



TEXAS SECURITY
BANK

ELEVATING THE CHAMPIONS OF FREE
ENTERPRISE



COURAGE

If ever a year demanded courage, it was the one we just endured. Faced with unprecedented challenges, business owners had to muster the utmost bravery to ensure the survival of our enterprises. Yet the fittest of us emerged stronger than ever. With keen vision and innate adaptability, we demonstrated the qualities that make the Champions of Free Enterprise a different breed: strength, courage and the power to overcome whatever impedes our progress. So we move ahead, always in sight of the next opportunity.

Dear Fellow Shareholders,

One year ago I wrote to you regarding the unprecedented challenges presented by the environment, in all respects, that Texas Security Bankshares (the “Company”) and its subsidiary Texas Security Bank (the “Bank”) were facing. I declared to you that the Bank was fundamentally prepared. We were. However, I did not anticipate that 2020 would be the best financial performance year in the Company’s history. It was. The strategic positioning of the Company combined with the resiliency of the Company’s employees, the agility with which we dealt with the Paycheck Performance Program (“PPP”) opportunities, and our focused effort on our core business produced earnings per share of \$2.65, an increase of 24% over 2019 and the Company’s highest level ever.



2020 was a remarkable year. In the face of the pandemic and government shutdowns, unprecedented job losses, social unrest, and political turmoil, we produced solid core asset growth and maintained excellent credit quality. Net income of \$8.6 million represents a \$1.7 million increase, or 24%, over 2019, while including \$2.4 million of additional provision for loan losses (“Provision”). The Provision in 2020 was driven by the general economic qualitative factors in our reserve calculations rather than deterioration of our loans. The Bank’s core loan growth was strong, increasing \$194 million year over year, including \$138 million of PPP loans as of year-end (down from a peak of \$246 million); thus, core business loans grew \$56 million.

Credit quality remains strong. The Bank had no charge-offs in 2020, had zero non-performing loans at year-end, and had reserves of 1.23% of total loans and leases (1.59% after adjusting for PPP loans, which are fully U.S. Government guaranteed). Core earnings (pre-tax, pre-provision earnings) increased to \$13.2 million from \$9.8 million, a dramatic increase of 36% over 2019. Return on average assets of 1.07% was lower due to the Capital Optimization Strategy (“COS”) we deployed in 2020; however, the COS contributed to the Company’s improved return on average equity of 13.8%, up from 12.7% in 2019.

Total assets grew to \$872 million, up from \$564 million at year-end 2019, an increase of \$308 million. A portion of this growth, \$117 million, reflects the full implementation of the COS. The objective of this strategy is to utilize capital above regulatory requirements to generate additional income through high-quality investment securities of up to \$200 million. The growth of our primary asset base of commercial and industrial and owner-occupied commercial real estate loans will replace the COS investment securities over the next two to three years.

Our outlook is very positive. We are focused on opportunities that have arisen thus far in 2021, including funding another round of PPP loans. Amid all the challenges of 2020, we successfully implemented our new customer-facing online banking system, which will further benefit our customers through increased service and treasury management capabilities this year and beyond. We expect to continue the momentum with which we ended 2020, and we look forward to producing exceptional results in 2021 while continuing to enhance the lives of the Company’s stakeholders.

Craig Scheef
Chairman, President, Founder, Chief Executive Officer



Our Leadership

Leadership Team

Craig Scheef

Chairman, President, Founder
Chief Executive Officer

Chris Jones

Executive Vice President, Founder
Chief Lending Officer

Drew Keith

Executive Vice President, Founder
Chief Financial Officer

Shon C. Cass

Executive Vice President, Founder
Northeast Region Market President

Ben Parkey

Senior Vice President
Turtle Creek Market President

C.D. Heinen

Senior Vice President
Metrocrest Market President

Libby Smith

Senior Vice President
Mortgage Lending

Pamela McQuade

Vice President, Executive Director
TSB Business Education

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

Langhorne Reid

President, Arcady Capital, Inc.

Craig Scheef

Texas Security Bank

Joe Shockley

Retired, EVP & CFO, Southwest Bancorp, Inc.

Mike Thomas

President, Commercial Industries for NTT Data Inc.

THE FUTURE IS DIGITAL.



At Texas Security Bank, we understand that the future of banking is digital. For this reason, we selected Q2 Software, Inc., a highly advanced and innovative digital banking provider, to offer you a new retail and business online banking suite.

This digital banking tool will expand your banking capabilities, save you time, and deliver an exceptional digital banking experience.

One portal. Every banking need.

With our new digital platform, every digital banking resource your business needs is at your fingertips. Through your online digital portal, you'll have access not only to your accounts but also to a full complement of other treasury management services such as wire transfer, ACH origination, bill pay, positive pay and other innovative services – all through a single online portal.

Some of the simple, user-friendly features include:

- One access point for all digital banking functions
- Payee-based payments portal
- Simple wire and ACH transactions
- Mobile access that mirrors online functions
- Enhanced reporting
- Enhanced transaction functionality
- Easy-to-use administrative portal
- Online transaction dispute
- Integration with other third party software
- Access to new and emerging FinTech technology

Advancing digital solutions and your business.

Because of our partnership with Q2, whose innovative approach to the future of digital banking is unsurpassed,

At Texas Security Bank, we've taken digital banking to the next level for one reason – to ensure that you can continue doing the same for your business.

you can be confident that our digital banking suite will do more than deliver the best-in-class digital banking solutions today. It will anticipate those you'll want to use in the future.



ENDURANCE

Icons of endurance, ruby-throated hummingbirds fly 900 miles nonstop during migration. We support entrepreneurs who are no less intrepid in their quest for success.

Then and now: Performance

Below is a summary of Texas Security Bankshares, Inc.'s (TSB) financial highlights and performance ratios for 2016 through 2020. Pages 7 - 10 present TSB's comparative consolidated financial statements for the years ended December 31, 2020 and 2019. 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 2020 and 2019. 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.



Drew Keith
Executive Vice President, Chief Financial Officer, Chief Operating Officer

(in whole dollars, except per share data)	2016	2017	2018	2019	2020
OPERATING RESULTS					
Net interest income	\$ 12,079,792	\$ 14,480,571	\$ 16,910,728	\$ 18,642,057	\$ 25,989,511
Provision for loan losses	442,401	877,297	4,010,000	900,000	2,412,399
Non-interest income	1,870,980	1,890,664	1,940,398	2,766,074	3,531,710
Net realized gain (loss) on sales of securities	165,273	(209)	(513)	111,446	961,746
Non-interest expense	8,304,464	9,030,037	9,952,575	11,750,547	17,245,298
Income before provision for income tax expense	5,369,180	6,463,692	4,888,038	8,869,030	10,825,270
Income tax expense	1,790,620	2,711,339	1,034,704	1,986,692	2,267,976
Net income	\$ 3,578,560	\$ 3,752,353	\$ 3,853,334	\$ 6,882,338	\$ 8,557,294
AT YEAR END					
Total assets	\$328,210,170	\$412,347,142	\$476,323,586	\$563,612,766	\$872,256,563
Federal funds sold	3,000,000	5,500,000	10,000,000	-	-
Investments in securities & interest bearing deposits	33,908,952	62,328,610	66,102,716	146,794,120	250,192,923
Loans, net of allowance	281,428,761	333,416,464	388,458,693	403,165,079	603,500,038
Deposits	292,176,471	352,616,100	412,580,832	488,076,434	552,759,801
Stockholders' equity	31,155,258	45,398,647	50,983,982	57,055,607	69,634,718
Common shares outstanding (net of treasury)	2,532,642	3,035,668	3,216,874	3,194,264	3,240,623
OTHER FINANCIAL DATA					
Return on average assets	1.12%	.97%	.80%	1.22%	1.07%
Return on average equity	12.04%	8.50%	7.79%	12.70%	13.80%
Loans to deposits	97%	95%	95%	83%	110%
Allowance for loan losses to loans	1.07%	1.04%	1.00%	1.27%	1.23%
Net charge offs to loans	0.00%	0.12%	0.91%	0.00%	0.01%
PER SHARE DATA					
Net income (basic)	\$ 1.45	\$ 1.32	\$ 1.21	\$ 2.14	\$ 2.65
Book value	\$ 12.30	\$ 15.28	\$ 15.86	\$ 17.82	\$ 21.49

Texas Security Bankshares, Inc. and Subsidiary Consolidated Balance Sheets for the Years Ended December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 3,147,044	\$ 1,927,421
Interest bearing deposits in other banks	48,384,423	61,301,996
Total cash and cash equivalents	51,531,467	63,229,417
Securities available for sale, at fair value	201,808,500	85,492,124
Loans held for sale	6,467,149	551,800
Loans, net	597,032,889	402,613,279
Bank premises and equipment, net	5,139,871	5,336,572
Accrued interest receivable	3,543,548	1,346,680
Servicing asset	239,867	303,673
Other assets	6,493,272	4,739,221
Total assets	\$ 872,256,563	\$ 563,612,766
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 224,714,339	\$ 122,011,650
Interest bearing	328,045,462	366,064,784
Total deposits	552,759,801	488,076,434
Subordinated promissory notes	14,500,000	14,500,000
Other borrowings	231,116,433	-
Accrued interest payable	837,316	1,012,842
Other liabilities	3,408,295	2,967,883
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$5 par value; 5,000,000 shares authorized, 3,655,778 and 3,636,778 shares issued, respectively; 3,240,623 and 3,194,264 outstanding, respectively	18,278,890	18,183,890
Additional paid-in capital	24,527,377	24,187,077
Stock issued with notes receivable	(1,972,450)	(1,972,450)
Retained earnings	32,555,945	23,998,651
Accumulated other comprehensive income (loss)	2,753,337	(175,868)
Treasury stock, at cost, 415,155 shares and 442,514 shares, respectively	(6,508,381)	(7,165,693)
Total stockholders' equity	69,634,718	57,055,607
Total liabilities and stockholders' equity	\$ 872,256,563	\$ 563,612,766

TEAMWORK

Knowing that there's strength in numbers, dolphins secure food by working together. Harnessing the power of teamwork, we combine our best ideas to offer business owners the solutions they need to thrive.

Texas Security Bankshares, Inc. and Subsidiary

Consolidated Statements of Income for the Years Ended December 31, 2020 and 2019

	2020	2019
INTEREST INCOME		
Interest and fees on loans	\$ 27,409,568	\$ 21,798,520
Interest on investment securities:		
Taxable	3,120,687	733,947
Non-taxable	299,527	76,272
Interest on federal funds sold	700	134,391
Interest and dividends on other accounts	352,940	898,026
Total interest income	31,183,422	23,641,156
INTEREST EXPENSE		
Interest and fees on deposit accounts	3,030,015	4,279,507
Interest on other borrowings	2,163,896	719,592
Total interest expense	5,193,911	4,999,099
Net interest income	25,989,511	18,642,057
Provision for loan losses	2,412,399	900,000
Net interest income after provision	23,577,112	17,742,057
NON-INTEREST INCOME		
Service charges on deposit accounts	828,681	845,350
Gain on sales of mortgage loans	2,402,597	1,465,785
Gain on sales of SBA loans, net	24,088	215,183
Net gain on sales of investment securities	961,746	111,446
Other	276,344	239,756
Total non-interest income	4,493,456	2,877,520
NON-INTEREST EXPENSE		
Salaries and employee benefits	10,926,142	7,571,472
Occupancy of bank premises	829,867	801,219
Professional fees	648,843	599,228
Advertising and promotional	115,470	163,529
Data processing and IT management	1,202,923	958,975
Brokered CD fees	841,553	41,549
Mortgage and lending	561,098	255,575
Internet banking	205,898	189,452
Regulatory assessments	260,640	165,002
Software costs	352,599	237,033
Other	1,300,265	767,513
Total non-interest expense	17,245,298	11,750,547
Net income before income tax expense	10,825,270	8,869,030
Income tax expense	2,267,976	1,986,692
Net income	\$ 8,557,294	\$ 6,882,338
Basic earnings per share	\$ 2.65	\$ 2.14
Diluted earnings per share	\$ 2.59	\$ 2.09

Texas Security Bankshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020 and 2019

	2020	2019
Net income	\$ 8,557,294	\$ 6,882,338
Other comprehensive income (loss):		
Net unrealized holding gains on available for sale securities during the period	4,669,602	54,731
Reclassification adjustment for net realized gains on available for sale securities included in net income	(961,746)	(111,446)
Other comprehensive income (loss), before income tax (expense) benefit	3,707,856	(56,715)
Income tax (expense) benefit	(778,651)	11,912
Other comprehensive income (loss), net of income tax (expense) benefit	2,929,205	(44,803)
Total comprehensive income	\$ 11,486,499	\$ 6,837,535

Texas Security Bankshares, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2020 and 2019

	Common Stock	Additional Paid-In Capital	Stock Issued with Notes Receivable	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2019	\$18,022,370	\$23,809,591	\$(1,985,470)	\$17,116,313	\$ (131,065)	\$(5,847,757)	\$50,983,982
Sale of common stock, 32,304 shares	161,520	244,483	(104,800)	—	—	—	301,203
Payments received on notes receivable	—	—	117,820	—	—	—	117,820
Purchase of treasury stock, 54,914 shares	—	—	—	—	—	(1,317,936)	(1,317,936)
Net income	—	—	—	6,882,338	—	—	6,882,338
Stock-based compensation	—	133,003	—	—	—	—	133,003
Other comprehensive loss	—	—	—	—	(44,803)	—	(44,803)
Balance, December 31, 2019	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

INTEGRITY



Symbols of truth, integrity and freedom, eagles fly higher than all other birds. They inspire us to help business owners soar to their highest levels of achievement.

Texas Security Bankshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019

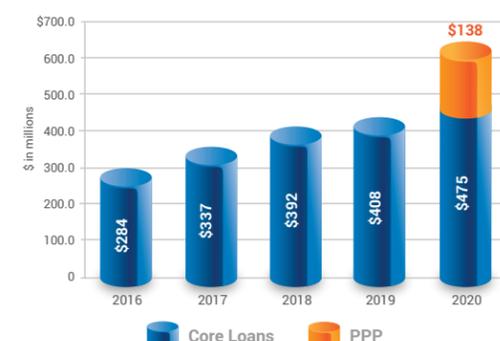
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 8,557,294	\$ 6,882,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	924,721	396,302
Provision for loan losses	2,412,399	900,000
Net gain on sales of securities	(961,746)	(111,446)
Gain on sales of SBA loans	(24,088)	(215,183)
Gain on sales of loans held for sale	(2,402,597)	(817,159)
Proceeds from sales of loans held for sale	89,525,672	41,058,269
Net originations of loans held for sale	(93,038,424)	(39,606,410)
Gain on bulk sales of mortgage loans	-	(648,626)
Stock-based compensation	185,000	133,003
Increase in accrued interest and other assets	(4,729,570)	(1,983,109)
Increase in accrued expenses and other liabilities	264,886	1,946,953
Net cash provided by operating activities	713,547	7,934,932
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Maturities, calls, sales and principal paydowns received	474,211,916	627,942,933
Purchases	(586,361,650)	(678,376,120)
Net originations of loans	(196,842,016)	(46,523,854)
Proceeds from bulk sales of mortgage loans	-	31,071,126
Additions to bank premises and equipment	(127,159)	(280,801)
Net decrease in time deposits in other banks	-	749,000
Net cash used in investing activities	(309,118,909)	(65,417,716)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	64,683,367	75,495,602
Repayments of other borrowings	(133,635,214)	(471,825,000)
Proceeds from other borrowings	364,751,647	475,600,000
Proceeds from sale of common stock	245,750	301,203
Proceeds from sale of treasury stock	661,862	-
Payments received on notes receivable	-	117,820
Purchase of treasury stock	-	(1,317,936)
Net cash provided by financing activities	296,707,412	78,371,689
Net (decrease) increase in cash and cash equivalents	(11,697,950)	20,888,905
Cash and cash equivalents at beginning of year	63,229,417	42,340,512
Cash and cash equivalents at end of year	\$ 51,531,467	\$ 63,229,417
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 5,369,437	\$ 4,817,690
Cash paid for income taxes	\$ 2,699,013	\$ 425,000
Noncash transaction:		
Remeasurement of ROU asset and lease liability	\$ (92,846)	-
Set up of ROU asset and lease liability upon adoption of ASC 842	\$ -	\$ 545,290

Financial Trends

Texas Security Bankshares, Inc. and Subsidiary

Balance Sheet Growth

Four Year Average Annual Growth Rate for Core Loans of 14%*



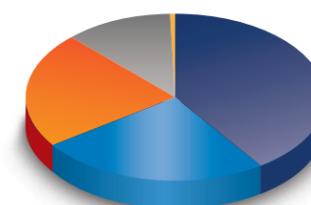
*The annual growth rate calculation for 2020 does not include loan growth from funding of PPP loans with remaining balances of \$138 million at year end.

Four Year Average Annual Growth Rate for Deposits of 17%



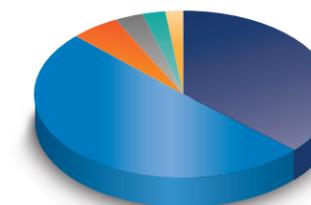
Balance Sheet Makeup

December 31, 2020 Loan Portfolio



- 40.3%: Commercial & Industrial
- 25.2%: Commercial Real Estate - Owner Occupied
- 22.3%: Commercial Real Estate
- 11.9%: Residential Mortgage
- <1%: Consumer

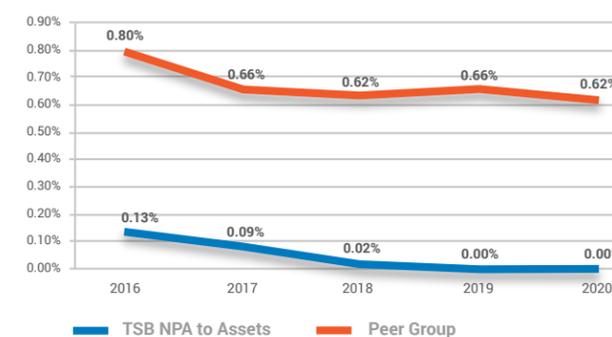
December 31, 2020 Deposit Mix



- 50.4%: Transaction
- 36.9%: MMDA/Savings
- 5.4%: Brokered Deposits
- 3.1%: Public Funds
- 2.3%: CDs > \$250K
- 1.9%: CDs < \$250K

Credit Quality

No significant non-performing assets (NPA) despite substantial growth



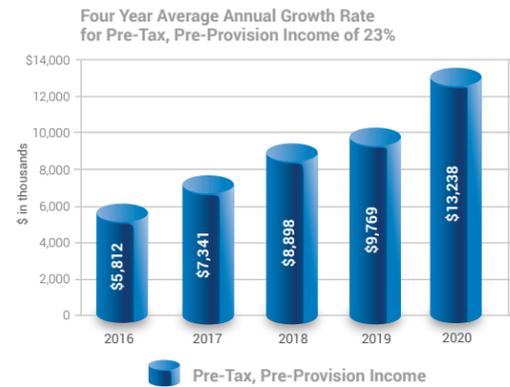
PERSEVERANCE

Every fall, millions of monarch butterflies travel more than 3,000 miles to reach their winter destination. We salute the entrepreneurs with the same perseverance to continue moving their businesses forward.

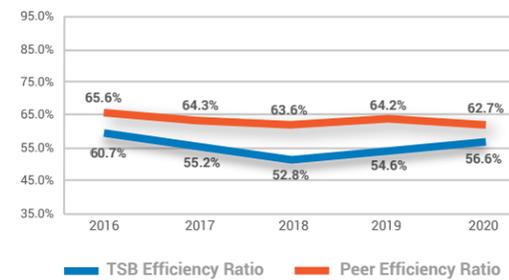
Financial Trends

Texas Security Bankshares, Inc. and Subsidiary

Pre-Tax, Pre-Provision Income



Efficiency Measurements

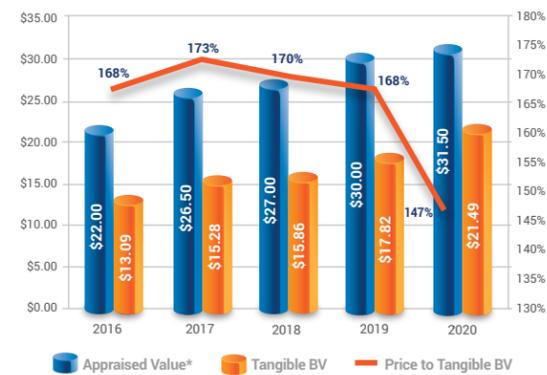


Efficiency ratio measures how much expense is incurred to earn the company's revenue stream

EPS Growth

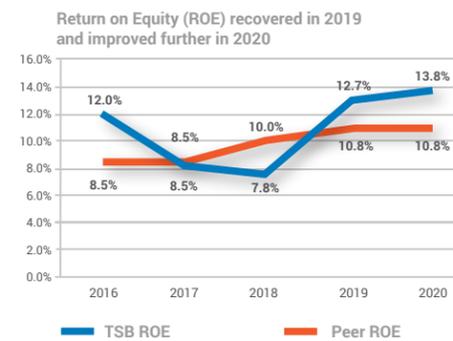


Enhancing Shareholder Value



*Appraisal is made on a minority interest basis

Profitability Metrics



2017 includes a 34% increase in equity from a secondary offering and a \$536,820 increase in federal income tax expense due to the 2017 Tax Act

"None of us can know what we are capable of until we are tested."

– Elizabeth Blackwell
First woman to graduate from medical school in the U.S.



TEXAS SECURITY

BANK

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