



TEXAS SECURITY
BANK

ELEVATING THE CHAMPIONS OF FREE
ENTERPRISE

2021 ANNUAL REPORT
TEXAS SECURITY BANKSHARES, INC.



When the founding fathers drafted the United States Constitution, they knew they were creating something momentous: a new nation, a new form of government and a new key to prosperity — free enterprise. We, too, were built on a foundation of free enterprise, and we have been unwavering in our commitment to Elevate the Champions of Free Enterprise. Our vision is to lift those we serve to even higher levels of success. Living under a flag of freedom and independence allows all businesses to seize opportunities for growth. We salute our nation’s positive business climate with good reason. The more our customers achieve, the more we grow. There is no limit to what we can accomplish together.



“We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.”

The U.S. Constitution: Preamble



DEAR FELLOW SHAREHOLDERS,

Last year Texas Security Bankshares (the “Company”), and its subsidiary Texas Security Bank (the “Bank”) were coming off the best year in Company history. The Company had achieved unprecedented asset and earnings growth in 2020, having grown earnings per share (“EPS”) 24%. Most would have considered it unrealistic to project 2021 to exceed 2020 in terms of EPS by a substantial margin; however, the Company did just that, increasing earnings per share 51% from \$2.65 in 2020 to \$4.01 in 2021! Net income of \$13.0 million represents a \$4.4 million increase, and a like 52% increase, over 2020 earnings of \$8.6 million. The strategic positioning of the Company, combined with focused commitment from the Company’s employees, the agility with which we dealt with the 2021 Paycheck Protection Program (“PPP”) second draw program, and focused effort on our core business, produced the Company’s highest performance ever.



2021 was a tremendous year. In the face of continued pandemic-related uncertainties, the Company produced exceptional core asset growth and maintained excellent credit quality. With core loan growth of \$156 million, or 33%, we enjoyed a lower provision for loan loss (“Provision”) charge as credit quality concerns from the pandemic did not materialize, and the Company maintained excellent credit quality. To put the 2021 core loan growth in perspective, it was 2.8 times as much as the core loan growth in 2020! This was achieved in addition to \$126 million of 2021 second draw PPP loans the Company funded and managed over the course of 2021.

Credit quality remains strong. The Company had no charge-offs in 2021, had zero non-performing loans at year-end, and reserves of 1.38% of total loans & leases. Core earnings (pre-tax, pre-provision earnings) rose to \$17.8 million from \$13.2 million, a dramatic increase of 34% over 2020. Return on average assets of 1.29% was up 22 basis points over 2020 on the strength of the core asset growth and PPP fee recognition, as well as additional earnings from the investment portfolio. The strong revenue combined with low cost of funding produced a robust return on average equity of 17.7%, up from 13.8% in 2020.

Total assets grew to \$974 million, up from \$872 million at year-end 2020, an increase of \$102 million, reflecting the strong growth in core deposits of \$210 million. More than half of this deposit growth was in low-cost demand deposit and business checking accounts, which helped produce the strong earnings in 2021.

We are focused on strategic, organic growth; thus, we have leased space in northeast Tarrant County as we expand our footprint to the west in the DFW Metroplex. We expect to be operating out of this facility, our fourth, by August of this year. Coming off the extraordinary year of 2021 makes growth ever more challenging, but we expect to grow in 2022 while enhancing the lives of the Company’s stakeholders.

Craig T. Scheef
Founder, Chairman and Chief Executive Officer

POISED FOR PROSPERITY



The blue lion featured on last year’s annual report still resonates with us. Representing qualities that distinguish a leader – chiefly, strength, courage and wisdom – he ensures the future growth and success of his pride by never shrinking from a challenge. Similarly, we who Elevate the Champions of Free Enterprise are guardians of not just our future but the future of all within our realm. We proudly accept this responsibility, and we are always hungry to do more.

Board of Directors

Chris Jones
Texas Security Bank

Drew Keith
Texas Security Bank

Kip Kernodle
Retired, CFO & Director, Allflex Holdings, Inc.

Chris Kirkpatrick
Partner, Corporate Section, Wick Phillips Gould & Martin, LLP

Cortney Liddiard
CEO, Ball Ventures, LLC

Scott Miller
Principal, Miller Global Investments, LLC

LeAnn Nabors
CFO, The Wright Group

Gina Norris
SVP Partner Relations, Matthews Southwest

Craig T. Scheef
Texas Security Bank

Joe Shockley
Retired, EVP & CFO, Southwest Bancorp, Inc.

Mike Thomas
President, Commercial Industries for NTT Data Inc.

GROWING WEST

In fall 2022, Texas Security Bank is opening a new location in Southlake. Having put in years of hard work to position our bank for strategic and responsible growth, we are taking advantage of this promising opportunity to expand into Tarrant County.

Opening a new branch in Southlake is a big move. But given the prudent foundation we have laid to achieve the goals of any venture, it is not unexpected. The new Southlake location affords access to a number of commercial and trade areas and allows us to pursue new geographical markets and relationships. “Growing west will open doors to expanding to the north and east as well, into key locations that are centers of rapidly growing businesses,” said Chairman and CEO Craig Scheef.

We are already reaching out to businesses in other potential locations, doing what we do best: getting to know business owners and demonstrating that we are more than just bankers. Many of our customers think of us as part of their team. The value that the new Southlake location adds to our organization will in turn create greater benefits for our stakeholders. It will also further the mission that has guided every decision we’ve made from day one: to Elevate the Champions of Free Enterprise.



Our Leadership Team, photographed in the new Southlake location, coming soon

Seated L to R:

Jamie M. Britton

Executive Vice President, Chief Financial Officer and Chief Operating Officer

Craig T. Scheef

Chairman and Chief Executive Officer

Ben Parkey

Executive Vice President, Dallas Market President

Standing L to R:

Libby Smith

Executive Vice President, Mortgage Lending

Chris Jones

Executive Vice President and Chief Lending Officer

Drew Keith

President

Shon C. Cass

Executive Vice President and Chief Experience Officer

OUR REPUTATION: GROWING EXPONENTIALLY

For Texas Security Bank, the year 2021 was as good as gold. We garnered significant recognition from renowned award programs, taking top honors for our business education, workplace culture, community standing and customer service. In virtually every quality that sets our bank apart, we are making our mark. From an entrepreneurial venture in 2008 founded by business people who happened to be skilled bankers, we have grown into a celebrated banking leader by staying true to our values every day in every situation.

Highlights from an award-winning year:

LiFE. The Leaders in Financial Education Award honors Texas banks that are dedicated leaders in promoting consumer and financial education in their communities. We won the prestigious Education Programs award for our TSB Academy, Business Speaker Series and BOLD Speaker Series 2.0.

Dallas Business Journal Best Places to Work. The Best Places to Work Awards recognize the top 100 companies in Dallas that go above and beyond to create an enjoyable workplace and thriving culture. In the medium category (50–249 employees), our bank was ranked 19 out of 35.

The Dallas Morning News Best in DFW People's Choice Awards. We were recognized as the Best Gold Bank by The Dallas Morning News. Chosen by community voting, the award showcases Texas' best local businesses and what makes them special. As a bank built from the ground up, we stood out for having a unique sense of solidarity with other business owners.

The Stevie® Awards. The world's premier business awards, the Stevie Awards honor the achievements and positive contributions of organizations and professionals worldwide. Our bank won a Silver Stevie® Award in the Customer Service category for having one of the top frontline customer service teams.

NCSA. The National Customer Service Association Awards showcase the commitment to customer service excellence by organizations, teams and employees nationwide. Texas Security Bank won a 2021 All-Star award as the Service Organization of the Year.



TSB BUSINESS EDUCATION PROGRAMS: WE ELEVATE. WE EDUCATE. WE LEAD.

No other bank in Texas devotes as much time and resources to educating business owners as we do. Both our TSB Academy and Business Speaker Series are designed with the business owners in mind. They provide the knowledge and expertise businesses need to maximize their competitive edge. The effectiveness of these programs has earned our bank a reputation as a leader in business education. In fact, we are honored to be a recipient of the Texas Bankers Association 2021 Leaders in Financial Education Award.

TSB Academy

The only one of its kind in Texas, the TSB Academy is an intensive course with 50 hours of instruction led by business experts. In addition to leadership skills, attendees acquire the foundational, strategic and functional tools needed to grow a business, exploring topics that range from cyber security to brand differentiation. Since its inception, 87 executives and their key players have graduated from the program, and 41 students are attending the 2022 class.

Interested in learning more about the TSB Academy for yourself or one of your employees? Reach out to Pamela McQuade at Pamela.McQuade@texassecuritybank.com for course and admission information.

Business Speaker Series

Our Business Speaker Series is a monthly continuing education forum led by experts who cover critical business disciplines enabling business owners to elevate their organizations to the highest levels of achievement. Join us — you'll be glad you did!

Topics for 2022 include:

- Plan and Prosper 2022 Economic Report
- Tax Planning: Concepts and Changes for the Business Owner
- The Great Resignation is Far from Over: Panel Discussion
- The Flourishing Culture: How to Eradicate Mediocrity
- Why Your Company is not Investment Grade and What you Can Do About It
- Top Tech Trends to Propel your Business Forward



Then and now: Performance

Below is a summary of Texas Security Bankshares, Inc.'s (TSB) financial highlights and performance ratios for 2017 through 2021. Pages 8-14 present TSB's comparative consolidated financial statements for the years ended December 31, 2021 and 2020. These reports are presented in our annual audited financial statements. You may request complete audited financial statements, including the Report of Independent Registered Public Accounting Firm and the required notes to the consolidated financial statements, at any time from me.

Our auditors have expressed an unmodified opinion on our consolidated financial statements for both 2021 and 2020. This means that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Texas Security Bankshares, Inc. and Subsidiary and the results of their consolidated operations and cash flows for these years.

Jamie M. Britton
Executive Vice President, Chief Financial Officer and Chief Operating Officer

(in whole dollars, except per share data)	2017	2018	2019	2020	2021
OPERATING RESULTS					
Net interest income	\$ 14,480,571	\$ 16,910,728	\$ 18,642,057	\$ 25,989,511	\$ 33,366,923
Provision for loan losses	877,297	4,010,000	900,000	2,412,399	1,300,000
Non-interest income	1,890,664	1,940,398	2,766,074	3,531,710	3,086,712
Net realized gain (loss) on sales of securities	(209)	(513)	111,446	961,746	1,056,036
Non-interest expense	9,030,037	9,952,575	11,750,547	17,245,298	19,737,281
Income before provision for income tax expense	6,463,692	4,888,038	8,869,030	10,825,270	16,472,390
Income tax expense	2,711,339	1,034,704	1,986,692	2,267,976	3,454,217
Net income	\$ 3,752,353	\$ 3,853,334	\$ 6,882,338	\$ 8,557,294	\$ 13,018,173
AT YEAR END					
Total assets	\$412,347,142	\$476,323,586	\$563,612,766	\$872,256,563	\$974,072,740
Federal funds sold	5,500,000	10,000,000	–	–	–
Investments in securities & interest bearing deposits	62,328,610	66,102,716	146,794,120	250,192,923	307,908,597
Loans, net of allowance	333,416,464	388,458,693	403,165,079	603,500,038	636,519,225
Deposits	352,616,100	412,580,832	488,076,434	552,759,801	808,459,633
Stockholders' equity	45,398,647	50,983,982	57,055,607	69,634,718	76,261,715
Common shares outstanding (net of treasury)	3,035,668	3,216,874	3,194,264	3,240,623	3,252,306
OTHER FINANCIAL DATA					
Return on average assets	0.97%	0.80%	1.22%	1.07%	1.29%
Return on average equity	8.50%	7.79%	12.70%	13.80%	17.70%
Loans to deposits	95%	95%	83%	110%	80%
Allowance for loan losses to loans	1.04%	1.00%	1.27%	1.23%	1.40%
Net charge offs to loans	0.12%	0.91%	0.00%	0.01%	0.00%
PER SHARE DATA					
Net income (basic)	\$ 1.32	\$ 1.21	\$ 2.14	\$ 2.65	\$ 4.01
Book value	\$ 15.28	\$ 15.86	\$ 17.82	\$ 21.49	\$ 23.45

Texas Security Bankshares, Inc. and Subsidiary Consolidated Balance Sheets for the Years Ended December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 1,218,881	\$ 3,147,044
Interest bearing deposits in other banks	21,395,325	48,384,423
Total cash and cash equivalents	22,614,206	51,531,467
Securities available for sale, at fair value	286,513,272	201,808,500
Loans held for sale	1,634,690	6,467,149
Loans, net	634,884,535	597,032,889
Bank premises and equipment, net	5,108,319	5,139,871
Accrued interest receivable	3,062,966	3,543,548
Servicing asset	130,632	239,867
Other assets	20,124,120	6,493,272
Total assets	\$ 974,072,740	\$ 872,256,563
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 329,177,009	\$ 224,714,339
Interest bearing	479,282,624	328,045,462
Total deposits	808,459,633	552,759,801
Subordinated promissory notes	14,500,000	14,500,000
Other borrowings	65,000,000	231,116,433
Accrued interest payable	594,419	837,316
Other liabilities	9,256,973	3,408,295
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 0 par value; 1,000,000 shares authorized, in 2021, 0 shares outstanding	–	–
Common stock, \$5 par value; 10,000,000 shares authorized, in 2021 and 5,000,000 authorized in 2020; 3,665,293 and 3,655,778 shares issued, respectively; 3,252,306 and 3,240,623 outstanding, respectively	18,326,465	18,278,890
Additional paid-in capital	24,941,615	24,527,377
Stock issued with notes receivable	(1,972,450)	(1,972,450)
Accrued interest receivable on stock issued with notes receivable	(210,829)	–
Retained earnings	43,951,060	32,555,945
Accumulated other comprehensive (loss) income	(2,317,797)	2,753,337
Treasury stock, at cost, 412,987 shares and 415,155 shares, respectively	(6,456,349)	(6,508,381)
Total stockholders' equity	76,261,715	69,634,718
Total liabilities and stockholders' equity	\$ 974,072,740	\$ 872,256,563



Texas Security Bankshares, Inc. and Subsidiary
Consolidated Statements of Income for the Years Ended December 31, 2021 and 2020

	2021	2020
INTEREST INCOME		
Interest and fees on loans	\$ 32,843,018	\$ 27,409,568
Interest on investment securities:		
Taxable	2,673,389	3,120,687
Non-taxable	456,488	299,527
Interest on federal funds sold	–	700
Interest and dividends on other accounts	268,499	352,940
Total interest income	36,241,394	31,183,422
INTEREST EXPENSE		
Interest and fees on deposit accounts	1,301,126	3,030,015
Interest on borrowings	1,573,345	2,163,896
Total interest expense	2,874,471	5,193,911
Net interest income	33,366,923	25,989,511
Provision for loan losses	1,300,000	2,412,399
Net interest income after provision	32,066,923	23,577,112
NON-INTEREST INCOME		
Service charges on deposit accounts	1,234,379	828,681
Gain on sales of mortgage loans	1,641,447	2,402,597
Net gain on sales of investment securities	1,056,036	961,746
Other	210,886	300,432
Total non-interest income	4,142,748	4,493,456
NON-INTEREST EXPENSE		
Salaries and employee benefits	13,400,195	10,926,142
Occupancy of bank premises	838,853	829,867
Professional fees	775,162	648,843
Advertising and promotional	264,118	115,470
Data processing and IT management	1,157,367	1,202,923
Brokered CD fees	18,750	841,553
Mortgage and lending	388,981	561,098
Internet banking	437,547	205,898
Regulatory assessments	424,346	260,640
Software costs	584,202	352,599
Other	1,447,760	1,300,265
Total non-interest expense	19,737,281	17,245,298
Net income before income tax expense	16,472,390	10,825,270
Income tax expense	3,454,217	2,267,976
Net income	\$ 13,018,173	\$ 8,557,294
Basic earnings per share	\$ 4.01	\$ 2.65
Diluted earnings per share	\$ 3.90	\$ 2.59

Texas Security Bankshares, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2021 and 2020

	2021	2020
Net income	\$ 13,018,173	\$ 8,557,294
Other comprehensive (loss) income:		
Net unrealized holding (losses) gains on available for sale securities during the period	(5,363,120)	4,669,602
Reclassification adjustment for net realized gains on available for sale securities included in net income	(1,056,036)	(961,746)
Other comprehensive (loss) income, before income tax benefit (expense)	(6,419,156)	3,707,856
Income tax benefit (expense)	1,348,022	(778,651)
Other comprehensive (loss) income, net of income tax benefit (expense)	(5,071,134)	2,929,205
Total comprehensive income	\$ 7,947,039	\$ 11,486,499

Texas Security Bankshares, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2021 and 2020

	Preferred Stock	Common Stock	Additional Paid-In Capital	Stock Issued with Notes Receivable	Accrued Interest on Stock Issued with Notes Receivable	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, January 1, 2020	\$ –	\$ 18,183,890	\$ 24,187,077	\$ (1,972,450)	\$ –	\$ 23,998,651	\$ (175,868)	\$ (7,165,693)	\$ 57,055,607
Sale of common stock, 19,000 shares	–	95,000	150,750	–	–	–	–	–	245,750
Sale of treasury stock, 27,359 shares	–	–	4,550	–	–	–	–	657,312	661,862
Net income	–	–	–	–	–	8,557,294	–	–	8,557,294
Stock-based compensation	–	–	185,000	–	–	–	–	–	185,000
Other comprehensive income	–	–	–	–	–	–	2,929,205	–	2,929,205
Balance, December 31, 2020	–	18,278,890	24,527,377	(1,972,450)	–	32,555,945	2,753,337	(6,508,381)	69,634,718
Sale of common stock, 9,515 shares	–	47,575	86,418	–	–	–	–	–	133,993
Sale of treasury stock, 2,168 shares	–	–	17,151	–	–	–	–	52,032	69,183
Reclassification of accrued interest receivable on stock issued with notes receivable	–	–	–	–	(170,068)	–	–	–	(170,068)
Interest on stock issued with notes receivable	–	–	40,761	–	(40,761)	–	–	–	–
Dividends paid	–	–	–	–	–	(1,623,058)	–	–	(1,623,058)
Net income	–	–	–	–	–	13,018,173	–	–	13,018,173
Stock-based compensation	–	–	269,908	–	–	–	–	–	269,908
Other comprehensive loss	–	–	–	–	–	–	(5,071,134)	–	(5,071,134)
Balance, December 31, 2021	\$ –	\$ 18,326,465	\$ 24,941,615	\$ (1,972,450)	\$ (210,829)	\$ 43,951,060	\$ (2,317,797)	\$ (6,456,349)	\$ 76,261,715



PRINCIPLE

Always stand on principle...even if you must stand alone.
- John Adams



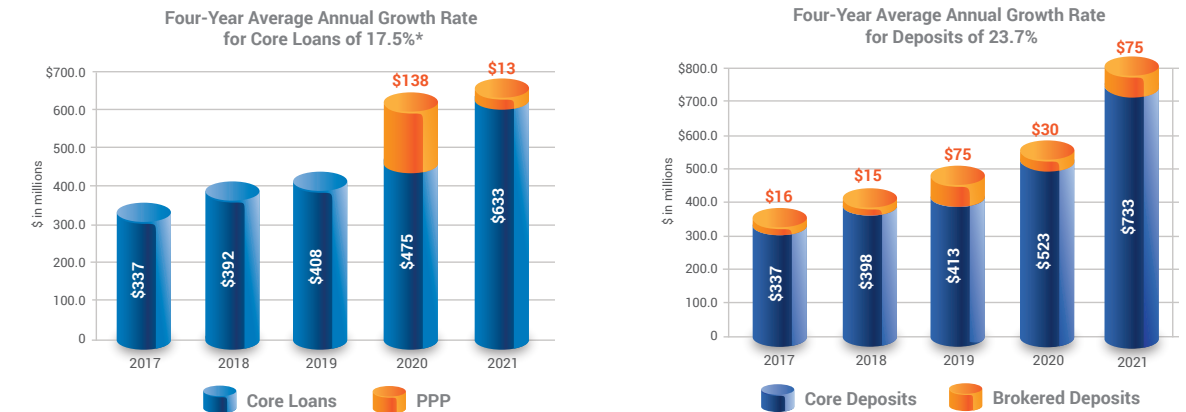
Texas Security Bankshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows for the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 13,018,173	\$ 8,557,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	739,029	924,721
Provision for loan losses	1,300,000	2,412,399
Net gain on sales of securities	(1,056,036)	(961,746)
Gain on sales of SBA loans	-	(24,088)
Gain on sales of loans held for sale	(1,641,447)	(2,402,597)
Proceeds from sales of loans held for sale	66,038,310	89,525,672
Net originations of loans held for sale	(59,564,404)	(93,038,424)
Stock-based compensation	269,908	185,000
Increase in accrued interest and other assets	(7,362,618)	(4,729,570)
Increase in accrued expenses and other liabilities	996,086	264,886
Net cash provided by operating activities	12,737,001	713,547
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Maturities, calls, sales and principal paydowns received	506,140,216	474,211,916
Purchases	(596,596,492)	(586,361,650)
Net originations of loans	(39,151,646)	(196,842,016)
Additions to bank premises and equipment	(209,857)	(127,159)
Net cash used in investing activities	(129,817,779)	(309,118,909)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	255,699,832	64,683,367
Repayments of other borrowings	(327,116,433)	(133,635,214)
Proceeds from other borrowings	161,000,000	364,751,647
Proceeds from sale of common stock	133,993	245,750
Proceeds from sale of treasury stock	69,183	661,862
Dividends paid to shareholders	(1,623,058)	-
Net cash provided by financing activities	88,163,517	296,707,412
Net decrease in cash and cash equivalents	(28,917,261)	(11,697,950)
Cash and cash equivalents at beginning of year	51,531,467	63,229,417
Cash and cash equivalents at end of year	\$ 22,614,206	\$ 51,531,467
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3,117,368	\$ 5,369,437
Cash paid for income taxes	\$ 4,601,271	\$ 2,699,013
Noncash transaction:		
Record new ROU asset and lease liability	\$ 4,609,695	\$ -
Remeasurement of ROU asset and lease liability	\$ -	\$ (92,846)
Interest on stock issued with notes receivable	\$ 40,761	\$ -
Reclassification of accrued interest receivable on stock issued with notes receivable	\$ 170,068	\$ -

Financial Trends

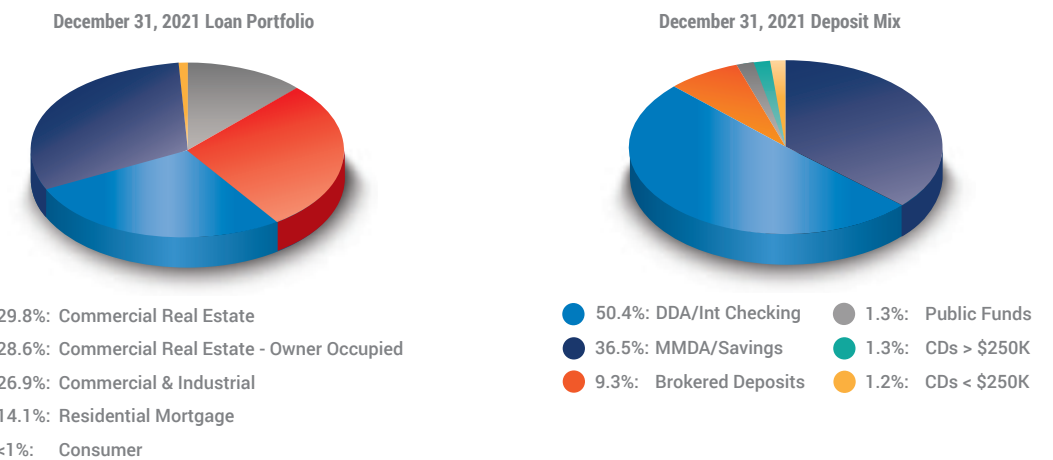
Texas Security Bankshares, Inc. and Subsidiary

Balance Sheet Growth

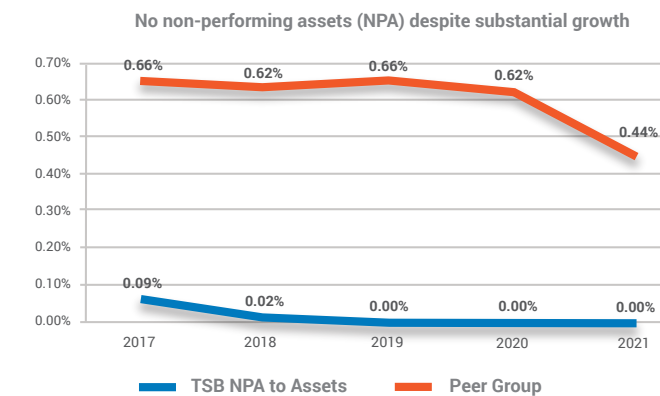


*The annual growth rate calculations for 2021 and 2020 do not include loan growth from funding of PPP loans with remaining balances of \$13 and \$138 million, respectively, at year end.

Balance Sheet Makeup



Credit Quality



OPPORTUNITIES

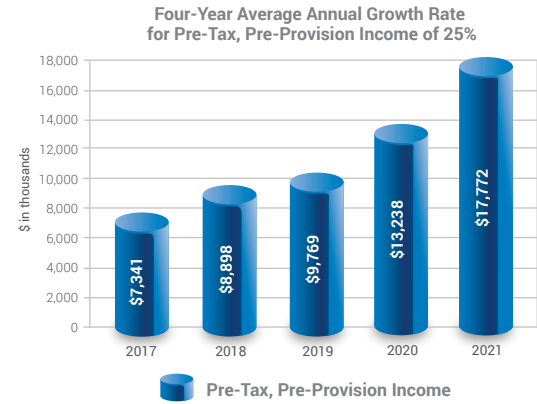
To succeed, jump as quickly at opportunities as you do at conclusions.
 – Benjamin Franklin



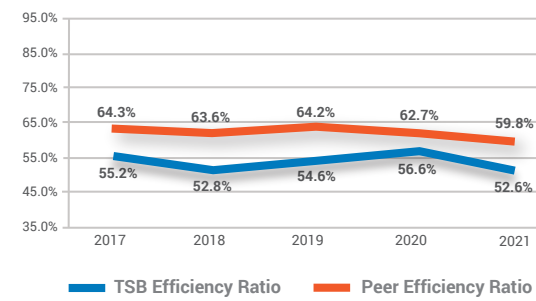
Financial Trends

Texas Security Bankshares, Inc. and Subsidiary

Pre-Tax, Pre-Provision Income

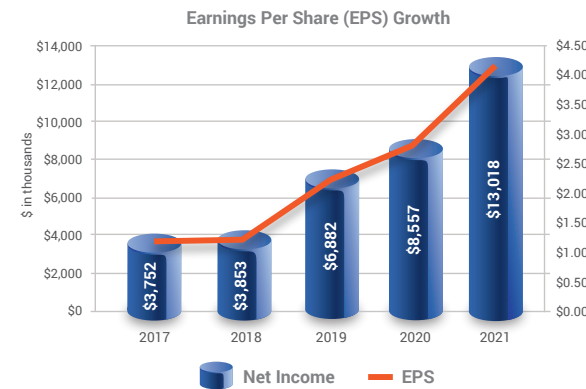


Efficiency Measurements

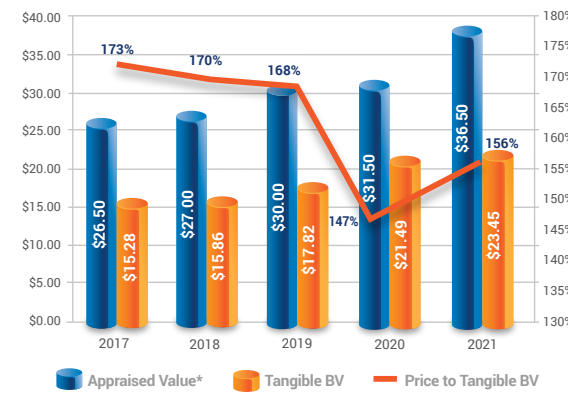


Efficiency ratio measures how much expense is incurred to earn the company's revenue stream.

EPS Growth

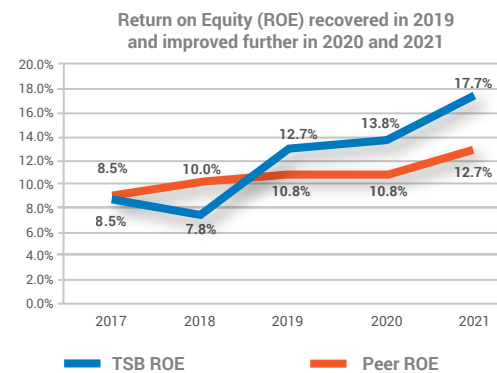


Enhancing Shareholder Value



*Appraisal is made on a minority interest basis.

Profitability Metrics



2017 includes a \$536,820 increase in Federal Income Tax Expense due to the 2017 Tax Act.
 2018 includes a single loan charge off of \$3,612,500.

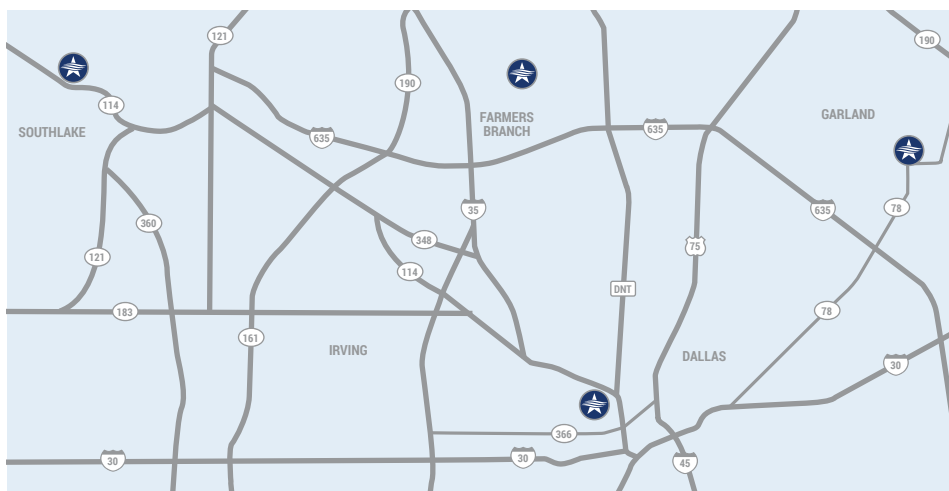




TEXAS SECURITY

BANK

TexasSecurityBank.com
469.398.4800 · Fax 469.398.4888



1212 Turtle Creek Boulevard
Dallas, Texas 75207

101 N. Garland Avenue
Garland, Texas 75040

3212 Belt Line Road
Farmers Branch, Texas 75234

OPENING 3RD QUARTER 2022:
2102 E. State Highway 114, Suite 109
Southlake, Texas 76092

