabilities are financial in nature, we tend to be sensitive to market interest rate movements and the performance of the financial markets. Our primary source of income is net interest income. Prevailing economic conditions, fiscal and monetary policies and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which, in turn, significantly affect financial institutions' net interest income. If the interest we pay on deposits and other borrowings increases at a faster rate than increases in the interest we receive on loans and investments, net interest income, and, therefore, our earnings, could be affected. Earnings could also be affected if the interest we receive on loans and other investments falls more quickly than the interest we pay on deposits and other borrowings.

In addition, the continued spread of COVID-19 has also led to disruption and volatility in financial markets, which could increase our cost of capital and adversely affect our ability to access financial markets, which may in turn affect the value of the subordinated notes. This market volatility could result in a significant decline in our stock price and market capitalization, which could result in goodwill impairment charges.

The Bank's participation in the SBA's Paycheck Protection Program may result in operational, credit or other shortfalls that may adversely affect our financial condition, results of operations, and future prospects.

In response to the COVID-19 pandemic, President Trump signed into law the CARES Act on March 27, 2020. Among other things, the CARES Act created a new facility, titled the "Paycheck Protection Program," to the SBA's 7(a) Loan Program. As of December 31, 2020, the Bank had over 2,600 remaining loans under the PPP, representing an unpaid principal balance of $277.8 million. The PPP opened on April 3, 2020; however, because of the short window between the passing of the CARES Act and the opening of the PPP, there is some ambiguity in the laws, rules and guidance regarding the requirements and operation of the PPP, which exposes the Company to lending risks relating to noncompliance with the PPP. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations. In addition, the Company may be exposed to credit risk on a PPP loan if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded or serviced. We cannot predict what operational, credit, or other shortfalls may arise as a result of the Bank making loans under the PPP or how such shortfalls may adversely affect our financial condition, results of operations and future prospects

We conduct our operations exclusively in Texas, specifically in the Houston, Dallas/Fort Worth and Bryan/College Station, San Antonio-New Braunfels, Corpus Christi, Tyler and Austin metropolitan areas and North Central Texas, which imposes risks and may magnify the consequences of any regional or local economic downturn affecting its Texas markets, including any downturn in the energy, technology or real estate sectors.

As of December 31, 2020, the substantial majority of the loans in our loan portfolio were made to borrowers who live and/or conduct business in our Texas markets. Likewise, as of such date, the substantial majority of our secured loans were secured by collateral located in Texas. Accordingly, we are exposed to risks associated with a lack of geographic diversification. The economic conditions in Texas significantly affect our business, financial condition, results of operations and future prospects, and any adverse economic developments, among other things, could negatively affect the volume of loan originations, increase the level of non-performing assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio.

The economies in our markets are also highly dependent on the energy sector as well as the technology and real estate sectors. In particular, a decline in or volatility of the prices of crude oil or natural gas could adversely affect many of our customers. Any downturn or adverse development in its Texas markets, including as a result of a downturn in the energy, technology or real estate sectors result in increases in loan delinquencies, increases in non-performing assets and foreclosures, decreases in demand for our products and services, which could adversely affect our liquidity position, and decreases in the value of the collateral securing our loans, especially real estate, which could reduce customers' borrowing power and repayment ability, all of which, in turn, would adversely affect our business, financial condition and results of operations.

We may not be able to implement aspects of our growth strategy, which may affect our ability to maintain our historical earnings trends.

Our strategy focuses on organic growth and acquisitions. We may not be able to execute on aspects of our growth strategy to sustain our historical rate of growth or may not be able to grow at all. More specifically, we may not be able to generate sufficient new loans and deposits within acceptable risk and expense tolerances, obtain the personnel or funding necessary for additional growth or find suitable acquisition candidates. Various factors, such as economic conditions and competition, may impede or prohibit the growth of our operations, the opening of new branches and the consummation of acquisitions. Further, we may be unable to attract and retain experienced bankers, which could adversely affect our growth. The success of our strategy also depends on our ability to effectively manage growth, which is dependent upon a number of factors, including our ability to adapt our existing credit, operational, technology and governance infrastructure to accommodate expanded operations. If we fail to implement one or more aspects of our strategy, we may be unable to maintain our historical earnings trends, which could have an adverse effect on our business.

Our strategy of pursuing acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We intend to continue pursuing a strategy that includes acquisitions. We face significant competition in pursuing acquisition targets from other banks and financial institutions, many of which possess greater financial, human, technical and other resources than we do. Our ability to compete in acquiring target institutions will depend on our available financial resources to fund the acquisitions, including the amount of cash and cash equivalents we have and the liquidity and market price of our common stock. In addition, increased competition may also drive up the acquisition consideration that we will be required to pay in order to successfully capitalize on attractive acquisition opportunities. To the extent that we are unable to find suitable acquisition targets, an important component of our growth strategy may not be realized.

Acquisitions of financial institutions also involve operational risks and uncertainties, such as unknown or contingent liabilities with no available manner of recourse, exposure to unexpected problems such as asset quality, the retention of key employees and customers and other issues that could negatively affect our business. We may not be able to complete future acquisitions or, if completed, we may not be able to successfully integrate the operations, technology platforms, management, products and services of the entities that we acquire or successfully eliminate redundancies. The integration process may also require significant time and attention from our management that would otherwise be directed toward servicing existing business and developing new business. Failure to successfully integrate the entities we acquire into our existing operations in a timely manner may increase our operating costs significantly and adversely affect our business, financial condition and results of operations. Further, acquisitions in Texas typically involve the payment of a premium over book and market values. Therefore, some dilution of our tangible book value and earnings per share may occur in connection with any future acquisition, and the carrying amount of any goodwill that we currently maintain or may acquire may be subject to impairment in future periods.

SBA lending is an important part of our business. Our SBA lending program is dependent upon the federal government and our status as a participant in the SBA's Preferred Lenders Program, and we face specific risks associated with originating SBA loans and selling the guaranteed portion thereof.

We have been approved by the SBA to participate in the SBA's Preferred Lenders Program. As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, which could adversely affect our business, financial condition and results of operations.

SBA lending programs typically guarantee 75.0% of the principal on an underlying loan. We generally sell the guaranteed portion of our SBA 7(a) loans in the secondary market. These sales have resulted in both premium income for us at the time of sale, and created a stream of future servicing income. There can be no assurance that we will be able to continue originating these loans, that a secondary market for these loans will continue to exist or that we will continue to realize premiums upon the sale of the guaranteed portion of these loans. When we sell the guaranteed portion of our SBA 7(a) loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on the non-guaranteed portion of a loan, we share any loss and recovery related to the loan pro-rata with the SBA. Furthermore, if our employees do not follow the SBA guidelines in originating loans and if our loan review and audit programs fail to identify and rectify such failures, the SBA may reduce or, in some cases, refuse to honor its guarantee obligations and we may incur losses as a result.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. In addition, the aggregate amount of SBA 7(a) and 504 loan guarantees by the SBA must be approved each fiscal year by the federal government. We cannot predict the effects of these changes or decisions on our business and profitability. If the federal government were to reduce the amount of SBA loan guarantees, such reduction could adversely impact our SBA lending program, including making and selling the guaranteed portion of fewer SBA 7(a) and 504 loans. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA or U.S. Department of Agriculture loans or sell such loans in the secondary market, which could materially and adversely affect our business, financial condition and results of operations.

Loans to and deposits from foreign nationals are an important part of our business and we face specific risks associated with foreign nationals.

As of December 31, 2020, loans to foreign nationals of $124.6 million comprised 5.2% of our loan portfolio and deposits from foreign nationals of $26.1 million comprised 1.1% of our total deposits. We define foreign nationals as those who derive more than 50.0% of their personal income from non-U.S. sources. We intend to grow this segment of its loan and deposit portfolio in the future. These borrowers typically lack a U.S. credit history and have a potential to leave the United States without fulfilling their mortgage obligation and leaving us with little recourse to them personally. Additionally, transactions with foreign nationals place additional pressure on our policies, procedures and systems for complying with the Bank Secrecy Act and other AML statutes and regulations.

Our ability to develop bankers, retain bankers and recruit additional successful bankers is critical to the success of our business strategy, and any failure to do so could adversely affect our business, financial condition, results of operations and future prospects.

Our ability to retain and grow our loans, deposits and fee income depends upon the business generation capabilities, reputation and relationship management skills of our bankers, many of whom we develop internally. If we lose the services of any of our bankers, including successful bankers employed by financial institutions that we may acquire, to a new or existing competitor or otherwise, or fail to successfully recruit bankers or develop bankers internally, we may not be able to implement our growth strategy, retain valuable relationships and some of our customers could choose to use the services of a competitor instead of our services. Additionally, we may incur significant expenses and expend significant time and resources on training, integration and business development before it is able to determine whether a new banker will be profitable or effective. If we are unable to develop, attract or retain successful bankers, or if our bankers fail to meet our expectations in terms of customer relationships and profitability, we may be unable to execute our business strategy and our business, financial condition, results of operations and future prospects may be adversely affected.

The small- to medium-sized businesses to which we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We focus our business development and marketing strategy primarily on small- to medium-sized businesses, which we define as commercial borrowing relationships with customers with revenues of $3.0 million to $30.0 million. Small- to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management skills, talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact our primary service areas specifically or Texas generally and small- to medium-sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations could be adversely affected.

If our allowance for loan and lease losses is not sufficient to cover actual loan losses, our earnings may be affected.

We establish our allowance for loan and lease losses and maintain it at a level considered adequate by management to absorb probable loan losses based on our analysis of our loan portfolio and market environment. Although we believe that the allowance for loan and lease losses is adequate, there can be no assurance that the allowance will prove sufficient to cover future losses. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates.

We may be required to take additional provisions for loan and lease losses in the future to further supplement the allowance for loan and lease losses, either due to management's decision to do so or requirements by our banking regulators, which would result in a decrease in our net income and our capital balance. These adjustments could adversely affect our business, financial condition and results of operations.

In the aftermath of the 2008 financial crisis, the FASB decided to review how banks estimate losses in the allowance calculation, and it issued the final current expected credit loss standard ("CECL") in June 2016. The current allowance model will be replaced by the new CECL model that will become effective for us, as an emerging growth company, for the first interim and annual reporting periods beginning after December 15, 2022. Under the new CECL model, financial institutions will be required to use historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of the loan. The transition to the CECL model will bring with it significantly greater data requirements and changes to methodologies to accurately account for expected losses under the new parameters, and there is the potential for an increase in the allowance at adoption date. We expect to continue developing and implementing processes and procedures to ensure we are fully compliant with the CECL requirements at its adoption date.

A large portion of our loan portfolio is comprised of commercial loans secured by receivables, promissory notes, inventory, equipment or other commercial collateral, the deterioration in value of which could increase the potential for future losses.

As of December 31, 2020, $575.0 million, or 24.1% of our loans held for investment, were comprised of commercial loans to businesses. These commercial loans are typically larger in amount than loans to individuals and, therefore, have the potential for larger losses on a single loan basis. Additionally, the repayment of commercial loans is subject to the ongoing business operations of the borrower. The collateral securing such loans generally includes moveable property such as equipment and inventory, which may decline in value more rapidly than we anticipate exposing us to increased credit risk. A portion of our commercial loans are secured by promissory notes that evidence loans made by us to borrowers that in turn make loans to others that are secured by real estate. Accordingly, significant adverse changes in the economy or local market conditions in which our commercial lending customers operate could cause rapid declines in loan collectability and the values associated with general business assets resulting in inadequate collateral coverage that may expose us to credit losses and could adversely affect our business, financial condition and results of operations.

Because a portion of our loan portfolio is comprised of 1-4 single family residential real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2020, $364.1 million, or 15.3% of our loans held for investment, were comprised of loans with 1-4 single family residential real estate as a primary component of collateral. As a result, adverse developments affecting real estate values in our primary markets could increase the credit risk associated with our real estate loan portfolio. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses could have a material adverse impact on our business, results of operations and growth prospects. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan and lease losses, which could adversely affect our business, financial condition and results of operations.

Our commercial real estate and construction, land and development loan portfolios expose us to credit risks that could be greater than the risks related to other types of loans.

As of December 31, 2020, $956.7 million, or 40.1% of our loans held for investment, were comprised of commercial real estate loans (including owner-occupied commercial real estate loans and multifamily loans) and $415.5 million, or 17.4% of our loans held for investment, were comprised of construction, land and development loans. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. The availability of such income for repayment may be adversely affected by changes in the economy or local market conditions. These loans expose a lender to greater credit risk than loans secured by other types of collateral because the collateral securing these loans is typically more difficult to liquidate due to the fluctuation of real estate values. Additionally, nonowner-occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Unexpected deterioration in the credit quality of our nonowner-occupied commercial real estate loan portfolio could require us to increase our allowance for loan and lease losses, which would reduce our profitability and could have a material adverse effect on our business, financial condition and results of operations.

Construction, land and development loans also involve risks attributable to the fact that loan funds are secured by a project under construction and the project is of uncertain value prior to its completion. It can be difficult to accurately evaluate the total funds required to complete a project, and this type of lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, we may be unable to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time, any of which could adversely affect our business, financial condition and results of operations.

Our primary markets are susceptible to severe weather events that could negatively impact the economies of our markets, our operations or our customers, any of which impacts could have a material adverse effect on our business, financial condition and results of operations.

Our primary markets are susceptible to tornadoes, hurricanes, tropical storms and other natural disasters and severe weather conditions. Future severe weather events in our markets could potentially result in extensive and costly property damage to businesses and residences, force the relocation of residents and significantly disrupt economic activity in our markets. If the economies in our primary markets experience an overall decline as a result of a catastrophic event, demand for loans and our other products and services could decline. In addition, the rates of delinquencies, foreclosures, bankruptcies and losses on our loan portfolios may increase substantially after events such as hurricanes, as uninsured property losses, interruptions of our customers' operations or sustained job interruption or loss may materially impair the ability of borrowers to repay their loans. Moreover, the value of real estate or other collateral that secures our loans could be materially and adversely affected by a catastrophic event. A severe weather event, therefore, could have a materially adverse impact on our financial condition, results of operations and business, as well as potentially increase our exposure to credit and liquidity risks.

A failure in or breach of our operational or security systems, or those of our third-party service providers, including as a result of cyber-attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, our operations rely heavily on the secure data processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber-attacks, electronic fraudulent activity or attempted theft of financial assets. We may be required to expend significant additional resources in the future to modify and enhance our protective measures.

Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

We may be subject to additional credit risk with respect to loans that we make to other lenders.

As a part of our commercial lending activities, we may make loans to customers that, in turn, make commercial and residential real estate loans to other borrowers. When we make a loan of this nature, we take as collateral the promissory notes issued by the end borrowers to our customer, which are themselves secured by the underlying real estate. Because we are not lending directly to the end borrower, and because our collateral is a promissory note rather than the underlying real estate, we may be subject to risks that are different from those we are exposed to when it makes a loan directly that is secured by commercial or residential real estate. Because the ability of the end borrower to repay its loan from our customer could affect the ability of our customer to repay its loan from us, our inability to exercise control over the relationship with the end borrower and the collateral, except under limited circumstances, could expose us to credit losses that adversely affect our business, financial condition and results of operations.

We have a concentration of loans outstanding to a limited number of borrowers, which may increase our risk of loss.

We have extended significant amounts of credit to a limited number of borrowers, and as of December 31, 2020, the aggregate amount of loans to our 10 and 20 largest borrowers (including related entities) amounted to $232.2 million, or 9.7% of loans held for investment, and $386.6 million, or 16.2% of loans held for investment, respectively. In the event that one or more of these borrowers is not able to make payments of interest and principal in respect of such loans, the potential loss to us is more likely to have a material adverse effect on our business, financial condition and results of operations.

A lack of liquidity could impair our ability to fund operations and adversely affect our operations and jeopardize our business, financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. Our most important source of funds is deposits. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low-cost source of funds, increasing its funding costs and reducing its net interest income and net income.

Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us specifically or the financial services industry or economy generally, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in our primary markets, or by one or more adverse regulatory actions against us. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity and could, in turn, adversely affect our business, financial condition and results of operations.

An inability to raise additional capital in the future or otherwise could adversely affect our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance.

We face significant capital and other regulatory requirements as a financial institution. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or reduce our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions, investor perceptions regarding the banking industry, market conditions and governmental activities, and our financial condition and performance. Accordingly, we may not be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our liquidity, business, financial condition and results of operations could be adversely affected.

Fluctuations in interest rates could reduce net interest income and otherwise negatively impact our financial condition and results of operations.

Our profitability depends to a great extent upon the level of our net interest income. Changes in interest rates can increase or decrease our net interest income because different types of assets and liabilities may react differently and at different times to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income. Our interest sensitivity profile was asset sensitive as of December 31, 2020, meaning that we estimate our net interest income would increase more from rising interest rates than from falling interest rates.

Additionally, an increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans and decrease loan repayment rates. A decrease in the general level of interest rates may affect us through, among other things, increased prepayments on its loan portfolio and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets, loan origination volume, loan portfolio and our overall results. Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets.

Uncertainty related to the LIBOR and replacement.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after December 31, 2021. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, the Alternative Reference Rates Committee (the "ARRC") has proposed the Secured Overnight Financing Rate ("SOFR") as the alternative rate for use in derivatives and other financial contracts currently being indexed to LIBOR. SOFR is a daily index of the interest rate banks and hedge funds pay to borrow money overnight, secured by U.S. Treasury securities. Currently no forward-looking term index (like LIBOR) yet exists and the development of a SOFR-based term rate is ongoing. Historically, SOFR has been lower than LIBOR because it does not take into account bank credit risk. Accordingly, a credit spread adjustment is being considered. Since the proposed SOFR is calculated differently than LIBOR, payments under contracts referencing the new rates may differ from those referencing LIBOR. At this time, it is not possible to predict whether SOFR will attain market traction as a LIBOR replacement tool, and the future of LIBOR is still uncertain.

We could recognize losses on investment securities held in its securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

While we attempt to invest a significant majority of our total assets in loans, we invest a percentage of our total assets (7.7% as of December 31, 2020) in investment securities with the primary objectives of providing a source of liquidity, providing an appropriate return on funds invested, managing interest rate risk, meeting pledging requirements and meeting regulatory capital requirements. Factors beyond our control can significantly and adversely influence the fair value of securities in our portfolio. Such factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause other-than-temporary impairment in future periods and result in realized losses. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may incur realized or unrealized losses in future periods, which could have an adverse effect on our business, financial condition and results of operations.

We face strong competition from financial services companies and other companies that offer banking services, which could adversely affect our business, financial condition and results of operations.

Many of our competitors offer the same, or a wider variety of, banking services within our primary market areas. These competitors include banks with nationwide operations, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings banks, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders and certain other non-financial entities, such as retail stores which may maintain their own credit programs and certain governmental organizations which may offer more favorable financing or deposit terms than we can. In addition, a number of out-of-state financial intermediaries have production offices or otherwise solicit loan and deposit products in our market areas. Furthermore, our legal lending limit is significantly less than the limits for many of our competitors, and this may hinder our ability to establish relationships with larger businesses in our primary service area. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios, and our business, financial condition and results of operations could be adversely affected.

Negative public opinion regarding us or failure to maintain our reputation in the communities we serve could adversely affect our business and prevent us from growing our business.

As a community bank, our reputation within the communities we serve is critical to our success. If our reputation is negatively affected by the actions of our employees or otherwise, we may be less successful in attracting new customers, and our business, financial condition, results of operations and future prospects could be materially and adversely affected. Further, negative public opinion can expose us to litigation and regulatory action or delay in acting as we seek to implement our growth strategy.

In addition, investors have begun to consider how corporations are addressing environmental, social and governance matters, commonly known as “ESG matters” when making investment decisions. For example, certain investors are beginning to incorporate the business risks of climate change and the adequacy of companies’ responses to climate change and other ESG matters as part of their investment theses. These shifts in investing priorities may result in adverse effects on the trading price of the Company’s common stock if investors determine that the Company has not made sufficient progress on ESG matters.

If we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting, we may not be able to accurately report its financial results or prevent fraud.

Our management may conclude that our internal control over financial reporting is not effective due to our failure to cure any identified material weakness or otherwise. Moreover, even if our management concludes that its internal control over financial reporting is effective, our independent registered public accounting firm may not conclude that our internal control over financial reporting is effective. In addition, during the course of the evaluation, documentation and testing of our internal control over financial reporting, we may identify deficiencies that we may not be able to remediate in time to meet the deadline imposed by the FDIC for compliance with the requirement of FDICIA. Any such deficiencies may also subject us to adverse regulatory consequences. If we fail to achieve and maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may be unable to report our financial information on a timely basis, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act or FDICIA, and we may suffer adverse regulatory consequences or violations of listing standards. There could also be a negative reaction in the financial markets due to a loss of investor confidence in the reliability of our financial statements.

The obligations associated with being a public company require significant resources and management attention.

We expect to incur significant incremental costs related to operating as a public company, particularly when we no longer qualify as an emerging growth company. We are subject to the reporting requirements of the Exchange Act, which require that we file annual, quarterly and current reports with respect to our business and financial condition and proxy and other information statements, and the rules and regulations implemented by the SEC, the Sarbanes-Oxley Act, the Dodd-Frank Act, the Public Company Accounting Oversight Board (the “PCAOB”) and NASDAQ, each of which imposes additional reporting and other obligations on public companies.

We expect these rules and regulations and changes in laws, regulations and standards relating to corporate governance and public disclosure to increase legal and financial compliance costs and make some activities more time consuming and costly. These laws, regulations and standards are subject to varying interpretations, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our investment in compliance with existing and evolving regulatory requirements will result in increased administrative expenses and a diversion of management’s time and attention from revenue-generating activities to compliance activities, which could have a material adverse effect on our business, financial condition and results of operations.

We could be subject to losses, regulatory action or reputational harm due to fraudulent, negligent or other acts on the part of our loan customers, employees or vendors.

Employee errors or employee or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding from us unauthorized activities, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors or employee or customer misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

In addition, in deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished by or on behalf of customers and counterparties, including representations and warranties, financial statements, property appraisals, title information, employment and income documentation, account information and other financial information. Any such misrepresentation or incorrect or incomplete information may not be detected prior to funding a loan or during our ongoing monitoring of outstanding loans. Any of these developments could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology, or we may experience operational challenges when implementing new technology.

Our future success will depend, at least in part, upon our ability to respond to future technological changes and our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our product and service offerings. We may experience operational challenges as we implement these new technology enhancements or products, which could result in us not fully realizing the anticipated benefits from such new technology or require it to incur significant costs to remedy any such challenges in a timely manner.

In addition, changes may be more difficult or expensive than we anticipate. Many of our larger competitors may be able to offer additional or superior products compared to those that we will be able to provide. Accordingly, we may lose customers seeking new technology-driven products and services to the extent it is unable to provide such products and services.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend on a number of relationships with third-party service providers. Specifically, we receive certain third-party services including, but not limited to, core systems processing, essential web hosting and other Internet systems, online banking services, deposit processing and other processing services. If these third-party service providers experience difficulties or terminate their services, and we are unable to replace them with other service providers, particularly on a timely basis, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace third-party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could adversely affect our business, financial condition and results of operations.

Changes in U.S. trade policies and other factors beyond our control, including the imposition of tariffs and retaliatory tariffs and the impacts of epidemics or pandemics, may adversely impact our business, financial condition and results of operations.

There have been changes and discussions with respect to U.S. trade policies, legislation, treaties and tariffs. Tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export could cause the prices of our customers' products to increase which could reduce demand for such products, or reduce our customer margins, and adversely impact their revenues, financial results and ability to service debt; which, in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate our business, results of operations and financial condition could be materially and adversely impacted in the future. It remains unclear what the U.S. Administration or foreign governments will or will not do with respect to tariffs already imposed, additional tariffs that may be imposed, or international trade agreements and policies. A trade war or other governmental action related to tariffs or international trade agreements or policies, as well as coronavirus or other potential epidemics or pandemics, have the potential to negatively impact our and/or our customers' costs, demand for our customers' products, and/or the U.S. economy or certain sectors thereof and, thus, adversely affect our business, financial condition, and results of operations.

Risks Related to Our Industry and Regulation

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could adversely affect us.

We are subject to extensive regulation, supervision and legal requirements that govern almost all aspects of our operations. These laws and regulations are not intended to protect our shareholders. Rather, these laws and regulations are intended to protect customers, depositors, the DIF and the overall financial stability of the banking system in the United States. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition and results of operations.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

New proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things.

Certain aspects of current or proposed regulatory or legislative changes, including laws applicable to the financial industry and federal and state taxation, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply, and could have a material adverse effect on our business, financial condition and results of operations. In addition, any proposed legislative or regulatory changes, including those that could benefit our business, financial condition and results of operations, may not occur on the timeframe that is proposed, or at all, which could result in additional uncertainty for our business.

As a regulated entity, we and the Bank must maintain certain required levels of regulatory capital that may limit our and the Bank's operations and potential growth.

We and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve and the FDIC, respectively. See "Supervision and Regulation—Regulatory Capital Requirements."

Many factors affect the calculation of our risk-based assets and our ability to maintain the level of capital required to achieve acceptable capital ratios. For example, any increases in our risk-weighted assets will require a corresponding increase in our capital to maintain the applicable ratios. In addition, recognized loan losses in excess of amounts reserved for such losses, loan impairments, impairment losses on securities and other factors will decrease our capital, thereby reducing the level of the applicable ratios. Our failure to remain well-capitalized for bank regulatory purposes could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends to the Company and the Company's ability to pay dividends on its common stock, the Company's ability to make acquisitions and on our and the Company's business, results of operations and financial condition. Under regulatory rules, if we cease to be a well-capitalized institution for bank regulatory purposes, the interest rates that we pay on deposits and our ability to accept brokered deposits may be restricted.

State and federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we become subject as a result of such examinations could adversely affect it.

Texas and federal bank regulatory agencies periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, a regulatory agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we, the Bank or our respective management, were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital levels, to restrict our growth, to assess civil monetary penalties against us, the Bank or our respective officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Bank's deposit insurance, with the result that the Bank would be closed. If we become subject to such regulatory actions, our business, financial condition, results of operations and reputation could be adversely affected.

Many of our new activities and expansion plans require regulatory approvals, and failure to obtain them may restrict our growth.

Generally, we must receive federal and state regulatory approval before we can acquire an FDIC-insured depository institution or related business. Such regulatory approvals may not be granted on terms that are acceptable to us, or at all. We may also be required to sell branches or other business lines as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

Financial institutions, such as the Bank, face a risk of noncompliance with the Bank Secrecy Act and other anti-money laundering statutes and regulations, and associated enforcement actions.

The Bank Secrecy Act, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements, and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice (the "Justice Department"), the Drug Enforcement Administration and the IRS. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by OFAC.

If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and on expansion opportunities, including acquisitions.

We are subject to numerous lending laws designed to protect consumers, including the CRA and fair lending laws, and failure to comply with these laws could lead to material sanctions and penalties and restrictions on our expansion opportunities.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, the FDIC, the Justice Department and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity, and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation.

The Federal Reserve may require us to commit capital resources to support the Bank.

The Dodd-Frank Act and Federal Reserve require a bank holding company to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. Accordingly, we could be required to provide financial assistance to the Bank if it experiences financial distress.

Such a capital injection may be required at a time when our resources are limited and we may be required to raise capital or borrow the funds to make the required capital injection. Any borrowing that must be done by the holding company in order to make the required capital injection may be difficult and expensive and may adversely impact the holding company's business, financial condition and results of operations.

We could be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due. Any such losses could adversely affect our business, financial condition and results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the U.S. money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of both the discount rate and the federal funds rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

Although we cannot determine the effects of such policies on it at this time, such policies could adversely affect our business, financial condition and results of operations.

Risks Related to Our Common Stock

An active trading market for our common stock may not develop.

We completed the initial public offering of our common stock and the Company's common stock began trading on NASDAQ in May 2018. An active trading market for shares of our common stock may not be sustained. If an active trading market is not sustained, you may have difficulty selling your shares of our common stock at an attractive price, or at all. Consequently, you may not be able to sell your shares of our common stock at or above an attractive price at the time that you would like to sell.

The market price of our common stock could be volatile and may fluctuate significantly, which could cause the value of an investment in our common stock to decline.

The market price of our common stock could fluctuate significantly due to a number of factors, many of which are beyond our control, including the realization of any of the risks described in this "Risk Factors" section. In addition, the stock market in general, and the market for banks and financial services companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition.

If securities or industry analysts change their recommendations regarding our common stock or if our operating results do not meet their expectations, its stock price could decline.

The trading market for our common stock could be influenced by the research and reports that industry or securities analysts may publish about us or our business. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline and our common stock to be less liquid. Moreover, if one or more of the analysts who cover us downgrade our stock or if our operating results do not meet their expectations, either absolutely or relative to our competitors, the price of our common stock could decline significantly.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of shares of our common stock.

We may seek to raise additional funds, finance acquisitions or develop strategic relationships by issuing additional shares of our common stock.

We may also grant registration rights covering those shares of our common stock or other securities in connection with any such acquisitions and investments. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Future sales or the availability for sale of substantial amounts of our common stock in the public market could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise materially adversely affect our shareholders, which could depress the price of our common stock.

Our certificate of formation authorizes us to issue up to 5,000,000 shares of one or more series of preferred stock. Our board of directors has the authority to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our shareholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discourage bids for our common stock at a premium over the market price and materially adversely affect the market price and the voting and other rights of our shareholders.

We are dependent upon the Bank for cash flow, and the Bank’s ability to make cash distributions is restricted, which could impact our ability to satisfy our obligations.

Our primary asset is the Bank. As such, we depend upon the Bank for cash distributions through dividends on the Bank’s stock to pay our operating expenses and satisfy our obligations, including debt obligations. There are numerous laws and banking regulations that limit the Bank’s ability to pay dividends to us. If the Bank is unable to pay dividends to us, we will not be able to satisfy our obligations or pay dividends.

We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”) and we have taken advantage of certain disclosure exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. We will remain an emerging growth company for up to five years, though we may cease to be an emerging growth company earlier under certain circumstances, including if, before the end of such five years, it is deemed to be a large accelerated filer under the rules of the SEC. Investors and securities analysts may find it more difficult to evaluate our common stock because we may rely on one or more of these exemptions, and, as a result, investor confidence and the market price of our common stock may be materially and adversely affected.

Our shareholders may be deemed to be acting in concert or otherwise in control of us, which could impose notice, approval and ongoing regulatory requirements and result in adverse regulatory consequences for such holders.

We are subject to the BHC Act, and federal and state banking regulation, that will impact the rights and obligations of owners of our common stock. Any bank holding company or foreign bank that is subject to the BHC Act may need approval to acquire or retain 5.0% or more of the then outstanding shares of our common stock, and any holder (or group of holders deemed to be acting in concert) may need regulatory approval to acquire or retain 10.0% or more of the shares of our common stock. A holder or group of holders may also be deemed to control us if they own 25.0% or more of its total equity. Under certain limited circumstances, a holder or group of holders acting in concert may exceed the 25.0% threshold and not be deemed to control us until they own 33.3% or more of our total equity. The amount of total equity owned by a holder or group of holders acting in concert is calculated by aggregating all shares held by the holder or group, whether as a combination of voting or non-voting shares or through other positions treated as equity for regulatory or accounting purposes and meeting certain other conditions. Holders deemed to be in "control" of us will be subject to certain reporting and other obligations with the Federal Reserve. Our shareholders should consult their own counsel with regard to regulatory implications.

Our directors and executive officers could have the ability to influence shareholder actions in a manner that may be adverse to your personal investment objectives.

Due to the significant ownership interests of our directors and executive officers, our directors and executive officers are able to exercise significant influence over our management and affairs. For example, our directors and executive officers may be able to influence the outcome of director elections or block significant transactions, such as a merger or acquisition, or any other matter that might otherwise be approved by the shareholders.

An investment in our common stock is not an insured deposit and is not guaranteed by the FDIC, so you could lose some or all of your investment.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described herein. As a result, if you acquire our common stock, you could lose some or all of your investment.

Our corporate organizational documents and certain corporate and banking provisions of Texas law to which it is subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition of us that you may favor.

Our certificate of formation and bylaws contain certain provisions that may have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change of control of us. These provisions include (i) staggered terms for directors, who may only be removed for cause; (ii) authorization for our board of directors to issue shares of one or more series of preferred stock without shareholder approval and upon such terms as our board of directors may determine; (iii) a prohibition of shareholder action by less than unanimous written consent; (iv) a prohibition of cumulative voting in the election of directors; (v) a provision establishing certain advance notice procedures for nomination of candidates for election of directors and for shareholder proposals; and (vi) a limitation on the ability of shareholders to call special meetings to those shareholders or groups of shareholders owning at least 50.0% of the shares of our common stock that are issued, outstanding and entitled to vote. In addition, certain provisions of Texas law, including a provision which restricts certain business combinations between a Texas corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control. Moreover, banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws could delay or prevent an acquisition.

Our certificate of formation contains an exclusive forum provision that limits the judicial forums where our shareholders may initiate derivative actions and certain other legal proceedings against us and our directors and officers.

Our certificate of formation provides that the state and federal courts located in Montgomery County, Texas will, to the fullest extent permitted by law, be the sole and exclusive forum for certain causes of action, which may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us. Alternatively, if a court were to find the choice of forum provision contained in our certificate of formation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal offices and headquarters are located at 1836 Spirit of Texas Way, Conroe, Texas 77301. All of our branches are located in Texas. We own 29 of our branch locations and lease the remaining nine locations. The terms of our leases range from five to ten years and generally give us the option to renew for subsequent terms of equal duration or otherwise extend the lease term subject to price adjustment based on market conditions at the time of renewal. The following table sets forth a list of our locations as of the date of this Annual Report on Form 10-K.

Houston-The Woodlands-Sugar Land MSA		
Location	**Own or Lease**	**Sq. Ft.**[1]
Houston		
Post Oak Branch	Lease	16,403
720 N. Post Oak Road, Suites 101, 620 and 650, Houston, Texas 77024		
Stafford Branch	Lease	6,372
12840 Southwest Freeway, Stafford, Texas 77477		
Richmond Branch	Lease	5,890
3100 Richmond Avenue, Suite 100, Houston, Texas 77098		
The Woodlands		
Woodlands North Branch	Own	24,000 (2)
16610 Interstate 45 North, The Woodlands, Texas 77384		
Woodlands Central Center	Own	14,925 (2)
1525 Lake Front Circle, The Woodlands, Texas 77380		
Woodlands West Branch	Own	6,700 (2)
30350 FM 2978, Magnolia, Texas 77354		
Conroe		
Conroe Branch	Own	24,000 (2)
1836 Spirit of Texas Way (815 W. Davis Street), Conroe, Texas 77301		
Conroe Operations Support Center	Own	12,932
1824 Spirit of Texas Way (815 W. Davis Street), Conroe, Texas 77301		
Montgomery		
Montgomery Branch	Own	12,568 (2)
165 Lone Star Parkway, Montgomery, Texas 77356		
Tomball		
Tomball Branch	Own	12,798 (2)
1100 W. Main Street, Tomball, Texas 77375		
Magnolia		
Magnolia Branch	Lease	3,600
6910 FM 1488, Suites 1, 2, 3 and 4, Magnolia, Texas 77354		

Dallas-Fort Worth-Arlington MSA

Location	Own or Lease	Sq. Ft.
Dallas		
Dallas Branch	Own	23,602
5301 Spring Valley Road Dallas, Texas 75254		
Fort Worth		
Fort Worth Branch	Own	7,483
1120 Summit Avenue Fort Worth, Texas 76102		
Colleyville		
Colleyville Branch	Lease	4,100
5712 Colleyville Boulevard, Suite 100, Colleyville, Texas 76034		
Grapevine		
Grapevine Branch	Lease	3,327
601 W. Northwest Highway, Suite 100, Grapevine, Texas 76051		
Parker		
Cool Branch	Own	3,479
9702 Mineral Wells Highway, Weatherford, Texas 76088		

College Station-Bryan MSA

Location	Own or Lease	Sq. Ft.
College Station		
College Station Banking and Operations Center	Own	12,358
625 University Drive East, College Station, Texas 77840		

Mineral Wells MSA

Location	Own or Lease	Sq. Ft.
Mineral Wells		
Mineral Wells Branch	Own	2,544
701 E. Hubbard Street, Mineral Wells, Texas 76067		
Mingus Branch	Own	1,572
117 Highway 193, Mingus, Texas 76463		
Palo Pinto Branch	Own	1,800
539 Oak Street, Palo Pinto, Texas 76484		
Santo Branch	Own	1,760
14003 S. FM 4, Santo, Texas 76472		

Comanche County

Location	Own or Lease	Sq. Ft.
Comanche		
Comanche Branch	Own	12,342
100 E. Central Street, Comanche, Texas 76442		

Jack County		
Location	**Own or Lease**	**Sq. Ft.**
Jacksboro		
Jacksboro Branch	Own	4,196
1220 N. Main Street, Jacksboro, Texas 76458		

South Texas MSA		
Location	**Own or Lease**	**Sq. Ft.**
Beeville		
Beeville Branch	Own	26,442
1400 E. Houston Street, Beeville, Texas 78102		
Yorktown		
Yorktown Branch	Own	7,164
142 N. Riedel Street, Yorktown, Texas 78164		
Seguin		
Sequin Branch	Own	9,817
125 S. State Highway 46, Sequin, Texas 78155		
Corpus Christi		
Corpus Christi Branch	Own	12,318
2051 Rodd Field Rd, Corpus Christi, Texas 78412		

Northeast Texas MSA		
Location	**Own or Lease**	**Sq. Ft.**
Tyler		
Tyler-South West Branch	Own	23,382
3915 S.S.W. Loop 323, Tyler, Texas 75711		
Highway 64 Branch	Own	2,021
11433 Highway. 64 West, Tyler, Texas 75704		
Lindale		
Lindale Branch	Lease	2,598
16920 Village Lake Drive, Lindale, Texas 75771		
Chandler		
Chandler Branch	Own	5,916
216 N. Broad Street, Chandler, Texas 75758		
Mabank		
Mabank Branch	Own	5,472
1381 S. 3rd Street, Mabank, Texas 75147		
Athens		
Athens Branch	Own	4,572
713 East Tyler, Athens, Texas, 75751		
Seven Points		
Seven Points Branch	Own	4,950
220 E. Cedar Creek Parkway, Seven Points, Texas, 75143		

Austin MSA		
Location	**Own or Lease**	**Sq. Ft.**
San Antonio		
Medical Hill Branch 9324 Huebner Road, San Antonio, Texas 78240	Own	4,940
Pyramid Branch 601 NW Loop 410, Suite 230, San Antonio, Texas 78216	Lease	5,017
Austin		
Austin Branch 3001 Palm Way, Austin, Texas 78758	Lease	6,000
Avery Ranch Branch 14951 Avery Ranch Blvd, Austin, Texas 78717	Own	5,336
Tilden		
Tilden Branch 205 Elm Street, Tilden, Texas 78072	Own	2,748

(1) Square footage does not include drive thru.
(2) We lease a portion of these owned space to third-party tenants.

Item 3. Legal Proceedings

In the ordinary course of our banking business, we may be a party to various legal proceedings from time to time. We do not believe that there is any pending or threatened proceeding against us, which, if determined adversely, would have a material effect on our business, results of operations, or financial condition. Other than regular, routine examinations by federal and state banking authorities, there are no proceedings pending or known to be contemplated by any governmental authorities.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Market Information for Common Stock

The Company's common stock, no par value per share, is traded on the NASDAQ Global Select Market under the trading symbol "STXB".

Holders of Record

As of December 31, 2020 there were approximately 379 holders of record of the Company's common stock.

Dividends

On September 24, 2020, the Company announced that our board of directors declared the initiation of a regular quarterly cash dividend of $0.07 per share of our outstanding common stock. The dividend was paid on October 23, 2020 to shareholders of record at the close of business on October 9, 2020. On December 18, 2020, our board of directors declared a quarterly cash dividend of $0.09 per share on our outstanding common stock. The dividend was paid on January 19, 2021 to shareholders of record as of January 5, 2021. Total cash dividends declared to the Company's shareholders in 2020 equaled $2.77 million.

The timing, declaration, amount and payment of any future cash dividends are at the discretion of our board of directors and will depend on many factors, including our results of operations, financial condition, capital requirements, investment opportunities, growth opportunities, any legal, regulatory, contractual or other limitations on our ability to pay dividends and other factors our board of directors may deem relevant. In addition, there are regulatory restrictions on our ability and the ability of the Bank to pay dividends. See "Item 1A. Risk Factors—Our dividend policy may change without notice, our future ability to pay dividends is subject to restrictions, and we may not pay dividends in the future" and "Item 1. Business— Supervision and Regulation—Holding Company Regulation—Restrictions on Bank Holding Company Dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Awards	Weighted-Average Exercise Price of Outstanding Awards	Number of Shares Available for Future Grants
Equity compensation plans approved by shareholders(1)	1,038,586	$ 14.25	942,638
Equity compensation plans not approved by shareholders	—	—	—
Total	1,038,586	$ 14.25	942,638

(1) The number of shares available for future issuance includes 628,263 shares available under the Company's 2017 Stock Incentive Plan (which allows for the issuance of options, as well as various other stock-based awards) and 314,375 shares available under the Company's 2008 Stock Incentive Plan.

Issuer Purchases of Securities

On June 13, 2019, the Company's board of directors approved the Stock Buyback Program pursuant to which the Company may, from time to time, purchase up to $11.7 million of its outstanding shares of common stock. The shares may be repurchased from time to time in privately negotiated transactions or the open market, including pursuant to Rule 10b5-1 trading plans, and in accordance with applicable regulations of the SEC. The timing and exact amount of any repurchases will depend on various factors including, the performance of the Company's stock price, general market and other conditions, applicable legal requirements and other factors. The Stock Buyback Program had an expiration date of June 18, 2020. On June 15, 2020, the board of directors of the Company amended the Stock Buyback Program to authorize the Company to repurchase an additional $10 million of its outstanding shares of common stock and to extend the Stock Buyback Program until June 18, 2021. The Stock Buyback Program may be terminated or amended by the Company's board of directors at any time prior to the expiration date.

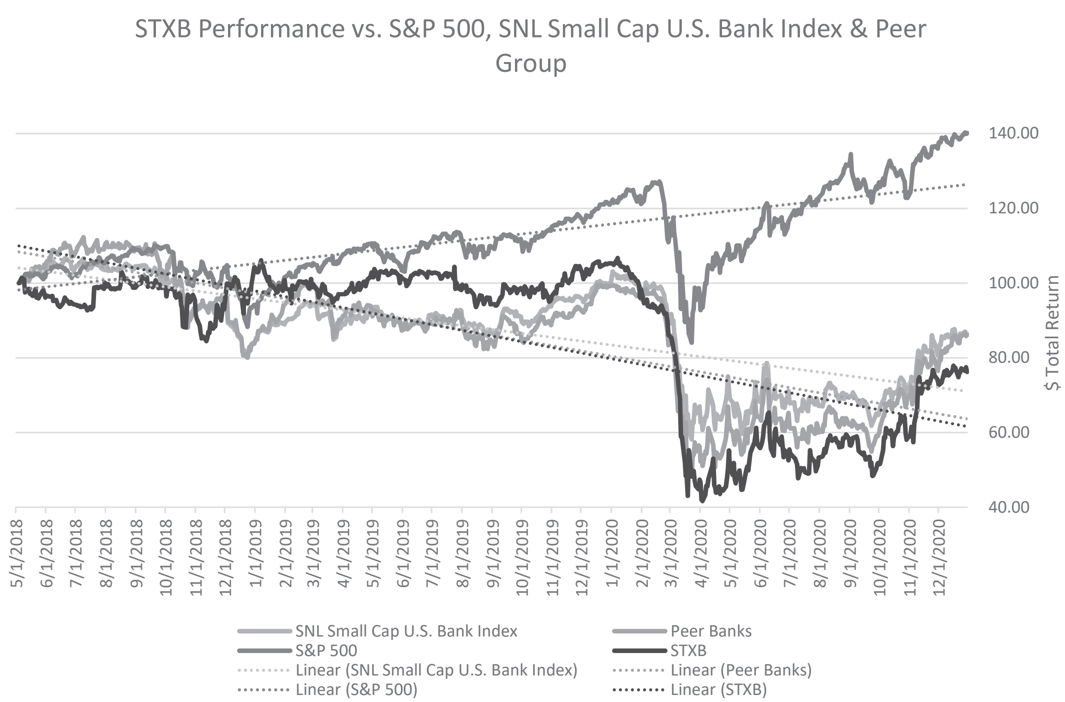
The following table summarizes the share repurchase activity from the inception of the Stock Buyback Program through December 31, 2020.

	Total Shares Repurchased		Average Price Paid Per Share		Total Dollar Amount Purchased Pursuant to Publicly-Announced Plan		Maximum Dollar Amount Remaining Available for Repurchase Pursuant to Publicly-Announced Plan
July 2019	—	$	—	$	—	$	11,700,000
August 2019	7,090		20.59		146,007		11,553,993
September 2019	2,500		20.63		197,582		11,502,418
October 2019	4,433		20.69		289,350		11,410,650
November 2019	—		—		289,350		11,410,650
December 2019	—		—		289,350		11,410,650
Total	14,023						
January 2020	13,822	$	20.73	$	575,787	$	11,124,213
February 2020	85,979	$	20.23		2,320,854	$	9,379,146
March 2020	221,409	$	12.85		5,094,533	$	6,605,467
April 2020	290,632	$	10.17		8,101,233	$	3,598,767
May 2020	228,390	$	11.23		10,682,327	$	1,017,673
June 2020	83,917	$	12.67		11,777,860	$	9,922,140
July 2020	22,832	$	11.31	$	12,036,189		9,663,811
August 2020	20,262	$	12.51		12,289,454		9,410,546
September 2020	21,099	$	11.69		12,533,884		9,166,116
October 2020	21,263	$	13.13		12,810,632		8,889,368
November 2020	214,535	$	15.37		15,600,090		6,099,910
December 2020	9,599	$	16.58		15,758,903		5,941,097
Total	1,233,739						

Stock Performance Graph

The stock price performance graph below shall not be deemed incorporated by reference by any general statement incorporating by reference in this Annual Report on Form 10-K into any filing under the Securities Act or under the Exchange Act, except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

The following graph compares the cumulative total stockholders' return on our common stock compared to the cumulative total returns for the Standard & Poor's (S&P) 500 Index, the SNL Small Cap U.S. Bank Index and an index representing a group of peer banks from May 4, 2018 (the date our common stock commenced trading on NASDAQ) through December 31, 2020. The comparison assumes that $100 was invested on May 4, 2018 in our common stock and in each of the indices. The cumulative total return on each investment assumes reinvestment of dividends (if applicable).



Item 6. Selected Financial Data

The following table should be read in conjunction with “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8 - Financial Statements and Supplementary Data,” below. The selected historical consolidated financial information set forth below as of and for the years ended December 31, 2020 and 2019 is derived from our audited financial statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial information set forth below as of and for the years ended December 31, 2018, 2017 and 2016 is derived from our audited financial statements not included in this Annual Report on Form 10-K. Recent acquisitions in 2020 and 2019 may affect the comparability of the information presented below. The selected historical results shown below and elsewhere in this Annual Report on Form 10-K are not necessarily indicative of our future performance.

	As of and for the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands, except per share data)				
Selected Period-End Balance Sheet Data:					
Total assets(1)	$ 3,084,759	$ 2,384,622	$ 1,476,621	$ 1,038,092	$ 985,093
Loans held for sale	1,470	3,989	3,945	3,814	4,003
Loans held for investment(1)	2,388,532	1,767,182	1,102,808	876,913	777,465
Allowance for loan and lease losses	(16,026)	(6,737)	(6,286)	(5,652)	(4,357)
Loans, net(1)	2,372,506	1,760,445	1,096,522	871,261	773,108
Total deposits	2,459,135	1,928,126	1,182,648	835,368	814,438
Short-term borrowings	10,000	—	12,500	15,000	5,000
Long-term borrowings(1)	242,020	105,140	77,784	84,205	70,620
Total stockholders' equity	360,779	345,705	198,796	99,139	92,896
Selected Period-End Income Statement Data:					
Total interest income	123,545	95,260	57,339	46,907	40,210
Total interest expense	17,610	17,370	10,324	8,328	6,730
Net interest income	105,935	77,890	47,015	38,579	33,480
Provision for loan losses	11,257	2,856	2,160	2,475	1,617
Net interest income after provision for loan losses	94,678	75,034	44,855	36,104	31,863
Total noninterest income	18,876	14,567	10,489	9,638	8,342
Total noninterest expense	74,784	63,044	43,364	37,402	34,881
Income before income tax expense	38,770	26,557	11,980	8,340	5,324
Income tax expense	7,459	5,421	2,002	3,587	1,609
Net income	31,311	21,136	9,978	4,753	3,715
Selected Share and Per Share Data:					
Earnings per common share--Basic	1.78	1.44	1.08	0.65	0.51
Earnings per common share--Diluted	1.77	1.40	1.03	0.63	0.50
Book value per share(2)	21.12	18.93	16.42	13.62	12.83
Tangible book value per share(3)	16.11	14.55	14.21	12.52	11.63
Weighted average common shares outstanding--Basic	17,567,117	14,697,342	9,258,216	7,233,783	7,065,243
Weighted average common shares outstanding--Diluted	17,649,463	15,112,827	9,642,408	7,519,944	7,205,709
Shares outstanding at end of period	17,081,831	18,258,222	12,103,753	7,280,183	7,239,763
Selected Performance Ratios:					
Return on average assets	1.11%	1.14%	0.89%	0.47%	0.41%
Return on average stockholders' equity	8.98	8.38	6.77	4.88	4.09
Net interest margin(4)	4.19	4.58	4.60	4.19	4.09
Noninterest expense to average assets	2.65	3.39	3.85	3.71	3.86
Efficiency ratio	59.92	68.19	75.41	77.57	83.40
Average interest-earning assets to average interest-bearing liabilities	142.66	136.71	131.04	126.42	125.04
Loans to deposits	97.20	91.65	92.41	104.30	95.46
Yield on interest-earning assets	4.83	5.57	5.55	4.97	4.79
Cost of interest-bearing liabilities	0.91	1.39	1.31	1.12	1.00
Interest rate spread	3.92	4.18	4.24	3.85	3.79
Asset and Credit Quality Ratios:					
Nonperforming loans to loans held for investment	0.36%	0.37%	0.49%	0.41%	0.49%
Nonperforming assets to loans plus OREO	0.37	0.57	0.56	0.42	0.50
Nonperforming assets to total assets	0.28	0.57	0.42	0.35	0.39
Net charge-offs to average loans	0.09	0.42	0.16	0.14	0.05
Allowance for loan and lease losses to nonperforming loans	186.41	104.18	118.18	157.22	114.45
Allowance for loan and lease losses to loans held for investment	0.67	0.38	0.58	0.65	0.56
Capital Ratios:					
Average equity to average total assets	12.36%	13.55%	13.09%	9.66%	10.04%
Tangible equity to tangible assets(5)	9.18	11.53	11.94	8.92	8.67

(1) 2017 and 2016 balances have been updated from those previously reported to include secured borrowings.

(2) Book value per share is calculated as total stockholders' equity at the end of the relevant period divided by the outstanding number of shares of common stock at the end of the relevant period.

(3) Tangible book value per share is calculated as total stockholders' equity less goodwill and other intangible assets, net of accumulated amortization at the end of the relevant period, divided by the outstanding number of shares of common stock at the end of the relevant period. Tangible book value per share is a non-GAAP financial measure. The most directly comparable GAAP financial measure is book value per share. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures."

(4) Net interest margin is shown on a fully taxable equivalent basis, which is a non-GAAP financial measure. We calculate the GAAP-based net interest margin as interest income divided by average interest-earning assets. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations— Non-GAAP Financial Measures."

(5) We calculate tangible equity as total stockholders' equity less goodwill and other intangible assets, net of accumulated amortization, and we calculate tangible assets as total assets less goodwill and other intangible assets, net of accumulated amortization. Tangible equity to tangible assets is a non-GAAP financial measure. The most directly comparable GAAP financial measure is total stockholders' equity to total assets. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Historical Consolidated Financial Data" and our consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors" and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. Except as required by law, we assume no obligation to update any of these forward-looking statements.

Overview

We are a Texas corporation and a registered bank holding company located in the Houston metropolitan area with headquarters in Conroe, Texas. We offer a broad range of commercial and retail banking services through our wholly-owned bank subsidiary, Spirit of Texas Bank SSB. We operate through 38 full-service branches located primarily in the Houston, Dallas/Fort Worth, Bryan/College Station, San Antonio-New Braunfels, Corpus Christi, Tyler, and Austin metropolitan areas metropolitan areas. As of December 31, 2020, we had total assets of $3.08 billion, loans held for investment of $2.39 billion, total deposits of $2.46 billion and total stockholders' equity of $360.8 million.

As a bank holding company, we generate most of our revenues from interest income on loans, gains on sale of the guaranteed portion of SBA loans, customer service and loan fees, brokerage fees derived from secondary mortgage originations and interest income from investments in securities. We incur interest expense on deposits and other borrowed funds and noninterest expenses, such as salaries and employee benefits and occupancy expenses. Our goal is to maximize income generated from interest earning assets, while also minimizing interest expense associated with our funding base to widen net interest spread and drive net interest margin expansion. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings that are used to fund those assets. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities.

Changes in market interest rates and the interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and stockholders' equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target markets and throughout Texas.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") was reported to have surfaced in Wuhan, China, and has since spread to a number of other countries, including the United States. In March 2020, the World Health Organization declared COVID-19 a global pandemic and the United States declared a National Public Health Emergency. The COVID-19 pandemic has severely impacted the level of economic activity in the local, national and global economies and financial markets. As a result, the Company and certain of its customers have been adversely affected by the COVID-19 pandemic. The extent to which the COVID-19 pandemic negatively impacts the Company's business, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios, is unknown at this time and will depend on future developments, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. If the pandemic is sustained, it may further adversely impact the Company and impair the ability of the Company's customers to fulfill their contractual obligations to the Company. This could cause the Company to experience a material adverse effect on its business operations, asset valuations, financial condition, and results of operations. Please refer to Part I, Item 1A, “Risk Factors” of this Annual Report on Form 10-K.

In April 2020, we began originating loans to qualified small businesses under the PPP administered by the SBA under the provisions of the CARES Act. Loans covered by the PPP may be eligible for loan forgiveness for certain costs incurred related to payroll, group health care benefit costs and qualifying mortgage, rent and utility payments. The remaining loan balance after forgiveness of any amounts is still fully guaranteed by the SBA. Terms of the PPP loans include the following (i) maximum amount limited to the lesser of $10 million or an amount calculated using a payroll-based formula, (ii) maximum loan term of two years, (iii) interest rate of 1.00%, (iv) no collateral or personal guarantees are required, (v) no payments are required for six months following the loan disbursement date and (vi) loan forgiveness up to the full principal amount of the loan and any accrued interest, subject to certain requirements including that no more than 25% of the loan forgiveness amount may be attributable to non-payroll costs. In return for processing and booking the loan, the SBA will pay the lender a processing fee tiered by the size of the loan (5% for loans of not more than $350 thousand; 3% for loans more than $350 thousand and less than $2 million; and 1% for loans of at least $2 million). At December 31, 2020, PPP loans totaled $277.8 million which are included in commercial and industrial loans.

The Economic Aid Act, signed into law on December 27, 2020, authorized new PPP funding and extended the authority of lenders to make PPP loans through March 31, 2021. Under the revised terms of the PPP, loans may be made to first time borrowers as well as certain businesses that previously received a PPP loan and experienced a significant reduction in revenue. The Company is participating in the new round of the PPP by offering first and second draw loans.

We are also currently participating in the Federal Reserve's PPPLF which, through December 31, 2020, will extend loans to banks who are loaning money to small businesses under the PPP. The amount outstanding at December 31, 2020, was $149.8 million and is non-recourse and secured by the amount of the PPP loans we originate. The maturity date of a borrowing under the PPPLF is equal the maturity date of the PPP loan pledged to secure the borrowing and would be accelerated (i) if the underlying PPP loan goes into default and is sold to the SBA to realize on the SBA guarantee or (ii) to the extent that any loan forgiveness reimbursement is received from the SBA. Borrowings under the PPPLF bear interest at a rate of 0.35% and there are no fees to us.

Federal bank regulatory agencies have issued an interim final rule that permits banks to neutralize the regulatory capital effects of participating in the PPP and, if applicable, the PPPLF. Specifically, all PPP loans have a zero percent risk weight under applicable risk-based capital rules. Additionally, a bank may exclude all PPP loans pledged as collateral to the PPPLF from its average total consolidated assets for the purposes of calculating its leverage ratio, while PPP loans that are not pledged as collateral to the PPPLF will be included.

Acquisition of Beeville

On April 2, 2019, the Company completed its acquisition of First Beeville Financial Corporation and its subsidiary, The First National Bank of Beeville. This transaction resulted in three additional branches and two LPO’s in the South Texas region. The Company issued 1,579,191 shares of its common stock as well as a net cash payment to Beeville shareholders of $32.4 million. For more information about the acquisition, see “Note 3. Business Combinations” in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Acquisition of Chandler

On November 5, 2019, the Company completed its acquisition of Chandler Bancorp Inc., and its subsidiary, Citizens State Bank. This transaction resulted in seven additional branches in the North Texas region. The Company issued 2,100,000 shares of its common stock as well as a net cash payment to Citizens shareholders of $17.9 million. For more information about the acquisition, see "Note 3. Business Combinations" in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Simmons Branch Acquisition

On February 28, 2020, Spirit completed its acquisition of certain assets and assumption of certain liabilities associated with five banking offices of Simmons Bank. The offices are located in Austin, San Antonio and Tilden, Texas. The Company paid total consideration of $131.6 million in the Simmons branch acquisition.

Results of Operations

Our results of operations depend substantially on net interest income and noninterest income. Other factors contributing to our results of operations include our level of noninterest expenses, such as salaries and employee benefits, occupancy and equipment and other miscellaneous operating expenses.

Net Interest Income

Net interest income represents interest income less interest expense. We generate interest income from interest, dividends and fees received on interest-earning assets, including loans and investment securities we own. We incur interest expense from interest paid on interest-bearing liabilities, including interest-bearing deposits and borrowings. To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread, (4) our net interest margin and (5) our provisions for loan losses. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as the annualized net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Changes in market interest rates and the interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing deposits and stockholders' equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. We measure net interest income before and after provision for loan losses required to maintain our allowance for loan and lease losses at acceptable levels.

Noninterest Income

Our noninterest income includes the following: (1) service charges and fees; (2) SBA loan servicing fees; (3) mortgage referral fees; (4) gain on the sales of loans, net; (5) gain (loss) on sales of investment securities; (6) swap fees; (7) swap referral fees; and (8) other.

Noninterest Expense

Our noninterest expense includes the following: (1) salaries and employee benefits; (2) occupancy and equipment expenses; (3) professional services; (4) data processing and network; (5) regulatory assessments and insurance; (6) amortization of core deposit intangibles; (7) advertising; (8) marketing; (9) telephone expenses; (10) conversion expense; and (11) other.

Financial Condition

The primary factors we use to evaluate and manage our financial condition include liquidity, asset quality and capital.

Liquidity

We manage liquidity based upon factors that include the amount of core deposits as a percentage of total deposits, the level of diversification of our funding sources, the allocation and amount of our deposits among deposit types, the short-term funding sources used to fund assets, the amount of non-deposit funding used to fund assets, the availability of unused funding sources, off-balance sheet obligations, the availability of assets to be readily converted into cash without undue loss, the amount of cash and liquid securities we hold, and the repricing characteristics and maturities of our assets when compared to the repricing characteristics of our liabilities, the ability to securitize and sell certain pools of assets and other factors.

Asset Quality

We manage the diversification and quality of our assets based upon factors that include the level, distribution, severity and trend of problem, classified, delinquent, nonaccrual, nonperforming and restructured assets, the adequacy of our allowance for loan and lease losses, discounts and reserves for unfunded loan commitments, the diversification and quality of loan and investment portfolios and credit risk concentrations.

Capital

We manage capital based upon factors that include the level and quality of capital and our overall financial condition, the trend and volume of problem assets, the adequacy of discounts and reserves, the level and quality of earnings, the risk exposures in our balance sheet, the levels of tier 1 (core), risk-based and tangible common equity capital, the ratios of tier 1 (core), risk-based and tangible common equity capital to total assets and risk-weighted assets and other factors.

Analysis of Results of Operations

Net income for the year ended December 31, 2020 totaled $31.3 million, which generated diluted earnings per common share of $1.77 and adjusted diluted earnings per common share, which is a non-GAAP financial measure that excludes gain on sale of securities and merger-related expenses, of $1.79 for the year ended December 31, 2020. Net income for the year ended December 31, 2019 totaled $21.1 million, which generated diluted earnings per common share of $1.40 and adjusted diluted earnings per common share of $1.43 for the year ended December 31, 2019. The increase in net income was driven by an increase in interest income of $28.3 million that was primarily attributable to acquired and organic loan growth and origination fees net of costs recognized on Paycheck Protection Program loans. Increased interest income was partially offset by an increase in salaries and benefits expense of $5.6 million and an increase in occupancy expense of $3.2 million, which was mainly the result of increased locations from acquisitions. Our results of operations for the year ended December 31, 2020 produced a return on average assets of 1.11% compared to a return on average assets of 1.14% for the year ended December 31, 2019. We had a return on average stockholders' equity of 8.98% compared to a return on average stockholders' equity of 8.38% for the year ended December 31, 2019.

Net income for the year ended December 31, 2019 totaled $21.1 million, which generated diluted earnings per common share of $1.40 and adjusted diluted earnings per common share, which is a non-GAAP financial measure that excludes gain on sale of securities and merger-related expenses, of $1.43 for the year ended December 31, 2019. Net income for the year ended December 31, 2018 totaled $10.0 million, which generated diluted earnings per common share of $1.03 and adjusted diluted earnings per common share of $1.19 for the year ended December 31, 2018. The increase in net income was driven by an increase in interest income of $37.9 million that was primarily attributable to acquired loan growth, partially offset by an increase in interest expense of $7.0 million, which was mainly the result of increased deposit balances from acquisitions. Our results of operations for the year ended December 31, 2019 produced a return on average assets of 1.14% compared to a return on average assets of 0.89% for the year ended December 31, 2018. We had a return on average stockholders' equity of 8.38% compared to a return on average stockholders' equity of 6.77% for the year ended December 31, 2018.

Net Interest Income and Net Interest Margin

The following table presents, for the periods indicated, information about (1) average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (2) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (3) the interest rate spread; (4) net interest income and margin; and (5) net interest income and margin (tax equivalent). Interest earned on loans that are classified as nonaccrual is not recognized in income, however the balances are reflected in average outstanding balances for that period. Any nonaccrual loans have been included in the table as loans carrying a zero yield.

	Years Ended December 31,								
	2020			2019			2018		
	Average Balance(1)	Interest/ Expense	Yield/ Rate	Average Balance(1)	Interest/ Expense	Yield/ Rate	Average Balance(1)	Interest/ Expense	Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Interest-earning deposits in other banks	$ 183,065	$ 1,301	0.71%	$ 135,457	$ 2,892	2.13%	$ 28,077	$ 568	2.02%
Loans, including loans held for sale(2)	2,254,802	119,904	5.32%	1,411,139	87,547	6.20%	944,363	55,087	5.83%
Investment securities and other	117,947	2,340	1.98%	164,422	4,821	2.93%	60,113	1,684	2.80%
Total interest-earning assets	2,555,814	123,545	4.83%	1,711,018	95,260	5.57%	1,032,553	57,339	5.55%
Noninterest-earning assets	263,887			150,432			93,041		
Total assets	$ 2,819,701			$ 1,861,450			$ 1,125,594		
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 371,811	$ 732	0.20%	$ 261,498	$ 1,180	0.45%	$ 19,324	$ 100	0.52%
Interest-bearing NOW accounts	20,174	52	0.26%	11,092	29	0.26%	8,078	12	0.15%
Savings and money market accounts	527,149	3,105	0.59%	283,865	2,500	0.88%	228,413	1,384	0.61%
Time deposits	694,087	10,681	1.54%	623,189	11,831	1.90%	447,368	6,986	1.56%
FHLB advances and other borrowings	178,328	3,040	1.70%	71,899	1,830	2.55%	84,777	1,842	2.17%
Total interest-bearing liabilities	1,791,549	17,610	0.98%	1,251,543	17,370	1.39%	787,960	10,324	1.31%
Noninterest-bearing liabilities and shareholders' equity									
Noninterest-bearing demand deposits	655,328			353,579			187,080		
Other liabilities	24,314			4,118			3,269		
Stockholders' equity	348,510			252,210			147,285		
Total liabilities and stockholders' equity	$ 2,819,701			$ 1,861,450			$ 1,125,594		
Net interest rate spread			3.85%			4.18%			4.24%
Net interest income and margin		$ 105,935	4.14%		$ 77,890	4.55%		$ 47,015	4.55%
Net interest income and margin (tax equivalent)(3)		$ 107,712	4.21%		$ 78,336	4.58%		$ 47,573	4.60%

(1) Average balances presented are derived from daily average balances.
(2) Includes loans on nonaccrual status.
(3) In order to make pretax income and resultant yields on tax-exempt loans comparable to those on taxable loans, a tax-equivalent adjustment has been computed using a federal tax rate of 21% for the years ended December 31, 2020, 2019 and 2018, which is a non-GAAP financial measure. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities for the periods indicated. The effect of changes in volume is determined by multiplying the change in volume by the prior period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume.

A summary of increases and decreases in interest income and interest expense resulting from changes in average balances (volume) and average interest rates follows:

	Years Ended December 31, 2020 Compared to 2019			Years Ended December 31, 2019 Compared to 2018		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume(1)	Rate(1)	Total	Volume(1)	Rate(1)	Total
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning deposits in other banks	$ 782	$ (2,373)	$ (1,591)	$ 2,172	$ 350	$ 2,522
Loans, including loans held for sale(2)	46,306	(13,949)	32,357	27,228	5,231	32,459
Investment securities and other	(1,157)	(1,324)	(2,481)	2,922	18	2,940
Total change in interest income	$ 45,931	$ (17,646)	$ 28,285	$ 32,322	$ 5,599	$ 37,921
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 378	$ (826)	$ (448)	$ 1,253	$ (173)	$ 1,080
Interest-bearing NOW accounts	23	—	23	4	13	17
Savings and money market accounts	1,631	(1,026)	605	336	780	1,116
Time deposits	1,250	(2,400)	(1,150)	2,746	2,099	4,845
FHLB advances and other borrowings	1,977	(767)	1,210	(280)	268	(12)
Total change in interest expenses	5,259	(5,019)	240	4,059	2,987	7,046
Total change in net interest income	$ 40,672	$ (12,627)	$ 28,045	$ 28,263	$ 2,612	$ 30,875

(1) Variances attributable to both volume and rate are allocated on a consistent basis between rate and volume based on the absolute value of the variances in each category.

(2) Includes loans on nonaccrual status.

Year ended December 31, 2020 compared to Year ended December 31, 2019

Net interest income was $105.9 million for the year ended December 31, 2020 compared to $77.9 million for the year ended December 31, 2019, representing an increase of $28.0 million, or 36.0%. The increase in net interest income was primarily due to an increase in interest income of $28.3 million partially offset by an increase in interest expense of $240 thousand. Interest income on loans increased by $32.4 million for the year ended December 31, 2020. The effects of growth in average loans of $843.7 million, including loans held for sale, for the year ended December 31, 2020 was more than offset by declines in interest rates during the year and the primary driver of the increase in interest income on loans of $6.8 million was origination fees recognized in conjunction with the PPP.

Interest expense was $17.6 million for the year ended December 31, 2020 compared to $17.4 million for the year ended December 31, 2019, representing an increase of $240 thousand, or 1.4%. This increase was mainly due to an increase in interest expense on FHLB advances and other borrowings. Interest expense on FHLB advances and other borrowings totaled $3.0 million for the year ended December 31, 2020 compared to $1.8 million for the year ended December 31, 2019, representing an increase of $1.2 million, resulting primarily from interest expense on subordinated debt issued during 2020 which yields 6.0%. Interest on subordinated debt was offset by declines in interest expense on deposits related to lower overall market interest rates.

Interest expense on deposits decreased by $970 thousand for the year ended December 31, 2020 compared to the year ended December 31, 2019. The decrease was primarily attributable to a decrease in overall market rates offset by an increase in the average balance of interest bearing deposits of $433.6 million. The average cost of deposits for the year ended December 31, 2020 was 0.64% compared to the average cost of deposits of 1.01% for the year ended December 31, 2019. The decrease in cost of deposits was primarily attributable to the decrease in interest rates by the Federal Open Market Committee during 2020. For the year ended December 31, 2020, the average rate paid on time deposits was 1.54% compared to 1.90% for the year ended December 31, 2019.

Net interest margin was 4.14% for the year ended December 31, 2020, compared to 4.55% for the year ended December 31, 2019, representing a decrease of 41 basis points. The tax equivalent net interest margin (which is a non-GAAP measure) was 4.21% for the year ended December 31, 2020 compared to 4.58% for the year ended December 31, 2019, representing a decrease of 37 basis points. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures." The average yield on interest-earning assets decreased by 74 basis points for the year ended December 31, 2020, compared to the year ended December 31, 2019 and the average rate paid on interest-bearing liabilities decreased by 41 basis points, resulting in a 33 basis point decrease in the interest rate spread.

We currently expect our net interest income and net interest margin to remain stable throughout 2021 as the majority of variable rate loans are currently at their respective floors. Additionally, our participation in the PPP, as further discussed below, is expected to impact net interest income and net interest margin as loans are forgiven and deferred costs and fees are recognized in full through yield.

Year ended December 31, 2019 compared to Year ended December 31, 2018

Net interest income was $77.9 million for the year ended December 31, 2019, compared to $47.0 million for the year ended December 31, 2018, representing an increase of $30.9 million, or 65.7%. The increase in net interest income was primarily due to an increase in interest income of $37.9 million partially offset by an increase in interest expense of $7.0 million. Interest income on loans increased by $32.5 million for the year ended December 31, 2019. The growth in average loans of $466.8 million, including loans held for sale, for the year ended December 31, 2019 was the primary driver of the increase in interest income on loans while an increase in the average rate on loans of 37 basis points over the same period as contributed.

Interest expense was $17.4 million for the year ended December 31, 2019, compared to $10.3 million for the year ended December 31, 2018, representing an increase of $7.1 million, or 68.2%. This increase was mainly due to an increase in interest expense on deposits. Interest expense on deposits totaled $15.5 million for the year ended December 31, 2019, compared to $8.5 million for the year ended December 31, 2018, representing an increase of $7.0 million, resulting primarily from an increase in average deposits of $476.5 million. The average cost of deposits for the year ended December 31, 2019 was 1.01% compared to the average cost of deposits of 0.95% for the year ended December 31, 2018. The increase in cost of deposits was primarily attributable to the increase in interest rates by the Federal Open Market Committee during 2019. For the year ended December 31, 2019, the average rate paid on time deposits was 1.90% compared to 1.56% for the year ended December 31, 2018.

Interest expense on FHLB advances and other borrowings decreased by $12 thousand for the year ended December 31, 2019, compared to the year ended December 31, 2018. The decrease was primarily attributable to a decrease in the average balance of FHLB advances and other borrowings of $12.9 million for the year ended December 31, 2019 offset by an increase in the average rate paid on FHLB advances and other borrowings of 38 basis points. The increase in the average rate on borrowings was primarily attributable to the use of our line of credit with a third-party lender during the year which had and interest rate of LIBOR plus 4.00% per annum.

The net interest margin of 4.55% was unchanged for the year ended December 31, 2019 when compared to 4.55% for the year ended December 31, 2018. The tax equivalent net interest margin was 4.58% for the year ended December 31, 2019, compared to 4.60% for the year ended December 31, 2018, representing a decrease of 2 basis points. The average yield on interest-earning assets increased by 2 basis points for the year ended December 31, 2019, compared to the year ended December 31, 2018 while the average rate paid on interest-bearing liabilities increased by 8 basis points, resulting in a 6 basis point decrease in the interest rate spread.

Provision for Loan Losses

The provision for loan losses represents the amount determined by management to be necessary to maintain the allowance for loan and lease losses at a level capable of absorbing inherent losses in the loan portfolio. See the discussion under "—Critical Accounting Policies—Allowance for Loan and Lease Losses." Our management and board of directors review the adequacy of the allowance for loan and lease losses on a quarterly basis. The allowance for loan and lease losses calculation is segregated by call report code and then further segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using a nine-point risk grade scale by loan officers that are subject to validation by a third-party loan review or our internal credit committee. Risk ratings are categorized as pass, watch, special mention, substandard, doubtful and loss, with some general allocation of reserves based on these grades. Impaired loans are reviewed specifically and separately under the FASB's Accounting Standards Codification ("ASC") 310, "Receivables", to determine the appropriate reserve allocation. Management compares the investment in an impaired loan with the present value of expected future cash flow discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral, if the loan is collateral-dependent, to determine the specific reserve allowance. Reserve percentages assigned to non-impaired loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, our management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and nonaccruals, economic conditions and other pertinent information. Loan segments negatively impacted by COVID-19 and deferrals granted as a result of the pandemic do not have a direct impact on the provision; however, adjustments to qualitative factors and loan downgrades within these populations have been made which do impact the provision. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan and lease losses at an appropriate level.

Year ended December 31, 2020 compared to Year ended December 31, 2019

The provision for loan losses was $11.3 million for the year ended December 31, 2020 and $2.9 million for the year ended December 31, 2019. The increase of the provision for the year ended December 31, 2020 was primarily due to increased qualitative reserves in response to the global COVID-19 pandemic. Currently, the qualitative reserve calculation is based upon ten external and internal factors. The COVID-19 pandemic did not significantly impact internal qualitative factors via changes to underwriting guidelines, staffing, and compliance; however, external factors which are developed based upon GDP growth, unemployment, and oil prices were significantly impacted. It was the deterioration in these macroeconomic conditions which translated into higher qualitative scores and thus higher reserves.

Our management maintains a proactive approach in managing nonperforming loans, which were $8.6 million, or 0.36% of loans held for investment, at December 31, 2020, and $6.5 million, or 0.37% of loans held for investment, at December 31, 2019. During 2020, we had net charged-off loans totaling $2.0 million, compared to net charged-off loans of $2.4 million for the year ended December 31, 2019. The ratio of net charged-off loans to average loans was 0.09% for 2020, compared to 0.17% for 2019. The allowance for loan and lease losses totaled $16.0 million, or 0.67% of loans held for investment, at December 31, 2020, compared to $6.7 million, or 0.38% of loans held for investment, at December 31, 2019. The ratio of allowance for loan and lease losses to nonperforming loans was 186.4% at December 31, 2020, compared to 104.18% at December 31, 2019.

Year ended December 31, 2019 compared to Year ended December 31, 2018

The provision for loan losses was $2.9 million for the year ended December 31, 2019 and $2.2 million for the year ended December 31, 2018. The increase of the provision for the year ended December 31, 2019 was primarily due to increased charge-offs on SBA loans. These losses were anticipated and provided for as the SBA loan portfolio matures.

Nonperforming loans were $6.5 million, or 0.37% of loans held for investment, at December 31, 2019, and $5.3 million, or 0.49% of loans held for investment, at December 31, 2018. During 2019, we had net charged-off loans totaling $2.4 million, compared to net charged-off loans of $1.5 million for the year ended December 31,

2018. The ratio of net charged-off loans to average loans was 0.17% for 2019, compared to 0.16% for 2018. The allowance for loan and lease losses totaled $6.7 million, or 0.38% of loans held for investment, at December 31, 2019, compared to $6.3 million, or 0.58% of loans held for investment, at December 31, 2018. The ratio of allowance for loan and lease losses to nonperforming loans was 104.18% at December 31, 2019, compared to 118.18% at December 31, 2018.

Noninterest Income

Our noninterest income includes the following: (1) service charges and fees; (2) SBA loan servicing fees; (3) mortgage referral fees; (4) gain on the sales of loans, net; (5) gain (loss) on sales of investment securities; (6) swap fees; (7) swap referral fees; and (8) other.

The following table presents a summary of noninterest income by category, including the percentage change in each category, for the periods indicated:

	Years Ended December 31, 2020 Compared to 2019			Years Ended December 31, 2019 Compared to 2018		
	2020	2019	Change from the Prior Year	2019	2018	Change from the Prior Year
	(Dollars in thousands)					
Noninterest income:						
Service charges and fees	$ 5,660	$ 3,710	52.6%	$ 3,710	$ 1,887	96.6%
SBA loan servicing fees	1,192	929	28.3%	929	2,727	-65.9%
Mortgage referral fees	1,334	713	87.1%	713	621	14.8%
Gain on sales of loans, net	5,496	4,014	36.9%	4,014	5,120	-21.6%
Gain (loss) on sales of investment securities	1,031	4,582	-77.5%	4,582	—	N/A
Swap Fees	1,746	—	N/A	—	—	N/A
Swap Referral Fees	1,950	—	N/A	—	—	N/A
Other noninterest income	467	619	-24.6%	619	134	361.9%
Total noninterest income	$ 18,876	$ 14,567	29.6%	$ 14,567	$ 10,489	38.9%

Year ended December 31, 2020 compared to Year ended December 31, 2019

For the year ended December 31, 2020, noninterest income totaled $18.9 million, a $4.3 million, or 29.6%, increase from $14.6 million for the prior year. This increase was primarily due to fees on two new swap products offered to commercial loan customers, increased service charges related to an increase in number of accounts, and an increase in gain on sale of loans recorded in conjunction with the Main Street Lending Program. This was partially offset by a decrease in gains on sale of investment securities of $3.6 million. We currently expect noninterest income to remain at reduced levels due to less loan sales and fewer swap agreements in response to the COVID-19 pandemic; however, these revenue streams are beginning to show signs of improvement.

Both swap fees and swap referral fees represent new product offerings in 2020. The decision to offer these products was based upon customer demand and the need to structure some lending deals in a manner that is as competitive as other financial institutions in our market. Depending on the pace of the economic recovery and prevailing views regarding when interest rates might rise, demand for these products will increase or decrease accordingly.

SBA loans servicing fees were $1.2 million for the year ended December 31, 2020, compared to $929 thousand for the year ended December 31, 2019. The $263 thousand increase was primarily due to fair value market adjustments on the SBA servicing asset.

Service charges and fees were $5.7 million for the year ended December 31, 2020, compared to $3.7 million for the year ended December 31, 2019. The $2.0 million increase was due to increased deposit accounts associated with acquired institutions and accounts related to government lending programs.

Gain on sales of loans, net, was $5.5 million for the year ended December 31, 2020, compared to $4.0 million for the year ended December 31, 2019, an increase of $1.5 million. The increase was due to gain on sale of Main Street Lending Program loans of $3.7 million offset by declines in gain on sale of SBA loans.

Year ended December 31, 2019 compared to Year ended December 31, 2018

For the year ended December 31, 2019, noninterest income totaled $14.6 million, a $4.1 million, or 38.9%, increase from $10.5 million for the prior year. This increase was primarily due to a gain on sales of investment securities of $4.6 million and an increase in service charges and fees of $1.8 million, offset by a decrease in SBA loan servicing fees of $1.8 million.

SBA loans servicing fees were $929 thousand for the year ended December 31, 2019, compared to $2.7 million for the year ended December 31, 2018. The $1.8 million decrease was primarily due to fair value market adjustments on the SBA servicing asset.

Service charges and fees were $3.7 million for the year ended December 31, 2019, compared to $1.9 million for the year ended December 31, 2018. The $1.8 million increase was due to increased deposit accounts associated with acquired institutions.

Gain on sales of loans, net, was $4.0 million for the year ended December 31, 2019, compared to $5.1 million for the year ended December 31, 2018, a decrease of $1.1 million. This decrease was primarily driven by a reduction in the number of SBA loan sales throughout 2019.

Noninterest Expense

Our noninterest expense includes the following: (1) salaries and employee benefits; (2) occupancy and equipment expenses; (3) professional services; (4) data processing and network; (5) regulatory assessments and insurance; (6) amortization of core deposit intangibles; (7) advertising; (8) marketing; (9) telephone expense; (10) conversion expense; and (11) other.

The following table presents a summary of noninterest expenses by category, including the percentage change in each category, for the periods indicated:

	Years Ended December 31, 2020 Compared to 2019			Years Ended December 31, 2019 Compared to 2018		
	2020	2019	Change from the Prior Year	2019	2018	Change from the Prior Year
	(Dollars in thousands)					
Noninterest expense:						
Salaries and employee benefits	$ 41,756	$ 36,175	15.4%	$ 36,175	$ 27,512	31.5%
Occupancy and equipment expenses	10,047	6,884	45.9%	6,884	5,215	32.0%
Professional services	2,687	4,054	-33.7%	4,054	3,055	32.7%
Data processing and network	3,973	3,036	30.9%	3,036	1,276	137.9%
Regulatory assessments and insurance	1,847	422	337.7%	422	1,094	-61.4%
Amortization of intangibles	3,663	3,630	0.9%	3,630	917	295.9%
Advertising	679	623	9.0%	623	381	63.5%
Marketing	276	538	-48.7%	538	508	5.9%
Telephone expense	2,013	993	102.7%	993	414	139.9%
Conversion expenses	1,841	1,992	-7.6%	1,992	160	0.0%
Other operating expenses	6,002	4,697	27.8%	4,697	2,832	65.9%
Total noninterest expense	$ 74,784	$ 63,044	18.6%	$ 63,044	$ 43,364	45.4%

Year ended December 31, 2020 compared to Year ended December 31, 2019

For the year ended December 31, 2020, noninterest expense totaled $74.8 million, an $11.7 million, or 18.6%, increase from $63.0 million for the prior year. This increase was primarily due to increases in salaries and employee benefits of $5.6 million, occupancy and equipment expenses of $3.2 million, regulatory assessments and insurance of $1.4 million, other operating expenses of $1.3 million, and telephone expense of $1.0 million.

Salaries and employee benefits totaled $41.8 million for the year ended December 31, 2020, which included $979 thousand of stock-based compensation expense. By comparison, salaries and employee benefits totaled $36.2 million for the year ended December 31, 2019, which included $665 thousand of stock-based compensation expense. During 2020, we experienced higher salary and employee benefit costs primarily due to increased employee count resulting from the Simmons branch acquisition and acquisition-related and Paycheck Protection Program bonuses paid.

Professional services decreased $1.4 million to $2.7 million for the year ended December 31, 2020, compared to $4.1 million for the year ended December 31, 2019. The decrease was primarily due to increased legal and consulting expenses in 2019 related to the Beeville and Citizens acquisitions compared to expenses in 2020 related to only the Simmons branch acquisition.

Increases in occupancy and equipment, regulatory assessments and insurance, and telephone expense are all related to a larger branch network due to our merger activity.

Other operating expense increased $1.3 million for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to prepayment penalties paid on FHLB advances which were incurred as part of an overall balance sheet strategy.

Year ended December 31, 2019 compared to Year ended December 31, 2018

For the year ended December 31, 2019, noninterest expense totaled $63.0 million, a $19.7 million, or 45.4%, increase from $43.4 million for the prior year. This increase was primarily due to increases in salaries and employee benefits of $8.6 million, amortization of intangibles of $2.7 million, occupancy and equipment expenses of $1.7 million, professional services of $1.0 million, data processing and network of $1.8 million, and other operating expenses of $1.9 million.

Salaries and employee benefits totaled $36.1 million for the year ended December 31, 2019, which included $665 thousand of stock-based compensation expense. By comparison, salaries and employee benefits totaled $27.5 million for the year ended December 31, 2018, which included $672 thousand of stock-based compensation expense. During 2019, we experienced higher salary and employee benefit costs primarily due to increased employee count resulting from our acquisitions and acquisition-related and conversion-related bonuses paid.

Increases in amortization of intangibles, occupancy and equipment and professional services are all related to our merger activity.

Other operating expense increased $1.9 million for the year ended December 31, 2019, compared to the year ended December 31, 2018, primarily due to conversion expenses related to the Comanche acquisition and the Beeville acquisition.

Income Tax Expense

The provision for income taxes includes both federal and state taxes. Fluctuations in effective tax rates reflect the differences in the inclusion or deductibility of certain income and expenses for income tax purposes. Our future effective income tax rate will fluctuate based on the mix of taxable and tax-free investments we make, periodic increases in surrender value of bank-owned life insurance policies for certain former executive officers and our overall taxable income.

Year ended December 31, 2020 compared to Year ended December 31, 2019

Income tax expense was $7.5 million, an increase of $2.0 million for the year ended December 31, 2020, compared to income tax expense of $5.4 million for the year ended December 31, 2019. Our effective tax rates for the years ended December 31, 2020 and 2019 were 19.24% and 20.41%, respectively. The effective tax rate was lower at December 31, 2020 due to the income tax benefit associated with a net operating loss carryback claim that was allowed under the CARES Act. The effective tax rate at December 31, 2019 represents a more normalized rate based on recurring permanent differences.

Year ended December 31, 2019 compared to Year ended December 31, 2018

Income tax expense was $5.4 million, an increase of $3.4 million for the year ended December 31, 2019, compared to income tax expense of $2.0 million for the year ended December 31, 2018. Our effective tax rates for the years ended December 31, 2019 and 2018 were 20.41% and 16.71%, respectively. The effective tax rate was lower at December 31, 2018 due to the income tax benefit associated with nonqualified stock option exercises that occurred during 2018, as well as additional tax exempt interest. The effective tax rate at December 31, 2019 represents a more normalized rate based on recurring permanent differences.

Financial Condition

Our total assets increased $700.1 million, or 29.4%, from $2.39 billion as of December 31, 2019 to $3.08 billion as of December 31, 2020. Our asset growth was mainly due to the Simmons branch acquisition and success with the PPP.

Investment Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. The securities portfolio grew to $236.4 million during 2020 as a result of deploying excess liquidity resulting from PPP loan forgiveness and lack of robust loan demand. The average balance of the securities portfolio including FHLB, FRB and The Independent BankersBank ("TIB") stock for the years ended December 31, 2020 and 2019 was $117.9 million and $164.4 million, respectively, with a pre-tax yield of 1.98% and 2.93%, respectively. We held 97 securities classified as available for sale with an amortized cost of $211.2 million as of December 31, 2020. Additionally, we held one equity security carried at fair value totaling $24 million.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. No securities were determined to be OTTI as of December 31, 2020 or 2019.

The following table summarizes our available for sale securities portfolio as of the dates presented.

	As of December 31,					
	2020		2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Available for sale:						
U.S. treasuries	$ —	$ —	$ 60,315	$ 60,371	$ —	$ —
U.S Government agencies	—	—	—	—	2,015	1,934
State and municipal obligations	36,258	37,185	7,861	7,981	17,201	18,048
Residential mortgage-backed securities	132,130	132,142	27,922	28,585	152,232	153,974
Corporate bonds and other debt securities	42,768	43,093	—	—	5,667	5,505
Total available for sale	$211,156	$212,420	$ 96,098	$ 96,937	$177,115	$179,461

The following table shows contractual maturities and the weighted average yields on our investment securities as of the date presented. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Weighted average yields are not presented on a taxable equivalent basis:

	Maturity as of December 31, 2020							
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(Dollars in thousands)							
Available for sale:								
State and municipal obligations	1,971	2.50%	271	4.76%	80	4.87%	33,936	2.05%
Residential mortgage-backed securities	—	0.00%	—	0.00%	10,184	1.27%	121,946	0.47%
Corporate bonds and other debt securities	—	0.00%	4,212	3.26%	35,952	4.85%	2,604	4.61%
Total available for sale	$ 1,971	2.50%	$ 4,483	3.35%	$ 46,216	4.06%	$158,486	0.88%

As a member institution of the FHLB and TIB, the Bank is required to own capital stock in the FHLB and TIB. As of December 31, 2020 and 2019, the Bank held approximately $5.7 million and $8.3 million, respectively, in FHLB and TIB stock. No market exists for this stock, and the Bank's investment can be liquidated only through repurchase by the FHLB or TIB. Such repurchases have historically been at par value. We monitor our investment in FHLB and TIB stock for impairment through review of recent financial results, dividend payment history and information from credit agencies. As of December 31, 2020 and 2019, management did not identify any indicators of impairment of FHLB or TIB stock.

Equity investments at fair value consist of an investment in the CRA Qualified Investment Fund. Investment in the fund allows the Bank to earn a return on invested funds while obtaining CRA credit. At December 31, 2020, the fair value of equity securities totalled $24 million.

We did not have any concentrations where the total outstanding balances issued by a single issuer exceeded 10% of our stockholders' equity as of December 31, 2020 or 2019.

Our securities portfolio had a weighted average life of 5.11 years and an effective duration of 4.58 years as of December 31, 2020 and a weighted average life of 2.46 years and an effective duration of 2.09 years as of December 31, 2019.

Loans Held for Sale

Loans held for sale consist of the guaranteed portion of SBA loans that we intend to sell after origination and the credit card portfolio acquired in conjunction with the Citizens acquisition. Our loans held for sale were $1.5 million as of December 31, 2020 and $4.0 million as of December 31, 2019.

Loan Concentrations

Our primary source of income is interest on loans to individuals, professionals, small and medium-sized businesses and commercial companies located in the Houston, Dallas/Fort Worth, Bryan/College Station, San Antonio/New Braunfels, Corpus Christi, Tyler and Austin metropolitan areas. Our loan portfolio consists primarily of commercial and industrial loans, 1-4 single family residential real estate loans and loans secured by commercial real estate properties located in our primary market areas. Our loan portfolio represents the highest yielding component of our earning asset base.

Our loans of $2.39 billion as of December 31, 2020 represented an increase of $621.4 million, or 35.2%, compared to $1.77 billion as of December 31, 2019. This increase was primarily due to the acquired loan growth of $260.3 million associated with the Simmons branch acquisition and loans outstanding under the PPP of $277.8 million.

Our loans as a percentage of assets were 77.4% and 74.1% as of December 31, 2020 and 2019, respectively.

The current concentrations in our loan portfolio may not be indicative of concentrations in our loan portfolio in the future. We plan to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration in certain types of collateral. The following table summarizes the allocation of loans by type as of the dates presented.

	As of December 31,									
	2020		2019		2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)									
Commercial and industrial loans(1)	$ 574,986	24.1%	$ 282,949	16.0%	$ 173,892	15.8%	$135,040	15.4%	$117,762	15.1%
Real estate:										
1-4 single family residential loans	364,139	15.2%	375,743	21.3%	279,665	25.4%	237,753	27.1%	208,616	26.8%
Construction, land and development loans	415,488	17.4%	259,384	14.7%	159,734	14.5%	139,470	15.9%	113,316	14.6%
Commercial real estate loans (including multifamily)	956,743	40.1%	753,812	42.7%	403,800	36.6%	288,282	32.9%	254,499	32.7%
Consumer loans and leases	11,738	0.5%	22,769	1.3%	24,378	2.2%	22,736	2.6%	26,676	3.4%
Municipal and other loans	65,438	2.7%	72,525	4.1%	61,339	5.6%	53,632	6.1%	56,596	7.3%
Total loans held in portfolio	$2,388,532	100.0%	$1,767,182	100.0%	$1,102,808	100.0%	$876,913	100.0%	$777,465	100.0%

(1) Balance includes $70.8 million $74.2 million, $76.9 million, $67.1 million and 58.7 million of the unguaranteed portion of SBA loans as of December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

Commercial and Industrial Loans

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to repay the loan through operating profitably and effectively growing its business. Our management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the credit quality and cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee to add strength to the credit and reduce the risk on a transaction to an acceptable level; however, some short-term loans may be made on an unsecured basis to the most credit worthy borrowers.

In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Due to the nature of accounts receivable and inventory secured loans, we closely monitor credit availability and collateral through the use of various tools, including but not limited to borrowing-base formulas, periodic accounts receivable agings, periodic inventory audits, and/or collateral inspections.

Commercial and industrial loans, including SBA and PPP loans discussed below, totaled $575.0 million as of December 31, 2020 and represented an increase of $292.0 million, or 103.2%, from $282.9 million as of December 31, 2019. This increase was primarily due to loans outstanding related to the PPP of $277.8 million.

SBA Loans

SBA loans are included in commercial and industrial loans. The primary focus of our SBA lending program is financing well-known national franchises for which the United States generally will guarantee between 75% and 85% of the loan. We are an SBA preferred lender, and originate SBA loans to national franchises in Texas and nationwide. We routinely sell the guaranteed portion of SBA loans to third parties for a premium and retain the servicing rights, for which we earn a 1% fee, and maintain the nonguaranteed portion in our loan portfolio.

SBA loans held in our loan portfolio totaled $70.8 million and $74.2 million at December 31, 2020 and 2019, respectively. We intend to continue to lend under the SBA lending program at volumes determined by market demand.

Paycheck Protection Program

In April 2020, we began originating loans to qualified small businesses under the PPP administered by the SBA under the provisions of the CARES Act. These loans are included in commercial and industrial loans and may be eligible for loan forgiveness for certain costs incurred related to payroll, group health care benefit costs and qualifying mortgage, rent and utility payments. The remaining loan balance after forgiveness of any amounts is still fully guaranteed by the SBA. Terms of the PPP loans include the following (i) maximum amount limited to the lesser of $10 million or an amount calculated using a payroll-based formula, (ii) maximum loan term of two years, (iii) interest rate of 1.00%, (iv) no collateral or personal guarantees are required, (v) no payments are required for six months following the loan disbursement date and (vi) loan forgiveness up to the full principal amount of the loan and any accrued interest, subject to certain requirements including that no more than 25% of the loan forgiveness amount may be attributable to non-payroll costs. In return for processing and booking the loan, the SBA will pay the lender a processing fee tiered by the size of the loan (5% for loans of not more than $350 thousand; 3% for loans more than $350 thousand and less than $2 million; and 1% for loans of at least $2 million). At December 31, 2020, PPP loans totaled $277.8 million which are included in commercial and industrial loans. The Company is participating in the new round of the PPP by offering first and second draw loans.

We are also currently participating in the Federal Reserve's PPPLF which, through December 31, 2020, extended loans to banks who are loaning money to small businesses under the PPP. The amount outstanding at December 31, 2020 was $149.8 million and is non-recourse and secured by the amount of the PPP loans we originate. The maturity date of a borrowing under the PPPLF is equal the maturity date of the PPP loan pledged to secure the borrowing and would be accelerated (i) if the underlying PPP loan goes into default and is sold to the SBA to realize on the SBA guarantee or (ii) to the extent that any loan forgiveness reimbursement is received from the SBA. Borrowings under the PPPLF will bear interest at a rate of 0.35% and there are no fees to us.

Federal bank regulatory agencies have issued an interim final rule that permits banks to neutralize the regulatory capital effects of participating in the PPP and, if applicable, the PPPLF. Specifically, all PPP loans have a zero percent risk weight under applicable risk-based capital rules. Additionally, a bank may exclude all PPP loans pledged as collateral to the PPPLF from its average total consolidated assets for the purposes of calculating its leverage ratio, while PPP loans that are not pledged as collateral to the PPPLF will be included.

Real estate loans

1-4 single family residential real estate loans (including loans to foreign nationals)

1-4 single family residential real estate loans, including foreign national loans, are subject to underwriting standards and processes similar to commercial and industrial loans. We provide mortgages for the financing of 1-4 single family residential homes for primary occupancy, vacation or rental purposes. The borrowers on these loans generally qualify for traditional market financing. We also specialize in 1-4 single family residential real estate loans to foreign national customers, in which the borrower does not qualify for traditional market financing.

We define our foreign national loans as loans to borrowers who derive more than 50% of their personal income from outside the United States. We provide mortgages for these foreign nationals in Texas for primary occupancy or secondary homes while travelling to the United States. Because more than 50 percent of the borrower's income is derived from outside of the United States, they do not qualify for traditional market financing. We have developed an enhanced due diligence process for foreign national loans that includes larger down payments than a traditional mortgage, as well as minimum reserves equal to an amount of mortgage payments over a specified period held in the Bank and monthly escrows for taxes and insurance.

1-4 single family residential real estate loans totaled $364.1 million as of December 31, 2020 and represented a decrease of $11.6 million, or 3.1%, from $375.7 million as of December 31, 2019. Foreign national loans comprised $124.6 million, or 34.2%, of 1-4 single family residential real estate loans as of December 31, 2020, compared to $134.0 million, or 35.7%, of 1-4 single family residential real estate loans as of December 31, 2019. The decrease was primarily due to refinance competition in response to overall lower interest rates.

Construction, land and development loans

With respect to loans to developers and builders, we generally require the borrower to have a proven record of success and expertise in the building industry. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment primarily dependent on the success of the ultimate project.

Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from us until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing. Due to the nature of the real estate industry, we evaluate the borrower's ability to service the interest of the debt from other sources other than the sale of the constructed property.

Construction loans totaled $415.5 million as of December 31, 2020 and represented an increase of $156.1 million, or 60.2%, from $259.4 million as of December 31, 2019. The increase was primarily due to acquired loans associated with the Simmons branch acquisition.

Commercial real estate loans

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria. As a general rule, we avoid financing special use projects unless strong secondary support is present to help mitigate risk.

Commercial real estate loans consist of owner and nonowner-occupied commercial real estate loans, multifamily loans and farmland. Total commercial real estate loans of $956.7 million as of December 31, 2020 represented an increase of $202.9 million, or 26.9%, from $753.8 million as of December 31, 2019. The increase was primarily due to acquired loans associated with the Simmons branch acquisition.

Owner and nonowner-occupied commercial real estate loans

Owner-occupied commercial real estate loans totaled $243.1 million as of December 31, 2020 and $353.3 million as of December 31, 2019. Owner-occupied real estate loans comprised 25.4% and 47.0% of total commercial real estate loans as of December 31, 2020 and 2019, respectively.

Nonowner-occupied commercial real estate loans totaled $600.6 million as of December 31, 2020 and $326.1 million as of December 31, 2019. Nonowner-occupied commercial real estate loans comprised 62.8% and 43.3% of total commercial real estate loans as of December 31, 2020 and 2019, respectively.

Multifamily loans and farmland

Multifamily loans totaled $55.3 million at December 31, 2020 and $10.6 million at December 31, 2019. Multifamily loans comprised 5.8% and 1.4% of total commercial real estate loans as of December 31, 2020 and 2019, respectively.

Multifamily loans are not a focus of the Bank, and we do not expect this portion of the portfolio to represent a large portion of our growth going forward. Farmland loans totaled $57.8 million at December 31, 2020 and $63.8 million at December 31, 2019.

Consumer loans and leases

Our non-real estate consumer loans are based on the borrower’s proven earning capacity over the term of the loan. We monitor payment performance periodically for consumer loans to identify any deterioration in the borrower’s financial strength. To monitor and manage consumer loan risk, management develops and adjusts policies and procedures as needed. This activity, coupled with a relatively small volume of consumer loans, minimizes risk.

All of our leases are related to the financing of vehicle leases to individuals. These loans are originated by a well-known third-party leasing company and subsequently purchased by us after our final credit review. We limit our exposure to individuals living in Texas, within our defined local markets. We do not intend on growing this portfolio going forward as we believe current pricing on these loans does not adequately cover the inherent risk.

Consumer loans and leases totaled $11.7 million as of December 31, 2020 and represented a decrease of $11.0 million, or 48.4%, from $22.8 million as of December 31, 2019. Leases comprised $1.8 million and $6.2 million of total consumer loans and leases at December 31, 2020 and 2019, respectively.

Municipal and other loans

Municipal and other loans consist primarily of loans made to municipalities and emergency service, hospital and school districts as well as agricultural loans.

We make loans to municipalities and emergency service, hospital and school districts primarily throughout Texas. The majority of these loans have tax or revenue pledges and in some cases are additionally supported by collateral. Municipal loans made without a direct pledge of taxes or revenues are usually made based on some type of collateral that represents an essential service. Lending money directly to these municipalities allows us to earn a higher yield for similar durations than we could if we purchased municipal securities. Total loans to municipalities and emergency service, hospital and school districts and others were $65.4 million and $72.5 million as of December 31, 2020 and 2019, respectively.

For a more detailed discussion of the type of loans in our loan portfolio, see “Business—Lending Activities.”

The following table summarizes the loan contractual maturity distribution by type and by related interest rate characteristics as of the date indicated:

	As of December 31, 2020			
	One Year or Less	After One but Within Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial and industrial loans	$ 81,307	$ 414,933	$ 78,746	$ 574,986
Real estate:				
1-4 single family residential loans	32,305	77,591	254,243	364,139
Construction, land and development loans	137,987	224,115	53,386	415,488
Commercial real estate loans (including multifamily)	103,513	442,881	410,349	956,743
Consumer loans and leases	5,032	6,249	457	11,738
Municipal and other loans	10,190	17,680	37,568	65,438
Total loans held in portfolio	$ 370,334	$ 1,183,449	$ 834,749	$ 2,388,532
Predetermined (fixed) interest rates		$ 650,175	$ 193,682	
Floating interest rates		533,274	641,067	
Total		$ 1,183,449	$ 834,749	

The information in the table above is limited to contractual maturities of the underlying loans. The expected life of our loan portfolio will differ from contractual maturities because borrowers may have the right to curtail or prepay their loans with or without prepayment penalties.

Asset Quality

The following table sets forth the composition of our nonperforming assets, including nonaccrual loans, accruing loans 90 days or more days past due, other real estate owned and repossessed assets and restructured loans as of the dates indicated:

	As of December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Nonperforming assets					
Nonaccrual loans:					
Commercial and industrial loans	$ 4,929	$ 2,579	$ 3,570	$ 1,927	$ 1,638
Real estate:					
1-4 single family residential loans	1,508	1,901	1,090	1,135	1,296
Construction, land and development loans	217	214	—	—	—
Commercial real estate loans (including multifamily)	1,836	1,700	354	447	778
Consumer loans and leases	108	71	17	53	95
Municipal and other loans	—	—	—	—	—
Total nonaccrual loans	8,598	6,465	5,031	3,562	3,807
Accruing loans 90 days or more past due	—	2	288	33	—
Total nonperforming loans	8,598	6,467	5,319	3,595	3,807
Other real estate owned and repossessed assets	133	3,653	782	21	23
Total nonperforming assets	$ 8,731	$ 10,120	$ 6,101	$ 3,616	$ 3,830
Restructured loans(1)	$ 231	$ 209	$ 210	$ 270	$ 261

(1) Performing troubled debt restructurings represent the balance at the end of the respective period for those performing loans modified in a troubled debt restructuring that are not already presented as a nonperforming loan.

Nonperforming loans totaled $8.6 million at December 31, 2020, an increase of $2.1 million, or 33.0%, from $6.5 million at December 31, 2019. Nonperforming assets totaled $8.7 million at December 31, 2020, a decrease of

$1.4 million, or 13.7%, from $10.1 million at December 31, 2019. This decrease was primarily due to sales of other real estate owned during the year.

We classify loans as past due when the payment of principal or interest is greater than 30 days delinquent based on the contractual next payment due date. Our policies related to when loans are placed on nonaccrual status conform to guidelines prescribed by bank regulatory authorities. Loans are placed on nonaccrual status when it is probable that principal or interest is not fully collectible, or when principal or interest becomes 90 days past due, whichever occurs first. Loans are removed from nonaccrual status when they become current as to both principal and interest and concern no longer exists as to the collectability of principal and interest.

Loans are identified for restructuring based on their delinquency status, risk rating downgrade, or at the request of the borrower. Borrowers that are 90 days delinquent and/or have a history of being delinquent, or experience a risk rating downgrade, are contacted to discuss options to bring the loan current, cure credit risk deficiencies, or other potential restructuring options that will reduce the inherent risk and improve collectability of the loan. In some instances, a borrower will initiate a request for loan restructure. We require borrowers to provide current financial information to establish the need for financial assistance and satisfy applicable prerequisite conditions required by us. We may also require the borrower to enter into a forbearance agreement.

Modification of loan terms may include the following: reduction of the stated interest rate; extension of maturity date or other payment dates; reduction of the face amount or maturity amount of the loan; reduction in accrued interest; forgiveness of past-due interest; or a combination of the foregoing.

We engage an external consulting firm to complete an independent loan review and validate our credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk ratings and credit quality assessment decisions made by lenders and credit personnel, as well as our policies and procedures.

Certain borrowers are currently unable to meet their contractual payment obligations because of the effects of COVID-19. In an effort to mitigate the adverse effects of COVID-19 on our loan customers, we have provided them the opportunity to defer payments, or portions thereof, for up to 90 days, should they so request. In the absence of other intervening factors, such short-term modifications made on a good faith basis are not categorized as troubled debt restructurings, nor are loans granted payment deferrals related to COVID-19 reported as past due or placed on non-accrual status (provided the loans were not past due or on non-accrual status prior to the deferral). Since the beginning of the Pandemic in March of 2020 through December 31, 2020, 1,909 qualified loans had been granted 90 day deferrals or interest-only payment periods of 90 days with an unpaid principal balance of $545.8 million. From the date of deferment through December 31, 2020, approximately 84.1% of loans had exited the deferral period. At December 31, 2020 approximately $86.9 million of loans remain in deferment with approximately $52.7 million and $12.8 million in second and third deferral periods, respectively.

The vast majority of our loan customers continue to show signs of recovery from the COVID-19 pandemic, as demonstrated by the significant decline of loans for which we had granted deferrals. We continue to monitor industries that have experienced more lasting effects from the COVID-19 pandemic. Hospitality remains our primary focus; however, our total exposure in this segment represents only $100.6 million, or 4.2% of our total loan portfolio. At December 31, 2020, approximately $16.5 million of hospitality loans remain on deferment periods that will expire during the first quarter of 2021. Direct and indirect oil and gas exposure is an additional focal point representing $80.3 million, or 3.4% of our total loan portfolio. Restaurants and retail centers continue to show signs of improvement and should benefit from additional stimulus programs that are expected to be forthcoming in the first quarter of 2021. At December 31, 2020 no alterations were made to the allowance for loan loss calculation specifically for the industries highlighted above. Risk rate downgrades and adjustments to qualitative factors were deemed sufficient to capture any incremental losses in these industries.

These deferrals have also caused the increase in accrued interest shown on the consolidated balance sheets at December 31, 2020 compared to December 31, 2019.

The following table sets forth our asset and credit quality ratios for the periods presented:

	For the Years Ended December 31,				
	2020	2019	2018	2017	2016
Asset and Credit Quality Ratios:					
Nonperforming loans to loans held for investment(1)	0.36%	0.37%	0.49%	0.41%	0.49%
Nonperforming assets to loans plus OREO	0.37%	0.57%	0.56%	0.42%	0.50%
Nonperforming assets to total assets(2)	0.28%	0.42%	0.42%	0.35%	0.39%
Net charge-offs to average loans	0.09%	0.17%	0.16%	0.14%	0.05%
Allowance for loan and lease losses to nonperforming loans	186.39%	104.18%	118.18%	157.22%	114.45%
Allowance for loan and lease losses to loans held for investment	0.67%	0.38%	0.58%	0.65%	0.56%

(1) Nonperforming loans include loans on nonaccrual status and accruing loans 90 or more days past due.
(2) Nonperforming assets include loans on nonaccrual status, accruing loans 90 days or more past due and other real estate owned and repossessed assets.

For a more detailed discussion of nonperforming loans, see “Business—Lending Activities—Nonperforming Loans.”

Analysis of the Allowance for Loan and Lease Losses

Allowance for loan and lease losses reflects management’s estimate of probable credit losses inherent in the loan portfolio. The computation of the allowance for loan and lease losses includes elements of judgment and high levels of subjectivity.

The following tables summarize the allocation of allowance for loan and lease losses related to our loans as of the dates and for the periods presented. This allocation is calculated on an approximate basis and is not necessarily indicative of future losses or allocations. The entire amount of the allowance is available to absorb losses occurring in any category of loans:

	Allowance Rollforward				
Year Ended December 31, 2020	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 4,078	$ (1,877)	$ 89	$ 6,796	$ 9,086
Real estate:					
1-4 single family residential loans	31	(21)	—	137	147
Construction, land and development loans	1,055	—	—	689	1,744
Commercial real estate loans (including multifamily)	1,451	—	—	3,392	4,843
Consumer loans and leases	68	(222)	57	242	145
Municipal and other loans	54	—	6	1	61
Ending allowance balance	$ 6,737	$ (2,120)	$ 152	$ 11,257	$ 16,026

Year Ended December 31, 2019	Allowance Rollforward				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 4,453	$ (2,508)	$ 147	$ 1,986	$ 4,078
Real estate:					
1-4 single family residential loans	59	—	65	(93)	31
Construction, land and development loans	731	—	—	324	1,055
Commercial real estate loans (including multifamily)	960	—	—	491	1,451
Consumer loans and leases	80	(134)	20	102	68
Municipal and other loans	3	—	5	46	54
Ending allowance balance	$ 6,286	$ (2,642)	$ 237	$ 2,856	$ 6,737

Year Ended December 31, 2018	Allowance Rollforward				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 3,046	$ (1,465)	$ 75	$ 2,797	$ 4,453
Real estate:					
1-4 single family residential loans	902	(5)	—	(838)	59
Construction, land and development loans	441	—	—	290	731
Commercial real estate loans (including multifamily)	898	—	—	62	960
Consumer loans and leases	198	(132)	1	13	80
Municipal and other loans	167	—	—	(164)	3
Ending allowance balance	$ 5,652	$ (1,602)	$ 76	$ 2,160	$ 6,286

Year Ended December 31, 2017	Allowance Rollforward				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 2,347	$ (974)	$ 7	$ 1,666	$ 3,046
Real estate:					
1-4 single family residential loans	647	(23)	—	278	902
Construction, land and development loans	364	—	—	77	441
Commercial real estate loans (including multifamily)	667	(34)	—	265	898
Consumer loans and leases	186	(156)	—	168	198
Municipal and other loans	146	—	—	21	167
Ending allowance balance	$ 4,357	$ (1,187)	$ 7	$ 2,475	$ 5,652

Year Ended December 31, 2016	Allowance Rollforward Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 1,119	$ (282)	$ 58	$ 1,452	$ 2,347
Real estate:					
1-4 single family residential loans	623	(3)	—	27	647
Construction, land and development loans	398	(32)	30	(32)	364
Commercial real estate loans (including multifamily)	670	—	—	(3)	667
Consumer loans and leases	89	(113)	6	204	186
Municipal and other loans	177	—	—	(31)	146
Ending allowance balance	$ 3,076	$ (430)	$ 94	$ 1,617	$ 4,357

In determining the allowance for loan and lease losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan and lease losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates.

During 2017, we refined our allowance for loan loss methodology based upon management's judgment and applicable regulatory guidance. The calculation of reserves on loans collectively evaluated for impairment was altered to reflect five years of historical loss experience which more appropriately matches the weighted average life of loans in the portfolio. Additionally, the calculated historical loss experience is now allocated across the portfolio's risk rates using a probability of default curve constructed from the Bank's historical default data. We also updated the qualitative component of the reserve on loans collectively evaluated for impairment to allow for a greater sensitivity to current trends.

Prior to the second quarter of 2018, we were utilizing a peer bank allowance coverage ratio in the qualitative reserve calculation, as we did not have enough historical defaults to rely on our own loss factors. Beginning in the second quarter of 2018, we had a sufficient amount of defaults over the five year lookback period to transition over to relying more on our own historical loss data versus peer data. While this did not result in a significant change to the allowance for loan and lease losses as a whole, it continues to impact the provision for certain loan categories in which we had experienced more historical defaults.

On November 14, 2018, we closed the Comanche acquisition. At the date of acquisition, Comanche had $117.2 million in loans. In accordance with ASC 805, "Business Combinations", we utilized a third party to value the loan portfolio as of the acquisition date. Based upon the third party valuation, the fair value of the loans was approximately $116.2 million at the acquisition date. The overall discount calculated was $946 thousand and is being accreted into interest income over the life of the loans.

On April 2, 2019, we completed the acquisition of First Beeville Financial Corporation and its subsidiary, The First National Bank of Beeville. At the date of acquisition, Beeville had $298.9 million in loans. Based upon a third party valuation the fair value of the loan portfolio was approximately $296.4 million. The overall discount calculated was $2.5 million and is being accreted into interest income over the life of the loans.

On November 5, 2019, the Company completed its acquisition of Chandler Bancorp Inc. and its subsidiary, Citizens State Bank. At the date of acquisition, Citizens had $253.1 million in loans. Based upon a third party valuation the fair value of the loan portfolio was approximately $252.0 million. The overall discount calculated was $1.1 million and is being accreted into interest income over the life of the loans.

On February 28, 2020, the Company completed its acquisition of certain assets and assumption of certain liabilities associated with five branch offices of Simmons Bank. At the date of acquisition, Simmons had $260.3 million in loans. Based upon a third party valuation the fair value of the loan portfolio was approximately $255.5 million. The overall discount calculated was $4.8 million and is being accreted into interest income over the life of the loans.

Purchased credit impaired loans related to the Comanche acquisition were insignificant, and the Bank did not identify any purchased credit impaired loans related to the Beeville acquisition or the Simmons branch acquisition. Management identified purchased credit impaired loans related to the Citizens of approximately $3.2 million and estimated that expected cash flows were equal to contractual cash flows at the acquisition date. The remaining recorded investment in purchased credit impaired loans related to the Citizens acquisition was $610 thousand at December 31, 2020 and the Company believes that all contractual principal and interest will be received.

The allowance for loan and lease losses increased $9.3 million to $16.0 million at December 31, 2020 from $6.7 million at December 31, 2019, primarily due to increased qualitative reserves related to the COVID-19 pandemic. The allowance for loan and lease losses as a percentage of nonperforming loans and allowance for loan and lease losses as a percentage of loans held for investment was 186.4% and 0.67%, respectively, as of December 31, 2020, compared to 104.2% and 0.38%, respectively, as of December 31, 2019.

Net loan charge-offs for the year ended December 31, 2020 totaled $2.0 million, a decrease from $2.4 million of net loan charge-offs for the same period of 2019. The decrease in net charge-offs for the year ended December 31, 2020 primarily related to charge-offs in our SBA loan portfolio. The ratio of net loan charge-offs to average loans outstanding during the years ended December 31, 2020 and 2019 was 0.09% and 0.17%, respectively.

The following table provides the allocation of the allowance for loan and lease losses as of the dates presented:

	As of December 31,									
	2020		2019		2018		2017		2016	
	Amount	% Loans in each category	Amount	% Loans in each category	Amount	% Loans in each category	Amount	% Loans in each category	Amount	% Loans in each category
	(Dollars in thousands)									
Commercial and industrial loans	$ 9,086	24.2%	$4,078	16.0%	$4,453	15.8%	$3,046	15.4%	$2,347	15.1%
Real estate:										
1-4 single family residential loans	147	15.2%	31	21.3%	59	25.4%	902	27.1%	647	26.8%
Construction, land and development loans	1,744	17.4%	1,055	14.7%	731	14.5%	441	15.9%	364	14.6%
Commercial real estate loans (including multifamily)	4,843	40.0%	1,451	42.7%	960	36.6%	898	32.9%	667	32.7%
Consumer loans and leases	145	0.5%	68	1.3%	80	2.2%	198	2.6%	186	3.4%
Municipal and other loans	61	2.7%	54	4.1%	3	5.6%	167	6.1%	146	7.3%
Ending allowance balance	$16,026	100.0%	$6,737	100.0%	$6,286	100.0%	$5,652	100.0%	$4,357	100.0%

Bank-owned Life Insurance ("BOLI")

BOLI policies are held in order to insure key, active employees and former directors the Bank. Policies are recorded at the cash surrender value adjusted for other charges or other amounts due that are probable at settlement, if applicable.

The following table summarizes the changes in the cash surrender value of BOLI for the periods presented:

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Balance at beginning of period	$ 15,610	$ 7,401	$ 479
Additions from premium payments	—	—	—
Additions from business combination	—	7,903	6,903
Net gain in cash surrender value	359	306	19
Balance at end of period	$ 15,969	$ 15,610	$ 7,401

As of December 31, 2020 and 2019, the BOLI cash surrender value was $16.0 million and $15.6 million, respectively. We recognized $359 thousand, $306 thousand and $19 thousand of BOLI income for the years ended December 31, 2020, 2019 and 2018, respectively. The total death benefit of the BOLI policies at December 31, 2020 was $40.7 million.

Deposits

We expect deposits to be our primary funding source in the future as we optimize our deposit mix by continuing to shift our deposit composition from higher cost time deposits to lower cost demand deposits. Non-time deposits include demand deposits, NOW accounts, and savings and money market accounts.

The following table shows the deposit mix as of the dates presented:

	As of December 31,			
	2020		2019	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Noninterest-bearing demand deposits	$ 727,543	29.6%	$ 444,822	23.0%
Interest-bearing demand deposits	472,076	19.2%	370,467	19.2%
Interest-bearing NOW accounts	10,287	0.4%	28,204	1.5%
Savings and money market accounts	610,571	24.8%	404,886	21.0%
Time deposits	638,658	26.0%	679,747	35.3%
Total deposits	$ 2,459,135	100.0%	$ 1,928,126	100.0%

Total deposits at December 31, 2020 were $2.46 billion, an increase of $531.0 million, or 27.5%, from total deposits at December 31, 2019 of $1.93 billion.

The average cost of deposits for the year ended December 31, 2020 was 0.64%. This represents a decrease of 37 basis points compared to the average cost of deposits of 1.01% for the year ended December 31, 2019. The decrease in cost of deposits was primarily attributable to the decrease in interest rates by the Federal Open Market Committee during 2020. For the year ended December 31, 2020, the average rate paid on time deposits was 1.54% compared to 1.90% for the year ended December 31, 2019.

The following table shows the remaining maturity of time deposits of $100,000 and greater as of the date indicated:

		As of December 31, 2020 (Dollars in thousands)
Time deposits $100,000 or greater with remaining maturity of:		
Three months or less	$	125,365
After three months through six months		108,257
After six months through twelve months		191,250
After twelve months		90,868
Total	$	515,740

Borrowings

In addition to deposits, we utilize advances from the FHLB and other borrowings as a supplementary funding source to finance our operations.

FHLB borrowings: The FHLB allows us to borrow, both short and long-term, on a blanket floating lien status collateralized by certain securities and loans. As of December 31, 2020 and 2019, total remaining borrowing capacity of $654.9 million and $381.3 million, respectively, was available under this arrangement. As of December 31, 2020 we had short-term FHLB borrowings of $10 million, with an average an interest rate of 0.70%. As of December 31, 2019, we did not have any short-term FHLB borrowings. We had long-term FHLB borrowings of $51.9 million and $90.4 million as of December 31, 2020 and 2019, respectively, with an average interest rate of 2.29% and 2.38%, respectively.

PPPLF: In conjunction with the PPP, we are also currently participating in the Federal Reserve's PPPLF which, through December 31, 2020, extended loans to banks that are loaning money to small businesses under the PPP. The amount outstanding at December 31, 2020, was $149.8 million and is non-recourse and secured by the amount of the PPP loans still outstanding. The maturity date of a borrowing under the PPPLF is equal the maturity date of the PPP loan pledged to secure the borrowing and would be accelerated (i) if the underlying PPP loan goes into default and is sold to the SBA to realize on the SBA guarantee or (ii) to the extent that any loan forgiveness reimbursement is received from the SBA. Borrowings under the PPPLF are included in long-term liabilities on the Company's consolidated balance sheet and bear interest at a rate of 0.35%.

Subordinated Notes: On July 24, 2020, the Company issued $37 million aggregate principal amount of 6.00% fixed-to-floating rate subordinated notes due 2030. The Notes will initially bear interest at a fixed annual rate of 6.00%, payable quarterly, in arrears, to, but excluding, July 31, 2025. From and including July 31, 2025, to, but excluding, the maturity date or earlier redemption date, the interest rate will reset quarterly to an interest rate per annum equal to a benchmark rate, which is expected to be the then-current three-month Secured Overnight Financing Rate, as published by the Federal Reserve Bank of New York (provided, that in the event the benchmark rate is less than zero, the benchmark rate will be deemed to be zero) plus 592 basis points, payable quarterly, in arrears. The amount outstanding at December 31, 2020, was $37.0 million.

Secured borrowings : Due to the rights retained on certain loan participations sold, the Company is deemed to have retained effective control over these loans under ASC Topic 860, "Transfers and Servicing", and therefore these participations sold must be accounted for as a secured borrowing. At December 31, 2020, total secured borrowings were $4.0 million representing an increase in loans held for investment and matching increase in long-term borrowings. At December 31, 2019, total secured borrowings were $14.7 million representing an increase in loans held for investment and matching increase in long-term borrowings.

Line of credit: We entered into a line of credit with a third party lender in May 2017 that allows us to borrow up to $20.0 million. The interest rate on this line of credit is based upon 90-day LIBOR plus 4.0%, and unpaid principal and interest is due at the stated maturity of May 12, 2022. This line of credit is secured by a pledge of all of the common stock of the Bank. This line of credit may be prepaid at any time without penalty, so long as such prepayment includes the payment of all interest accrued through the date of the repayments, and, in the case of prepayment of the entire loan, the amount of attorneys' fees and disbursements of the lender. During 2019, the line of credit was increased to a total borrowing capacity of $50.0 million all of which was available at December 31, 2020 and at December 31, 2019.

Trust Preferred Securities: We acquired trust preferred securities through the Comanche acquisition in 2018. The trust preferred securities had a maturity date of September 15, 2036, and were redeemable at the Company's option and bear interest at a variable rate per annum equal to the three-month LIBOR plus 1.65%. Under applicable regulatory guidelines, the trust preferred securities qualify as tier 1 capital. The Company redeemed the trust preferred securities in whole at par during 2019.

Total borrowings consisted of the following as of the dates presented:

	2020	2019
Short-term FHLB borrowings	$ 10,000	$ —
Long-term FHLB borrowings	51,890	90,437
PPPLF	149,848	—
Subordinated Notes	36,295	—
Secured borrowings	3,987	14,703
Third-party lender line of credit	—	—
Trust preferred securities	—	—
Total borrowings	$ 252,020	$ 105,140

At December 31, 2020, total borrowings were $252.0 million, an increase of $146.9 million, or 139.7%, from $105.1 million at December 31, 2019. The increase in total borrowings was primarily driven by the advances taken under the Paycheck Protection Program Liquidity Facility.

Short-term borrowings consist of debt with maturities of one year or less. Our short-term borrowings consist of FHLB borrowings and a third party line of credit. The following table is a summary of short-term borrowings as of and for the periods presented:

	2020	2019
Short-term borrowings:		
Maximum outstanding at any month-end during the period	$ 10,000	$ 12,500
Balance outstanding at end of period	10,000	—
Average outstanding during the period	10,000	12,500
Average interest rate during the period	0.70%	2.42%
Average interest rate at the end of the period	0.70%	0.00%

We maintained five, unsecured Federal Funds lines of credit with commercial banks which provide for extensions of credit with an availability to borrow up to an aggregate $105.0 million as of December 31, 2020. We maintained five, unsecured Federal Funds lines of credit with commercial banks with an availability to borrow up to an aggregate $90 million as of December 31, 2019. There were no advances under these lines of credit outstanding as of December 31, 2020 or 2019.

Stockholders' Equity

The following table summarizes the changes in our stockholders' equity for the periods indicated:

	2020	2019	2018
	Years Ended December 31,		
	(Dollars in thousands)		
Balance at beginning of period	$ 345,705	$ 198,796	$ 99,139
Net income	31,311	21,136	9,978
Common stock dividends declared ($0.07 per share)	(2,767)	—	—
Shares issued in offering, net(1)	—	46,535	42,058
Shares issued in business combination	—	78,083	40,692
Exercise of stock options and warrants	683	1,966	3,902
Stock-based compensation	979	665	672
Treasury Stock Purchases	(15,470)	(289)	
Other comprehensive income (loss)	338	(1,187)	2,355
Balance at end of period	$ 360,779	$ 345,705	$ 198,796

(1) Shares issued in offering were net of expenses of $442 thousand and $452 thousand, for 2019 and 2018, respectively.

Net income totaled $31.3 million for the year ended December 31, 2020, an increase of $10.2 million, compared to $21.1 million for the year ended December 31, 2019. Our results of operations for the year ended December 31, 2020 produced a return on average assets of 1.11% compared to 1.14% for the prior year. Our results of operations for the year ended December 31, 2020 produced a return on average stockholders' equity of 8.98% compared to 8.38% for the prior year.

Stockholders' equity was $360.8 million as of December 31, 2020, an increase of $15.1 million from $345.7 million as of December 31, 2019. The increase was primarily driven by net income of $31.3 million offset by share repurchases of $15.5 million.

Net income totaled $21.1 million for the year ended December 31, 2019, an increase of $11.1 million, compared to $10.0 million for the year ended December 31, 2018. Our results of operations for the year ended December 31, 2019 produced a return on average assets of 1.14% compared to 0.89% for the prior year. Our results of operations for the year ended December 31, 2019 produced a return on average stockholders' equity of 8.38% compared to 6.77% for the prior year.

Stockholders' equity was $345.7 million as of December 31, 2019, an increase of $146.9 million from $198.796 million as of December 31, 2018. The increase was primarily driven by the proceeds raised during our secondary offering of $46.5 million, the value of the shares issued in the Beeville and Citizens acquisitions of $78.1 million, and net income of $21.1 million.

Contractual Obligations

The following table presents information regarding our outstanding contractual obligations and other commitments to make future payments as of December 31, 2020, which consist of our future cash payments associated with our time deposits, operating lease obligations and contractual obligations pursuant to our FHLB advances and other borrowings. Payments related to our leases are based on actual payments specified in the underlying contracts.

As of December 31, 2020	Total Amounts Committed	One Year or Less	Over One Year Through Three Years	Over Three Years Through Five Years	Over Five Years
	(Dollars in thousands)				
Contractual obligations:					
Time deposits	$ 644,449	$ 523,084	$ 107,068	$ 14,297	$ —
Operating lease obligations	6,914	2,236	2,377	2,301	—
FHLB advances and other borrowings	268,976	172,426	17,644	57,407	21,499
Construction in process	194	194	—	—	—
Total	$ 920,533	$ 697,940	$ 127,089	$ 74,005	$ 21,499

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included on our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and commercial and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized on our consolidated balance sheets.

We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent our future cash requirements. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards until the time of loan funding. We seek to minimize our exposure to loss under these commitments by subjecting them to prior credit approval and ongoing monitoring procedures. We assess the credit risk associated with certain commitments to extend credit and establish a liability for probable credit losses. As of December 31, 2020 and 2019, our reserve for unfunded commitments totaled $90 thousand and $98 thousand, respectively.

Commercial and standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

The following table summarizes our commitments as of the dates presented:

	As of December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Unfunded loan commitments	$ 309,411	$ 243,568	$ 176,156
Commercial and standby letters of credit	3,272	1,232	547
Total	$ 312,683	$ 244,800	$ 176,703

Management believes that we have adequate liquidity to meet all known contractual obligations and unfunded commitments, including loan commitments over the next twelve months. Additionally, management believes that our off-balance sheet arrangements have not had or are not reasonably likely to have a current or future material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Capital Resources

We are required to comply with certain “risk-based” capital adequacy guidelines issued by the Federal Reserve and the FDIC. The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank. The guidelines also assign weights to the “credit-equivalent” amounts of certain off-balance sheet items, such as letters of credit and interest rate and currency swap contracts.

Under the Basel III Capital Rules, we are required to maintain the following minimum capital to risk-adjusted assets requirements: (i) a common equity tier 1 capital ratio of 4.5% (6.5% to be considered “well capitalized”); (ii) a tier 1 capital ratio of 6.0% (8.0% to be considered “well capitalized”), and (iii) a total capital ratio of 8.0% (10.0% to be considered “well capitalized”). Under the Basel III rules that became effective on January 1, 2015, there is a requirement for a common phased-in equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement was phased in over four years beginning in 2016. The capital buffer requirement effectively raises the minimum required common equity tier 1 capital ratio to 7.0%, the tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis as of January 1, 2019.

The risk-based capital ratios measure the adequacy of a bank’s capital against the riskiness of its assets and off-balance sheet activities. Failure to maintain adequate capital is a basis for “prompt corrective action” or other regulatory enforcement action. In assessing a bank’s capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level of earnings; concentrations of credit, quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management’s overall ability to monitor and control risks.

The following table sets forth the regulatory capital ratios, excluding the impact of the capital conservation buffer, as of the dates indicated:

	Minimum Capital Requirement	Minimum Capital Requirement with Capital Buffer	Minimum to Be Well Capitalized	December 31,		
				2020	2019	2018
Capital ratios (Company):						
Tier 1 leverage ratio	4.0%	4.000%	N/A	9.90%	12.37%	12.11%
Common equity tier 1 capital ratio	4.5%	7.000%	N/A	11.94%	14.47%	14.56%
Tier 1 risk-based capital ratio	6.0%	8.500%	N/A	11.94%	14.47%	14.81%
Total risk-based capital ratio	8.0%	10.500%	N/A	14.28%	14.85%	15.37%
Capital ratios (Bank):						
Tier 1 leverage ratio	4.0%	4.000%	5.0%	10.30%	11.29%	11.04%
Common equity tier 1 capital ratio	4.5%	7.000%	6.5%	12.29%	13.98%	12.38%
Tier 1 risk-based capital ratio	6.0%	8.500%	8.0%	12.29%	13.98%	12.38%
Total risk-based capital ratio	8.0%	10.500%	10.0%	13.00%	14.36%	12.94%

At December 31, 2020, both we and the Bank met all the capital adequacy requirements to which we and the Bank were subject. At December 31, 2020, the Bank was "well capitalized" under the regulatory framework for prompt corrective action. Management believes that no conditions or events have occurred since December 31, 2020 that would materially adversely change such capital classifications. From time to time, we may need to raise additional capital to support our and the Bank's further growth and to maintain our "well capitalized" status.

As of December 31, 2020, we had a tier 1 leverage ratio of 9.90%. As of December 31, 2020, the Bank had a tier 1 leverage ratio of 10.30%, which provided $143.6 million of excess capital relative to the minimum requirements to be considered well capitalized.

For a discussion of the changes in our total stockholders' equity at December 31, 2020 as compared with December 31, 2019, please see the discussion under "—Stockholders' Equity" above.

Liquidity

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. For the years ended December 31, 2020 and 2019, our liquidity needs were primarily met by core deposits, security and loan maturities and amortizing investment and loan portfolios. Although access to brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB are available and have been utilized on occasion to take advantage of investment opportunities, we do not generally rely on these external funding sources. The Bank maintained five unsecured Federal Funds lines of credit with commercial banks which provide for extensions of credit with an availability to borrow up to an aggregate $105.0 million as of December 31, 2020. We maintained five, unsecured Federal Funds lines of credit with commercial banks with an availability to borrow up to an aggregate $90.0 million as of December 31, 2019. The Company drew $10 million on the line of credit during 2020 to fund general corporate needs and repaid the outstanding amount plus interest in July 2020. There were no advances under these lines of credit outstanding as of December 31, 2020 or 2019.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of our average total assets for the periods indicated. Average assets were $2.82 billion for the year ended December 31, 2020 and $1.86 billion for the year ended December 31, 2019.

	As of and for the Years Ended December 31,			
	2020	2019	2018	2017
Sources of funds:				
Deposits:				
Noninterest-bearing	23.2%	19.0%	16.6%	16.1%
Interest-bearing	57.2%	63.4%	62.5%	66.3%
Advances from FHLB and other borrowings	6.3%	3.9%	7.5%	7.6%
Other liabilities	0.9%	0.2%	0.3%	0.2%
Stockholders' equity	12.4%	13.5%	13.1%	9.8%
Total	100.0%	100.0%	100.0%	100.0%
Uses of funds:				
Loans	80.0%	75.8%	83.9%	82.4%
Investment securities and other	4.1%	8.8%	5.3%	2.9%
Interest-bearing deposits in other banks	6.5%	7.3%	2.5%	8.2%
Other noninterest-earning assets	9.4%	8.1%	8.3%	6.5%
Total	100.0%	100.0%	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	28.9%	23.1%	21.0%	19.6%
Average loans to average deposits	99.4%	92.0%	106.1%	99.9%

Our primary source of funds is deposits and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans, including loans held for sale, increased 59.8% for the year ended December 31, 2020 compared to the year ended December 31, 2019. We predominantly invest excess deposits in overnight deposits with the Federal Reserve, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth. Our securities portfolio had a weighted average life of 5.11 years and an effective duration of 4.58 years as of December 31, 2020.

As of December 31, 2020, we had outstanding $309.4 million in commitments to extend credit and $3.3 million in commitments associated with outstanding commercial and standby letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of December 31, 2020, we believe we had no exposure to future cash requirements associated with known uncertainties. Capital expenditures, including buildings and construction in process, for the years ended December 31, 2020 and 2019 were $10.2 million and $7.2 million, respectively.

We had cash and cash equivalents of $263.0 million and $326.0 million as of December 31, 2020 and 2019, respectively. The increase was primarily due to the cash received from the sale of securities.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential for economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset-Liability Management Committee of the Bank in accordance with policies approved by its board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk which include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities, prepayment assumptions and repricing opportunities of loans are incorporated in the model as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life of our non-maturity deposit accounts are based on standard regulatory decay assumptions and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a quarterly basis, we run two simulation models including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic growth models, rates are shocked instantaneously and ramped rate changes over a 12-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than 5.0% for a 100 basis point shift, 10.0% for a 200 basis point shift, and 15.0% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income over a 12-month horizon:

	December 31, 2020
Change in interest rates (basis points)	**% Change in Net Interest Income**
+300	29.16%
+200	19.05%
+100	9.38%
Base	0.00%
-100	-2.05%

The following table summarizes an immediate shock in the fair value of equity as of the date indicated:

	December 31, 2020
Change in interest rates (basis points)	**% Change in Fair Value of Equity**
+300	42.87%
+200	29.17%
+100	14.84%
Base	0.00%
-100	-4.57%

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP, and the prevailing practices in the banking industry. However, we also evaluate our performance based on certain additional financial measures discussed in this Annual Report on Form 10-K as being non-GAAP financial measures. We classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively financial measures calculated in accordance with GAAP.

The non-GAAP financial measures that we discuss in this Annual Report on Form 10-K should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Annual Report on Form 10-K may differ from that of other banking organizations reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this Annual Report on Form 10-K when comparing such non-GAAP financial measures.

Adjusted Earnings per Common Share – Basic and Diluted

Adjusted earnings per common share – basic and diluted is a non-GAAP financial measure that excludes gains on security sales, merger related expenses, and non-recurring tax benefits related to recently enacted legislation. In our judgment, the adjustments made to net income allow investors and analysts to better assess our basic and diluted earnings per common share by removing the volatility that is associated with items that are unrelated to our core business.

The following table reconciles, as of the date set forth below, basic and diluted earnings per common share and presents our basic and diluted earnings per common share exclusive of the impact of non-core transactions:

	As of or for the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands, except per share data)				
Basic and diluted earnings per share - GAAP basis:					
Net income	$ 31,311	$ 21,136	$ 9,978	$ 4,753	$ 3,715
Less:					
Participated securities share of undistributed earnings	—	—	—	23	87
Net income available to common stockholders	$ 31,311	$ 21,136	$ 9,978	$ 4,730	$ 3,628
Weighted average number of common shares - basic	17,567,117	14,697,342	9,258,216	7,233,783	7,065,243
Weighted average number of common shares - diluted	17,649,463	15,112,827	9,642,408	7,519,944	7,205,709
Basic earnings per common share	$ 1.78	$ 1.44	$ 1.08	$ 0.65	$ 0.51
Diluted earnings per common share	$ 1.77	$ 1.40	$ 1.03	$ 0.63	$ 0.50
Basic and diluted earnings per share - Non-GAAP basis:					
Net income available to common stockholders	$ 31,311	$ 21,136	$ 9,978	$ 4,730	$ 3,628
Pre-tax adjustments:					
Noninterest income					
Gain on sale of investment securities	(1,031)	(4,582)	—	—	(69)
Noninterest expense					
Merger related expenses	2,049	4,858	1,717	—	—
Taxes:					
NOL carryback claim	(575)	—	—	—	—
Tax effect of adjustments	(206)	181	(204)	—	24
Adjusted net income	$ 31,548	$ 21,593	$ 11,491	$ 4,730	$ 3,604
Weighted average number of common shares - basic	17,567,117	14,697,342	9,258,216	7,233,783	7,065,243
Weighted average number of common shares - diluted	17,649,463	15,112,827	9,642,408	7,519,944	7,205,709
Basic earnings per common share	$ 1.80	$ 1.47	$ 1.24	$ 0.65	$ 0.51
Diluted earnings per common share	$ 1.79	$ 1.43	$ 1.19	$ 0.63	$ 0.50

Tangible Book Value Per Share

Tangible book value per share is a non-GAAP financial measure generally used by investors, financial analysts and investment bankers to evaluate financial institutions. We calculate (1) tangible book value per share as tangible equity divided by shares of common stock outstanding at the end of the respective period, and (2) tangible equity as common stockholders' equity less goodwill and other intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible book value per share is book value per share.

We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible equity and presents our tangible book value per share compared to our book value per share:

	As of December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands, except per share data)				
Total stockholders' equity	$ 360,779	$ 345,705	$ 198,796	$ 99,139	$ 92,896
Less:					
Goodwill and other intangible assets	85,499	79,975	26,811	7,971	8,674
Tangible stockholders' equity	$ 275,280	$ 265,730	$ 171,985	$ 91,168	$ 84,222
Shares outstanding(1)	17,081,831	18,258,222	12,103,753	7,280,183	7,239,763
Book value per share(1)(2)	$ 21.12	$ 18.93	$ 16.42	$ 13.62	$ 12.83
Less:					
Goodwill and other intangible assets per share(1)(3)	5.01	4.38	2.21	1.10	1.20
Tangible book value per share	$ 16.12	$ 14.55	$ 14.21	$ 12.52	$ 11.63

(1) Reflects the issuance of 170,236 shares of common stock to our holders of Series A preferred stock in connection with the conversion of 170,236 shares of our issued and outstanding Series A preferred stock into common stock on February 23, 2017 and the one-for-two reverse stock split that occurred on March 16, 2017.
(2) We calculate book value per share as total stockholders' equity at the end of the relevant period divided by the outstanding number of shares of our common stock at the end of the relevant period.
(3) We calculate goodwill and other intangible assets per share as total goodwill and other intangible assets at the end of the relevant period divided by the outstanding number of shares of our common stock at the end of the relevant period.

Tangible Equity to Tangible Assets

Tangible equity to tangible assets is a non-GAAP financial measure generally used by investors, financial analysts and investment bankers to evaluate financial institutions. We calculate tangible equity, as described above in "—Tangible Book Value Per Share", and tangible assets as total assets less goodwill and core deposit intangibles and other intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible equity to tangible assets is total common stockholders' equity to total assets.

We believe that this measure is important to many investors in the marketplace who are interested in the relative changes from period to period in common equity and total assets, each exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing both total stockholders' equity and assets while not increasing our tangible equity or tangible assets.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible equity and total assets to tangible assets:

	As of December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Total stockholders' equity to total assets - GAAP basis:					
Total stockholders' equity (numerator)	$ 360,779	$ 345,705	$ 198,796	$ 99,139	$ 92,896
Total assets (denominator)	3,085,464	2,384,622	1,466,753	1,030,298	980,489
Total stockholders' equity to total assets	11.69%	14.50%	13.55%	9.62%	9.47%
Tangible equity to tangible assets - Non-GAAP basis:					
Tangible equity:					
Total stockholders' equity	$ 360,779	$ 345,705	$ 198,796	$ 99,139	$ 92,896
Less:					
Goodwill and other intangible assets	85,499	79,975	26,811	7,971	8,674
Total tangible common equity (numerator)	$ 275,280	$ 265,730	$ 171,985	$ 91,168	$ 84,222
Tangible assets:					
Total assets	$3,085,464	$2,384,622	$1,466,753	$1,030,298	$980,489
Less:					
Goodwill and other intangible assets	85,499	79,975	26,811	7,971	8,674
Total tangible assets (denominator)	$2,999,965	$2,304,647	$1,439,942	$1,022,327	$971,815
Tangible equity to tangible assets	9.18%	11.53%	11.94%	8.92%	8.67%

Net Interest Margin

We show net interest margin on a fully taxable equivalent basis, which is a non-GAAP financial measure.

We believe the fully tax equivalent basis is the preferred industry measurement basis for net interest margin and that it enhances comparability of net interest income arising from taxable and tax-exempt sources.

The following table reconciles, as of the dates set forth below, net interest margin on a fully taxable equivalent basis:

	As of and for the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Net interest margin - GAAP basis:					
Net interest income	$ 105,935	$ 77,890	$ 47,015	$ 38,579	$ 33,480
Average interest-earning assets	2,555,814	1,711,018	1,032,553	943,025	839,109
Net interest margin	4.14%	4.55%	4.55%	4.09%	3.99%
Net interest margin - Non-GAAP basis:					
Net interest income	$ 105,935	$ 77,890	$ 47,015	$ 38,579	$ 33,480
Plus:					
Impact of fully taxable equivalent adjustment	1,777	445	558	935	811
Net interest income on a fully taxable equivalent basis	$ 107,712	$ 78,335	$ 47,573	$ 39,514	$ 34,291
Average interest-earning assets	$2,555,814	$1,711,018	$1,032,553	$943,025	$839,109
Net interest margin on a fully taxable equivalent basis - Non-GAAP basis	4.21%	4.58%	4.61%	4.19%	4.09%

Critical Accounting Policies

Our financial reporting and accounting policies conform to GAAP. The preparation of 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.

Our accounting policies and estimates are described in greater detail in “Note 1. Summary of Significant Accounting Policies” in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. See “Risk Factors” for a discussion of information that should be considered in connection with an investment in our securities.

We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our financial statements to those judgments and assumptions, are critical to an understanding of our financial condition and results of operations. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are appropriate. Our accounting policies are integral to understanding our results of operations.

Allowance for Loan and Lease Losses

Management’s ongoing evaluation of the adequacy of the allowance for loan and lease losses is based on our past loan loss experience, the volume and composition of our lending, adverse situations that may affect a borrower’s ability to repay, the estimated value of any underlying collateral, current economic conditions and other factors affecting the known and inherent risk in the portfolio. The allowance for loan and lease losses is increased by charges to income through the provision for loan and lease losses and decreased by charge-offs (net of recoveries). The allowance is maintained at a level that management, based upon its evaluation, considers adequate to absorb losses inherent in the loan portfolio. This evaluation is inherently subjective as it requires material estimates including, among others, the amount and timing of expected future cash flows on impacted loans, exposure at default, value of collateral, and estimated losses on our loan portfolio. All of these estimates may be susceptible to significant change.

The allowance consists of specific allowances for impaired loans and a general allowance on the remainder of the portfolio. Although management determines the amount of each element of the allowance separately, the allowance for loan and lease losses is available for the entire loan portfolio.

Management establishes an allowance on certain impaired loans for the amount by which the discounted cash flows, observable market price, or fair value of collateral if the loan is collateral dependent, is lower than the carrying value of the loan. A loan is considered to be impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. A delay or shortfall in amount of payments does not necessarily result in the loan being identified as impaired.

Management also establishes a general allowance on non-impaired loans to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular loans. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends, and management’s evaluation of the collectability of the loan portfolio.

The allowance is adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting its primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, loss experience in particular segments of the portfolio, duration of the current business cycle, and bank regulatory examination results. The applied loss factors are re-evaluated each reporting period to ensure their relevance in the current economic environment.

While management uses the best information known to it in order to make loan loss allowance valuations, adjustments to the allowance may be necessary based on changes in economic and other conditions, changes in the composition of the loan portfolio, or changes in accounting guidance. In times of economic slowdown, either regional or national, the risk inherent in the loan portfolio could increase resulting in the need for additional provisions to the allowance for loan and lease losses in future periods. An increase could also be necessitated by an increase in the size of the loan portfolio or in any of its components even though the credit quality of the overall portfolio may be improving. Historically, the estimates of the allowance for loan and lease losses have provided adequate coverage against actual losses incurred.

Goodwill and Other Intangible Assets

Goodwill represents the excess of consideration transferred in business combinations over the fair value of tangible and identifiable intangible assets acquired. Goodwill is assessed annually for impairment or more frequently if events or circumstances indicate that impairment may have occurred. Management determined that the economic disruption and uncertainty surrounding the COVID-19 pandemic constitutes a triggering event and therefore performed a Step 1 Goodwill analysis at each quarter end during 2020, in addition to the annual impairment test. The result of each quarterly assessment and the annual impairment test was that the fair value of the one reporting unit, the Bank, exceeded the carrying value and no impairment charge was deemed necessary. The Company utilized discounted cash flow and market valuation approaches in each assessment and in the annual impairment test.

The discounted cash flow approach utilizes the Company's five year forecasted income statement which was updated for expected losses related to the pandemic, lower loan growth, and an extended period of low interest rates. The resulting cash flows for each year was discounted using a rate determined through a build-up approach which includes, a risk free rate, an equity risk premium, size premium, and company specific premium.

The market approach utilizes observed merger activity during the year and calculates deal multiples of last twelve months net income, book value, and tangible book value. An additional market approach was utilized for the annual impairment test which utilized the same multiples calculated based upon market capitalization applied to a group of representative peers.

Goodwill acquired in a purchase business combination that is determined to have an indefinite useful life, is not amortized, but tested for impairment as described above. We perform our annual impairment test in the fourth quarter. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible ("CDI") is a measure of the value of checking and savings deposit relationships acquired in a business combination. The fair value of the CDI stemming from any given business combination is based on the present value of the expected cost savings attributable to the core deposit funding relative to an alternative source of funding. CDI is amortized over the estimated useful lives of the existing deposit relationships acquired, but does not exceed 12 years. We evaluate such identifiable intangibles for impairment when events and circumstances indicate that its carrying amount may not be recoverable.

Income Taxes

Management makes estimates and judgments to calculate various tax liabilities and determine the recoverability of various deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. Management also estimates a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. Historically, management's estimates and judgments to calculate the deferred tax accounts have not required significant revision.

In evaluating our ability to recover deferred tax assets, management considers all available positive and negative evidence, including the past operating results and forecasts of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments about the future taxable income and are consistent with the plans and estimates used to manage the business. Any reduction in estimated future taxable income may require management to record a valuation allowance against the deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on future earnings.

SBA Servicing Asset

A servicing asset related to SBA loans is initially recorded when these loans are sold and the servicing rights are retained. The servicing asset is recorded on the balance sheet. An updated fair value of the servicing asset is obtained from an independent third party on a quarterly basis and any necessary adjustments are included in SBA loan servicing fees on the consolidated statements of income. The valuation begins with the projection of future cash flows for each asset based on their unique characteristics, market-based assumptions for prepayment speeds and estimated losses and recoveries. The present value of the future cash flows are then calculated utilizing market-based discount ratio assumptions. In all cases, we model expected payments for every loan for each quarterly period in order to create the most detailed cash flow stream possible. We use various assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market.

Recently Issued Accounting Pronouncements

See "Note 1. Summary of Significant Accounting Policies" in the notes to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K regarding the impact of new accounting pronouncements which we have adopted.

Item 8. Financial Statements and Supplementary Data

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

INDEX

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Spirit of Texas Bancshares, Inc.
Conroe, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Spirit of Texas Bancshares, Inc. and Subsidiary (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

Spokane, Washington
March 5, 2021

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	December 31, 2020	December 31, 2019
Assets:		
Cash and due from banks	$ 31,396	$ 32,490
Interest-bearing deposits in other banks	231,638	293,467
Total cash and cash equivalents	263,034	325,957
Time deposits in other banks	—	490
Investment securities:		
Available for sale securities, at fair value	212,420	96,937
Equity investments, at fair value	24,000	—
Total investment securities	236,420	96,937
Loans held for sale	1,470	3,989
Loans:		
Loans held for investment	2,388,532	1,767,182
Less: allowance for loan and lease losses	(16,026)	(6,737)
Loans, net	2,372,506	1,760,445
Premises and equipment, net	83,348	75,150
Accrued interest receivable	11,199	6,507
Other real estate owned and repossessed assets	133	3,653
Goodwill	77,681	68,503
Core deposit intangible	7,818	11,472
SBA servicing asset	2,953	3,355
Deferred tax asset, net	1,085	—
Bank-owned life insurance	15,969	15,610
Federal Home Loan Bank and other bank stock, at cost	5,718	8,310
Other assets	5,425	4,244
Total assets	$ 3,084,759	$ 2,384,622
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Transaction accounts:		
Noninterest-bearing	$ 727,543	$ 444,822
Interest-bearing	1,092,934	803,557
Total transaction accounts	1,820,477	1,248,379
Time deposits	638,658	679,747
Total deposits	2,459,135	1,928,126
Accrued interest payable	1,303	1,219
Short-term borrowings	10,000	—
Long-term borrowings, net	242,020	105,140
Deferred tax liability, net	-	672
Other liabilities	11,522	3,760
Total liabilities	2,723,980	2,038,917
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Common stock, no par value; 50 million shares authorized; 18,329,593 and 18,272,245 shares issued; 17,081,831 and 18,258,222 outstanding	298,850	297,188
Retained earnings	76,683	48,139
Accumulated other comprehensive income	1,005	667
Treasury stock, 1,247,762 and 14,023 shares repurchased	(15,759)	(289)
Total stockholders' equity	360,779	345,705
Total liabilities and stockholders' equity	$ 3,084,759	$ 2,384,622

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

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	For the Years Ended December 31,		
	2020	2019	2018
Interest income:			
Interest and fees on loans	$ 119,904	$ 87,546	$ 55,087
Interest and dividends on investment securities	2,340	4,624	1,508
Other interest income	1,301	3,090	744
Total interest income	123,545	95,260	57,339
Interest expense:			
Interest on deposits	14,570	15,540	8,482
Interest on FHLB advances and other borrowings	3,040	1,830	1,842
Total interest expense	17,610	17,370	10,324
Net interest income	105,935	77,890	47,015
Provision for loan losses	11,257	2,856	2,160
Net interest income after provision for loan losses	94,678	75,034	44,855
Noninterest income:			
Service charges and fees	5,660	3,710	1,887
SBA loans servicing fees	1,192	929	2,727
Mortgage referral fees	1,334	713	621
Gain on sales of loans, net	5,496	4,014	5,120
Gain on sales of investment securities	1,031	4,582	—
Swap Fees	1,746	—	—
Swap Referral Fees	1,950	—	—
Other noninterest income	467	619	134
Total noninterest income	18,876	14,567	10,489
Noninterest expense:			
Salaries and employee benefits	41,756	36,175	27,512
Occupancy and equipment expenses	10,047	6,884	5,215
Professional services	2,687	4,054	3,055
Data processing and network	3,973	3,036	1,276
Regulatory assessments and insurance	1,847	422	1,094
Amortization of intangibles	3,663	3,630	917
Advertising	679	623	381
Marketing	276	538	508
Telephone expense	2,013	993	414
Conversion expense	1,841	1,992	160
Other operating expenses	6,002	4,697	2,832
Total noninterest expense	74,784	63,044	43,364
Income before income tax expense	38,770	26,557	11,980
Income tax expense	7,459	5,421	2,002
Net income	31,311	21,136	9,978
Earnings per common share:			
Basic	$ 1.78	$ 1.44	$ 1.08
Diluted	$ 1.77	$ 1.40	$ 1.03
Weighted average common shares outstanding:			
Basic	17,567,117	14,697,342	9,258,216
Diluted	17,649,463	15,112,827	9,642,408

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

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For the Years Ended December 31,		
	2020	2019	2018
Net income	$ 31,311	$ 21,136	$ 9,978
Other comprehensive income (loss):			
Unrealized net holding gains on investment securities available for sale, net of taxes of $(304), $(662) and $(626), respectively	1,152	2,510	2,355
Reclassification adjustment for realized (gains) on investment securities available for sale included in net income, net of taxes of $217, $983 and $0, respectively	(814)	(3,697)	—
Total other comprehensive income (loss)	338	(1,187)	2,355
Total comprehensive income	$ 31,649	$ 19,949	$ 12,333

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

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Shares of Common Stock	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of January 1, 2018	7,280,183	$ 82,615	$ 17,025	$ -	$ (501)	$ 99,139
Net income	—	—	9,978	—	—	9,978
Conversion of preferred stock	2,300,000	42,058	—	—	—	42,058
Exercise of stock options and warrants	2,142,811	40,692	—	—	—	40,692
Issuance of common stock (1)	380,759	3,902	—	—	—	3,902
Stock-based compensation	—	672	—	—	—	672
Other comprehensive income	—	—	—	—	2,355	2,355
Balance as of December 31, 2018	12,103,753	169,939	27,003	-	1,854	198,796
Net income	—	—	21,136	—	—	21,136
Shares issued in offering, net (1)	2,300,000	46,535	—	—	—	46,535
Shares issued in business combination	3,679,191	78,083	—	—	—	78,083
Exercise of stock options and warrants	189,301	1,966	—	—	—	1,966
Stock-based compensation	—	665	—	—	—	665
Treasury stock purchases	(14,023)	—	—	(289)	—	(289)
Other comprehensive income (loss)	—	—	—	—	(1,187)	(1,187)
Balance as of December 31, 2019	18,258,222	297,188	48,139	(289)	667	345,705
Net income	—	—	31,311	—	—	31,311
Common stock dividends declared ($0.16 per share)	—	—	(2,767)	—	—	(2,767)
Exercise of stock options and warrants	57,348	683	—	—	—	683
Stock-based compensation	—	979	—	—	—	979
Treasury stock purchases	(1,233,739)	—	—	(15,470)	—	(15,470)
Other comprehensive income	—	—	—	—	338	338
Balance as of December 31, 2020	17,081,831	$298,850	$ 76,683	$ (15,759)	$ 1,005	$ 360,779

(1) Shares issued in offering were net of expenses of $452 thousand for the 2018 offering and $442 thousand for the 2019 offering.

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

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	$ 31,311	$ 21,136	$ 9,978
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	11,257	2,856	2,160
Depreciation and amortization	4,143	3,235	2,167
Net amortization (accretion) of premium (discount) on investment securities	227	400	306
Amortization of intangible assets	3,663	3,630	917
Accretion of discount on retained SBA loans	(1,066)	(941)	(1,287)
Deferred tax expense (benefit)	(1,528)	1,730	1,065
Originations of loans held for sale	(18,467)	(47,725)	(69,424)
Proceeds from loans held for sale	22,997	51,885	74,453
Net gains on sale of loans held for sale	(1,821)	(4,014)	(5,120)
(Gain) loss on sale of other real estate owned and repossessed assets	23	(48)	21
(Gain) loss on sale of investment securities	(1,031)	(4,582)	—
(Gain) loss on sale of premises and equipment	—	—	—
Amortization of debt issuance costs	79	—	—
Fair value adjustment on SBA servicing asset	772	1,545	831
Stock-based compensation	979	665	672
Increase in cash surrender value of BOLI	(359)	(306)	(19)
Net change in operating assets and liabilities:			
Net change in accrued interest receivable	(3,978)	35	(2)
Net change in accrued interest payable	45	103	103
Net change in other assets	78	520	167
Net change in other liabilities	6,208	(1,890)	(2,893)
Net cash provided by (used in) operating activities	53,532	28,234	14,095
Cash flows from investing activities:			
Purchase of investment securities available for sale	(893,449)	(63,298)	—
Sales of investment securities available for sale	35,054	171,260	—
Paydown and maturities of investment securities available for sale	744,139	35,501	6,975
Purchase of equity securities	(24,000)	—	—
Net sale (purchase) of FHLB and other bank stock	2,592	530	(161)
Net decrease in time deposits in other banks	490	—	245
Proceeds from the sale of loans held for investment	27,295	—	1,451
Purchase of loans held for investment	(66,030)	—	—
Net change in loans	(327,420)	(124,163)	(113,597)
Proceeds from the sale of other real estate owned	4,037	1,445	57
Purchase of premises and equipment	(10,158)	(7,229)	(6,617)
Proceeds from the sale of premises and equipment	—	—	—
Net cash received in branch sale	23,287	—	—
Net cash (paid) received in business combination	(131,153)	94,453	44,887
Net cash provided by (used in) investing activities	(615,316)	108,499	(66,760)
Cash flows from financing activities:			
Net change in deposits	368,059	75,306	49,502
Cash received at redemption of trust preferred securities	—	77	—
Proceeds from long-term borrowings, net of debt issuance costs	220,901	25,598	3,025
Repayment of long-term borrowings	(73,384)	(41,318)	(14,331)
Proceeds from short-term borrowings	23,753	—	32,500
Repayment of short-term borrowings	(13,753)	(12,500)	(35,000)
Net change in secured borrowings	(10,716)	4,834	2,075
Shares issued in offering, net(1)	—	46,535	42,058
Common Stock Dividends	(1,212)	—	—
Purchase of treasury stock	(15,470)	(289)	—
Exercise of stock options and warrants	683	1,966	3,902
Net cash provided by (used in) financing activities	498,861	100,209	83,731
Net change in cash and cash equivalents	(62,923)	236,942	31,066
Cash and cash equivalents at beginning of period	325,957	89,015	57,949
Cash and cash equivalents at end of period	$ 263,034	$ 325,957	$ 89,015
Supplemental disclosures of cash flow information:			
Interest paid	$ 17,526	$ 16,853	$ 10,030
Income taxes paid	7,477	3,600	2,965
Supplemental disclosure of noncash investing and financing activities:			
Transfer of loans to other real estate owned and repossessed assets	$ 527	$ 3,964	$ 806
Fair value of assets acquired in business combination, excluding cash	259,416	695,222	299,090
Dividends accrued not paid	1,556	—	—
Goodwill recorded	11,456	50,250	13,768
Goodwill measurement period adjustments	(2,278)	—	—
Liabilities assumed in business combination	139,719	711,592	303,287
Stock issued in business combination	—	78,083	40,692

(1) Shares issued in offering were net of expenses of $442 thousand in 2019 and $452 thousand in 2018.

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

SPIRIT OF TEXAS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Spirit of Texas Bancshares, Inc. (the "Company") is a bank holding company headquartered in Conroe, Texas that provides, through its bank subsidiary, a variety of financial services to individuals and corporate customers in Texas, which are primarily agricultural, light industrial and commercial areas.

Risks and Uncertainties

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") was reported to have surfaced in Wuhan, China, and has since spread to a number of other countries, including the United States. In March 2020, the World Health Organization declared COVID-19 a global pandemic and the United States declared a National Public Health Emergency. The COVID-19 pandemic has severely impacted the level of economic activity in the local, national and global economies and financial markets. During the first and second quarters of 2020, many businesses in Texas and many other states were temporarily closed due to social distancing and/or shelter in place orders. As of December 31, 2020, many of these businesses have been allowed to re-open at limited capacity; however, the Company and its customers continue to be adversely affected by the COVID-19 pandemic. The extent to which the COVID-19 pandemic negatively impacts the Company's business, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios, is unknown at this time and will depend on future developments, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. If the pandemic is sustained, it may further adversely impact the Company and impair the ability of the Company's customers to fulfill their contractual obligations to the Company. This could materially and adversely affect the Company's business operations, asset valuations, financial condition, and results of operations. For additional risks related to the COVID-19 pandemic, see "Risk Factors" in this Annual Report on Form 10-K for the year ended December 31, 2020, the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 2020, June 30, 2020 and September 30, 2020 and the Company's other filings with the Securities and Exchange Commission (the "SEC").

In response to the pandemic, the President of the United States signed into law the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). This legislation aims to provide relief for individuals and businesses that have been negatively impacted by the coronavirus pandemic. Section 4013 of the CARES Act provides financial institutions the opportunity to opt out of applying the "troubled debt restructuring" ("TDR") accounting guidance in the Financial Accounting Standards Board's ("FASB") Accounting Standard Codification ("ASC") 310-40 for certain loan modifications. Loan modifications made between March 1, 2020 and the earlier of i) 60 days after the end of the national emergency proclamation or ii) December 31, 2020. Section 541 of the Consolidated Appropriations Act, 2021, amended Section 4013 of the CARES Act to extend this relief to the earlier of i) 60 days after the end of the national emergency proclamation or ii) January 1, 2022. A financial institution may elect to suspend GAAP only for a loan that was not more than 30 days past due as of December 31, 2019. The Bank adopted this provision.

Additionally, the CARES Act contains provisions that impact federal income taxes including but not limited to an extension to pay and file federal tax returns, bonus depreciation on qualified improvement property and the ability to carry back certain net operating losses to a prior year. The Bank utilized the filing and payment extension and net operating loss carryback provisions.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, and the accounts of its wholly-owned subsidiary, Spirit of Texas Bank, SSB (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies the Company follows conform, in all material respects, to U.S. generally accepted accounting principles ("GAAP") and to general practices with the financial services industry.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

Use of Estimates

The preparation of 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 materially differ from those estimates.

Material estimates subject to significant change include the allowance for loan and lease losses, the expected cash flows and collateral values associated with impaired loans, the carrying value of other real estate owned ("OREO"), the fair value of financial instruments, including U.S. Small Business Administration ("SBA") servicing assets, business combination fair value computations, the valuation of goodwill and other intangible assets, stock-based compensation and deferred income tax assets.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Texas. "Note 4. Investment Securities" discusses the types of investment securities in which the Company invests. "Note 5. Loans, net" discusses the types of lending that the Company engages in as well as loan concentrations. The Company does not have a significant concentration of credit risk with any one customer.

Fair Value Measurement

The Company uses estimates of fair value in applying various accounting standards for its consolidated financial statements on either a recurring or non-recurring basis. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. The Company groups its assets and liabilities measured at fair value in three hierarchy levels, based on the observability and transparency of the inputs. These levels are as follows:

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2—Observable inputs other than level 1 inputs, including quoted prices for similar assets and liabilities, quoted prices for identical assets and liabilities in less active markets and other inputs that can be corroborated by observable market data; and

Level 3—Unobservable inputs supported by limited or no market activity or data and inputs requiring significant management judgment or estimation; valuation techniques utilizing level 3 inputs include option pricing models, discounted cash flow models and similar techniques.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs in estimating fair value. Unobservable inputs are utilized in determining fair value estimates only to the extent that observable inputs are not available. The need to use unobservable inputs generally results from a lack of market liquidity and trading volume. Transfers between levels of fair value hierarchy are recorded at the end of the reporting period.

Transfers of Financial Assets

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

A servicing asset related to SBA loans is initially recorded when these loans are sold and the servicing rights are retained. The Company has elected the fair value method to subsequently measure retained servicing rights. An updated fair value of the servicing asset is obtained from an independent third party on a quarterly basis and any necessary adjustments are included in SBA loan servicing fees on the consolidated statement of income. The valuation begins with the projection of future cash flows for each asset based on their unique characteristics, our market-based assumptions for prepayment speeds and estimated losses and recoveries. The present value of the future cash flows are then calculated utilizing our market-based discount ratio assumptions. In all cases, the Company models expected payments for every loan for each quarterly period in order to create the most detailed cash flow stream possible.

The Company uses various assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid servicing rights available for sale in the market.

Cash and Cash Equivalents

For the purpose of presentation in the financial statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions “cash and due from banks”, “interest-bearing deposits in other banks”, and “federal funds sold.” Generally, federal funds are purchased and sold for one day periods. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The majority of cash and cash equivalents of the Company are maintained with major financial institutions in the United States. As such, 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. The Federal Deposit Insurance Corporation (the “FDIC”) insurance coverage is $250 thousand. The Company periodically evaluates the stability of the financial institutions with which it has deposits, and believes the risk of any potential credit loss is minimal. It was announced on March 15, 2020 that effective March 26, 2020 the Federal Reserve Bank of Dallas (the “FRB”) would reduce the regulatory reserve requirement to zero percent, therefore, the Company did not have any cash on hand or on deposit with the FRB as of December 31, 2020. The Company did have $61.6 million of cash on hand or on deposit with the FRB to meet regulatory reserve requirements as of December 31, 2019.

Debt Investment Securities

The Company determines the classification of investment securities at the time of purchase. If the Company has the intent and the ability at the time of purchase to hold debt securities until maturity, they are classified as held-to-maturity. Investment securities held-to-maturity are stated at amortized cost. Debt securities the Company does not intend to hold to maturity are classified as available for sale and carried at estimated fair value with unrealized gains or losses reported as a separate component of stockholders’ equity in accumulated other comprehensive income (loss), net of applicable income taxes. Available for sale securities are a part of the Company’s asset/liability management strategy and may be sold in response to changes in interest rates, prepayment risk or other market factors. Management has elected to reclassify realized gains and losses from accumulated other comprehensive income when securities are sold on the trade date.

Interest income and dividends on securities are recognized in interest income on an accrual basis. Premiums and discounts on debt securities are amortized as an adjustment to interest income over the period to maturity of the related security using the effective interest method. Realized gains or losses on the sale of securities are determined using the specific identification method.

The Company reviews investment securities for impairment on a quarterly basis or more frequently if events and circumstances warrant. In order to determine if a decline in fair value below amortized cost represents other-than-temporary impairment (“OTTI”), management considers several factors, including but not limited to, the length of time and extent to which the fair value has been less than the amortized cost basis, the financial condition and near-term prospects of the issuer (considering factors such as adverse conditions specific to the issuer and the security and ratings agency actions) and the Company’s intent and ability to retain the investment in order to allow for an anticipated recovery in fair value.

The Company recognizes OTTI of a debt security for which there has been a decline in fair value below amortized cost if (i) management intends to sell the security, (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, or (iii) the Company does not expect to recover the entire amortized cost basis of the security. The amount by which amortized cost exceeds the fair value of a debt security that is considered to have OTTI is separated into a component representing the credit loss, which is recognized in earnings, and a component related to all other factors, which is recognized in other comprehensive income (loss). The measurement of the credit loss component is equal to the difference between the debt security’s amortized cost basis and the present value of its expected future cash flows discounted at the security’s effective yield. If the Company intends to sell the security, or if it is more likely than not it will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the amortized cost basis and fair value of the security.

Marketable Equity Securities

The Company purchased mutual funds in fourth quarter of 2020 which are classified as marketable equity securities. As of December 31, 2020, marketable equity securities with a fair value of $24 million were recorded within equity investments on the consolidated balance sheet with changes in the fair value recorded through other noninterest income.

Federal Home Loan Bank (“FHLB”) and Independent BankersBank (“TIB”) Stock

The Bank is a member of the FHLB and the TIB and is required to maintain an investment in the stock of the FHLB and TIB. No market exists for these stocks, and the Bank’s investment can be liquidated only through redemption by the FHLB or TIB, at the discretion of and subject to conditions imposed by the FHLB and TIB. Historically, FHLB and TIB stock redemptions have been at cost (par value), which equals the Company’s carrying value. The Company monitors its investment in FHLB and TIB stock for impairment through review of recent financial results of the FHLB and TIB including capital adequacy and liquidity position, dividend payment history, redemption history and information from credit agencies. The Company has not identified any indicators of impairment of FHLB or TIB stock.

Loans Held for Sale

Loans held for sale consist of the guaranteed portion of SBA loans that the Company intends to sell after origination and are reflected at the lower of aggregate cost or fair value.

Loans Held for Investment

Loans that management has the intent and ability to hold for the foreseeable future are reported at their outstanding principal balances net of any allowance for loan and lease losses, unamortized deferred fees and costs and unamortized premiums or discounts. The net amount of nonrefundable loan origination fees and certain direct costs associated with the lending process are deferred and amortized to interest income over the contractual lives of the loans using methods which approximate the level yield method. Discounts and premiums are amortized or accreted to interest income over the estimated term of the loans using methods that approximate the level yield method. Interest income on loans is accrued based on the unpaid principal balance outstanding and the contractual terms of the loan agreements.

Acquired loans are recorded at their estimated fair value as of the acquisition date and subsequently accounted for under ASC 310-20, "Receivables – Nonrefundable Fees and Other Costs". The fair value discount is accreted using methods which approximate the level yield method over the remaining term of the loans and is recognized as a component of interest income.

A substantial portion of the loan portfolio is comprised of commercial and real estate loans throughout Texas. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions of this area.

The loans held for investment portfolio is segmented into commercial and industrial loans, 1-4 single family residential loans (including home equity loans), construction, land and development loans, commercial real estate loans, consumer loans and leases, and municipal and other loans. Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to repay the loan through operating profitably and effectively growing its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the credit quality and cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee to add strength to the credit and reduce the risk on a transaction to an acceptable level; however, some short-term loans may be made on an unsecured basis to the most credit worthy borrowers. Commercial loans also include loans originated under the Paycheck Protection Program and Main Street Lending Program. These loans are underwritten and originated in accordance with program guidelines.

Commercial real estate loans and 1-4 family single family residential loans are subject to underwriting standards and processes similar to commercial loans. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

With respect to loans to developers and builders, the Company generally requires the borrower to have a proven record of success and an expertise in the building industry. Construction, land and development loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction, land and development loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction, land and development loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project.

The Company's non-real estate consumer loans and leases are based on the borrower's proven earning capacity over the term of the loan. The Company monitors payment performance periodically for consumer loans to identify any deterioration in the borrower's financial strength. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by management and staff. This activity, coupled with a relatively small volume of consumer loans, minimizes risk.

Municipal and other loans are comprised of loans to municipalities and emergency service, hospital and school districts primarily throughout Texas. The majority of these loans have tax or revenue pledges and in some cases are additionally supported by collateral. Municipal loans made without a direct pledge of taxes or revenues are usually made based on some type of collateral that represents an essential service.

SBA Lending Activities

The Bank originates loans to customers in the State of Texas and throughout the United States under an SBA program that generally provides for SBA guarantees of between 75 percent and 85 percent of each loan. The Bank routinely sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion in its portfolio. When the guaranteed portion of an SBA loan is sold, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income. SBA servicing assets are recognized separately when rights are acquired through the sale of SBA guaranteed portion. These servicing rights are initially measured at fair value at the date of sale and included in the gain on sale. Updated fair values are obtained from an independent third party on a quarterly basis and adjustments are presented in SBA loan servicing fees on the consolidated statements of income. To determine the fair value of SBA Servicing Rights, the Bank uses market prices for comparable servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income.

In using this valuation method, the Bank incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses. Serviced loans sold to others are not included in the accompanying balance sheet. Income (losses) and fees collected for loan servicing are included in SBA loan servicing fees in the consolidated statements of income.

Nonaccrual Loans

The Company classifies loans as past due when the payment of principal or interest is greater than 30 days delinquent based on the contractual next payment due date. The Company's policies related to when loans are placed on nonaccrual status conform to guidelines prescribed by regulatory authorities. Loans are placed on nonaccrual status when it is probable that principal or interest is not fully collectible, or generally when principal or interest becomes 90 days past due, whichever occurs first. When loans are placed on nonaccrual status, interest receivable is reversed against interest income in the current period and amortization of any discount ceases. Interest payments received thereafter are applied as a reduction to the remaining principal balance unless management believes that the ultimate collection of the principal is likely, in which case payments are recognized in earnings on a cash basis. Loans are removed from nonaccrual status when they become current as to both principal and interest and the collectability of principal and interest is no longer doubtful.

Generally, a nonaccrual loan that is restructured remains on nonaccrual for a period of six months to demonstrate the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status after a shorter performance period. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan remains classified as a nonaccrual loan.

Troubled Debt Restructurings (TDR)

In certain situations due to economic or legal reasons related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that it would not otherwise consider. At that time, the related loan is classified as a TDR and considered impaired. The concessions granted may include rate reductions, principal forgiveness, payment forbearance, extensions of maturity at rates of interest below those commensurate with the risk profile of the borrower, and other actions intended to minimize economic loss. A troubled debt restructured loan is generally placed on nonaccrual status at the time of the modification unless the borrower has no history of missed payments for six months prior to the restructuring. If the borrower performs pursuant to the modified loan terms for at least six months and the remaining loan balance is considered collectible, the loan is returned to accrual status.

Section 4013 of the CARES Act provides financial institutions the opportunity to opt out of applying the TDR accounting guidance in ASC 310-40 for certain loan modifications. Loan modifications made between March 1, 2020 and the earlier of i) 60 days after the end of the national emergency proclamation or ii) December 31, 2020. Section 541 of the Consolidated Appropriations Act of 2021, amended Section 4013 of the CARES Act to extend this relief to the earlier of i) 60 days after the end of the national emergency proclamation or ii) January 1, 2022.

Impaired Loans

Loans are 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 agreements. All impaired loans are reviewed individually for specific reserves on a quarterly basis.

Allowance for Loan and Lease Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies." Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, changes in the composition and volume of the portfolio, and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for loan losses is designated to account for credit deterioration as it occurs.

The provision for loan losses reflects management's periodic evaluation of individual loans and changes to the required allowance for specific loans, economic factors, past loan loss experience, loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of three elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of impaired loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the borrower's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. The initial analysis is performed by the relationship manager and credit rating is reviewed and approved by the Chief Credit Officer, Deputy Chief Credit Officer or the Bank's President.

Specific valuation allowances are established when the discounted cash flows (or collateral value or observable market price) of an impaired loan is lower than the carrying value of that loan. Historical valuation allowances are calculated based on the historical loss experience of specific types of loans and the internal risk grade of such loans at the time they were charged-off. The Company derives historical loss rates from historical probability of default and loss given default, using a rolling five years of data. The historical loss rates are periodically updated based on actual charge-off experience.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In general, valuation allowances are determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Company's lending management and staff; (ii) the effectiveness of the Company's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in nature and loan portfolio volume; (v) the composition and concentrations of credit; (vi) the effectiveness of the loan review function; (vii) the impact of national and local economic business conditions; and (viii) the impact of external factors, such as competition or legal and regulatory requirements. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance. Loan losses are charged-off in the period the loans, or portions thereof, are deemed uncollectible. Generally, the Company will record a loan charge-off (including a partial charge-off) to reduce a loan to the estimated fair value of the underlying collateral, less costs to sell, for collateral dependent loans. Subsequent recoveries, if any, are credited to the allowance for loan and lease losses. Management regularly reviews the loan portfolio and makes adjustments for loan losses, in order to maintain the allowance for loan and lease losses in accordance with GAAP.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation or amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, except for land which is stated at cost. The useful lives of premises and equipment are: 30 to 40 years for bank premises; 3 to 5 years for computer equipment; and 5 to 10 years for furniture and equipment.

Leasehold improvements are amortized on a straight-line basis over the lesser of the lease terms, including certain renewals that were deemed probable at lease inception, or the estimated useful lives of the improvements. Purchased software and external direct costs of computer software developed for internal use are capitalized provided certain criteria are met and amortized over the useful lives of the software. Rent expense and rental income on operating leases are recorded using the straight-line method over the appropriate lease terms.

The Bank reviews the carrying value of long-lived assets and certain identifiable intangibles for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed by ASC Topic 360, "Accounting for the Impairment or Disposal of Long-Lived Assets".

OREO and Repossessed Assets

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at their fair value less estimated disposition costs. When such assets are acquired, any shortfall between the loan carrying value and the estimated fair value of the underlying collateral less disposition costs is recorded as an adjustment to the allowance for loan and lease losses while any excess is recognized in income. The Company periodically performs a valuation of the property held; any excess of carrying value over fair value less disposition costs is charged to earnings as impairment. Routine maintenance and real estate taxes are expensed as incurred.

Bank Owned Life Insurance ("BOLI")

The Bank owns life insurance policies on certain key, active employees and former directors. These policies are recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement, if applicable. Increases in the cash surrender value of these policies are included in noninterest income in the Consolidated Statements of Income. The Company's BOLI policies are invested in general account and hybrid account products that have been underwritten by highly-rated third party insurance carriers.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the underlying fair value of merged entities. We assess goodwill for impairment annually as of December 31 of each year. The Company has one reporting unit, community banking, which includes the Bank, the Company's wholly-owned banking subsidiary. If certain events occur which indicate goodwill might be impaired between annual tests, goodwill must be tested when such events occur. In making this assessment, we consider a number of factors including operating results, business plans, economic projections, anticipated future cash flows, current market data, etc. There are inherent uncertainties related to these factors and our judgment in applying them to the analysis of goodwill impairment. Changes in economic and operating conditions could result in goodwill impairment in future periods. The Bank did not identify any impairment on its outstanding goodwill from its most recent testing which was performed as of December 31, 2020. Core deposit intangible ("CDI") is a measure of the value of checking and savings deposit relationships acquired in a business combination. The fair value of the CDI stemming from any given business combination is based on the present value of the expected cost savings attributable to the core deposit funding relative to an alternative source of funding. CDI is amortized over the estimated useful lives of the existing deposit relationships acquired, but does not exceed 12 years. Significantly all CDI is amortized using the sum of the years digits method. The Company evaluates such identifiable intangibles for impairment when events and circumstances indicate that its carrying amount may not be recoverable. If an impairment loss is determined to exist, the loss is reflected as an impairment charge in the Consolidated Statements of Income for the period in which such impairment is identified. No impairment charges were required to be recorded for the years ended December 31, 2020, 2019 or 2018.

Comprehensive Income

The Company presents as a component of comprehensive income the amounts from transactions and other events, which currently are excluded from the consolidated statements of income and are recorded directly to shareholders' equity. These amounts consist of unrealized holding gains (losses) on available for sale securities.

Income Taxes

Income tax expense is determined using the asset and liability method and consists of income taxes that are currently payable and deferred income taxes. Deferred income tax expense (benefit) is determined by recognizing deferred tax assets and liabilities for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. Changes in tax rates on deferred tax assets and liabilities are recognized in income in the period that includes the enactment date.

A valuation allowance is established for deferred tax assets when management determines that it is more likely than not that some portion or all of a deferred tax asset will not be realized. In making such determinations, the Company considers all available positive and negative evidence that may impact the realization of deferred tax assets. These considerations include future reversals of existing taxable temporary differences, projected future taxable income, and available tax planning strategies.

The Company files a consolidated federal income tax return including the results of its wholly owned subsidiary, the Bank. The Company estimates income taxes payable based on the amount it expects to owe the various tax authorities (i.e., federal and state). Income taxes represent the net estimated amount due to, or to be received from, such tax authorities. In estimating income taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions, taking into account statutory, judicial, and regulatory guidance in the context of the Company's tax position. Although the Company uses the best available information to record income taxes, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances such as changes in tax laws and judicial guidance influencing its overall tax position.

An uncertain tax position is recognized only if it is more-likely-than-not to be sustained upon examination, including resolution of any related appeals or litigation process, based on the technical merits of the position. The amount of tax benefit recognized in the financial statements is the largest amount of benefit that is more than fifty percent likely to be sustained upon ultimate settlement of the uncertain tax position. If the initial assessment fails to result in recognition of a tax benefit, the Company subsequently recognizes a tax benefit if there are changes in tax law or case law that raise the likelihood of prevailing on the technical merits of the position to more-likely-than-not, the statute of limitations expires, or there is a completion of an examination resulting in a settlement of that tax year or position with the appropriate agency.

Management has analyzed the tax positions taken by the Company, and did not identify any uncertain tax positions at December 31, 2020. The Company's policy is to classify interest and penalties associated with income taxes within other expenses. The Company did not record any interest and penalties for the year ended December 31, 2020 or December 31, 2019. The Company recorded interest and penalties of $23 thousand for the year ended December 31, 2018.

The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. Management believes it is no longer subject to income tax examinations for years prior to 2017.

Off-Balance Sheet Arrangements

The Company enters into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Substantially all of the commitments to extend credit are contingent upon customers maintaining specific credit standards until the time of loan funding. The Company decreases its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Standby letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

Stock-based Compensation

The Company sponsors equity incentive plans established in 2008 (the "2008 Stock Plan") and in 2017 (the "2017 Stock Plan") under which, among other things, stock options may be granted periodically to all full-time employees and directors of the Company or its affiliates at a specific exercise price to acquire shares of the Company's common stock. Additionally, under the 2017 Stock Plan, the Company issues restricted stock units. Shares underlying the equity awards are issued out of authorized unissued common shares. Compensation cost is measured based on the estimated fair value of the award at the grant date and is recognized in earnings on a straight-line basis over the requisite service period. The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model. This model requires assumptions as to the expected stock volatility, dividends, terms and risk-free rates. The expected volatility is based on the combination of the Company's historical volatility and the volatility of comparable peer banks. The expected term represents the period of time that options are expected to be outstanding from the grant date. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the appropriate life of each stock option. The fair value of restricted stock units granted is calculated as the number of restricted stock units granted multiplied by the stock price on the date of grant.

Earnings per Common Share

The Company presents basic and diluted earnings per common share ("EPS") data for its common stock. Basic EPS is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares of common stock outstanding adjusted for the effects of all dilutive potential common shares comprised of options granted, restricted stock units awarded, and warrants. Potential common stock equivalents that have been issued by the Company related to outstanding stock options and warrants are determined using the treasury stock method. As of December 31, 2020 only one class of warrants is outstanding related to the Oasis acquisition.

The Company's Series A Preferred stock are considered participating securities under ASC 260, "Earnings Per Share", which means the security may participate in undistributed earnings with common stock. The holders of the Series A Preferred Stock would be entitled to share in dividends, on an as-converted basis, if the holders of common stock were to receive dividends, other than dividends in the form of common stock. In accordance with ASC 260, a company is required to use the two-class method when computing EPS when a company has a security that qualifies as a "participating security." The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In determining the amount of net earnings to allocate to common stock holders, earnings are allocated to both common and participating securities based on their respective weighted-average shares outstanding for the period. Diluted EPS for the Company's common stock is computed using the more dilutive of the two-class method or the if-converted method.

Treasury Stock

Common stock held in treasury is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. During the year ended December 31, 2020 the Company repurchased 1,233,739 shares of common stock at an average price per share of $12.93. The shares may be purchased in the open market or in privately negotiated transactions from time to time depending upon the market conditions and other factors over a one-year period or such longer period of time as may be necessary to complete such repurchases.

Derivative Financial Instruments

The Company offers certain derivative products directly to qualified commercial lending clients seeking to manage their interest rate risk. The Company economically hedges interest rate swap transactions to execute with commercial lending clients by entering into offsetting interest rate swap transactions with institutional derivatives market participants. Derivative transactions executed as part of this program are not designed as qualifying hedging relationships and are, therefore, carried at fair value with the change in fair value recorded as noninterest income. Because these derivatives have mirror-image contractual terms, in additional to collateral provisions which mitigate the impact of non-performance risk, the changers in fair value are expected to substantially offset.

Segment Reporting

The Company operates in one reportable segment of business, community banking, which includes the Bank, the Company's wholly-owned banking subsidiary. Through the Bank, the Company provides a broad range of retail and commercial banking services. Management makes operating decisions and assesses performance based on an ongoing review of these banking operations, which constitute the Company's only operating segment.

Recently Issued Accounting Pronouncements

ASU 2021-01, "Reference Rate Reform (Topic 848) – Issued in January 2021, Accounting Standards Update ("ASU") No. 2021-01 clarifies the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. The Update additionally clarified that a receive-variable-rate, pay-variable-rate cross-currency interest rate swap may be considered an eligible hedging instrument in a net investment hedge if both legs of the swap do not have the same repricing intervals and dates as a result of reference rate reform. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022. See the discussion regarding the adoption of ASU 2020-04 below.

ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)" – Issued in August 2020, Accounting Standards Update ("ASU") No. 2020-06 addresses accounting complexities regarding convertible debt instruments and the derivatives scope exception for contracts in an entity's own equity. The ASU reduces the number of available accounting models for convertible debt instruments in an attempt to reduce complexity and variation in practice. Additionally, the ASU improves the applicability of the derivatives scope exception for contracts in an entity's own equity by clarifying settlement guidance and balance sheet classification. ASU 2020-06 is effective for public entities for fiscal years beginning after December 15, 2021 and for and for all other entities in fiscal years beginning after December 15, 2023. Management does not believe adoption of this ASU will have a material impact on the consolidated financial statements given that the Company does not currently hold any convertible debt instruments or any in-scope derivative contracts.

ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" – Issued in March 2020, ASU No. 2020-04 provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of ASU 2020-04 did not significantly impact the Company's consolidated financial statements.

ASU 2019-11, "Financial Instruments-Credit Losses: Codification Improvements Topic 326" – Issued in November 2019, Accounting Standards Update ("ASU") No. 2019-11 clarifies and addresses specific issues about certain aspects of the amendments in ASU 2016-13. For the Company, the provisions of this ASU are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. See the discussions regarding the adoption of ASU 2016-13 below.

ASU 2019-10, "Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)" – Issued in November 2019, ASU No. 2019-10 addresses the change in philosophy to the effective dates including amendments issued after the issuance of the original ASUs. See the discussions regarding the adoption of ASU 2016-13 and ASU 2016-02 below.

ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" – Issued in April 2019, ASU No. 2019-04 clarifies a number of issues discussed at the June 2018 and November 2018 Credit Losses Transition Resource Group meetings. The clarifications address a variety of identified issues including but not limited to the treatment of accrued interest receivable as it relates to the allowance for credit losses, transfers between loan classifications and categories, recoveries, and using projections of future interest rate environments in expected cash flow calculations. Management is evaluating these clarifications concurrently with our assessment of ASU 2016-13.

ASU 2018-13, "Fair Value Measurement Disclosure Framework" – Issued in August 2018, ASU No. 2018-13 modifies the disclosure requirements on fair value measurements outlined in Topic 820, Fair Value Measurements. Specifically the amendments in the ASU remove the requirements to disclose the amount and reasons for transfers between fair value hierarchy levels, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and for nonpublic entities, disclosure of the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements. Additionally, the ASU adds disclosure requirements regarding changes in unrealized gains and losses for the period included in other comprehensive income related to Level 3 fair value measurements, and disclosure of the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments of ASU 2018-13 are effective for all entities for interim and annual periods beginning after December 15, 2019. Management adopted the provisions of this ASU removing fair value disclosure requirements as of December 31, 2018 as early adoption of the removal provisions was allowed and adopted the remaining provisions of the ASU as of January 1, 2020. The adoption of the remaining provisions within ASU 2018-13 did not significantly impact the Company's consolidated financial statements.

ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Issued in January 2017, ASU 2017-04 simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under the amendments in ASU 2017-04, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. ASU 2017-04 is effective prospectively for public entities for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019 and for all other entities for impairment tests in fiscal years beginning after December 15, 2021. Management adopted this ASU using the public company effective date as early adoption was permitted. The adoption of ASU 2017-04 did not significantly impact the Company's consolidated financial statements.

ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Issued in June 2016, ASU 2016-13 will add FASB ASC Topic 326, "Financial Instruments-Credit Losses," and finalizes amendments to FASB ASC Subtopic 825-15, "Financial Instruments-Credit Losses." The amendments of ASU 2016-13 are intended to provide financial statement users with more decision-useful information related to expected credit losses on financial instruments and other commitments to extend credit by replacing the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The amendments of ASU 2016-13 eliminate the probable initial recognition threshold and, in turn, reflect an entity's current estimate of all expected credit losses. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Additionally, the amendments of ASU 2016-13 require that credit losses on available for sale debt securities be presented as an allowance rather than as a write-down. The amendments of ASU 2016-13 were originally effective for public entities for interim and annual periods beginning after December 15, 2019 and for all other entities for periods beginning after December 15, 2020. Issued in November 2019, ASU 2019-10, "*Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases*" alters the effective date of ASU 2016-13 for private companies. Under the provisions of ASU 2019-10, ASU 2016-13 is now effective for fiscal years beginning after December 15, 2022 including interim periods within those years for non-public business entities. Earlier application is permitted for interim and annual periods beginning after December 15, 2018. Management has elected to adopt this ASU using the updated private company effective date and is currently evaluating the impact this ASU will have on the consolidated financial statements and that evaluation will depend on economic conditions and the composition of the Company's loan and lease portfolio at the time of adoption.

ASU 2016-02, "Leases (Topic 842)." Issued in February 2016, ASU 2016-02 was issued by the FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. 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, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments of ASU 2016-02 are effective for public entities for interim and annual periods beginning after December 15, 2018 and for other entities for periods beginning after December 15, 2019. The adoption of this ASU will result in an increase to the Consolidated Balance Sheets for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. Under current accounting standards, all of the Company's leases are classified as operating leases and, as such, are not recognized on the Company's Consolidated Balance Sheet. Additionally, in July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases, Targeted Improvements. The amendments in these updates provide additional clarification and implementation guidance on certain aspects of ASU 2016-02 and have the same effective and transition requirements as ASU 2016-02. Specifically, ASU 2018-11 creates an additional transition method option allowing entities to record a cumulative effect adjustment to opening retained earnings in the year of adoption. In December 2018, the FASB further issued ASU 2018-20, *Leases (Topic 842) Narrow-Scope Improvements for Lessors*. The amendments in this update permits lessors to make an accounting policy election to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs and instead account for the costs as if they were lessee costs. Additionally, the amendment requires lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments. In March 2019, the FASB also issued ASU 2019-01, *Leases (Topic 842) Codification Improvements,* to further clarify certain identified issues regarding implementation of ASU 2016-02. Specifically, the amendments in ASU 2019-01 clarify the determination of fair value of underlying assets by lessors that are not manufacturers or dealers, the cash flow presentation of sales-type or direct financing leases, and transition disclosures for interim periods. Issued in November 2019, ASU 2019-10, "*Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases*" alters the effective date of ASU 2016-02 for private companies. Under the provisions of ASU 2019-10, ASU 2016-02 is now effective for fiscal years beginning after December 15, 2020 including interim periods within those years for non-public business entities. Management will adopt these ASUs using the private company effective date of January 1, 2021 using the modified retrospective approach. The Company does not anticipate using any optional practical expedients in conjunction with adoption. Based upon an analysis performed, Management estimates that the right of use asset and corresponding lease liability at adoption will be between $6.0 million and $6.4 million.

NOTE 2. REVENUE RECOGNITION

The Company accounts for revenue from contracts with customers in accordance with ASC Topic 606, "Revenue from Contracts with Customers", which provides that revenue be recognized in a manner that depicts the transfer of goods or services to a customer in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Revenue from contracts with customers is recognized either over time as performance obligations are fulfilled, or at a point in time when control of the goods or services are transferred to the customer. The Company's noninterest income, excluding all of SBA loan servicing fees, gain on sales of loans, net, and gain on sales of investment securities, are considered within the scope of ASC Topic 606. Each category of in-scope revenue streams is discussed below.

Deposit Accounts Core Service Charges

Core service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts) and monthly service fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Deposit Account Transaction Based Fee Income

Transaction based fee income on deposit accounts consists of variable revenue streams associated with activities which a deposit account holder may initiate on a transaction by transaction basis. The majority of transaction based fee income arises from interchange revenue received when deposit customers use a debit card for a point of sale transaction over a third-party card payment network. Interchange revenue is recorded net of related interchange expenses in the month in which the transaction occurs.

Merchant services income is realized through a third party service provider who is contracted by the Bank under a referral arrangement. Such fees represent fees charged to merchants to process their debit card transactions, in addition to account management fees. The third-party service provider also issues credit cards as private label in the Company's name in exchange for a referral fee. Fees are earned and recorded in the same period as the referral occurs and the card is issued.

Other transaction based service charges on deposit accounts include revenue from processing wire transfers, issuing cashier's checks, processing check orders, and renting safe deposit boxes. The Company's performance obligation related to these service charges is largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or charged to the customers' account in the period the service is provided. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Referral Fees

Spirit utilizes third-party vendors to provide services to the Company and its customers that are not economically feasible to provide on a stand-alone basis. These services include access to the secondary market for mortgage loans not held for investment and providing interest rate swaps to customers interested in hedging interest rate risk. In exchange for providing these third-party vendors with new customers, Spirit receives a referral fee.

With respect to mortgage referral fees, the Company's performance obligation is satisfied when the referred customer closes a mortgage loan with the third-party vendor and payment of the referral fee is typically received immediately.

Swap referral fees are recognized when an existing or new loan customer enters into a swap agreement with the third-party vendor. Spirit is not a counterparty to the swap, and the performance obligation is satisfied at the time the swap agreement is signed. Payment of the referral fee is received within three days of the signed swap agreement.

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2020, 2019 and 2018:

	For the Years Ended December 31,		
	2020	2019	2018 (1)
Non-Interest Income			
In-scope of Topic 606			
Deposit accounts core service charges	$ 1,214	$ 589	$ 401
Deposit account transaction based fee income	4,446	3,121	1,486
Swap referral fees	1,950	-	-
Mortgage referral fees	1,334	713	621
Non-Interest Income (in-scope of Topic 606)	8,944	4,423	2,508
Non-Interest Income (out-of-scope of Topic 606)	9,932	10,144	7,981
Total Non-Interest Income	$ 18,876	$ 14,567	$ 10,489

(1) The Company adopted ASU 2014-09 on January 1, 2019. 2018 amounts are shown for comparative purposes.

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest revenue streams are largely based on transactional activity, or standard month-end revenue accruals. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. The Company did not have any significant contract balances at December 31, 2020, 2019 or 2018.

Contract Acquisition Costs

In connection with the adoption of ASC Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. The Company has not capitalized any contract acquisition costs for the years ending December 31, 2020, 2019 or 2018.

NOTE 3. BUSINESS COMBINATIONS

First Beeville Financial Corporation

On April 2, 2019, the Company completed its acquisition of First Beeville Financial Corporation and its subsidiary, The First National Bank of Beeville (together, "Beeville"). This transaction resulted in adding three additional branches and two loan production offices in the South Texas region. The Company issued 1,579,191 shares of its common stock as well as a net cash payment to Beeville shareholders of $32.4 million, for total consideration of $65.9 million, for all outstanding stock of Beeville and resulted in 100% ownership interest.

The Company has recognized total goodwill of $25.8 million which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The fair value of the consideration exchanged related to the Company's common stock was calculated based upon the closing market price of the Company's common stock as of April 2, 2019. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company did not incur any expenses related to the Beeville acquisition for the year ended December 31, 2020. The Company incurred $2.5 million expenses related to the acquisition for the year ended December 31, 2019, which are included in noninterest expense in the consolidated statements of income.

The Company did not identify any loans deemed purchased credit impaired at the acquisition date. Non-credit impaired loans had a fair value of $296.4 million at the acquisition date and contractual balance of $298.9 million. As of the acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be uncollectible. The difference of $2.5 million will be recognized into interest income as an adjustment to yield over the life of the loans.

Estimated fair values of the assets acquired and liabilities assumed in the Beeville acquisition as of the closing date are as follows:

Assets of acquired bank (Dollars in thousands):		
Cash and cash equivalents	$	60,491
Securities available for sale		57,206
Loans held for investment		296,397
Premises and equipment, net		5,184
Other real estate owned		1,359
Goodwill		25,848
Core deposit intangible		5,695
Other assets		12,618
Total assets acquired	$	464,798
Liabilities of acquired bank:		
Deposits	$	398,427
Other liabilities		515
Total liabilities assumed	$	398,942
Common stock issued at $21.20 per share	$	33,479
Cash paid	$	32,377

Chandler Bancorp Inc.

On November 5, 2019, the Company completed its acquisition of Chandler Bancorp Inc. and its subsidiary, Citizens State Bank (together, "Citizens"). This transaction resulted in adding seven additional branches in the Northeast Texas region. The Company issued 2,100,000 shares of its common stock as well as a net cash payment to Citizens shareholders of $17.9 million, for total consideration of $62.5 million for all outstanding stock of Citizens.

The Company has recognized total goodwill of $22.1 million which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The fair value of the consideration exchanged related to the Company's common stock was calculated based upon the closing market price of the Company's common stock as of November 5, 2019. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred expenses related to the Citizens acquisition of approximately $1.6 million for the year ended December 31, 2020, which are included in noninterest expense in the consolidated statements of income. The Company did not incur any expenses related to the acquisition for the year ended December 31, 2019.

The Company reviewed the Citizens loan portfolio for potential impairment and identified loans with a contractual balance of $3.2 million that were deemed purchased credit impaired. Non-credit impaired loans had a preliminary fair value of $248.8 million at the acquisition date and contractual balance of $253.1 million. As of the acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be uncollectible. The difference of $1.1 million will be recognized into interest income as an adjustment to yield over the life of the loans.

Estimated fair values of the assets acquired and liabilities assumed in the Citizens acquisition as of the closing date are as follows:

Assets of acquired bank (Dollars in thousands):		
Cash and cash equivalents	$	84,240
Loans held for investment		252,037
Premises and equipment, net		10,849
Goodwill		22,124
Core deposit intangible		850
Other assets		3,247
Total assets acquired	$	373,347
Liabilities of acquired bank:		
Deposits	$	271,742
FHLB Borrowings	$	38,242
Other liabilities		857
Total liabilities assumed	$	310,841
Common stock issued at $21.20 per share	$	44,604
Cash paid	$	17,902

As of September 30, 2020, management completed evaluating the fair values of all assets and liabilities assumed in the Citizens acquisition. Measurement period adjustments recoded during the year ended December 31, 2020 include a $1.7 million adjustment to the loan discount, $262 thousand adjustment to premises and equipment, $296 thousand adjustment to other assets, and $499 thousand adjustment to other liabilities.

Revenues and earnings of Citizens since the acquisition date have not been disclosed as these branches were merged into the Company during the third quarter 2020.

Simmons Branch Acquisition

On February 28, 2020, the Company completed its acquisition of certain assets and assumption of certain liabilities associated with five branch offices of Simmons Bank (the “Simmons branch acquisition”). The offices are located in Austin, San Antonio and Tilden, Texas. The Company paid total cash for the purchase of $131.6 million. The Simmons branch acquisition was accounted for as a business combination in accordance with ASC 805 “Business Combinations”.

The Company has recognized total goodwill of $11.5 million which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. Goodwill recognized is expected to be deductible for income tax purposes and will be amortized over 15 years.

The Company incurred expenses related to the Simmons branch acquisition of approximately $441 thousand for the year ended December 31, 2020, which are included in noninterest expense in the consolidated statements of income. The Company did not incur any expenses related to the acquisition for the year ended December 31, 2019.

The Company did not identify any loans deemed purchased credit impaired at the acquisition date. Non-credit impaired loans had a preliminary fair value of $255.5 million at the acquisition date and contractual balance of $260.3 million. As of the acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be uncollectible. The difference of $4.8 million will be recognized into interest income as an adjustment to yield over the life of the loans.

Estimated fair values of the assets acquired and the liabilities assumed in the Simmons branch acquisition as of the closing date are as follows:

Assets of acquired bank (Dollars in thousands):		
Cash and cash equivalents	$	418
Loans held for investment		255,455
Premises and equipment		2,195
Goodwill		11,456
Core deposit intangible		10
Other assets		1,756
Total assets acquired	$	271,290
Liabilities of acquired bank:		
Deposits	$	139,672
Other liabilities		47
Total liabilities assumed	$	139,719
Cash paid	$	131,571

As of June 30, 2020, management completed evaluating the fair values of all assets acquired and liabilities assumed in the Simmons branch acquisition

Revenues and earnings of Simmons branches since the acquisition date have not been disclosed as these branches were merged into the Company during 2020.

NOTE 4. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses and approximate fair values of debt securities available for sale are as follows:

December 31, 2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(Dollars in thousands)		
Available for sale:				
State and municipal obligations	$ 36,258	$ 927	$ -	$ 37,185
Residential mortgage-backed securities	132,130	278	267	132,142
Corporate bonds and other debt securities	42,768	433	109	43,093
Total available for sale	$ 211,156	$ 1,638	$ 376	$ 212,420

December 31, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(Dollars in thousands)		
Available for sale:				
U.S. treasuries	$ 60,315	$ 71	$ 15	$ 60,371
State and municipal obligations	7,861	120	—	7,981
Residential mortgage-backed securities	27,922	664	1	28,585
Total available for sale	$ 96,098	$ 855	$ 16	$ 96,937

There were $91.5 million and $90.6 million in securities pledged at December 31, 2020 and 2019, respectively to collateralize public funds.

The amortized cost and estimated fair value of securities available for sale, by contractual maturity, are as follows:

December 31, 2020	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available for sale:		
Due in one year or less	$ 1,970	$ 1,977
Due after one year through five years	4,483	4,509
Due after five years through ten years	36,031	36,385
Due after ten years	36,542	37,407
Residential mortgage-backed securities	132,130	132,142
Total available for sale	$ 211,156	$ 212,420

For purposes of the maturity table, residential mortgage-backed securities, the principal of which are repaid periodically, are presented as a single amount. The expected lives of these securities will differ from contractual maturities because borrowers may have the right to prepay the underlying loans with or without prepayment penalties.

The following tables present the estimated fair values and gross unrealized losses on investment securities available for sale, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of the periods presented:

December 31, 2020	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
			(Dollars in thousands)			
Available for sale:						
Residential mortgage-backed securities	$ 53,598	$ 267	$ —	$ —	$ 53,598	$ 267
Corporate bonds and other debt securities	17,087	109	—	—	17,087	109
Total available for sale	$ 70,685	$ 376	$ —	$ —	$ 70,685	$ 376

December 31, 2019	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
			(Dollars in thousands)			
Available for sale:						
U.S. treasuries	$ 30,762	$ 15	$ —	$ —	$ 30,762	$ 15
U.S. Government agencies	—	—	—	—	—	—
State and municipal obligations	—	—	—	—	—	—
Residential mortgage-backed securities	—	—	481	1	481	1
Corporate bonds and other debt securities	—	—	—	—	—	—
Total available for sale	$ 30,762	$ 15	$ 481	$ 1	$ 31,243	$ 16

At December 31, 2020, the Company's security portfolio consisted of 97 securities, of which 24 were in an unrealized loss position. The unrealized losses for these securities resulted primarily from changes in interest rates and spreads.

The Company monitors its investment securities for OTTI. Impairment is evaluated on an individual security basis considering numerous factors, and its relative significance. The Company has evaluated the nature of unrealized losses in the investment securities portfolio to determine if OTTI exists. The unrealized losses relate to changes in market interest rates and specific market conditions that do not represent credit-related impairments. Furthermore, the Company does not intend to sell nor is it more likely than not that it will be required to sell these investments before the recovery of their amortized cost basis. Management has completed an assessment of each security in an unrealized loss position for credit impairment and has determined that no individual security was other-than-temporarily impaired at December 31, 2020. The following describes the basis under which the Company has evaluated OTTI:

Residential Mortgage-Backed Securities ("MBS"):

The unrealized losses associated with residential MBS are primarily driven by changes in interest rates.

Corporate Bonds and Other Debt Securities:

The unrealized losses associated with corporate bonds and other debt securities are primarily driven by changes in interest rates.

The Company sold 46 securities during the year ended December 31, 2020 and 216 securities during the year ended December 31, 2019. There were no securities sold for the year ended December 31, 2018. Sale proceeds and gross realized gains and losses on the sale of securities available for sale are shown below. The cost of securities sold is based on the specific identification method.

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Sale proceeds from sale of available for sale securities	$ 34,023	$ 171,260	$ —
Gross realized gains	1,031	4,637	—
Gross realized losses	—	(55)	—
Net realized gains (losses)	$ 1,031	$ 4,582	$ —

Equity investments at fair value consist of an investment in the CRA Qualified Investment Fund. At December 31, 2020, the fair value of equity securities totalled $24 million. Subsequent changes in fair value are recognized in other noninterest income. There were no fair value changes subsequent to purchase and through the year ended December 31, 2020.

Taxable interest and dividends on investment securities were $2.1 million, $4.6 million and $1.4 million for the years ended December 31, 2020, 2019 and 2018, respectively. Tax-exempt interest on investment securities was $193 thousand, $541 thousand and $78 thousand for the years ended December 31, 2020, 2019 and 2018, respectively.

NOTE 5. LOANS

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

	December 31, 2020		
	Acquired Loans(1)	Organic Loans	Total Loans
	(Dollars in thousands)		
Commercial and industrial loans (2)	$ 53,857	$ 521,129	$ 574,986
Real estate:			
1-4 single family residential	93,840	270,299	364,139
Construction, land and development	131,734	283,754	415,488
Commercial real estate (including multifamily)	333,489	623,254	956,743
Consumer loans and leases	3,088	8,650	11,738
Municipal and other loans	6,103	59,335	65,438
Total loans held in portfolio (3)	$ 622,111	$ 1,766,421	$ 2,388,532

	December 31, 2019		
	Acquired Loans(1)	Organic Loans	Total Loans
	(Dollars in thousands)		
Commercial and industrial loans (2)	$ 46,842	$ 236,107	$ 282,949
Real estate:			
1-4 single family residential	118,669	257,074	375,743
Construction, land and development	58,054	201,330	259,384
Commercial real estate (including multifamily)	332,476	421,336	753,812
Consumer loans and leases	11,351	11,418	22,769
Municipal and other loans	13,709	58,816	72,525
Total loans held in portfolio (3)	$ 581,101	$ 1,186,081	$ 1,767,182

(1) Acquired loans in 2020 include loans acquired in the Comanche, Beeville, Citizens, and Simmons acquisitions. Acquired loans in 2019 include loans acquired in the Comanche, Beeville, and Citizens acquisitions. All loans originated after acquisition close date are included in organic loans.

(2) Balance includes $70.8 million and $74.2 million of the unguaranteed portion of SBA loans as of December 31, 2020 and 2019, respectively. Balance also includes $277.8 of PPP loans outstanding as of December 31, 2020.

(3) Balance includes $(8.2) million and $(4.2) million of deferred fees, cost, premium and discount as of December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the Company had pledged loans as collateral for FHLB advances of $927.3 million and $668.5 million, respectively. Additionally, at December 31, 2020, the Company had pledged loans as collateral associated with the Board of Governors of the Federal Reserve System's ("Federal Reserve") Paycheck Protection Program Liquidity Facility ("PPPLF") of $149.8 million. There were no loans pledged under the PPPLF at December 31, 2019. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2020 and 2019.

In April 2020, we began originating loans to qualified small businesses under the PPP administered by the SBA under the provisions of the CARES Act. Total loans originated under the PPP were $430.8 million of which $153.0 million were forgiven by December 31, 2020. Total PPP loans at December 31, 2020 were $277.8 million and are included in the commercial and industrial segment of our loan portfolio. These loans are fully guaranteed by the SBA, carry a contractual term of two to five years and an interest rate of 1.00%. In conjunction with originating PPP loans, the Company recorded deferred origination costs of $4.9 million and deferred origination fees of $15.3 million as of December 31, 2020. During 2020, $7.1 million of origination fees net of costs have been recognized due to loan forgiveness and normal amortization. The remaining $3.3 million in fees net of costs at December 31, 2020 will be recognized over the 1.3 year remaining weighted average life of the loans or at the date of forgiveness if earlier. In conjunction with the PPP, we are also currently participating in the PPPLF which, through December 31, 2020, extended loans to banks who are loaning money to small businesses under the PPP. The amount outstanding at December 31, 2020, was $149.8 million and is non-recourse and secured by the amount of the PPP loans outstanding. The maturity date of a borrowing under the PPPLF is equal the maturity date of the PPP loan pledged to secure the borrowing and would be accelerated (i) if the underlying PPP loan goes into default and is sold to the SBA to realize on the SBA guarantee or (ii) to the extent that any loan forgiveness reimbursement is received from the SBA. Borrowings under the PPPLF are included in long-term liabilities on the consolidated balance sheet and bear interest at a rate of 0.35%.

The Company originates and sells loans secured by the SBA. The Company retains the unguaranteed portion of the loan and servicing on the loans sold and receives a fee based upon the principal balance outstanding. During the years ended December 31, 2020, 2019 and 2018, the Company sold approximately $21.1 million, $47.8 million and $69.0 million, respectively, in loans to third parties. The loan sales resulted in realized gains of $1.8 million, $4.0 million and $5.1 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were $193.3 million and $205.0 million at December 31, 2020 and 2019, respectively. SBA loan servicing fees were $1.2 million, $929 thousand and $2.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

During 2020, we began originating loans to qualified mid-sized businesses under the Main Street Lending Program administered by the Federal Reserve Bank of Boston special purpose vehicle. Under the terms of the program 95 percent of the loan balance is purchased by the Federal Reserve Bank of Boston special purpose vehicle one day following origination. During the year ended December 31, 2020, the Company sold approximately $400.3 million of loans to the Federal Reserve Bank of Boston special purpose vehicle. The loan sales resulted in realized gains of $3.6 million for the year ended December 31, 2020. At December 31, 2020 the unpaid principal balance of loans serviced for others related to the Main Street Lending Program was $400.3 million.

During the second quarter of 2018, the Company sold a loan to one of its directors for $1.5 million. No gain or loss was recognized on this transaction.

In the ordinary course of business, the Company makes loans to executive officers and directors. Loans to these related parties, including companies in which they are principal owners, are as follows:

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Principal outstanding, beginning of year	$ 6,005	$ 107	$ 463
Additions (reductions) of affiliations	—	3,402	-
New loans made in current year	4,867	4,512	—
Repayments	(3,291)	(2,016)	(356)
Principal outstanding, end of year	$ 7,581	$ 6,005	$ 107

Total unfunded commitments to related parties were $1.8 million and $861 thousand at December 31, 2020 and 2019, respectively.

NOTE 6. ALLOWANCE FOR LOAN AND LEASE LOSSES

The allowance for loan and lease losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The methodology is based on historical loss experience by type of credit and internal risk grade, changes in the composition and volume of the portfolio, and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for loan and lease losses is designated to account for credit deterioration as it occurs.

On April 2, 2019, the Company closed its acquisition of Beeville. At the date of acquisition, Beeville had $298.9 million in loans. In accordance with ASC 805 "Business Combinations", the Company utilized a third party to value the loan portfolio as of the acquisition date. Based upon the third party valuation, the fair value of the loans was approximately $296.4 million at the acquisition date. The overall discount calculated was $2.5 million and will be accreted into interest income over the life of the loans.

On November 15, 2019, the Company closed its acquisition of Citizens. At the date of acquisition, Citizens had $253.1 million in loans. In accordance with ASC 805 “Business Combinations”, the Company utilized a third party to value the loan portfolio as of the acquisition date. Based upon the third party valuation, the preliminary fair value of the loans was approximately $250.3 million at the acquisition date. The overall discount calculated was $2.8 million and will be accreted into interest income over the life of the loans.

On February 28, 2020, the Company closed its acquisition of certain assets and assumption of certain liabilities associated with five offices of Simmons Bank. At the date of acquisition, the offices had $260.3 million in loans. In accordance with ASC 805, “Business Combinations”, the Company utilized a third party to value the loan portfolio as of the acquisition date. Based upon the third-party valuation, the fair value of the loans was approximately $255.5 million at the acquisition date. The overall discount calculated was $4.8 million and will be accreted into interest income over the life of the loans.

Purchased credit impaired loans related to the Comanche acquisition were insignificant, and the Bank did not identify any purchased credit impaired loans related to the Beeville acquisition or the Simmons branch acquisition. Management identified purchased credit impaired loans related to the Citizens of approximately $3.2 million and estimated that expected cash flows were equal to contractual cash flows at the acquisition date. The remaining recorded investment in purchased credit impaired loans related to the Citizens acquisition was $610 thousand at December 31, 2020 and the Company believes that all contractual principal and interest will be received. Purchased credit impaired loans related to the Citizens acquisition are not included in the impaired loans disclosure within this Note.

At December 31, 2020 no provision for loan losses has been recorded for PPP loans. These loans are fully guaranteed by the federal government and therefore carry a zero percent reserve. PPP loans also carry a put-back provision pursuant to which the Bank would have to repay any losses to the SBA in the event that a loan is fraudulently originated and the Bank is at fault. Management does not deem a put-back reserve necessary at this time.

The following tables present information related to the allowance for loan and lease losses for the periods presented:

	Allowance Rollforward				
For the Year Ended December 31, 2020	**Beginning Balance**	**Charge-offs**	**Recoveries**	**Provision**	**Ending Balance**
	(Dollars in thousands)				
Commercial and industrial loans	$ 4,078	$ (1,877)	$ 89	$ 6,796	$ 9,086
Real estate:					
1-4 single family residential	31	(21)	—	$ 137	147
Construction, land and development	1,055	—	—	$ 689	1,744
Commercial real estate (including multifamily)	1,451	—	—	$ 3,392	4,843
Consumer loans and leases	68	(222)	57	$ 242	145
Municipal and other loans	54	—	6	$ 1	61
Ending allowance balance	$ 6,737	$ (2,120)	$ 152	$ 11,257	$ 16,026

For the Year Ended December 31, 2019	Allowance Rollforward Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 4,453	$ (2,508)	$ 147	$ 1,986	$ 4,078
Real estate:					
1-4 single family residential	59	—	65	(93)	31
Construction, land and development	731	—	—	324	1,055
Commercial real estate (including multifamily)	960	—	—	491	1,451
Consumer loans and leases	80	(134)	20	102	68
Municipal and other loans	3	—	5	46	54
Ending allowance balance	$ 6,286	$ (2,642)	$ 237	$ 2,856	$ 6,737

For the Year Ended December 31, 2018	Allowance Rollforward Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 3,046	$ (1,465)	$ 75	$ 2,797	$ 4,453
Real estate:					
1-4 single family residential	902	(5)	—	(838)	59
Construction, land and development	441	—	—	290	731
Commercial real estate (including multifamily)	898	—	—	62	960
Consumer loans and leases	198	(132)	1	13	80
Municipal and other loans	167	—	—	(164)	3
Ending allowance balance	$ 5,652	$ (1,602)	$ 76	$ 2,160	$ 6,286

Credit Quality Indicators

In evaluating credit risk, the Company looks at multiple factors; however, management considers delinquency status to be the most meaningful indicator of the credit quality of 1-4 single family residential, home equity loans and lines of credit and consumer loans. Delinquency statistics are updated at least monthly. Internal risk ratings are considered the most meaningful indicator of credit quality for commercial, construction, land and development and commercial real estate loans. Internal risk ratings are updated on a continuous basis as the Company receives updated borrower financials and other documents.

The following tables present an aging analysis of the recorded investment for delinquent loans by portfolio and segment:

	Accruing					
December 31, 2020	Current	30 to 59 Days Past Due	60 to 89 Days Past Due	90 or More Days Past Due	Non-Accrual	Total
	(Dollars in thousands)					
Commercial and industrial loans	$ 567,491	$ 2,295	$ 271	$ —	$ 4,929	$ 574,986
Real estate:						
1-4 single family residential	362,505	99	28	—	1,507	364,139
Construction, land and development	415,135	136	—	—	217	415,488
Commercial real estate (including multifamily)	953,823	1,084	—	—	1,836	956,743
Consumer loans and leases	11,618	8	4	—	108	11,738
Municipal and other loans	65,416	—	22	—	—	65,438
Total loans	$2,375,988	$ 3,622	$ 325	$ —	$ 8,597	$2,388,532

December 31, 2019	Current	Accruing 30 to 59 Days Past Due	Accruing 60 to 89 Days Past Due	Accruing 90 or More Days Past Due	Non-Accrual	Total
			(Dollars in thousands)			
Commercial and industrial loans	$ 278,922	$ 760	$ 688	$ —	$ 2,579	$ 282,949
Real estate:						
1-4 single family residential	372,828	1,018	—	—	1,897	375,743
Construction, land and development	258,497	671	—	—	216	259,384
Commercial real estate (including multifamily)	750,432	1,283	404	—	1,693	753,812
Consumer loans and leases	22,663	27	3	2	74	22,769
Municipal and other loans	72,525	—	—	—	—	72,525
Total loans	$1,755,867	$ 3,759	$ 1,095	$ 2	$ 6,459	$1,767,182

There were no loans 90 days or more past due and still accruing at December 31, 2020. There was one loan past due greater than 90 days or more and still accruing at December 31, 2019 with a recorded investment of two thousand. All loans with active deferral periods related to the COVID-19 pandemic are excluded from nonaccrual and days past due reporting

At December 31, 2020, non-accrual loans that were 30 to 59 days past due were $930 thousand, non-accrual loans that were 60 to 89 days past due were $545 thousand, and non-accrual loans that were 90 days or more past due were $2.2 million. At December 31, 2019, non-accrual loans that were 30 to 59 days past due were $308 thousand, non-accrual loans that were 60 to 89 days past due were $1.2 million, and non-accrual loans that were 90 days or more past due were $2.6 million.

Loans exhibiting potential credit weaknesses that deserve management's close attention and that if left uncorrected may result in deterioration of the repayment capacity of the borrower are categorized as special mention. Loans with well-defined credit weaknesses including payment defaults, declining collateral values, frequent overdrafts, operating losses, increasing balance sheet leverage, inadequate cash flow, project cost overruns, unreasonable construction delays, past due real estate taxes or exhausted interest reserves are assigned an internal risk rating of substandard. Loans classified as substandard can be on an accrual or non-accrual basis, as determined by its unique characteristics. A loan with a weakness so severe that collection in full is highly questionable or improbable will be assigned an internal risk rating of doubtful.

The following table summarizes the Company's loans by key indicators of credit quality:

December 31, 2020	Pass	Special Mention	Substandard	Doubtful
		(Dollars in thousands)		
Commercial and industrial loans	$ 554,685	$ 1,332	$ 18,723	$ 246
Real estate:				
1-4 single family residential	360,337	—	3,802	—
Construction, land and development	411,151	4,120	217	—
Commercial real estate (including multifamily)	935,865	10,913	9,965	—
Consumer loans and leases	11,626	—	112	—
Municipal and other loans	62,273	3,085	80	—
Total loans	$ 2,335,937	$ 19,450	$ 32,899	$ 246

December 31, 2019	Pass	Special Mention	Substandard	Doubtful
		(Dollars in thousands)		
Commercial and industrial loans	$ 266,688	$ 1,905	$ 14,355	$ 1
Real estate:				
1-4 single family residential	372,190	893	2,660	—
Construction, land and development	258,864	304	216	—
Commercial real estate (including multifamily)	734,757	5,312	13,743	—
Consumer loans and leases	22,632	—	137	—
Municipal and other loans	72,134	—	391	—
Total loans	$ 1,727,265	$ 8,414	$ 31,502	$ 1

Internal risk ratings and other credit metrics are key factors in identifying loans to be individually evaluated for impairment and impact management's estimates of loss factors used in determining the amount of the allowance for loan and lease losses.

The following table shows the Company's investment in loans disaggregated based on the method of evaluating impairment:

	Loans - Recorded Investment		Allowance for Credit Loss	
December 31, 2020	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
		(Dollars in thousands)		
Commercial and industrial loans	$ 4,978	$ 570,008	$ 3,488	$ 5,598
Real estate:				
1-4 single family residential	1,637	$ 362,502	1	$ 146
Construction, land and development	217	$ 415,271	—	$ 1,744
Commercial real estate (including multifamily)	1,837	$ 954,906	500	$ 4,343
Consumer loans and leases	108	$ 11,630	90	$ 55
Municipal and other loans	52	$ 65,386	—	$ 61
Total loans	$ 8,829	$ 2,379,703	$ 4,079	$ 11,947

	Loans - Recorded Investment		Allowance for Credit Loss	
December 31, 2019	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
		(Dollars in thousands)		
Commercial and industrial loans	$ 2,508	$ 280,441	$ 1,422	$ 2,657
Real estate:				
1-4 single family residential	1,988	373,755	3	28
Construction, land and development	216	259,168	—	1,055
Commercial real estate (including multifamily)	1,571	752,241	—	1,451
Consumer loans and leases	24	22,745	19	48
Municipal and other loans	—	72,525	—	54
Total loans	$ 6,307	$ 1,760,875	$ 1,444	$ 5,293

The following tables set forth certain information regarding the Company's impaired loans that were evaluated for specific reserves:

	Impaired Loans - with Allowance			Impaired Loans - with No Allowance	
December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 4,407	$ 4,453	$ 3,488	$ 566	$ 571
Real estate:					
1-4 single family residential	5	5	1	1,632	1,612
Construction, land and development	—	—	—	217	215
Commercial real estate (including multifamily)	1,308	1,281	500	528	528
Consumer loans and leases	90	90	90	24	28
Municipal and other loans	—	—	—	52	52
Total loans	$ 5,810	$ 5,829	$ 4,079	$ 3,019	$ 3,006

	Impaired Loans - with Allowance			Impaired Loans - with No Allowance	
December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 2,150	$ 2,168	$ 1,422	$ 358	$ 360
Real estate:					
1-4 single family residential	12	12	3	1,976	—
Construction, land and development	—	—	—	216	214
Commercial real estate (including multifamily)	—	—	—	1,571	1,571
Consumer loans and leases	24	24	19	—	—
Municipal and other loans	—	—	—	—	1,965
Total loans	$ 2,186	$ 2,204	$ 1,444	$ 4,121	$ 4,110

	For the Years Ended December 31,					
	2020		2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)					
Commercial and industrial loans	$ 4,864	$ —	$ 2,790	$ —	$ 4,107	$ —
Real estate:						
1-4 single family residential	1,658	—	2,011	—	1,211	—
Construction, land and development	216	—	219	—	—	—
Commercial real estate (including multifamily)	271	—	241	—	—	—
Consumer loans and leases	51	—	26	—	19	—
Municipal and other loans	—	—	—	—	—	—
Total loans	$ 7,060	$ —	$ 5,287	$ —	$ 5,337	$ —

Troubled Debt Restructurings:

Section 4013 of the CARES Act provides financial institutions the opportunity to opt out of applying the TDR accounting guidance in ASC 310-40 for certain loan modifications. Loan modifications made between March 1, 2020 and the earlier of i) 60 days after the end of the national emergency proclamation or ii) December 31, 2020. Section 541 of the Consolidated Appropriations Act of 2021, amended Section 4013 of the CARES Act to extend this relief to the earlier of i) 60 days after the end of the national emergency proclamation or ii) January 1, 2022. Throughout 2020, the Company offered borrowers 90 day full payment deferrals or interest only payment periods of 90 days. At December 31, 2020, loans with an unpaid principal balance of $86.9 million remain in deferral periods with approximately $52.7 million and $12.8 million being in second and third 90 day deferral periods, respectively. These deferrals have also caused the increase in accrued interest shown on the consolidated balance sheets at December 31, 2020 compared to December 31, 2019.

The following table summarizes TDRs for the periods presented. Modifications may include, but are not limited to, granting a material extension of time, entering into a forbearance agreement, adjusting the interest rate, accepting interest only payments for an extended period of time, a change in the amortization period or a combination of any of these.

	December 31,			
	2020		2019	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Performing TDRs:				
Commercial and industrial loans	2	$ 49	2	$ 58
Real estate:				
1-4 single family residential	3	130	3	151
Construction, land and development	—	—	—	—
Commercial real estate (including multifamily)	—	—	—	—
Consumer loans and leases	—	—	—	—
Municipal and other loans	1	52	—	—
Total performing TDRs	6	231	5	209
Nonperforming TDRs	14	652	5	198
Total TDRs	20	$ 883	10	$ 407
Allowance attributable to TDRs		$ 421		$ 113

The following table summarizes newly designated TDRs as well as modifications made to existing TDRs. Post-modification balances represent the recorded investment at the end of Day 2 in which the modification was made:

	For the Years Ended December 31,											
	2020				2019				2018			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
	(Dollars in thousands)											
Commercial and industrial loans	9	$ 423	$ 423	$ 396	4	$ 145	$ 139	$ 113	6	$ 378	$ 378	$ 132
Real estate:												
1-4 single family residential	—	—	—	—	—	—	—	—	1	34	34	8
Construction, land and development	—	—	—	—	—	—	—	—	—	—	—	—
Commercial real estate (including multifamily)	—	—	—	—	—	—	—	—	—	—	—	—
Consumer loans and leases	—	—	—	—	—	—	—	—	—	—	—	—
Municipal and other loans	—	—	—	—	—	—	—	—	—	—	—	—

During 2020, one loan that had been restructured within the past 12 months defaulted resulting in charge-offs of $85 thousand. During 2019, three loans that had been restructured within the past 12 months defaulted resulting in charge-offs of $181 thousand. There have been no defaults of troubled debt restructurings that took place within 12 months of restructure during the year ended December 31, 2018.

NOTE 7. PREMISES AND EQUIPMENT

In the following table software has been reclassified to other assets for 2019. The major components of premises and equipment are as follows:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Land	$ 21,167	$ 17,481
Building and improvements	53,541	51,402
Furniture, fixtures and equipment	15,504	13,677
Leasehold improvements	1,550	1,092
Construction in process	3,896	204
Automobiles	1,806	1,740
Total	97,464	88,433
Less: Accumulated depreciation	(14,116)	(13,283)
Total premises and equipment, net	$ 83,348	$ 75,150

Total depreciation expense was $4.1 million, $2.8 million, and $2.0 million for the years ended December 31, 2020, 2019, and 2018, respectively.

The estimated costs to complete all open construction projects at December 31, 2020 was $194 thousand.

NOTE 8. GOODWILL AND INTANGIBLES

Goodwill and other intangible assets, which consist of core deposit intangibles, are summarized as follows:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Beginning goodwill	$ 68,503	$ 18,253
Measurement period adjustments	$ (2,278)	
Arising from business combinations	11,456	50,250
Ending goodwill	$ 77,681	$ 68,503
Core deposit intangible	$ 19,722	$ 19,712
Less: Accumulated amortization	(11,904)	(8,240)
Core deposit intangible, net	$ 7,818	$ 11,472

Amortization expense for core deposit intangibles for the years ended December 31, 2020, 2019 and 2018 totalled $3.7 million, $3.6 million and $917 thousand, respectively.

The estimated amount of amortization expense for core deposit intangible assets to be recognized over the next five fiscal years is as follows:

Type of intangibles	2021	2022	2023	2024	2025
	(Dollars in thousands)				
Core deposit intangible	$ 3,028	$ 2,212	$ 1,500	$ 744	200

Due to triggering events associated with the COVID-19 pandemic, the Company evaluated Goodwill for impairment quarterly during 2020 in addition to completing the annual Goodwill impairment test as of December 31, 2020. The result of each quarterly assessment and the annual impairment test was that the fair value of the one reporting unit, the Bank, exceeded the carrying value and no impairment charge was deemed necessary. The Company utilized discounted cash flow and market valuation approaches in each assessment and in the annual impairment test.

The discounted cash flow approach utilizes the Company's five year forecasted income statement which was updated for expected losses related to the pandemic, lower loan growth, and an extended period of low interest rates. The resulting cash flows for each year was discounted using a rate determined through a build-up approach which includes, a risk free rate, an equity risk premium, size premium, and company specific premium.

The market approach utilizes observed merger activity during the year and calculates deal multiples of last twelve months net income, book value, and tangible book value. An additional market approach was utilized for the annual impairment test which utilized the same multiples calculated based upon market capitalization applied to a group of representative peers.

NOTE 9. SBA SERVICING ASSET

SBA servicing assets are recognized separately when rights are acquired through the sale of SBA guaranteed portion. These servicing rights are initially measured at fair value at the date of sale and included in the gain on sale. Updated fair values are obtained from an independent third party on a quarterly basis and adjustments are presented in SBA loan servicing fees on the consolidated statements of income. To determine the fair value of SBA Servicing Rights, the Company uses market prices for comparable servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income.

The risks inherent in the SBA servicing asset relate primarily to changes in prepayments that result from shifts in interest rates. The following summarizes the activity pertaining to SBA servicing rights, which are in the consolidated balance sheets, for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Beginning balance	$ 3,355	$ 3,965
Origination of servicing assets	370	935
Change in fair value		
Due to run-off	(545)	(876)
Due to market changes	(227)	(669)
Ending balance	$ 2,953	$ 3,355

NOTE 10. DEPOSITS

The following table sets forth the Company's deposits by category:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Noninterest-bearing demand deposits	$ 727,543	$ 444,822
Interest-bearing demand deposits	472,075	370,467
Interest-bearing NOW accounts	10,288	28,204
Savings and money market accounts	610,571	404,886
Time deposits	638,658	679,747
Total deposits	$ 2,459,135	$ 1,928,126
Time deposits $100,000 and greater	$ 515,738	$ 333,464
Time deposits $250,000 and greater	190,236	204,389
Related party deposits (executive officers and directors)	18,767	23,150

The aggregate amount of overdraft demand deposits reclassified to loans was $88 thousand and $129 thousand at December 31, 2020 and 2019, respectively. The aggregate amount of maturities for time deposits for each of the five years following the latest balance sheet date totalled $520.5 million, $89.7 million, $15.0 million, $5.5 million and $7.9 million, respectively.

The Company held no brokered certificates of deposit as of December 31, 2020. The Company held brokered certificates of deposit of $6.0 million at December 31, 2019.

NOTE 11. FHLB AND OTHER BORROWINGS

The FHLB allows us to borrow, both short and long-term, on a blanket floating lien status collateralized by certain securities and loans. At December 31, 2020 and 2019, the Company had pledged loans as collateral for FHLB advances of $927.3 million and $668.5 million, respectively. At December 31, 2020, the Company had additional capacity to borrow from the FHLB of $654.9 million.

Short-term borrowings

Short-term FHLB borrowings: As of December 31, 2020, the Company had $10.0 million of short-term FHLB borrowings due in March of 2021, with an average interest rate of 0.70%. As of December 31, 2019, the Company had no short-term FHLB borrowings. All short-term FHLB borrowings outstanding at December 31, 2020 had fixed interest rates.

Long-term borrowings

Components of long-term borrowings consist of:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Long-term FHLB borrowings	$ 51,890	$ 90,437
PPPLF borrowings	149,848	—
Subordinated notes, net of issuance costs	36,296	—
Secured borrowings	3,986	14,703
Long-term borrowings, net	$ 242,020	$ 105,140

Line of Credit: The Company entered into an unsecured line of credit with a third-party lender in May 2017 which allowed it to borrow up to $20.0 million. The interest rate on the facility is LIBOR plus 4.00% per annum, and unpaid principal and interest is due at the stated maturity on May 12, 2022. The line of credit may be prepaid at any time without penalty, so long as such prepayment includes the payment of all interest accrued through the date of the repayments, and, in the case of prepayment of the entire loan, the amount of attorneys' fees and disbursements of the lender. During 2019, the line of credit was increased to a total borrowing capacity of $50.0 million. There were no outstanding advances at December 31, 2020 or 2019.

Trust Preferred Securities: The Company acquired trust preferred securities through the Comanche acquisition in 2018. The trust preferred securities had a maturity date of September 15, 2036, and were redeemable at the Company's option and bear interest at a variable rate per annum equal to the three-month LIBOR plus 1.65%. The Company redeemed the trust preferred securities in whole at par during 2019.

Long-term FHLB borrowings:

Long-term borrowings from the FHLB outstanding for the periods presented are as follows:

	December 31, 2020	Range of Contractual Interest Rates	Weighted Average Interest Rate	December 31, 2019	Range of Contractual Interest Rates	Weighted Average Interest Rate
			(Dollars in thousands)			
Repayable during the years ending December 31,						
2020	$ —	0.00%	0.00%	$ 18,254	1.45% - 5.02%	1.58%
2021	8,636	1.48% - 2.99%	1.73%	11,382	1.48% - 5.02%	1.82%
2022	4,584	1.86% - 2.99%	2.23%	12,056	1.79% - 5.02%	2.14%
2023	6,489	1.86% - 2.99%	2.44%	15,868	2.05% - 5.02%	2.24%
2024	10,723	1.86% - 2.99%	2.62%	11,170	2.07% - 5.02%	2.62%
2025	2,649	1.86% - 2.99%	2.26%	1,830	2.10% - 5.02%	2.47%
2026-2031	18,809	2.10% - 2.99%	2.26%	19,877	2.10% - 5.02%	2.31%
Total long-term FHLB borrowings	$ 51,890			$ 90,437		

For the years ended December 31, 2020 and 2019, the Company maintained long-term borrowings with the FHLB averaging $65.0 million and $61.6 million, respectively, with an average cost of approximately 2.29% and 2.30% respectively. Substantially all long-term FHLB borrowings outstanding at December 31, 2020 and 2019 had fixed interest rates. At December 31, 2020 and December 31, 2019, $16 million of FHLB borrowings outstanding were callable.

The Company maintained five, unsecured Federal Funds lines of credit with commercial banks which provide for extensions of credit with an availability to borrow up to an aggregate $105.0 million as of December 31, 2020. There were no advances under these lines of credit outstanding as of December 31, 2020.

PPPLF: In conjunction with the PPP, the Company is also currently participating in the Federal Reserve's PPPLF which, through December 31, 2020, extended loans to banks that are loaning money to small businesses under the PPP. The amount outstanding at December 31, 2020, was $149.8 million and is non-recourse and secured by the amount of the PPP loans still outstanding. The maturity date of a borrowing under the PPPLF is equal the maturity date of the PPP loan pledged to secure the borrowing and would be accelerated (i) if the underlying PPP loan goes into default and is sold to the SBA to realize on the SBA guarantee or (ii) to the extent that any loan forgiveness reimbursement is received from the SBA. Borrowings under the PPPLF are included in long-term liabilities on the Company’s consolidated balance sheet and bear interest at a rate of 0.35%.

Subordinated Notes: On July 24, 2020, the Company issued $37 million aggregate principal amount of 6.00% fixed-to-floating rate subordinated notes due 2030. The Notes will initially bear interest at a fixed annual rate of 6.00%, payable quarterly, in arrears, to, but excluding, July 31, 2025. From and including July 31, 2025, to, but excluding, the maturity date or earlier redemption date, the interest rate will reset quarterly to an interest rate per annum equal to a benchmark rate, which is expected to be the then-current three-month Secured Overnight Financing Rate, as published by the Federal Reserve Bank of New York (provided, that in the event the benchmark rate is less than zero, the benchmark rate will be deemed to be zero) plus 592 basis points, payable quarterly, in arrears. The amount outstanding at December 31, 2020, was $37.0 million.

Secured borrowings : Due to the rights retained on certain loan participations sold, the Company is deemed to have retained effective control over these loans under ASC Topic 860, “Transfers and Servicing”, and therefore these participations sold must be accounted for as a secured borrowing. At December 31, 2020, total secured borrowings were $4.0 million representing an increase in loans held for investment and matching increase in long-term borrowings. At December 31, 2019, total secured borrowings were $14.7 million representing an increase in loans held for investment and matching increase in long-term borrowings. The aggregate amount of maturities for secured borrowings for each of the five years following the latest balance sheet date totalled $0, $0, $0, $0 and $2.2 million, respectively.

NOTE 12. OPERATING LEASES

Minimum future rental expense related to leased office space and equipment by the Company on non-cancellable operating lease agreements are as follows:

	December 31, (Dollars in thousands)
2021	$ 2,236
2022	1,395
2023	982
2024	810
2025	628
Total rental expense	$ 6,051

Many of the Company's operating leases contain renewal options. Lease expenses of $2.7 million and $1.8 million for the years ended December 31, 2020 and 2019 have been included in occupancy expense on the consolidated statement of income.

The Company currently leases one of its branch locations from a Company director. The expense incurred by the Company under this lease was $157 thousand, $157 thousand, and $155 thousand for the years ended December 31, 2020, 2019, and 2018, respectively.

NOTE 13. REGULATORY CAPITAL

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to each maintain minimum amounts and ratios. The Company's and the Bank's Total, Tier 1 and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations) are set forth in the table below. The risk-based capital rules require that banks and holding companies maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. Management believes, as of December 31, 2020 and 2019, that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2020, the most recent notification from the regulatory banking agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. To the knowledge of management, there are no conditions or events since these notifications that have changed the Bank's category.

The table below provides a comparison of the Company's and the Bank's risk-based capital ratios and leverage ratios to the minimum regulatory requirements as of the dates indicated:

	Actual		Minimum Capital Requirement		Minimum Capital Requirement with Capital Buffer		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)							
December 31, 2020								
Tier 1 leverage ratio								
Company	$271,025	9.90%	$109,525	4.0%	$109,525	4.000%	N/A	N/A
Bank	279,135	10.30%	108,406	4.0%	108,406	4.000%	135,507	5.0%
Common equity tier 1 capital ratio								
Company	271,025	11.94%	102,124	4.5%	158,860	7.000%	N/A	N/A
Bank	279,135	12.29%	102,229	4.5%	159,024	7.000%	147,665	6.5%
Tier 1 risk-based capital ratio								
Company	271,025	11.94%	136,166	6.0%	192,901	8.500%	N/A	N/A
Bank	279,135	12.29%	136,306	6.0%	181,741	8.500%	181,741	8.0%
Total risk-based capital ratio								
Company	324,141	14.28%	181,554	8.0%	238,290	10.500%	N/A	N/A
Bank	295,251	13.00%	181,741	8.0%	238,535	10.500%	227,177	10.0%
December 31, 2019								
Tier 1 leverage ratio								
Company	$261,888	12.37%	$ 84,677	4.0%	$ 84,677	4.000%	N/A	N/A
Bank	252,769	11.29%	89,563	4.0%	89,563	4.000%	111,954	5.0%
Common equity tier 1 capital ratio								
Company	261,888	14.47%	81,445	4.5%	126,692	7.000%	N/A	N/A
Bank	252,769	13.98%	81,373	4.5%	126,581	7.000%	117,539	6.5%
Tier 1 risk-based capital ratio								
Company	261,888	14.47%	108,593	6.0%	153,840	8.500%	N/A	N/A
Bank	252,769	13.98%	108,498	6.0%	153,705	8.500%	144,664	8.0%
Total risk-based capital ratio								
Company	268,722	14.85%	144,791	8.0%	190,038	10.500%	N/A	N/A
Bank	259,603	14.36%	144,664	8.0%	189,871	10.500%	180,830	10.0%

NOTE 14. ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

Changes in AOCI for the periods indicated are summarized as follows:

	For the Year Ended December 31, 2020		
	Before Tax	Tax Effect	Net of Tax
	(Dollars in thousands)		
Balance at beginning of period	$ 839	$ (172)	$ 667
Unrealized gain (loss) on investment securities available for sale:			
Net unrealized holding gain (loss) arising during the period	1,456	(304)	1,152
Amounts reclassified to (gain) loss on investment securities (1)	(1,031)	217	(814)
Balance at end of period	$ 1,264	$ (259)	$ 1,005

	For the Year Ended December 31, 2019		
	Before Tax	Tax Effect	Net of Tax
	(Dollars in thousands)		
Balance at beginning of period	$ 2,347	$ (493)	$ 1,854
Unrealized gain (loss) on investment securities available for sale:			
Net unrealized holding gain (loss) arising during the period	3,172	(662)	2,510
Amounts reclassified to (gain) loss on investment securities (1)	(4,680)	983	(3,697)
Balance at end of period	$ 839	$ (172)	$ 667

	For the Year Ended December 31, 2018		
	Before Tax	Tax Effect	Net of Tax
	(Dollars in thousands)		
Balance at beginning of period	$ (634)	$ 133	$ (501)
Unrealized gain (loss) on investment securities available for sale:			
Net unrealized holding gain (loss) arising during the period	2,981	(626)	2,355
Amounts reclassified to (gain) loss on investment securities (1)	—	—	—
Balance at end of period	$ 2,347	$ (493)	$ 1,854

(1) Gross amounts are included in gain on sales of investment securities and income tax amounts are included in income tax expense on the Consolidated Statements of Income.

NOTE 15. STOCK-BASED COMPENSATION AND OTHER BENEFIT PLANS

Spirit of Texas Bancshares, Inc. 2008 Stock Plan

During 2008, the Company established an incentive stock plan (the "2008 Stock Plan"). Under the 2008 Stock Plan, stockholders authorized options to purchase up to 914,500 shares of Company stock. During 2015, stockholders authorized an increase in options to purchase up to 1,750,000 shares of Company common stock. The option terms cannot exceed 10 years from the grant date. Options are fully vested after five years of employment. Options for a total of 840,872 shares of the Company stock are outstanding as of December 31, 2020. At December 31, 2020, the Company had 314,375 available shares for future option grants under the 2008 Stock Plan.

The following table presents the activity during the year ended December 31, 2020 related to the 2008 Stock Plan:

	2008 Stock Plan			
	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2020	898,572	$ 13.39	$ 8,636	4.38
Granted	—	—	—	—
Exercised	(50,500)	12.09	238	—
Forfeited (1)	(2,200)	15.32		
Expired	(5,000)	10.50	32	—
Outstanding at December 31, 2020	840,872	$ 13.48	2,792	3.49
Vested and exercisable at December 31, 2020	798,512	$ 13.46	2,667	3.39

(1) Forfeitures are accounted for in the period they occur

There were no stock options granted for the years ended December 31, 2020 or 2019 out of the 2008 Stock Plan.

A summary of selected data related to stock-based compensation expense follows:

	2008 Stock Plan		
	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Stock-based compensation expense	$ 183	$ 328	$ 545
Amount of cash received from exercise of awards	4	1,880	2,991

	2008 Stock Plan		
	As of December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Unrecognized compensation expense related to stock-based compensation	$ 49	$ 243	$ 625
Weighted-average life over which expense is expected to be recognized (years)	0.6	1.3	1.9

Spirit of Texas Bancshares, Inc. 2017 Stock Plan

On February 23, 2017, the Company established an incentive stock plan to attract and retain officers, employees, directors and other service providers (the “2017 Stock Plan”). Under the 2017 Stock Plan, stockholders authorized options to purchase up to 1,000,000 shares of Company common stock. The option terms cannot exceed 10 years from the grant date. Directors’ stock options vest immediately and all employees’ options vest after 5 years of employment. Options for a total of 197,714 shares of the Company common stock are outstanding as of December 31, 2020. At December 31, 2020, the Company had 628,263 available shares for future option grants.

The following table presents the activity during the year ended December 31, 2020 related to the 2017 Stock Plan:

	2017 Stock Plan			
	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2020	199,447	$ 17.53	$ 1,091	7.70
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited (1)	(1,733)	15.00		
Expired	—	—	—	—
Outstanding at December 31, 2020	197,714	$ 17.55	$ 148	6.71
Vested and exercisable at December 31, 2020	100,953	$ 16.98	$ 18	6.59

(1) Forfeitures are accounted for in the period they occur

A summary of selected data related to stock-based compensation expense follows:

	2017 Stock Plan		
	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Stock-based compensation expense	$ 190	$ 170	$ 127
Amount of cash received from exercise of awards	611	86	150

	2017 Stock Plan		
	As of December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Unrecognized compensation expense related to stock-based compensation	$ 318	$ 515	$ 685
Weighted-average life over which expense is expected to be recognized (years)	2.1	2.8	4.1

2017 Stock Plan – Restricted Stock Unit Awards

On five different dates during the year ended December 31, 2020, the Company granted a total of 159,247 restricted stock units to employees and directors that vest in full (i.e. cliff vesting) on the five year anniversary of the grant date. The fair value of the restricted stock units on the grant date was $1.8 million and will be recognized as compensation expense over the requisite vesting period ending on the respective five year anniversary of the restricted stock unit award's grant date.

The following table presents the activity for the year ended December 31, 2020 related to restricted stock units from the 2017 Stock Plan:

	2017 Stock Plan	
	Restricted Stock Unit Awards	
	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	59,280	$ —
Granted	159,247	$ 11.69
Vested	(15,788)	
Forfeited	(2,500)	21.20
Outstanding at December 31, 2020	200,239	$ 13.31

A summary of selected data related to stock-based compensation expense for the years ended December 31, 2020 and 2019 are as follows:

	Restricted Stock Unit Awards	
	December 31,	
	2020	2019
	(Dollars in thousands)	
Stock-based compensation expense	$ 606	$ 141
Unrecognized compensation expense related to stock-based compensation	$ 2,298	$ 1,181
Weighted-average life over which expense is expected to be recognized (years)	4.24	4.45

Bank4Texas Warrants

In connection with the acquisition of Bank4Texas in 2010, the Company issued warrants for 12,491 shares of stock. The Bank4Texas warrants were exercisable at $10.50 per share and expired in August 2020.

The following table presents the activity for the period indicated related to the Bank4Texas Warrants:

	Bank4Texas Warrants			
	Warrants	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value (thousands)**	**Weighted Average Remaining Contractual Life (Years)**
Outstanding at January 1, 2020	9,872	$ 10.50		
Granted	—	—		
Exercised	(5,514)	10.50	$ 35	
Forfeited (1)	(4,358)	—		
Expired	—	—		
Outstanding at December 31, 2020	-	$ 10.50	$ -	—
Vested and exercisable at December 31, 2020	-	$ 10.50	$ -	—

(1) Forfeitures are accounted for in the period they occur

The amount of cash received by the Company from the exercise of the warrants was $40 thousand. There is no remaining expense to be recognized on the Bank4Texas Warrants.

Oasis Warrants

In connection with the acquisition of Oasis Bank in 2012, the Company issued warrants for 19,140 shares of stock. The Oasis warrants are exercisable at $12.84 per share and expire in November 2022. None of these warrants have been exercised.

Spirit of Texas Bank 401(k) Retirement Plan

The Company sponsors the Spirit of Texas Bank, SSB 401(k) Plan, a tax-qualified, deferred compensation plan (the “401(k) Plan”). Under the terms of the 401(k) Plan eligible employees may contribute a portion of compensation not exceeding the limits set by law. Employees are eligible to participate at the completion of one month of service. The 401(k) Plan allows a matching employer contribution equal to 100% of elective deferrals that do not exceed 3% of compensation. Matching contributions are fully vested after six years of service. Total 401(k) matching employer contribution expense amounted to $1.3 million, $1.2 million and $796 thousand for the years ended December 31, 2020, 2019 and 2018, respectively.

NOTE 16. BASIC AND DILUTED EARNINGS PER COMMON SHARE

The following table presents the computation of basic and diluted EPS:

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands, except per share data)		
Net income as reported	$ 31,311	$ 21,136	$ 9,978
Less: Participated securities share of undistributed earnings	—	—	—
Net income available to common stockholders	$ 31,311	$ 21,136	$ 9,978
Weighted average number of common shares - basic	17,567,117	14,697,342	9,258,216
Effect of dilutive securities:			
Employee stock-based compensation awards and warrants	82,346	415,485	384,192
Weighted average number of common shares - diluted	17,649,463	15,112,827	9,642,408
Basic earnings per common share	$ 1.78	$ 1.44	$ 1.08
Diluted earnings per common share	$ 1.77	$ 1.40	$ 1.03
Anti-dilutive warrants and stock options	570,985	141,950	82,948

NOTE 17. INCOME TAXES

The components of the expense (benefit) for income taxes for the periods presented are as follows:

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Current income tax expense:			
Federal	$ 8,761	$ 3,616	$ 902
State	226	75	35
Total current income tax expense	8,987	3,691	937
Deferred income tax expense (benefit):			
Federal	(1,528)	1,730	1,065
State	—	—	—
Total deferred income tax expense (benefit)	(1,528)	1,730	1,065
Total income tax expense (benefit)	$ 7,459	$ 5,421	$ 2,002

A reconciliation of the expected income tax expense at the statutory federal income tax rate of 21% for the years ended December 31, 2020, 2019 and 2018 to the Company's actual income tax expense and effective tax rate for the periods presented is as follows:

	For the Years Ended December 31,					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Tax expense at federal income tax rate	$ 8,143	21.00%	$ 5,576	21.00%	$ 2,516	21.00%
State taxes	206	0.53%	62	0.23%	28	0.23%
Increase (decrease) resulting from:						
Tax-exempt interest	(373)	-0.96%	(447)	-1.68%	(377)	-3.15%
Bank-owned life insurance	(75)	-0.19%	(64)	-0.24%	(4)	-0.03%
Stock compensation	80	0.21%	87	0.33%	(247)	-2.06%
Interest expense exclusion	19	0.05%	26	0.10%	21	0.18%
Meals and entertainment	31	0.08%	29	0.11%	18	0.15%
Club dues	40	0.10%	38	0.14%	30	0.25%
Acquisition expenses	—	0.00%	156	0.59%	155	1.29%
NOL carryback claim	(575)	-1.48%	—	0.00%	—	0.00%
Other	(37)	-0.10%	(42)	-0.17%	(138)	-1.15%
Total	$ 7,459	19.24%	$ 5,421	20.41%	$ 2,002	16.71%

During 2020, 2019, and 2018 no changes were made to the corporate tax rate.

Deferred income tax assets and liabilities reflect the tax effect of estimated temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes.

The significant components of the net deferred tax assets and liabilities for the periods presented are as follows:

	December 31,	
	2020	2019
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	3,271	1,341
Organizational costs	41	28
Purchase accounting	1,416	1,895
Net operating loss	39	868
Stock Option Expense	445	231
Other	69	85
Total gross deferred tax assets	5,281	4,448
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	(259)	(172)
Depreciation	(2,200)	(2,494)
Purchase accounting	(1,538)	(2,296)
SBA servicing	(92)	(71)
FHLB dividends	(107)	(87)
Total gross deferred tax liabilities	(4,196)	(5,120)
Deferred tax assets (liabilities), net	$ 1,085	$ (672)

The ability to realize deferred tax assets is dependent upon various factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. Based upon these factors, management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets.

The Company has federal net operating loss carryforwards of approximately $184 thousand which begin to expire in 2032. This amount is subject to a limitation by Section 382 of the Internal Revenue Code of 1986, as amended, to $2.1 million per year. The Company has determined that it is more likely than not that it will fully realize the benefit of such carryforwards prior to their expiration. Accordingly, a valuation allowance has not been recorded for federal net operating losses.

During the year ended December 31, 2020, the Company decided to carry back certain net operating losses as allowed by the CARES Act, which was enacted on March 27, 2020. This resulted in recording a discrete income tax benefit in the amount of $575 thousand.

The Company did not have any uncertain tax positions at December 31, 2020. The Company's policy is to classify interest and penalties associated with income taxes within other expenses. The Company did not record interest and penalties for the year ended December, 31, 2020 or 2019. The Company recorded interest and penalties of $23 thousand for the year ended December 31, 2018.

NOTE 18. COMMITMENTS AND CONTINGENCIES

The Company issues off-balance sheet financial instruments in connection with its lending activities and to meet the financing needs of its customers. These financial instruments include commitments to fund loans and lines of credit as well as commercial and standby letters of credit. These commitments expose the Company to varying degrees of credit and market risk which are essentially the same as those involved in extending loans to customers. The Company follows the same credit policies in making commitments as it does for instruments recorded on the Company's consolidated balance sheet. Collateral is obtained based on management's assessment of the customer's credit risk.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. As of December 31, 2020 and December 31, 2019, the Company's reserve for unfunded commitments totalled $90 thousand and $98 thousand, respectively.

Fees collected on off-balance sheet financial instruments represent the fair value of those commitments and are deferred and amortized over their term.

Financial Instruments Commitments

Unfunded commitments are as follows:

	December 31,	
	2020	**2019**
	(Dollars in thousands)	
Unfunded loan commitments	$ 309,411	$ 243,568
Commercial and standby letters of credit	3,272	1,232
Total	$ 312,683	$ 244,800

Unfunded loan commitments:

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

Commercial and standby letters of credit:

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Letters of credit are primarily issued to support trade transactions or guarantee arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

Other Commitments and Contingencies

Legal Proceedings

The Company, from time to time, is involved as plaintiff or defendant in various legal actions arising in the normal course of business. While the ultimate outcome of any such proceedings cannot be predicted with certainty, it is the opinion of management, based upon advice of legal counsel, that no proceedings exist, either individually or in the aggregate, which, if determined adversely to the Company, would have a material effect on the Company's consolidated balance sheet, results of operations or cash flows.

NOTE 19. PARENT COMPANY FINANCIAL STATEMENTS

Condensed Balance Sheets of the Company (Parent company only) for the periods presented are as follows:

	December 31,	
	2020	2019
Assets:		
Cash and due from banks	$ 24,231	$ 4,631
Investment in bank subsidiary	371,647	336,576
Other assets	4,867	4,656
Total assets	$ 400,745	$ 345,863
Liabilities and stockholders' equity:		
Borrowings	36,296	—
Other liabilities	3,670	158
Stockholders' equity	360,779	345,705
Total liabilities and stockholders' equity	$ 400,745	$ 345,863

Condensed Statements of Income of the Company (Parent company only) for the periods presented are as follows:

	For the Years Ended December 31, 2020	2019	2018
Income:			
Interest income	$ —	$ 4	1
Other noninterest income	—	74	25
Total income	—	78	26
Expense:			
Interest on borrowings	1,250	406	170
Salaries and benefits	—	2	24
Stock-based compensation expense	979	665	672
Professional services	1,501	2,914	2,107
Directors fees	299	218	209
Other noninterest expense	42	61	178
Total expense	4,071	4,266	3,360
Income (loss) before income tax expense (benefit) and equity in undistributed income of subsidiary	(4,071)	(4,188)	(3,334)
Income tax expense (benefit)	(649)	(638)	(795)
Income (loss) before equity in undistributed income of subsidiaries	(3,422)	(3,550)	(2,539)
Equity in income of subsidiary	34,733	24,686	12,517
Net income	$ 31,311	$ 21,136	$ 9,978
Comprehensive income	$ 31,649	$ 19,949	$ 12,333

Condensed Statements of Cash Flows of the Company (Parent company only) for periods presented are as follows:

	For the Years Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	$ 31,311	$ 21,136	$ 9,978
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in earnings of subsidiaries	(34,733)	(24,686)	(12,517)
Stock-based compensation	979	665	672
Amortization of debt issuance costs	79	—	—
Net change in operating assets and liabilities:			
Net change in other assets	(211)	(2,616)	1,622
Net change in other liabilities	1,956	(969)	(1,031)
Net cash provided by (used in) operating activities	(619)	(6,470)	(1,276)
Cash flows from investing activities:			
Capital contribution	—	(11,000)	—
Net cash paid in business combination	—	(50,278)	(11,755)
Net cash provided by (used in) investing activities	—	(61,278)	(11,755)
Cash flows from financing activities:			
Proceeds of borrowings, net	46,218	21,000	—
Repayment of borrowings	(10,000)	(23,811)	(7,788)
Proceeds from capital raise, net	—	46,535	42,058
Cash dividends paid	(1,212)	—	—
Purchase of treasury stock	(15,470)	(289)	—
Exercise of stock options and warrants	683	1,966	3,902
Net cash provided by (used in) financing activities	20,219	45,401	38,172
Net change in cash and cash equivalents	19,600	(22,347)	25,141
Cash and cash equivalents at beginning of period	4,631	26,978	1,837
Cash and cash equivalents at end of period	$ 24,231	$ 4,631	$ 26,978
Supplemental disclosure of noncash investing and financing activities:			
Fair value of trust preferreds acquired in business combination	$ -	$ -	$ 2,811
Dividends accrued not paid	1,556	—	—

NOTE 20. FAIR VALUE MEASUREMENTS

When determining the fair value measurements for assets and liabilities and the related fair value hierarchy, the Company considers the principal or most advantageous market in which it would transact and the assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities. It is the Company's policy to maximize the use of observable inputs, minimize the use of unobservable inputs and use unobservable inputs to measure fair value to the extent that observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity, resulting in diminished observability of both actual trades and assumptions that would otherwise be available to value these instruments, or the value of the underlying collateral is not market observable. Although third party price indications may be available for an asset or liability, limited trading activity would make it difficult to support the observability of these quotations.

Financial Instruments Carried at Fair Value on a Recurring Basis

The following is a description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the general classification of each instrument under the valuation hierarchy.

Investment Securities—Investment securities available for sale are carried at fair value on a recurring basis. When available, fair value is based on quoted prices for the identical security in an active market and as such, would be classified as Level 1. If quoted market prices are not available, fair values are estimated using quoted prices of securities with similar characteristics, discounted cash flows or matrix pricing models. Investment securities available for sale for which Level 1 valuations are not available are classified as Level 2, and include U.S. Government agencies and sponsored enterprises obligations and agency mortgage-backed securities; state and municipal obligations; asset-backed securities; and corporate debt and other securities. Pricing of these securities is generally spread driven.

Observable inputs that may impact the valuation of these securities include benchmark yield curves, credit spreads, reported trades, dealer quotes, bids, issuer spreads, current rating, historical constant prepayment rates, historical voluntary prepayment rates, structural and waterfall features of individual securities, published collateral data, and for certain securities, historical constant default rates and default severities.

SBA Servicing Asset—The SBA Servicing Asset is carried at fair value on a recurring basis. To determine the fair value of SBA Servicing Rights, The Company uses market prices for comparable servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses. The SBA Servicing Asset is classified as Level 3.

Interest Rate Swaps—The Company obtains the fair value of interest rate swaps from a third-party vendor that uses an industry standard discounted cash flow methodology. In addition, credit valuation adjustments are incorporated in the fair values to account for potential nonperformance risk. The majority of the inputs used to value these interest rate swaps offered to qualified commercial borrowers fall within Level 2 of the fair value hierarchy, while the credit valuation adjustments associated with these derivatives utilize Level 3 inputs, such as estimates of current credit spreads. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate swaps and has determined that the credit valuation adjustment is not significant to the overall valuation of these derivatives. As a result, the Company classifies its interest rate swap valuations in Level 2 of the fair value hierarchy.

The following table presents the assets and liabilities measured at fair value on a recurring basis:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
State and municipal obligations	$ —	$ 37,185	$ —	$ 37,185
Residential mortgage-backed securities	—	132,142	—	132,142
Corporate bonds	—	43,093	—	43,093
Equity securities at fair value	24,000	—	—	24,000
SBA servicing rights	—	—	2,953	2,953
Customer interest rate swaps	—	3,009	—	3,009
Correspondent interest rate swaps	—	(3,009)	—	(3,009)

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Assets:				
U.S. Treasuries	$ 60,371	—	$ —	$ 60,371
State and municipal obligations	—	7,981	—	7,981
Residential mortgage-backed securities	—	28,585	—	28,585
SBA servicing rights	—	—	3,355	3,355
	$ 60,371	$ 36,566	$ 3,355	$ 100,292

There were no transfers of financial assets between levels of the fair value hierarchy during the years ended December 31, 2020 or 2019.

Financial Instruments Measured at Fair Value on a Non-Recurring Basis

The following is a description of the methodologies used to estimate the fair values of assets and liabilities measured at fair value on a non-recurring basis, and the level within the fair value hierarchy in which those measurements are typically classified.

Impaired loans and OREO—The carrying amount of collateral dependent impaired loans is typically based on the fair value of the underlying collateral, which may be real estate or other business assets, less estimated costs to sell. The carrying value of OREO is initially measured based on the fair value, less estimated cost to sell, of the real estate acquired in foreclosure and subsequently adjusted to the lower of cost or estimated fair value, less estimated cost to sell. Fair values of real estate collateral are typically based on real estate appraisals which utilize market and income valuation techniques incorporating both observable and unobservable inputs. When current appraisals are not available, the Company may use brokers' price opinions, home price indices, or other available information about changes in real estate market conditions to adjust the latest appraised value available. These adjustments to appraised values may be subjective and involve significant management judgment. The fair value of collateral consisting of other business assets is generally based on appraisals that use market approaches to valuation, incorporating primarily unobservable inputs. Fair value measurements related to collateral dependent impaired loans and OREO are classified within level 3 of the fair value hierarchy.

The following tables provide information about certain assets measured at fair value on a non-recurring basis:

	Estimated Fair Value	
	December 31,	
	2019	2019
	(Dollars in thousands)	
Assets (classified in Level 3)		
Impaired loans	$ 4,948	$ 3,990
Other real estate owned and repossessed assets	133	3,653

Impairment charges resulting from the non-recurring changes in fair value of underlying collateral of impaired loans are included in the provision for loan losses in the consolidated statement of income. Impairment charges resulting from the non-recurring changes in fair value of OREO are included in other real estate and acquired assets resolution expenses in the consolidated statement of income.

The following tables show significant unobservable inputs used in the recurring and non-recurring fair value measurements of Level 3 assets:

Level 3 Asset	Fair Value	Valuation Technique	Unobservable Inputs	Range/Weighted Average
December 31, 2020				
Non-recurring:				
Impaired loans	$ 4,948	Third party appraisals	Collateral discounts	0.0% - 100.0% (34.1%)
Other real estate owned	133	Third party appraisals	Collateral discounts and estimated cost to sell	10.0%
Recurring:				
SBA servicing assets	2,953	Discounted cash flows	Conditional prepayment rate	12.5%
			Discount rate	10.0%
December 31, 2019				
Non-recurring:				
Impaired loans	$ 3,990	Third party appraisals	Collateral discounts	0.0% - 100.0% (23.9%)
Other real estate owned	3,653	Third party appraisals	Collateral discounts and estimated cost to sell	10.0%
Recurring:				
SBA servicing assets	3,355	Discounted cash flows	Conditional prepayment rate	13.3%
			Discount rate	10.8%

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments are as follows:

December 31, 2020	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial Assets:					
Cash and cash equivalents	$ 263,034	$ 263,034	$ 263,034	$ —	$ —
Equity investments at fair value	24,000	24,000	24,000	—	—
Available for sale securities	212,420	212,420	—	212,420	—
FHLB and other bank stock	5,718	5,718	—	5,718	—
Loans, net	2,372,506	2,364,646	—	—	2,364,646
Loans held for sale	1,470	1,598	—	1,598	—
Accrued interest receivable	11,199	11,199	—	11,199	—
Bank-owned life insurance	15,969	15,969	—	15,969	—
SBA servicing rights	2,953	2,953	—	—	2,953
Customer interest rate swaps	3,009	3,009	—	3,009	—
Financial Liabilities:					
Deposits	$2,459,135	$2,427,412	$ —	$2,427,412	$ —
Accrued interest payable	1,303	1,303	—	1,303	—
Short-term borrowings	10,000	10,136	—	10,136	—
Long-term borrowings	242,020	245,311	—	245,311	—
Correspondent interest rate swaps	3,009	3,009	—	3,009	—

December 31, 2019	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial Assets:					
Cash and cash equivalents	$ 325,957	$ 325,957	$ 325,957	$ —	$ —
Time deposits in other banks	490	490	—	490	—
Available for sale securities	96,937	96,937	—	96,937	—
FHLB and other bank stock	8,310	8,310	—	8,310	—
Loans, net	1,760,445	1,758,511	—	—	1,758,511
Loans held for sale	3,989	4,307	—	4,307	—
Accrued interest receivable	6,507	6,507	—	6,507	—
Bank-owned life insurance	15,610	15,610	—	15,610	—
SBA servicing rights	3,355	3,355	—	—	3,355
Financial Liabilities:					
Deposits	$1,928,126	$1,855,491	$ —	$1,855,491	$ —
Accrued interest payable	1,219	1,219	—	1,219	—
Short-term borrowings	—	—	—	—	—
Long-term borrowings	105,140	102,488	—	102,488	—

Certain financial instruments are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. Financial instruments for which fair value approximates the carrying amount at December 31, 2020 and December 31, 2019, include cash and cash equivalents, time deposits in other banks and accrued interest receivable and payable.

NOTE 21. DERIVATIVE FINANCIAL INSTRUMENTS

The Company offers a loan hedging program to certain loan customers. Through this program, the Company originates a variable rate loan with the customer. The Company and the customer will then enter into a fixed interest rate swap. Lastly, an identical offsetting swap is entered into by the Company with a correspondent bank. These "back-to-back" swap arrangements are intended to offset each other and allow the Company to book a variable rate loan, while providing the customer with a contract for fixed interest payments. In these arrangements, the Company's net cash flow is equal to the interest income received from the variable rate loan originated with the customer. These customer swaps are not designated as hedging instruments and are recorded at fair value in other assets and other liabilities. The changes in fair value is recognized in the income statement in other income and fees. The Company is required to hold cash as collateral for the swaps, total cash held as collateral for swaps was $2.6 million at December 31, 2020.

At December 31, 2020 interest rate swaps related to the Company's loan hedging program that were outstanding is presented in the following table:

		December 31, 2020 (Dollars in thousands)
Interest rate swaps on loans with customers		
Notional amount	$	85,696
Weighted average remaining term (years)		4.58
Receive fixed rate (weighted average)		4.23%
Pay variable rate (weighted average)		4.52%
Estimated fair value	$	3,009

		December 31, 2020 (Dollars in thousands)
Interest rate swaps on loans with correspondents		
Notional amount	$	85,696
Weighted average remaining term (years)		4.58
Pay fixed rate (weighted average)		4.52%
Receive variable rate (weighted average)		4.23%
Estimated fair value	$	3,009

Interest rate swaps with correspondents are subject to a master netting agreement. The Company has elected to net interest rate swap positions on the consolidated balance sheet; however, at December 31, 2020 the amount recorded on the consolidated balance sheet in other liabilities was not netted given that all agreements were in a liability position.

NOTE 22. SUBSEQUENT EVENTS

On January 8, 2021, we completed the previously announced sale of our Jacksboro branch location to First State Bank of Graham, Texas (the "Jacksboro branch sale"). The Jacksboro branch sale resulted in the sale of loans of approximately $3.5 million, deposits of approximately $5.1 million, and the real property of $1.5 million on which the branch was located. This sale resulted in net cash received of $60 thousand and a gain on sale of approximately $230 thousand.

NOTE 23. QUARTERLY FINANCIAL DATA (UNAUDITED)

The summary quarterly financial information set forth below for each of the last eight quarters has been derived from the Company's unaudited interim consolidated financial statements and other financial information. The summary historical quarterly financial information includes all adjustments consisting of normal recurring accruals that the Company considers necessary for a fair presentation of the financial position and the results of operations for these periods.

The information below is only a summary and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated historical financial statements and the related notes thereto included in this Annual Report on Form 10-K.

	For the Quarters Ended December 31, 2020			
	Q4	Q3	Q2	Q1
	(Dollars in thousands)			
Selected income statement data:				
Interest income	$ 33,697	$ 30,481	$ 30,554	$ 28,813
Interest expense	3,825	4,267	4,503	5,015
Net interest income	29,872	26,214	26,051	23,798
Provision for loan losses	4,417	2,831	2,838	1,171
Net interest income after provision for loan losses	25,455	23,383	23,213	22,627
Noninterest income	8,780	4,819	2,565	2,712
Noninterest expense	18,427	19,293	16,104	20,960
Income before income tax expense	15,808	8,909	9,674	4,379
Income tax expense	3,353	1,821	1,980	305
Net income	$ 12,455	$ 7,088	$ 7,694	$ 4,074
Earnings per share:				
Basic	$ 0.73	$ 0.41	$ 0.44	$ 0.22
Diluted	$ 0.72	$ 0.41	$ 0.44	$ 0.22

	For the Quarters Ended December 31, 2019			
	Q4	Q3	Q2	Q1
	(Dollars in thousands)			
Selected income statement data:				
Interest income	$ 27,075	$ 25,001	$ 24,300	$ 18,884
Interest expense	4,850	4,522	4,549	3,449
Net interest income	22,225	20,479	19,751	15,435
Provision for loan losses	775	900	332	849
Net interest income after provision for loan losses	21,450	19,579	19,419	14,586
Noninterest income	5,054	2,681	3,775	3,057
Noninterest expense	18,659	15,556	15,825	13,004
Income before income tax expense	7,845	6,704	7,369	4,639
Income tax expense	1,676	1,374	1,542	829
Net income	$ 6,169	$ 5,330	$ 5,827	$ 3,810
Earnings per share:				
Basic	$ 0.35	$ 0.35	$ 0.42	$ 0.31
Diluted	$ 0.35	$ 0.34	$ 0.41	$ 0.30

The increase in non-interest income during the third and fourth quarters was due to the recognition of deferred loan origination fees, net of deferred loan origination costs associated with PPP loans. At the time of loan forgiveness all deferred fees, net of costs are recognized immediately. Additionally, the gain on sale of Main Street Lending Program loans increased non-interest income during the fourth quarter by $3.7 million.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company's President and Chief Executive Officer and its Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule l3a-l5(e) and 15d-15(e) promulgated under the Exchange Act) as of December 31, 2020. Based on this evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of December 31, 2020.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting identified during the fourth quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Design and Evaluation of Internal Control Over Financial Reporting

Pursuant to Section 404 of Sarbanes-Oxley, the following is a report of management's assessment of the design and effectiveness of our internal controls for the fiscal year ended December 31, 2020.

Management's Report on Internal Control Over Financial Reporting

The Company is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this Annual Report on Form 10-K. The consolidated financial statements and notes included in this Annual Report on Form 10-K have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

The Company's management is responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; provide a reasonable assurance that receipts and expenditures of the Company are only being made in accordance with authorizations of management and directors of the Company; and provide a reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are noted.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the Company's system of internal control over financial reporting as of December 31, 2020, in relation to the criteria for effective control over financial reporting as described in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013).

Based on this assessment, management concludes that, as of December 31, 2020, the Company's system of internal control over financial reporting is effective.

BDO USA, LLP, which is the independent registered public accounting firm that audited the financial statements in this Annual Report on Form 10-K, has not issued an attestation report on the Company's internal control over financial reporting. As an emerging growth company, management's report was not subject to attestation by the Company's independent registered public accounting firm in accordance with the JOBS Act.

Item 9B. Other Information.

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated herein by reference to our Definitive Proxy Statement for the 2021 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after our fiscal year end (the "Proxy Statement").

In accordance with Item 406 of Regulation S-K, we have adopted a code of business conduct and ethics that applies to Company executives, directors and employees. The code of business conduct and ethics is posted on our website at www.sotb.com under "Investor Relations." Within the time period required by the SEC, we will post on our website any amendment to the code of ethics and any waiver applicable to our principal executive officer, principal financial officer, and principal accounting officer or controller.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after our fiscal year end.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after our fiscal year end.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after our fiscal year end.

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after our fiscal year end.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

(1) The consolidated financial statements, notes thereto and independent auditors' report thereon, filed as part hereof, are listed in Item 8.

(2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization, dated as of July 19, 2018, by and among Spirit of Texas Bancshares, Inc. and Comanche National Corporation (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the SEC on July 19, 2018 (File No. 001-38484)) (schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K; however, the registrant hereby agrees to furnish a copy of any omitted schedule or similar attachment to the SEC upon request).
2.2	Agreement and Plan of Reorganization, dated as of November 27, 2018, by and among Spirit of Texas Bancshares, Inc. and First Beeville Financial Corporation (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the SEC on November 28, 2018 (File No. 001-38484)) (schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K; however, the registrant hereby agrees to furnish a copy of any omitted schedule or similar attachment to the SEC upon request).
2.3	Agreement and Plan of Reorganization, dated as of July 24, 2019, by and between Spirit of Texas Bancshares, Inc. and Chandler Bancorp, Inc., and joined in by Kidd Partners, Ltd. (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the SEC on July 24, 2019 (File No. 001-38484)) (schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K; however, the registrant hereby agrees to furnish a copy of any omitted schedule or similar attachment to the SEC upon request).
2.4	Branch Purchase and Assumption Agreement, dated as of December 20, 2019, by and between Spirit of Texas Bank, SSB and Simmons Bank (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the SEC on December 23, 2019 (File No. 001-38484)) (schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K; however, the registrant hereby agrees to furnish a copy of any omitted schedule or similar attachment to the SEC upon request).
3.1	Second Amended and Restated Certificate of Formation of Spirit of Texas Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
3.2	Amended and Restated Bylaws of Spirit of Texas Bancshares, Inc. (incorporated herein by reference to Exhibit 3.2 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
3.3	Certificate of Amendment to the Second Amended and Restated Certificate of Formation of Spirit of Texas Bancshares, Inc. (incorporated by reference to Exhibit 3.3 to the Company's Form S-1 filed with the Commission on April 6, 2018) (File No. 333-224172)
4.1	Specimen Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 26, 2018).
4.2	Form of Common Stock Purchase Warrant (incorporated herein by reference to Exhibit 4.2 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).

4.3*	Description of Registrant's Common Stock
10.1†	Executive Employment Agreement, dated March 1, 2017, by and between Spirit of Texas Bancshares, Inc. and Dean O. Bass (incorporated herein by reference to Exhibit 10.1 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.2†	Executive Employment Agreement, dated March 1, 2017, by and between Spirit of Texas Bancshares, Inc. and David M. McGuire (incorporated herein by reference to Exhibit 10.2 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.3†	Executive Employment Agreement, dated March 1, 2017, by and between Spirit of Texas Bancshares, Inc. and Jerry Golemon (incorporated herein by reference to Exhibit 10.3 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.4†	Spirit of Texas Bancshares, Inc. 2008 Stock Plan (incorporated herein by reference to Exhibit 10.5 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.5†	Amendment to the Spirit of Texas Bancshares, Inc. 2008 Stock Plan (dated May 17, 2012) (incorporated herein by reference to Exhibit 10.6 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.6†	Amendment to the Spirit of Texas Bancshares, Inc. 2008 Stock Plan (dated May 23, 2013) (incorporated herein by reference to Exhibit 10.7 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.7†	Amendment to the Spirit of Texas Bancshares, Inc. 2008 Stock Plan (dated May 21, 2015) (incorporated herein by reference to Exhibit 10.8 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.8†	Second Amendment to the Spirit of Texas Bancshares, Inc. 2008 Stock Plan (dated January 19, 2017) (incorporated herein by reference to Exhibit 10.9 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.9†	Form of Stock Option Agreement under the Spirit of Texas Bancshares, Inc. 2008 Stock Plan (incorporated herein by reference to Exhibit 10.10 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.10†	Spirit of Texas Bancshares, Inc. 2017 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.11 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.11†	Form of Non-qualified Stock Option Agreement under the Spirit of Texas Bancshares, Inc. 2017 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.12†	Form of Incentive Stock Option Agreement under the Spirit of Texas Bancshares, Inc. 2017 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.13†	Form of Restricted Stock Agreement under the Spirit of Texas Bancshares, Inc. 2017 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.14†	Form of Director and Officer Indemnification Agreement (incorporated herein by reference to Exhibit 10.15 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).

10.15†	Spirit of Texas Bank Non-Qualified Supplemental Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.16 to the Registration Statement on Form S-1 of Spirit of Texas Bancshares, Inc. (Registration No. 333-224172) filed April 6, 2018).
10.16	Form of Employee Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Commission on July 3, 2019) (File No. 001-38484).
10.17	Registration Rights Agreement, dated as of July 24, 2019, by and between Spirit of Texas Bancshares, Inc. and Kidd Partners, Ltd. (incorporated herein by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the SEC on July 24, 2019 (File No. 001-38484)).
10.18	Underwriting Agreement, dated July 25, 2019, by and between Spirit of Texas Bancshares, Inc., Spirit of Texas Bank, SSB, and Stephens Inc. and Keefe, Bruyette & Woods, Inc. (incorporated herein by reference to Exhibit 1.1 to Current Report on Form 8-K filed with the SEC on July 25, 2019 (File No. 001-38484)).
10.19	Form of Subordinated Note Purchase Agreement, dated as of July 24, 2020, by and between Spirit of Texas Bancshares, Inc. and each of the Purchasers (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 27, 2020 (File No. 001-38484) (certain schedules (or similar attachments) have been omitted pursuant to Item 601(a)(5) of Regulation S-K; however the Company hereby undertakes to furnish copies of any of the omitted schedules upon request by the SEC; provided, however, that the Company may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any schedules so furnished).
21.1*	List of Subsidiaries of Spirit of Texas Bancshares, Inc.
23.1*	Consent of BDO USA, LLP
31.1*	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32.1**	Section 1350 Certification of Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.
101.INS*	Inline XBRL Instance Document – the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)
*	Filed with this Annual Report on Form 10-K
**	Furnished with this Annual Report on Form 10-K
†	Indicates a management contract or compensatory plan.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Spirit of Texas Bancshares, Inc.

Date: March 5, 2021

By: /s/ Dean O. Bass
Dean O. Bass
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: March 5, 2021

By: /s/ Allison S. Johnson
Allison S. Johnson
Executive Vice President and Chief Financial Officer
(Principal Financial and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Dean O. Bass **Dean O. Bass**	Chairman and Chief Executive Officer (Principal Executive Officer)	March 5, 2021
/s/ David M. McGuire **David M. McGuire**	President and Director	March 5, 2021
/s/ Allison S. Johnson **Allison S. Johnson**	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 5, 2021
/s/ Robert S. Beall **Robert S. Beall**	Director	March 5, 2021
/s/ Nelda Luce Blair **Nelda Luce Blair**	Director	March 5, 2021
/s/ Thomas Jones, Jr. **Thomas Jones, Jr.**	Director	March 5, 2021
/s/ Allen C. Jones, IV **Allen C. Jones, IV**	Director	March 5, 2021
/s/ Steven Gregory Kidd **Steven Gregory Kidd**	Director	March 5, 2021
/s/ Steven M. Morris **Steven M. Morris**	Director	March 5, 2021
/s/ Leo T. Metcalf, III **Leo T. Metcalf, III**	Director	March 5, 2021
/s/ William K. Nix **William K. Nix**	Director	March 5, 2021
/s/ Akash J. Patel **Akash J. Patel**	Director	March 5, 2021
/s/ H. D. Patel **H. D. Patel**	Director	March 5, 2021
/s/ Thomas C. Sooy **Thomas C. Sooy**	Director	March 5, 2021