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

FORM 10-Q

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

For the quarterly period ended March 31, 2021

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 001-38910

TECTONIC FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Texas	**82-0764846**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

16200 Dallas Parkway, Suite 190
Dallas, Texas 75248
(Address of principal executive offices)

(972) 720 - 9000
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Series B preferred stock, $0.01 par value per share	TECTP	The Nasdaq Stock Market, LLC

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 such shorter period that the registrant was required to filed 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 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's Common Stock as of May 12, 2021 was 6,568,750 shares.

TECTONIC FINANCIAL, INC.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

TECTONIC FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
Cash and due from banks	$ 5,408	$ 7,515
Interest-bearing deposits	38,117	38,579
Federal funds sold	932	774
Total cash and cash equivalents	44,457	46,868
Securities available for sale	16,115	17,396
Securities held to maturity	5,753	5,776
Securities, restricted at cost	2,431	2,431
Securities, not readily marketable	100	100
Loans held for sale	13,769	14,864
Loans, net of allowance for loan losses of $3,158 and $2,941, respectively	427,021	397,601
Bank premises and equipment, net	4,768	4,849
Core deposit intangible, net	928	979
Goodwill	10,729	10,729
Deferred tax asset	476	83
Other assets	11,882	11,750
Total assets	$ 538,429	$ 513,426
LIABILITIES		
Demand deposits:		
Non-interest-bearing	$ 57,182	$ 57,112
Interest-bearing	127,008	116,278
Time deposits	168,482	174,625
Total deposits	352,672	348,015
Borrowed funds	102,100	83,690
Subordinated notes	12,000	12,000
Other liabilities	7,878	9,708
Total liabilities	474,650	453,413
SHAREHOLDERS' EQUITY		
Preferred stock, 9.00% fixed to floating rate Series B non-cumulative, perpetual ($0.01 par value; 1,725,000 shares authorized, issued and outstanding at March 31, 2021 and December 31, 2020)	17	17
Common stock ($0.01 par value; 40,000,000 shares authorized; 6,568,750 shares issued and outstanding at March 31, 2021 and December 31, 2020)	66	66
Additional paid-in capital	39,286	39,201
Retained earnings	24,571	20,661
Accumulated other comprehensive (loss) income	(161)	68
Total shareholders' equity	63,779	60,013
Total liabilities and shareholders' equity	$ 538,429	$ 513,426

See accompanying notes to consolidated financial statements.

Table of Contents

TECTONIC FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share data and share amounts)	Three Months Ended March 31, 2021	2020
Interest Income		
Loan, including fees	$ 6,163	$ 4,741
Securities	146	312
Federal funds sold	-	2
Interest-bearing deposits	5	60
Total interest income	6,314	5,115
Interest Expense		
Deposits	661	1,258
Borrowed funds	289	241
Total interest expense	950	1,499
Net interest income	5,364	3,616
Provision for loan losses	428	788
Net interest income after provision for loan losses	4,936	2,828
Non-interest Income		
Trust income	1,440	1,277
Gain on sale of loans	-	432
Advisory income	3,017	2,494
Brokerage income	2,466	2,071
Service fees and other income	2,306	1,736
Rental income	88	91
Total non-interest income	9,317	8,101
Non-interest Expense		
Salaries and employee benefits	5,768	4,904
Occupancy and equipment	427	533
Trust expenses	564	555
Brokerage and advisory direct costs	506	486
Professional fees	450	374
Data processing	205	192
Other	775	778
Total non-interest expense	8,695	7,822
Income before Income Taxes	5,558	3,107
Income tax expense	1,260	706
Net Income	4,298	2,401
Preferred stock dividends	388	388
Net income available to common stockholders	$ 3,910	$ 2,013
Earnings per common share:		
Basic	$ 0.60	$ 0.31
Diluted	0.59	0.31
Weighted average common shares outstanding	6,568,750	6,568,750
Weighted average diluted shares outstanding	6,618,840	6,568,750

See accompanying notes to consolidated financial statements.

TECTONIC FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
(In thousands)	**2021**	**2020**
Net Income	$ 4,298	$ 2,401
Other comprehensive income:		
Change in unrealized gain on investment securities available for sale	(291)	68
Tax effect	(62)	14
Other comprehensive (loss) income	(229)	54
Comprehensive Income	$ 4,069	$ 2,455

See accompanying notes to consolidated financial statements.

TECTONIC FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands)	Series B Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	$ 17	$ 66	$ 39,050	$ 11,288	$ 54	$ 50,475
Dividends paid on Series B preferred stock	-	-	-	(388)	-	(388)
Net income	-	-	-	2,401	-	2,401
Other comprehensive income	-	-	-	-	54	54
Stock based compensation	-	-	24	-	-	24
Balance at March 31, 2020	$ 17	$ 66	$ 39,074	$ 13,301	$ 108	$ 52,566
Balance at January 1, 2021	$ 17	$ 66	$ 39,201	$ 20,661	$ 68	$ 60,013
Dividends paid on Series B preferred stock	-	-	-	(388)	-	(388)
Net income	-	-	-	4,298	-	4,298
Other comprehensive (loss) income	-	-	-	-	(229)	(229)
Stock based compensation	-	-	85	-	-	85
Balance at March 31, 2021	$ 17	$ 66	$ 39,286	$ 24,571	$ (161)	$ 63,779

See accompanying notes to consolidated financial statements.

TECTONIC FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended March 31, 2021	2020
Cash Flows from Operating Activities		
Net income	$ 4,298	$ 2,401
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	428	788
Depreciation and amortization	85	150
Accretion of discount on loans	(32)	(34)
Core deposit intangible amortization	51	51
Securities premium amortization, net	30	9
Origination of loans held for sale	(7,785)	(8,704)
Proceeds from payments and sales of loans held for sale	57	6,640
Gain on sale of loans	-	(432)
Stock based compensation	85	24
Deferred income tax (benefit) expense	(333)	177
Net change in:		
Servicing assets, net	54	690
Other assets	(189)	(1,003)
Other liabilities	(1,830)	(1,037)
Net cash used in operating activities	(5,081)	(280)
Cash Flows from Investing Activities		
Purchase of securities available for sale	(75,000)	(2,011)
Principal payments, calls and maturities of securities available for sale	75,968	2,564
Principal payments of securities held to maturity	16	66
Purchase of securities, restricted	(2,044)	(7)
Proceeds from sale of securities, restricted	2,044	-
Net change in loans	(20,993)	(52)
Purchases of premises and equipment	-	(3)
Net cash (used in) provided by investing activities	(20,009)	557
Cash Flows from Financing Activities		
Net change in demand deposits	10,800	2,381
Net change in time deposits	(6,143)	60,925
Proceeds from borrowed funds	60,665	23,000
Repayment of borrowed funds	(42,255)	(35,000)
Dividends paid on Series B preferred shares	(388)	(388)
Net cash provided by financing activities	22,679	50,918
Net change in cash and cash equivalents	(2,411)	51,195
Cash and cash equivalents at beginning of period	46,868	20,203
Cash and cash equivalents at end of period	$ 44,457	$ 71,398
Non Cash Transactions		
Lease liabilities incurred in exchange for right-of-use assets	$ 56	$ 207
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest	$ 1,189	$ 1,715

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

Note 1. Organization and Significant Accounting Policies

Tectonic Financial, Inc. (the “Company,” “we,” “us,” or “our”) is a financial holding company that offers, through its subsidiaries, banking and other financial services including trust, investment advisory, securities brokerage, third-party administration, recordkeeping and insurance services to individuals, small businesses and institutions across the United States. The Company was formed in October 2016 for the purpose of acquiring T Bancshares, Inc. (“TBI”), which acquisition was completed on May 15, 2017.

We operate through four main direct and indirect subsidiaries: (i) TBI, which was incorporated under the laws of the State of Texas on December 23, 2002 to serve as the bank holding company for T Bank, N.A., a national banking association (the “Bank”), (ii) Sanders Morris Harris LLC (“Sanders Morris”), a registered broker-dealer with the Financial Industry Regulatory Authority (“FINRA”) and registered investment advisor with the Securities and Exchange Commission, (“SEC”), (iii) Tectonic Advisors, LLC (“Tectonic Advisors”), a registered investment advisor registered with the SEC focused generally on managing money for relatively large, affiliated institutions, and (iv) HWG Insurance Agency LLC (“HWG”), an insurance agency registered with the Texas Department of Insurance (“TDI”).

We are headquartered in Dallas, Texas. The Bank operates through a main office located at 16200 Dallas Parkway, Dallas, Texas. Our other subsidiaries operate from offices in Houston, Dallas and Plano, Texas. Our Houston office is located at 600 Travis Street, 59th Floor, Houston, Texas, and includes the home offices of Sanders Morris and HWG, as well as Tectonic Advisors’ family office services team. Our other Dallas office, which is a branch office of Sanders Morris, is at 5950 Sherry Lane, Suite 470, Dallas, Texas. Our main office for Tectonic Advisors is in Plano at 6900 Dallas Parkway, Suite 625, Plano, Texas, and also includes a branch office of HWG.

The Bank offers a broad range of commercial and consumer banking and trust services primarily to small- to medium-sized businesses and their employees, and other institutions, and The Nolan Company (“Nolan”), operating as a division within the Bank, offers third party administration (“TPA”) services. The Bank’s technological capabilities, including worldwide free ATM withdrawals, sophisticated on-line banking capabilities, electronic funds transfer capabilities, and economical remote deposit solutions, allow most customers to be served regardless of their geographic location. The Bank serves its local geographic market which includes Dallas, Tarrant, Denton, Collin and Rockwall counties which encompass an area commonly referred to as the Dallas/Fort Worth Metroplex. The Bank also serves the dental and other health professional industries through a centralized loan and deposit platform that operates out of its main office in Dallas, Texas. In addition, the Bank serves the small business community by offering loans guaranteed by the U.S. Small Business Administration (“SBA”) and the U.S. Department of Agriculture (“USDA”).

The Bank offers a wide range of deposit services including demand deposits, regular savings accounts, money market accounts, individual retirement accounts, and certificates of deposit with fixed rates and a range of maturity options. Lending services include commercial loans to small- to medium-sized businesses and professional concerns as well as consumers. The Bank also offers trust services. The Bank’s traditional fiduciary services clients primarily consist of clients of Cain Watters & Associates L.L.C. (“Cain Watters”). The Bank, Cain Watters and Tectonic Advisors entered into an advisory services agreement related to the trust operations in April 2006, which has been amended from time to time, most recently in July 2016. See Note 12, *Related Parties*, to these consolidated financial statements for more information. In addition, the Nolan division of the Bank offers TPA services and provides clients with retirement plan design and administrative services, specializing in ministerial recordkeeping, administration, actuarial and design services for retirement plans of small businesses and professional practices. We believe offering TPA services allows us to serve our clients more fully and to attract new clients to our trust platform.

Basis of Presentation. The consolidated financial statements on this Quarterly Report on Form 10-Q for the three months ended March 31, 2021 (this “Form 10-Q”) include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q adopted by the SEC. Accordingly, the consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2020 in the audited financial statements included within our Annual Report on Form 10-K (File No 001-38910), filed with the SEC on March 31, 2021 and amended on Form 10-K/A on May 5, 2021.

In the opinion of management, all adjustments that were normal and recurring in nature, and considered necessary, have been included for the fair presentation of the Company’s consolidated financial position and results of operations. Operating results for the three months ended March 31, 2021 are not necessarily indicative of results that may be expected for the full year ending December 31, 2021.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period, as well as the disclosures provided. Actual results could be significantly different from those estimates. Changes in assumptions or in market conditions could significantly affect the estimates. The determination of the allowance for loan losses, the fair value of stock options, the fair values of financial instruments and other real estate owned, and the status of contingencies are particularly susceptible to significant change in recorded amounts.

Accounting Changes, Reclassifications and Restatements. Certain items in prior financial statements have been reclassified to conform to the current presentation.

Earnings per Share. Basic earnings per share ("EPS") is computed based on the weighted-average number of shares outstanding during each year. Diluted EPS is computed using the weighted-average shares and all potential dilutive shares outstanding during the period. The following table sets forth the computation of basic and diluted EPS for the following periods:

	Three months ended March 31,	
(In thousands, except per share data)	**2021**	**2020**
Net income available to common shareholders	$ 3,910	$ 2,013
Average shares outstanding	6,569	6,569
Effect of dilutive securities	50	-
Average diluted shares outstanding	6,619	6,569
Basic earnings per share	$ 0.60	$ 0.31
Diluted earnings per share	$ 0.59	$ 0.31

As of March 31, 2021, options to purchase 117,500 shares of common stock, with a weighted average exercise price of $4.30, were included in the computation of diluted net earnings per share, and options to purchase 72,500 shares of common stock, with a weighted average exercise price of $7.10, were excluded from the computation of diluted net earnings per share because their effect was anti-dilutive. In addition, as of March 31, 2021, 210,000 shares of restricted stock grants with a grant date fair value of $4.81 per share which vest from 2023 through 2025 were included in the diluted earnings per share calculation.

Note 2. Securities

A summary of amortized cost and fair value of securities is presented below.

	March 31, 2021			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities available for sale:				
U.S. government agencies	$ 14,200	$ 8	$ 274	$ 13,934
Mortgage-backed securities	2,119	62	-	2,181
Total securities available for sale	$ 16,319	$ 70	$ 274	$ 16,115
Securities held to maturity:				
Property assessed clean energy	$ 5,753	$ -	$ -	$ 5,753
Securities, restricted:				
Other	$ 2,431	$ -	$ -	$ 2,431
Securities not readily marketable	$ 100	$ -	$ -	$ 100

(In thousands)	December 31, 2020 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
U.S. government agencies	$ 14,936	$ 38	$ 25	$ 14,949
Mortgage-backed securities	2,373	74	-	2,447
Total securities available for sale	$ 17,309	$ 112	$ 25	$ 17,396
Securities held to maturity:				
Property assessed clean energy	$ 5,776	$ -	$ -	$ 5,776
Securities, restricted:				
Other	$ 2,431	$ -	$ -	$ 2,431
Securities not readily marketable	$ 100	$ -	$ -	$ 100

Securities available for sale consist of U.S. government agency securities and mortgage-backed securities guaranteed by U.S. government agencies. Securities held to maturity consist of Property Assessed Clean Energy investments. These investment contracts or bonds located in California and Florida, originate under a contractual obligation between the property owners, the local county administration, and a third-party administrator and sponsor. The assessments are created to fund the purchase and installation of energy saving improvements to the property such as solar panels. Generally, as a property assessment, the total assessment is repaid in installments over a period of 10 to 15 years by the then current property owner(s). Each installment is collected by the County Tax Collector where the property is located. The assessments are an obligation of the property. Securities, restricted consist of Federal Reserve Bank of Dallas (“FRB”) and Federal Home Loan Bank of Dallas (“FHLB”) stock, which are carried at cost.

As of March 31, 2021 and December 31, 2020, securities available for sale with a fair value of $410,000 and $554,000, respectively, were pledged against trust deposit balances held at the Bank.

As of March 31, 2021 and December 31, 2020, the Bank held FRB stock in the amount of $1.2 million. The Bank held FHLB stock in the amount of $1.2 million as of March 31, 2021 and December 31, 2020. The FRB stock and FHLB stock were classified as restricted securities.

As of March 31, 2021 and December 31, 2020, the Company held an income interest in a private investment, which is not readily marketable, accounted for under the cost method in the amount of $100,000.

The table below indicates the length of time individual investment securities have been in a continuous loss position as of March 31, 2021:

	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ 13,437	$ 274	$ -	$ -	$ 13,437	$ 274

The number of investment positions in this unrealized loss position totaled eight as of March 31, 2021. The Company does not believe these unrealized losses are “other than temporary” as (i) it does not have the intent to sell the securities prior to recovery and/or maturity and, (ii) it is more likely than not that the Company will not have to sell the securities prior to recovery and/or maturity. Accordingly, as of March 31, 2021, no impairment loss has been realized in the Company’s consolidated statements of income.

The amortized cost and estimated fair value of securities as of March 31, 2021 are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Residential mortgage backed securities are shown separately since they are not due at a single maturity date.

	Available for Sale		Held to Maturity	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due after one year through five years	$ 1,251	$ 1,242	$ 830	$ 830
Due after five years through ten years	8,995	8,838	2,194	2,194
Due after ten years	3,954	3,854	2,729	2,729
Mortgage-backed securities	2,119	2,181	-	-
Total	$ 16,319	$ 16,115	$ 5,753	$ 5,753

Note 3. Loans and Allowance for Loan Losses

Major classifications of loans held for investment are as follows:

(In thousands)	**March 31, 2021**	**December 31, 2020**
Commercial and industrial	$ 77,889	$ 79,864
Consumer installment	10,334	10,259
Real estate – residential	3,581	4,319
Real estate – commercial	49,236	44,484
Real estate – construction and land	8,673	8,396
SBA:		
SBA 7(a) guaranteed	190,292	164,687
SBA 7(a) unguaranteed	51,947	52,179
SBA 504	37,423	35,553
USDA	802	801
Other	2	-
Gross Loans	430,179	400,542
Less:		
Allowance for loan losses	3,158	2,941
Net loans	$ 427,021	$ 397,601

During the second quarter of 2020, the Company began participating in the Paycheck Protection Program ("PPP") which was established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in response to the COVID-19 pandemic. The PPP loans may be forgiven by the SBA and are 100 percent guaranteed by the SBA. Therefore, no allowance for loan losses is allocated to PPP loans. Included in SBA 7(a) guaranteed loans at March 31, 2021, were $102.1 million of loans originated under the PPP.

As of March 31, 2021, our loan portfolio included $68.1 million of loans, approximately 15.8% of our total funded loans (20.8% of total funded loans, net of PPP loans) to the dental industry, as compared to $67.2 million of loans, or 16.8% of total funded loans (21.1% of total funded loans, net of PPP loans), at December 31, 2020. The Bank believes that these loans are to credit worthy borrowers and are diversified geographically.

The Company serves the small business community by offering loans promulgated under the SBA's 7(a) and 504 loan programs, and loans guaranteed by the USDA. SBA 7(a) and USDA loans are typically guaranteed by each agency in amounts ranging from 75% to 80% of the principal balance. For SBA construction loans, the Company records the guaranteed funded portion of the loans as held for sale. When the SBA loans are fully funded, the Company may sell the guaranteed portion into the secondary market, on a servicing-retained basis, or reclassify from loans held for sale to loans held for investment if the Company determines that holding these loans provide better long-term risk adjusted returns than selling the loans. In calculating gain on the sale of loans, the Company performs an allocation based on the relative fair values of the sold portion and retained portion of the loan. The Company's assumptions are validated by reference to external market information.

The Company had $13.8 million and $14.9 million of SBA loans held for sale as of March 31, 2021 and December 31, 2020, respectively. There were no loans sold during the three months ended March 31, 2021. The Company elected to reclassify $8.8 million of the SBA 7(a) loans held for sale to loans held for investment during the three months ended March 31, 2021.

Loan Origination/Risk Management.

The Company maintains written loan origination policies, procedures, and processes which address credit quality at several levels including individual loan level, loan type, and loan portfolio levels.

Commercial and industrial loans, which are predominantly loans to dentists, are underwritten based on historical and projected income of the business and individual borrowers and guarantors. The Company utilizes a comprehensive global debt service coverage analysis to determine debt service coverage ratios. This analysis compares global cash flow of the borrowers and guarantors on an individual credit to existing and proposed debt after consideration of personal and business related other expenses. Collateral is generally a lien on all available assets of the business borrower including intangible assets. Credit worthiness of individual borrowers and guarantors is established through the use of credit reports and credit scores.

Consumer loans are evaluated on the basis of credit worthiness as established through the use of credit reports and credit scores. Additional credit quality indicators include borrower debt to income ratios based on verifiable income sources.

Real estate mortgage loans are evaluated based on collateral value as well as global debt service coverage ratios based on historical and projected income from all related sources including the collateral property, the borrower, and all guarantors where applicable.

The Company originates SBA loans which are sometimes sold into the secondary market. The Company continues to service these loans after sale and is required under the SBA programs to retain specified amounts. The two primary SBA loan programs that the Company offers are the basic SBA 7(a) loan guaranty program and the 504 loan program in conjunction with junior lien financing from a Certified Development Company ("CDC"). The SBA has designated the Bank as a "Preferred Lender." As an SBA Preferred Lender, the Bank has been delegated loan approval, closing and most servicing and liquidation authority from the SBA.

The SBA 7(a) program serves as the SBA's primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. Loan proceeds under this program can be used for most business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements and debt refinancing. Loan maturity is generally up to 10 years for non-real estate collateral and up to 25 years for real estate collateral. The SBA 7(a) loan is approved and funded by a qualified lender, partially guaranteed by the SBA and subject to applicable regulations. In general, the SBA guarantees up to 75% (100% for PPP loans) of the loan amount depending on loan size. The Company is required by the SBA to service the loan and retain a contractual minimum of 5% on all SBA 7(a) loans, but generally retains 25% (the unguaranteed portion). The servicing spread is 1% of the guaranteed portion of the loan that is sold in the secondary market. Included in the SBA 7(a) loans reflected in this Form 10-Q are the PPP loans originated by the Company and outstanding as of March 31, 2021.

The 504 program is an economic development-financing program providing long-term, low down payment loans to businesses. Typically, a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100% SBA-guaranteed debenture) with a junior lien covering up to 40% of the total cost, and a contribution of at least 10% equity from the borrower. Debenture limits are $5.0 million for regular 504 loans and $5.5 million for those 504 loans that meet a public policy goal.

The Company also offers Business & Industry ("B&I") program loans through the USDA. These loans are similar to the SBA product, except they are guaranteed by the USDA. The guaranteed amount is generally 80%. B&I loans are made to businesses in designated rural areas and are generally larger loans to larger businesses than the SBA 7(a) loans. Similar to the SBA 7(a) product, they can be sold into the secondary market. These loans can be utilized for rural commercial real estate and equipment. The loans can have maturities up to 30 years and the rates can be fixed or variable.

Construction and land development loans are evaluated based on the borrower's and guarantor's credit worthiness, past experience in the industry, track record and experience with the type of project being considered, and other factors. Collateral value is determined generally by independent appraisal utilizing multiple approaches to determine value based on property type.

For all loan types, the Company establishes guidelines for its underwriting criteria including collateral coverage ratios, global debt service coverage ratios, and maximum amortization or loan maturity terms.

At the portfolio level, the Company monitors concentrations of loans based on several criteria including loan type, collateral type, industry, geography, and other factors. The Company also performs periodic market research and economic analysis at a local geographic and national level. Based on this research, the Company may from time to time change the minimum or benchmark underwriting criteria applied to the above loan types.

Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period of repayment performance by the borrower.

Non-accrual loans, segregated by class of loans, were as follows:

(In thousands)	March 31, 2021	December 31, 2020
Non-accrual loans:		
Real estate – commercial	$ 156	$ 158
SBA guaranteed	3,590	1,118
SBA unguaranteed	1,127	517
Total	$ 4,873	$ 1,793

The restructuring of a loan is considered a "troubled debt restructuring" if due to the borrower's financial difficulties, the Company has granted a concession that the Company would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modification of loan terms may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules, reductions in collateral and other actions intended to minimize potential losses.

The provisions of the CARES Act include an election to temporarily suspend accounting for troubled debt restructurings in certain circumstances, such as extensions or deferrals, related to the COVID-19 pandemic. This temporary suspension may only be applied to modifications of loans that were not more than 30 days past due as of December 31, 2019. If elected, the temporary suspension may be applied to eligible modifications executed during the period beginning on March 1, 2020 and, as extended by the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, ending on the earlier of January 1, 2022 or 60 days after the termination of the COVID-19 national emergency. In 2020, federal banking regulators, in consultation with the Financial Accounting Standards Board ("FASB"), issued interagency statements that included similar guidance on their approach for the accounting of loan modifications in light of the economic impact of the COVID-19 pandemic that provide that short-term modifications and additional accommodations made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings. The Company elected to adopt these provisions of the CARES Act. At March 31, 2021, there were no loans in COVID-19-related deferment. At December 31, 2020, there were 11 loans in COVID-19-related deferment with an aggregate outstanding balance of approximately $4.3 million.

As of March 31, 2021 and December 31, 2020, there were no loans identified as troubled debt restructurings. There were no new troubled debt restructurings during the three months ended March 31, 2021 and the year ended December 31, 2020.

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The Company’s impaired loans and related allowance is summarized in the following table:

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2021						Three Months Ended	
Commercial and industrial	$ 100	$ 100	$ -	$ 100	$ -	$ 33	$ -
SBA	12,289	8,401	-	8,401	-	4,784	-
Total	$ 12,389	$ 8,501	$ -	$ 8,501	$ -	$ 4,817	$ -
December 31, 2020						Year Ended	
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ 10	$ -
Real estate – construction and land	-	-	-	-	-	313	-
SBA	6,649	2,976	-	2,976	-	3,206	61
Total	$ 6,649	$ 2,976	$ -	$ 2,976	$ -	$ 3,529	$ 61

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The Company’s past due loans are as follows:

(In thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
March 31, 2021						
Commercial and industrial	$ -	$ -	$ -	$ 77,889	$ 77,889	$ -
Consumer installment	-	-	-	10,334	10,334	-
Real estate – residential	-	-	-	3,581	3,581	-
Real estate – commercial	144	156	300	48,936	49,236	-
Real estate – construction and land	-	-	-	8,673	8,673	-
SBA	-	1,635	1,635	278,027	279,662	-
USDA	-	-	-	802	802	-
Other	-	-	-	2	2	-
Total	$ 144	$ 1,791	$ 1,935	$ 428,244	$ 430,179	$ -
December 31, 2020						
Commercial and industrial	$ -	$ -	$ -	$ 79,864	$ 79,864	$ -
Consumer installment	-	-	-	10,259	10,259	-
Real estate – residential	-	-	-	4,319	4,319	-
Real estate – commercial	121	158	279	44,205	44,484	-
Real estate – construction and land	-	-	-	8,396	8,396	-
SBA	-	1,635	1,635	250,784	252,419	-
USDA	-	-	-	801	801	-
Other	-	-	-	-	-	-
Total	$ 121	$ 1,793	$ 1,914	$ 398,628	$ 400,542	$ -

As part of the on-going monitoring of the credit quality of the Company’s loan portfolio, management tracks certain credit quality indicators including internal credit risk based on past experiences as well as external statistics and factors. Loans are graded in one of six categories: (i) pass, (ii) pass-watch, (iii) special mention, (iv) substandard, (v) doubtful, or (vi) loss. Loans graded as loss are charged-off.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits quarterly. No significant changes were made to the loan risk grading system definitions and allowance for loan loss methodology during the past year. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit. The Company's methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated pass are acceptable loans, appropriately underwritten, bearing an ordinary risk of loss to the Company. Loans in this category are loans to highly credit worthy borrowers with financial statements presenting a good primary source as well as an adequate secondary source of repayment.

Credits rated pass-watch loans have been determined to require enhanced monitoring for potential weaknesses which require further investigation. They have no significant delinquency in the past twelve months. This rating causes the loan to be actively monitored with greater frequency than pass loans and allows appropriate downgrade transition if verifiable adverse events are confirmed. This category may also include loans that have improved in credit quality from special mention but are not yet considered pass loans.

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

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed. Guaranteed portions of SBA loans graded substandard are generally on non-accrual due to the limited amount of interest covered by the guarantee, usually 60 days maximum. However, there typically will be no exposure to loss on the principal amount of these guaranteed portions of the loan.

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

Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the future.

The following table summarizes the Company's internal ratings of its loans as of the dates indicated:

(In thousands)	**Pass**	**Pass-Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
March 31, 2021						
Commercial and industrial	$ 77,314	$ 475	$ -	$ 100	$ -	$ 77,889
Consumer installment	10,334	-	-	-	-	10,334
Real estate – residential	3,581	-	-	-	-	3,581
Real estate – commercial	49,080	-	-	156	-	49,236
Real estate – construction and land	8,459	-	-	214	-	8,673
SBA	271,007	2,974	2,327	3,354	-	279,662
USDA	802	-	-	-	-	802
Other	2	-	-	-	-	2
Total	$ 420,579	$ 3,449	$ 2,327	$ 3,824	$ -	$ 430,179
December 31, 2020						
Commercial and industrial	$ 79,134	$ 730	$ -	$ -	$ -	$ 79,864
Consumer installment	10,259	-	-	-	-	10,259
Real estate – residential	4,319	-	-	-	-	4,319
Real estate – commercial	44,326	-	-	158	-	44,484
Real estate – construction and land	8,396	-	-	-	-	8,396
SBA	243,533	5,242	1,794	1,850	-	252,419
USDA	801	-	-	-	-	801
Total	$ 390,768	$ 5,972	$ 1,794	$ 2,008	$ -	$ 400,542

The activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2021 and 2020 is presented below. Management has evaluated the adequacy of the allowance for loan losses by estimating the losses in various categories of the loan portfolio.

(In thousands)	Commercial and Industrial	Consumer Installment	Real Estate Residential	Real Estate Commercial	Real Estate Construction and Land	SBA	USDA	Other	Total
Three months ended:									
March 31, 2021									
Beginning Balance	$ 928	$ 91	$ 52	$ 527	$ 100	$ 1,225	$ 18	$ -	$ 2,941
Provision for loan losses	109	9	(6)	54	11	250	1	-	428
Charge-offs	-	-	-	-	-	(215)	-	-	(215)
Recoveries	-	-	-	-	-	4	-	-	4
Net charge-offs	-	-	-	-	-	(211)	-	-	(211)
Ending balance	$ 1,037	$ 100	$ 46	$ 581	$ 111	$ 1,264	$ 19	$ -	$ 3,158
March 31, 2020									
Beginning Balance	$ 501	$ 27	$ 22	$ 347	$ 76	$ 435	$ -	$ -	$ 1,408
Provision for loan losses	421	48	21	228	62	8	-	-	788
Charge-offs	-	-	-	-	-	(11)	-	-	(11)
Recoveries	33	-	-	-	-	3	-	-	36
Net charge-offs	33	-	-	-	-	(8)	-	-	25
Ending balance	$ 955	$ 75	$ 43	$ 575	$ 138	$ 435	$ -	$ -	$ 2,221

The Company's allowance for loan losses as of March 31, 2021 and December 31, 2020 by portfolio segment and detailed on the basis of the Company's impairment methodology was as follows:

(In thousands)	Commercial and Industrial	Consumer Installment	Real Estate Residential	Real Estate Commercial	Real Estate Construction and Land	SBA	USDA	Other	Total
March 31, 2021									
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	1,037	100	46	581	111	1,264	19	-	3,158
Ending balance	$ 1,037	$ 100	$ 46	$ 581	$ 111	$ 1,264	$ 19	$ -	$ 3,158
December 31, 2020									
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	928	91	52	527	100	1,225	18	-	2,941
Ending balance	$ 928	$ 91	$ 52	$ 527	$ 100	$ 1,225	$ 18	$ -	$ 2,941

The Company's recorded investment in loans as of March 31, 2021 and December 31, 2020 related to each balance in the allowance for loan losses by portfolio segment and detailed on the basis of the Company's impairment methodology was as follows:

(In thousands)	Commercial and Industrial	Consumer Installment	Real Estate Residential	Real Estate Commercial	Real Estate Construction and Land	SBA	USDA	Other	Total
March 31, 2021									
Loans individually evaluated for impairment	$ 100	$ -	$ -	$ -	$ -	$ 8,401	$ -	$ -	$ 8,501
Loans collectively evaluated for impairment	77,789	10,334	3,581	49,236	8,673	271,261	802	2	421,678
Ending balance	$ 77,889	$ 10,334	$ 3,581	$ 49,236	$ 8,673	$ 279,662	$ 802	$ 2	$ 430,179
December 31, 2020									
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 2,976	$ -	$ -	$ 2,976
Loans collectively evaluated for impairment	79,864	10,259	4,319	44,484	8,396	249,443	801	-	397,566
Ending balance	$ 79,864	$ 10,259	$ 4,319	$ 44,484	$ 8,396	$ 252,419	$ 801	$ -	$ 400,542

Note 4. Leases

The Company leases certain office facilities and office equipment under operating leases. Certain of the leases contain provisions for renewal options, escalation clauses based on increases in certain costs incurred by the lessor, as well as free rent periods and tenant improvement allowances. The Company amortizes office lease incentives and rent escalations on a straight-line basis over the life of the respective leases. The Company has obligations under operating leases that expire between 2021 and 2024 with initial non-cancellable terms in excess of one year.

We recognize our operating leases on our consolidated balance sheet. Right-of-use assets represent our right to utilize the underlying asset during the lease term, while lease liability represents the obligation to make periodic lease payments over the life of the lease. As of March 31, 2021 and December 31, 2020, right-of-use assets totaled $828,000 and $963,000, respectively, and are reported as other assets on our accompanying consolidated balance sheets. The related lease liabilities totaled $852,000 and $1.0 million, respectively, and are reported in other liabilities on our accompanying consolidated balance sheet. As of March 31, 2021, the weighted average remaining lease term is nineteen months, and the weighted average discount rate is 4.62%.

As of March 31, 2021, the minimum rental commitments under these noncancelable operating leases are as follows (in thousands):

2021	$ 412
2022	395
2023	76
2024	7
Total minimum rental payments	890
Less: Interest	(38)
Present value of lease liabilities	$ 852

The Company currently receives rental income from seven tenants in its headquarters building for office space the Company does not occupy. Aggregate future minimum rentals to be received under non-cancelable leases as of March 31, 2021 were $877,000 through 2027.

Note 5. Goodwill and Core Deposit Intangible

Goodwill and core deposit intangible assets were as follows:

(In thousands)		March 31, 2021		December 31, 2020
Goodwill	$	10,729	$	10,729
Core deposit intangible, net		928		979

Core deposit intangible is amortized on a straight line basis over the initial estimated lives of the deposits, which range from five to twelve years. The core deposit intangible amortization totaled $51,000 for the three months ended March 31, 2021 and 2020.

The carrying basis and accumulated amortization of the core deposit intangible as of March 31, 2021 and December 31, 2020 were as follows:

(In thousands)		March 31, 2021		December 31, 2020
Gross carrying basis	$	1,708	$	1,708
Accumulated amortization		(780)		(729)
Net carrying amount	$	928	$	979

The estimated amortization expense of the core deposit intangible remaining as of March 31, 2021 is as follows:

(In thousands)		
2021 remaining	$	151
2022		208
2023		210
2024		210
2025		149
Total	$	928

Note 6. Deposits

Deposits were as follows**:**

(In thousands, except percentages)		March 31, 2021			December 31, 2020	
Non-interest bearing demand	$	57,182	16%	$	57,112	16%
Interest-bearing demand (NOW)		6,990	2		5,060	2
Money market accounts		113,680	32		105,079	30
Savings accounts		6,338	2		6,139	2
Time deposits		168,482	48		174,625	50
Total	$	352,672	100%	$	348,015	100%

Time deposits of $250,000 and over totaled $68.3 million and $59.6 million as of March 31, 2021 and December 31, 2020, respectively.

As of March 31, 2021 the scheduled maturities of time deposits were as follows:

(In thousands)		
2021	$	75,976
2022		63,680
2023		16,673
2024		6,388
2025		5,503
Thereafter		262
Total	$	168,482

The aggregate amount of demand deposit overdrafts that have been reclassified as loans as of March 31, 2021 and December 31, 2020 was insignificant.

Note 7. Borrowed Funds and Subordinated Notes

The Company has a blanket lien credit line with the FHLB with borrowing capacity of $34.7 million secured by commercial loans. The Company determines its borrowing needs and utilizes overnight advance accordingly at varying terms. The Company had no borrowings with FHLB as of March 31, 2021 and December 31, 2020.

The Company also has a credit line with the FRB with borrowing capacity of $25.9 million, which is secured by commercial loans. The Company had no borrowings under this line from the FRB at March 31, 2021 and December 31, 2020. As part of the CARES Act, the FRB offered secured discounted borrowings to banks who originated PPP loans through the Paycheck Protection Program Liquidity Facility (“PPPLF”). At March 31, 2021, the Bank pledged $102.1 million of PPP loans to the FRB under the PPPLF to borrow $102.1 million of funds at a rate of 0.35%, with maturities ranging from April 2022 through March 2026. PPP loans pledged as collateral for the PPPLF are excluded from the average assets used in the Company’s leverage ratio calculation.

As of March 31, 2021 and December 31, 2020, the Company also had subordinated notes totaling $12.0 million, consisting of $8.0 million issued in 2017 bearing an interest rate of 7.125% payable semi-annually and maturing on July 20, 2027, and $4.0 million issued in 2018 bearing an interest rate of 7.125% payable semi-annually and maturing on March 31, 2028. The subordinated notes are unsecured and subordinated in right of payment to the payment of our existing and future senior indebtedness and structurally subordinated to all existing and future indebtedness of our subsidiaries.

Note 8. Benefit Plans

The Company funds certain costs for medical benefits in amounts determined at the discretion of management. The Company has a retirement savings 401(k) plan covering substantially all employees of the Bank, and a second plan covering substantially all employees of Sanders Morris, Tectonic Advisors and the Company.

Under the plans, the Company matches 100% of the employee’s contribution on the first 1% of the employee’s compensation, and 50% of the employee’s contribution on the next 5% of the employee’s compensation. An eligible employee may contribute up to the annual maximum contribution allowed for a given year under IRS guidance. At its discretion, the Company may also make additional annual contributions to the plan. Any discretionary contributions are allocated to employees in the proportion of employee contributions to the total contributions of all participants in the plan. No discretionary contributions were made during the three months ended March 31, 2021 and 2020.

The amount of employer contributions charged to expense under the two plans was $163,000 and $124,000 for the three months ended March 31, 2021 and 2020, respectively, and is included in salaries and employee benefits on the consolidated statements of income. There was no accrual payable to the plans as of March 31, 2021 and December 31, 2020.

Note 9. Income Taxes

Income tax expense was $1.3 million and $706,000 for the three months ended March 31, 2021 and 2020, respectively. The Company’s effective income tax rate was 22.7% for the three months ended March 31, 2021 and 2020.

Net deferred tax assets totaled $476,000 and $83,000 at March 31, 2021 and December 31, 2020, respectively.

The Company files U.S. federal and state income tax returns.

Note 10. Stock Compensation Plans

The board of directors and shareholders adopted the Tectonic Financial, Inc. 2017 Equity Incentive Plan (“Plan”) in May 2017 in connection with the Company’s acquisition of TBI. The Plan was amended and restated by the Company and its shareholders effective March 27, 2019 in connection with the Company’s initial public offering. The Plan is administered by the Compensation Committee of the Company’s board of directors and authorizes the granting of stock options, stock appreciation rights, restricted stock and restricted stock units to employees, directors and consultants in order to promote the success of the Company’s business. Incentive stock options may be granted only to employees of the Company, or a parent or subsidiary of the Company. The Company reserved 750,000 authorized shares of common stock for the Plan. The term of each stock option is no longer than 10 years from the date of the grant.

The Company accounts for stock-based employee compensation plans using the fair value-based method of accounting. The fair value of each stock option award is estimated on the date of grant by a third party using a closed form option valuation (Black-Scholes) model. The fair value of each grant award was estimated on the date of grant by a third party using the market approach based on the application of latest 12-month Company metrics to guideline public company multiples. There were no issues, forfeitures or exercises in the Plan during the three months ended March 31, 2021 and 2020.

The number of options outstanding and the weighted average exercise price, respectively, as of both March 31, 2021 and December 31, 2020 was 190,000 and $5.37. The weighted average contractual life as of March 31, 2021 and December 31, 2020 was 6.12 years and 6.37 years, respectively. Stock options outstanding at the end of the period had immaterial aggregate intrinsic values. The weighted-average grant date fair value of the options as of March 31, 2021 and December 31, 2020 was $1.94.

As of March 31, 2021, there were 50,000 stock options outstanding that vested on May 15, 2020, the third anniversary of the grant date, for which compensation has been fully recognized. As of March 31, 2021, these options were not exercised. In addition, there were 140,000 stock options outstanding as of March 31, 2021 that vest on May 15, 2021, the fourth anniversary of the grant date. The Company is recording compensation expense on a straight-line basis over the vesting periods. The Company recorded salaries and employee benefits expense on our consolidated statements of income in connection with the Plan of $16,000 and $25,000 for the three months ended March 31, 2021 and 2020, respectively, related to the stock options. As of March 31, 2021, there was $8,000 of total unrecognized compensation cost related to the stock options.

The Company granted restricted stock awards totaling 210,000 shares of common stock on September 30, 2020. The vesting schedules vary by award, with all of the awards vesting over a three-year period from 2023 through 2025.

As of March 31, 2021, all 210,000 awarded shares were outstanding, and the grant date fair value was $4.81. The weighted average contractual life as of March 31, 2021 and December 31, 2020 was 3.21 years and 3.46 years, respectively. The Company is recording compensation expense on a straight-line basis over the respective vesting periods. The Company recorded salaries and employee benefits expense on our consolidated statements of income in connection with the Plan of $69,000 for the three months ended March 31, 2021 related to the restricted stock awards. No salaries and benefits expense was recognized related to the restricted stock awards during the three months ended March 31, 2020. As of March 31, 2021, there was $843,000 of unrecognized compensation cost related to the stock awards.

Note 11. Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the accompanying balance sheets. The Company’s exposure to credit loss in the event of non-performance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The following table summarizes loan commitments:

(In thousands)	**March 31, 2021**	**December 31, 2020**
Undisbursed loan commitments	$ 16,556	$ 19,880
Standby letters of credit	162	162
	$ 16,718	$ 20,042

The Company is involved in various regulatory inspections, inquiries, investigations and proceedings, and litigation matters that arise from time to time in the ordinary course of business. The process of resolving matters through litigation or other means is inherently uncertain, and it is possible that an unfavorable resolution of these matters, will adversely affect the Company, its results of operations, financial condition and cash flows. The Company’s regular practice is to expense legal fees as services are rendered in connection with legal matters, and to accrue for liabilities when payment is probable.

The Company, through its wholly owned subsidiary Sanders Morris, has uncommitted financing arrangements with clearing brokers that finance its customer accounts, certain broker-dealer balances, and firm trading positions. Although these customer accounts and broker-dealer balances are not reflected on the consolidated balance sheets for financial reporting purposes, Sanders Morris has generally agreed to indemnify these clearing brokers for losses they may sustain in connection with the accounts, and therefore, retains risk on these accounts. Sanders Morris is required to maintain certain cash or securities on deposit with its clearing brokers. Deposits with clearing organizations were $250,000 as of March 31, 2021 and December 31, 2020.

Employment Agreements

The Company is party to amended and restated employment agreements with Patrick Howard, President and Chief Operating Officer of the Company, and Ken Bramlage, Executive Vice President and Chief Financial Officer of the Company. In addition, the Company entered into an employment agreement with A. Haag Sherman, Chief Executive Officer of the Company, in connection with the Company's merger with Tectonic Holdings and its initial public offering. Messrs. Sherman and Howard's employment agreements have a four year term and Mr. Bramlage's employment agreement has a three year term. Each employment agreement is automatically renewable for an additional one-year term unless either party elects not to renew.

Note 12. Related Parties

Advisors' service agreements: In January 2006, the Company entered into a services agreement (the "Tectonic Advisors-CWA Services Agreement") with Cain Watters. The owners of Cain Watters together hold approximately 31% of the voting ownership in the Company. Under the Tectonic Advisors-CWA Services Agreement, Cain Watters pays the Company for due diligence and research services on investment alternatives available to Cain Watters' clients. The Company earned $304,000 and $424,000 during the three months ended March 31, 2021 and 2020, respectively, under the Tectonic Advisors-CWA Services Agreement. These fees are included in investment advisory and other related services in the accompanying consolidated statements of income. The Company had no amounts receivable at March 31, 2021, and $43,000 in fees receivable related to these services at December 31, 2020, which is included in other assets on the consolidated balance sheets.

CWA Fee Allocation Agreement: In January 2006, Tectonic Advisors entered into an agreement (the "Fee Allocation Agreement") with Cain Watters with reference to its advisory agreement with the Bank. Tectonic Advisors had $205,000 and $198,000 payable to Cain Watters related to this agreement at March 31, 2021 and December 31, 2020, respectively, which are included in other liabilities on the accompanying consolidated balance sheets.

As of March 31, 2021, certain officers, directors and their affiliated companies had depository accounts with the Bank totaling approximately $5.0 million. None of those deposit accounts have terms more favorable than those available to any other depositor.

As of March 31, 2021, the Bank had PPP loans to certain of its directors and their affiliated companies totaling $2.8 million in the aggregate. These loans were made to the Bank's directors and their affiliated companies on the same terms as all other loans originated by the Bank under the PPP, established by the CARES Act. In addition, these loans were approved by the board of directors of the Bank in accordance with the Bank's regulatory and policy requirements.

Note 13. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's and, accordingly, the Company's business, results of operations and financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and tier 1 capital to risk-weighted assets, common equity Tier 1 ("CET1") capital to total risk-weighted assets, and of tier 1 capital to average assets. To be categorized as "well-capitalized" under the prompt corrective action framework, the Bank must maintain (i) a Total risk-based capital ratio of 10%; (ii) a Tier 1 risk-based capital ratio of 8%; (iii) a Tier 1 leverage ratio of 5%; and (iv) a CET1 risk-based capital ratio of 6.5%.

In addition, the Basel III regulatory capital reforms ("Basel III") implemented a capital conservation buffer of 2.5% that was fully implemented as of January 1, 2019. The Basel III minimum capital ratio requirements as applicable to the Company and the Bank on January 1, 2019 are summarized in the table below.

	BASEL III Minimum for Capital Adequacy Requirements	BASEL III Additional Capital Conservation Buffer	BASEL III Ratio with Capital Conservation Buffer
Total Risk Based Capital (total capital to risk weighted assets)	8.0%	2.5%	10.5%
Tier 1 Risk Based Capital (tier 1 to risk weighted assets)	6.0%	2.5%	8.5%
Common Equity Tier 1 Risk Based (CET1 to risk weighted assets)	4.5%	2.5%	7.0%
Tier 1 Leverage Ratio (tier 1 to average assets)	4.0%	-%	4.0%

Accordingly, a financial institution may be considered "well capitalized" under the prompt corrective action framework, but not satisfy the buffered Basel III capital ratios. As of March 31, 2021, the Bank's regulatory capital ratios are in excess of the capital conservation buffer and the levels established for "well capitalized" institutions under the Basel III Rules.

The regulatory capital ratios of the Company and the Bank are as follows:

	Actual		Minimum Capital Required - Basel III		Required to be Considered Well Capitalized	
(In thousands, except percentages)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of March 31, 2021						
Total Capital (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	$ 55,286	19.58%	$ 29,644	10.50%	$ 28,233	10.00%
T Bank, N.A.	53,624	19.16	29,391	10.50	27,991	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	52,129	18.46	23,998	8.50	22,586	8.00
T Bank, N.A.	50,467	18.03	23,793	8.50	22,393	8.00
Common Equity Tier 1 (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	34,879	12.35	19,763	7.00	18,351	6.50
T Bank, N.A.	50,467	18.03	19,594	7.00	18,194	6.50
Tier 1 Capital (to Average Assets)						
Tectonic Financial, Inc. (consolidated)	52,129	12.34	16,892	4.00	21,115	5.00
T Bank, N.A.	50,467	12.15	16,615	4.00	20,769	5.00
As of December 31, 2020						
Total Capital (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	$ 50,987	18.22%	$ 29,379	10.50%	$ 27,980	10.00%
T Bank, N.A.	50,012	18.25	28,782	10.50	27,411	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	48,046	17.17	23,783	8.50	22,384	8.00
T Bank, N.A.	47,071	17.17	23,299	8.50	21,929	8.00
Common Equity Tier 1 (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	30,796	11.01	19,586	7.00	18,187	6.50
T Bank, N.A.	47,071	17.17	19,188	7.00	17,817	6.50
Tier 1 Capital (to Average Assets)						
Tectonic Financial, Inc. (consolidated)	48,046	11.66	16,480	4.00	20,601	5.00
T Bank, N.A.	47,071	11.58	16,257	4.00	20,322	5.00

Dividend Restrictions. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared (including those on the Series A preferred stock) would cause the regulatory capital of the Bank and/or the Company to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. As of March 31, 2021, approximately $20.9 million was available for the declaration of dividends by the Bank to the Company without prior approval of regulatory agencies and still maintain its "well capitalized" status. In addition, as a Texas corporation, we are restricted under the Texas Business Organizations Code from paying dividends under certain conditions. Under Texas law, we cannot pay dividends to shareholders if the dividends exceed our surplus or if after giving effect to the dividends, we would be insolvent.

In addition to the regulatory requirements of the federal banking agencies, Sanders Morris and Tectonic Advisors are subject to the regulatory framework applicable to registered investment advisors under the SEC's Division of Investment Management, and additionally, Sanders Morris is regulated by FINRA, which, among other requirements, imposes minimums on its net regulatory capital.

Note 14. Operating Segments

The Company's reportable segments consist of Banking, Other Financial Services, and HoldCo operations.

The Banking segment consists of operations relative to the Company's full service banking operations, including providing depository and lending services to individual and business customers, and other related banking services.

The Other Financial Services segment includes managed and directed brokerage, investment advisory services, including related trust company operations, third party administration, and insurance brokerage services to both individuals and businesses.

The HoldCo operations include the operations and subordinated debt held at the Bank's immediate parent, as well as the activities of the financial holding company which serves as TBI's parent.

The tables below present the financial information for each segment that is specifically identifiable, or based on allocations using internal methods, for the three months ended March 31, 2021 and 2020:

(In thousands)	Banking	Other Financial Services	HoldCo	Consolidated
Three Months Ended March 31, 2021				
Income Statement				
Total interest income	$ 6,314	$ -	$ -	$ 6,314
Total interest expense	731	-	219	950
Provision for loan losses	428	-	-	428
Net-interest income (loss) after provision for loan losses	5,155	-	(219)	4,936
Non-interest income	184	9,048	85	9,317
Depreciation and amortization expense	92	39	-	131
All other non-interest expense	2,135	6,080	349	8,564
Income (loss) before income tax	$ 3,112	$ 2,929	$ (483)	$ 5,558
Goodwill and other intangibles	$ 9,307	$ 2,350	$ -	$ 11,657
Total assets	$ 527,551	$ 10,467	$ 411	$ 538,429

(In thousands)	Banking	Other Financial Services	HoldCo	Consolidated
Three Months Ended March 31, 2020				
Income Statement				
Total interest income	$ 5,115	$ -	$ -	$ 5,115
Total interest expense	1,280	-	219	1,499
Provision for loan losses	788	-	-	788
Net-interest income (loss) after provision for loan losses	3,047	-	(219)	2,828
Non-interest income	462	7,639	-	8,101
Depreciation and amortization expense	93	107	-	200
All other non-interest expense	2,031	5,351	240	7,622
Income (loss) before income tax	$ 1,385	$ 2,181	$ (459)	$ 3,107
Goodwill and other intangibles	$ 9,508	$ 2,350	$ -	$ 11,858
Total assets	$ 407,557	$ 9,735	$ 316	$ 417,608

Note 15. Fair Value of Financials Instruments

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820, *Fair Value Measurement,* establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company has no securities in the Level 1 or Level 3 inputs.

The following table summarizes securities available for sale measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(In thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
As of March 31, 2021				
Securities available for sale:				
U.S. government agencies	$ -	$ 13,934	$ -	$ 13,934
Mortgage-backed securities	-	2,181	-	2,181
As of December 31, 2020				
Securities available for sale:				
U.S. government agencies	$ -	$ 14,949	$ -	$ 14,949
Mortgage-backed securities	-	2,447	-	2,447

Market valuations of our investment securities which are classified as level 2 are provided by an independent third party. The fair values are determined by using several sources for valuing fixed income securities. Their techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid and other market information. In accordance with the fair value hierarchy, the market valuation sources include observable market inputs and are therefore considered Level 2 inputs for purposes of determining the fair values.

The Company considers transfers between the levels of the hierarchy to be recognized at the end of related reporting periods. During the three months ended March 31, 2021, no assets for which fair value is measured on a recurring basis transferred between any levels of the hierarchy.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Financial assets measured at fair value on a non-recurring basis during the reported periods include impaired loans and loans held for sale.

Impaired loans. As of March 31, 2021 and December 31, 2020, there were no impaired loans that were reduced by specific valuation allowances.

The significant unobservable inputs (Level 3) used in the fair value measurement of collateral for collateral-dependent impaired loans primarily relate to the specialized discounting criteria applied to the borrower's reported amount of collateral. The amount of the collateral discount depends upon the condition and marketability of the collateral, as well as other factors which may affect the collectability of the loan. As the Company's primary objective in the event of default would be to liquidate the collateral to settle the outstanding balance of the loan, collateral that is less marketable would receive a larger discount. During the reported periods, there were no discounts for collateral-dependent impaired loans.

The valuation of our not readily marketable investment securities which are classified as Level 3 are based on the Company's own assumptions and inputs that are both significant to the fair value measurement, and are unobservable.

Our assessment of the significance of a particular input to the Level 3 fair value measurements in their entirety requires judgment and considers factors specific to the assets. It is reasonably possible that a change in the estimated fair value for instruments measured using Level 3 inputs could occur in the future.

Loans held for sale. Loans held for sale include the guaranteed portion of SBA and USDA loans and are reported at the lower of cost or estimated fair value. Fair value for SBA and USDA loans is based on market indications available in the market. There were no impairments reported for the periods presented.

Non-financial assets measured at fair value on a non-recurring basis during the reported periods include other real estate owned which, upon initial recognition, was re-measured and reported at fair value through a charge-off to the allowance for loan losses. Additionally, foreclosed assets which, subsequent to their initial recognition, are re-measured at fair value through a write-down included in other non-interest expense. Regulatory guidelines require the Company to reevaluate the fair value of foreclosed assets on at least an annual basis. The fair value of foreclosed assets, upon initial recognition and impairment, are re-measured using Level 2 inputs based on observable market data. Estimated fair value of other real estate is based on appraisals. Appraisers are selected from the list of approved appraisers maintained by management. As of March 31, 2021 and December 31, 2020, there were no foreclosed assets. There were no foreclosed assets re-measured during the three months ended March 31, 2021 and 2020.

The methods and assumptions used to estimate fair value of financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, restricted securities, accrued interest receivable and accrued interest payable. The estimated fair value of demand and savings deposits is the carrying amount since rates are regularly adjusted to market rates and amounts are payable on demand. For borrowed funds and variable rate loans or deposits that re-price frequently and fully, the estimated fair value is the carrying amount. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent re-pricing, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. For loans held for sale, the estimated fair value is based on market indications for similar assets in the active market. The estimated fair value of other financial instruments and off-balance-sheet loan commitments approximate cost and are not considered significant to this presentation.

The Company adds a servicing asset when loans are sold and the servicing is retained, and uses the amortization method for the treatment of the servicing asset. The servicing asset is carried at lower of cost or fair value. Loan servicing assets do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using a discounted cash flow model having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, servicing rights are classified within Level 3 of the hierarchy. During the three months ended March 31, 2021, the Company had no sale of loans and did not add any servicing assets. During the three months ended March 31, 2020, the Company added servicing assets totaling $92,000 in connection with the sale of $6.2 million in loans. There was no allowance provision for the three months ended March 31, 2021 and 2020.

FASB ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value approximates carrying value for cash and cash equivalents and accrued interest. The methodologies for other financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis are discussed below.

Securities held to maturity. The securities in this category are Property Assessed Clean Energy investments. These investment contracts or bonds originate under a contractual obligation between the property owners, the local county administration, and a third-party administrator and sponsor. These investments have no readily determinable fair value.

Loans. The estimated fair value approximates carrying value for variable-rate loans that reprice frequently and with no significant change in credit risk. The fair value of fixed-rate loans and variable-rate loans which reprice on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality.

Deposits. The fair values of demand deposits, savings deposits are, by definition, equal to the amount payable on demand and, therefore, approximate their carrying amounts. The fair values for time deposits are estimated using a discounted cash flow calculation that utilizes interest rates currently being offered on time deposits with similar contractual maturities.

Borrowed Funds. The estimated fair value approximates carrying value for short-term borrowings. The fair value of long-term fixed-rate borrowings is estimated using quoted market prices, if available, or by discounting future cash flows using current interest rates for similar financial instruments. The estimated fair value approximates carrying value for variable-rate junior subordinated deferrable interest debentures that reprice quarterly.

Loan Commitments, Standby and Commercial Letters of Credit. Our lending commitments have variable interest rates and "escape" clauses if the customer's credit quality deteriorates. Therefore, the fair values of these items are not significant and are not included in the following table.

Carrying amounts and estimated fair values of other financial instruments by level of valuation input were as follows:

	March 31, 2021	
(In thousands)	**Carrying Amount**	**Estimated Fair Value**
Financial assets:		
Level 1 inputs:		
Cash and cash equivalents	$ 44,457	$ 44,457
Level 2 inputs:		
Securities available for sale	16,115	16,115
Securities, restricted	2,431	2,431
Loans held for sale	13,769	15,504
Accrued interest receivable	2,035	2,035
Level 3 inputs:		
Securities held to maturity	5,753	5,753
Securities not readily marketable	100	100
Loans, net	427,021	417,664
Servicing asset	756	756
Financial liabilities:		
Level 1 inputs:		
Non-interest bearing deposits	57,182	57,182
Level 2 inputs:		
Interest bearing deposits	295,490	304,168
Borrowed funds	114,100	114,100
Accrued interest payable	357	357

(In thousands)	December 31, 2020 Carrying Amount	December 31, 2020 Estimated Fair Value
Financial assets:		
Level 1 inputs:		
Cash and cash equivalents	$ 46,868	$ 46,868
Level 2 inputs:		
Securities available for sale	17,396	17,396
Securities, restricted	2,431	2,431
Loans held for sale	14,864	16,462
Accrued interest receivable	2,440	2,440
Level 3 inputs:		
Securities held to maturity	5,776	5,776
Securities not readily marketable	100	100
Loans, net	397,601	389,143
Servicing asset	809	809
Financial liabilities:		
Level 1 inputs:		
Non-interest bearing deposits	57,112	57,112
Level 2 inputs:		
Interest bearing deposits	290,903	292,174
Borrowed funds	95,690	95,690
Accrued interest payable	596	596

Note 16. Recent Accounting Pronouncements

ASU 2016-13, "*Financial Instruments-Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments.*" ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 became effective for most public companies on January 1, 2020, subject to a company's election to defer implementation due to the COVID-19 pandemic. On July 17, 2019, the FASB proposed to delay the implementation of the current expected credit loss standard ("CECL") for certain companies including smaller reporting companies ("SRCs") as defined by the SEC. The Company is designated as a SRC with the SEC. The proposed delay by FASB was subject to a comment period. At the October 16, 2019 FASB meeting, the FASB voted unanimously to delay the effective date of CECL adoption for SRCs to January 1, 2023. The Company has developed processes for assessment and documentation, model development and validation. While the Company generally expects that the implementation of ASU 2016-13 may increase their allowance for loan losses balance, the adoption will be significantly influenced by the composition, characteristics and quality of the loan portfolio along with the prevailing economic conditions and forecasts as of the adoption date.

ASU 2019-12, "*Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes.*" The guidance issued in this update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. ASU 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 will be effective for the Company on January 1, 2021, with early adoption permitted, and is not expected to have a significant impact on the Company's consolidated financial statements.

ASU 2020-08, "*Codification Improvements to Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs.*" ASU 2020-08 clarifies the accounting for the amortization of purchase premiums for callable debt securities with multiple call dates. ASU 2020-8 became effective for the Company on January 1, 2021 and did not have a significant impact on the Company's consolidated financial statements.

Item 2. 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 our consolidated financial statements and notes thereto appearing in Item 1 of Part I of this Quarterly Report on Form 10-Q for the three months ended March 31, 2021 (this "Form 10-Q"), as well as with our consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the year ended December 31, 2020 (as amended, the "2020 Form 10-K").

Cautionary Notice Regarding Forward-Looking Statements

Statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including our expectations, intentions, beliefs, or strategies regarding the future. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," and similar expressions. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may differ materially from those in or implied by such forward-looking statements due to the factors discussed under the section entitled "Risk Factors," in our 2020 Form 10-K, and under the section entitled "Risk Factors" in this Form 10-Q, including, but not limited to, the following:

- risks associated with the COVID-19 global pandemic ("COVID-19"), including, among others, business disruption for our customers, customers' ability to fulfill their financial obligations to the Company, our employees' ability to conduct banking and other transactions, the response of governmental authorities to the COVID-19 pandemic and our participation in COVID-19-related government programs such as the Paycheck Protection Program (the "PPP") administered by the Small Business Administration (the "SBA") and created under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act");
- risks associated with implementing aspects of our expansion strategy, whether through additional services and products or acquisitions;
- liquidity risks, including those related to having enough liquid assets to meet depositor demands;
- the need to hold more capital in order to comply with consolidated capital ratios;
- competition from other banks, financial institutions and wealth and investment management firms and our ability to retain our clients;
- the adequacy of our allowance for loan losses;
- risks associated with generating deposits from retail sources without a branch network so that we can fund our loan portfolio and growth;
- risks associated with higher cost deposits relative to our peer group, which has an impact on our net interest margin and profits;
- risks associated with having one referral source, Cain Watters & Associates, LLC ("Cain Watters"), comprise a substantial part of our business;
- our reliance on key personnel and the ability to attract and retain the personnel necessary to implement our business plan;
- changes in the economy generally and the regulatory response thereto;
- changes in the economy of the State of Texas, our primary market;
- risks specific to commercial loans and borrowers (particularly dental and SBA loans);
- our ability to continue to originate loans (including SBA loans);
- impairment of our goodwill or other intangible assets;
- claims and litigation pertaining to our fiduciary responsibilities;
- generating investment returns for our wealth management, brokerage and other customers that are satisfactory to them;
- changes in interest rates;
- our ability to maintain a strong core deposit base or other low-cost funding sources;
- our ability to manage our credit risk;
- regulatory scrutiny related to our loan portfolio, including commercial real estate;
- the earning capacity of our borrowers;
- fluctuation in the value of our investment securities;
- our inability to identify and address potential conflicts of interest;
- our ability to maintain effective internal control over financial reporting;
- the accuracy of estimates and assumptions;
- the development of an active, liquid market for the Series B preferred stock;
- fluctuations in the market price of the Series B preferred stock;

- our ability to raise additional capital, particularly during times of stress;
- the soundness of other counterparty financial institutions and certain securities brokerage firms;
- technological change in the banking, investment, brokerage and insurance industry;
- our ability to protect against and manage fraudulent activity, breaches of our information security, and cybersecurity attacks;
- our reliance on communications, information, operating and financial control systems technology and related services from third-party service providers;
- natural disasters and epidemics and pandemics, such as COVID-19;
- the effects of terrorism and efforts to combat it;
- environmental liabilities;
- regulation of the financial services industry;
- legislative changes or the adoption of tax reform policies;
- political instability and changes in tariffs and trade barriers;
- compliance with laws and regulations, supervisory actions, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Economic Growth, Regulatory Relief and Consumer Protection Act (“EGRRCPA”), capital requirements, the Bank Secrecy Act, anti-money laundering laws, consumer laws, and other statutes and regulations;
- regulation of broker-dealers and investment advisors;
- the enactment of regulations relating to privacy, information security and data protection;
- legal and regulatory examinations, proceedings, investigations and inquiries, fines and sanctions;
- future issuances of preferred stock or debt securities and its impact on the Series B preferred stock;
- our ability to manage our existing and future preferred stock and indebtedness;
- our ability to pay dividends;
- the continuation of securities analysts coverage of the company;
- our management and board of directors have significant control over our business;
- risks related to being a “controlled company” under NASDAQ rules;
- the costs and expenses of being a public company; and
- changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters, including the policies of the Board of Governors of the Federal Reserve System (“Federal Reserve”) and as a result of initiatives of the Biden administration.

You should not place undue reliance on any such forward-looking statements. Any forward-looking statement reflects only information known to us as of the date on which it is made and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by law. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Other Available Information

We file or furnish with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports required by Section 13(a) or 15(d) of the Exchange Act. Electronic copies of our SEC filings are available to the public at the SEC’s website at https://www.sec.gov. In addition, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports required by Section 13(a) or 15(d) of the Exchange Act are available through our website, www.t.financial, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The Company routinely posts important information for investors on its website, www.t.financial. The Company intends to use its website as a means of disclosing material non-public information and for complying with its disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Company’s website, in addition to following the Company’s press releases, SEC filings, public conference calls, presentations and webcasts.

Our website and the information contained on or accessible through our website is not incorporated by reference into, and is not a part of, this Form 10-Q.

COVID-19 Update

The Company continues to actively monitor developments related to the COVID-19 pandemic including the progress of COVID-19 vaccines, the effects of the CARES Act and the American Rescue Plan Act of 2021 and the prospects for additional fiscal stimulus programs; however, the extent to which each will impact our operations and financial results in 2021 remains uncertain.

The *Consolidated Appropriations Act, 2021*, which was signed into law on December 27, 2020, allocated an additional $284 billion to the SBA to fund a second round of PPP and extended the application period for the PPP to March 31, 2021. The application period was later extended to the earlier of May 31, 2021, or such date when all PPP funds are exhausted. The Company is actively participating in the second round of the PPP and began submitting applications to the SBA for borrowers on January 15, 2021 when the application window opened. The PPP was adjusted for the second round to allow applications from both first time borrowers and those that obtained loans during the first round of the PPP. The revised PPP, among other things, requires that borrowers demonstrate or certify that they experienced a 25% or greater reduction in gross receipts from a quarter in 2020 compared to the same quarter in 2019 and certify that current economic uncertainty makes the loan request necessary to support their ongoing operations. The Bank funded 622 PPP loans, for $64.2 million related to the second round of PPP during the three months ended March 31, 2021, and as of March 31, 2021, the Bank had outstanding $102.1 million of PPP loans in its loan portfolio. Management believes that the majority of these PPP loans will ultimately be forgiven by the SBA in accordance with the terms of the PPP over the coming quarters.

While all industries could experience adverse effects related to the COVID-19 pandemic, the loan portfolio includes customers in industries such as dental, travel, hotel, leisure, retail, convenience store, restaurant and entertainment, which industries have all been adversely impacted by the COVID-19 pandemic. While the Company has not experienced any material losses related to such industries in the portfolio, management recognizes that these industries may take longer to recover and continues to monitor these customers closely. The commercial credit area continues to communicate regularly with the borrowers and monitors their activity closely. This information is used to analyze the performance of these loans and to anticipate any potential issues that these loans may develop so that risk ratings may be appropriately adjusted in a timely manner. The Company increased its allowance for loan losses from $2.2 million as of March 31, 2020 to $3.2 million as of March 31, 2021, due in part to the changes in the economic environment related to the disruption in business activity as a result of the COVID-19 pandemic.

For more information on the COVID-19 pandemic, see “Recent Developments Related to the COVID-19 Pandemic” in Item 7., “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 1A., “Risk Factors,” in our 2020 Form 10-K.

The impact of the COVID-19 pandemic on the Company for the periods covered by this Form 10-Q is detailed in each applicable section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included below.

General

We are a financial holding company headquartered in Dallas, Texas. We provide a wide array of financial products and services including banking, trust, investment advisory, securities brokerage, third party administration, recordkeeping and insurance to individuals, small businesses and institutions in all 50 states.

The following discussion and analysis presents our consolidated financial condition as of March 31, 2021 and December 31, 2020, and our consolidated results of operations for the three months ended March 31, 2021 and 2020. The discussion should be read in conjunction with our financial statements and the notes related thereto in this Form 10-Q and in the audited financial statements in our 2020 Form 10-K.

We operate through four main direct and indirect subsidiaries: (i) TBI, which was incorporated under the laws of the State of Texas on December 23, 2002 to serve as the bank holding company for the Bank, (ii) Sanders Morris, a registered broker-dealer with FINRA, and registered investment advisor with the SEC, (iii) Tectonic Advisors, a registered investment advisor registered with the SEC focused generally on managing money for relatively large, affiliated institutions, and (iv) HWG, an insurance agency registered with the TDI.

Critical Accounting Policies and Estimates

We prepare consolidated financial statements based on GAAP and to customary practices within the financial services industry. These policies, in certain areas, require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While we base estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

We consider accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain at the time we make the accounting estimate and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the financial statements.

Accounting policies related to the allowance for loan losses are considered to be critical as these policies involve considerable subjective judgment and estimation by management. Management has adopted a methodology to properly analyze and determine an adequate loan loss allowance, which includes allowance allocations calculated in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, *Receivables*, and allowance allocations calculated in accordance with FASB ASC Topic 450, *Contingencies*. The analysis is based on sound, reliable and well documented information and is designed to support an allowance that is adequate to absorb all estimated incurred losses in our loan portfolio. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance accounts is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets. Refer to the 2020 Form 10-K for additional information regarding critical accounting policies.

Performance Summary

Net income available to common shareholders increased $1.9 million, or 95.0%, to $3.9 million for the three months ended March 31, 2021, compared to $2.0 million for the three months ended March 31, 2020. Earnings per diluted common share was $0.59 and $0.31 for the three months ended March 31, 2021 and 2020, respectively. The increase in earnings was primarily due to increased revenue in the Banking and Other Financial Services segments.

Our accounting and reporting policies conform to generally accepted accounting principles in the United States ("GAAP") and the prevailing practices in the banking industry. However, this Form 10-Q contains financial information determined by methods other than in accordance with GAAP, which includes return on average tangible common equity. We calculate return on average tangible common equity as net income available to common shareholders (net income less dividends paid on preferred stock) divided by average tangible common equity. We calculate average tangible common equity as average shareholders' equity less average goodwill, average core deposit intangible and average preferred stock. The most directly comparable GAAP financial measure for tangible common equity is average total shareholders' equity. We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, measures and ratios prepared in accordance with GAAP.

For the three months ended March 31, 2021, annual return on average assets was 3.38%, compared to 2.61% for the same period in the prior year, and annual return on average tangible common equity was 49.85%, compared to 37.55% for the same period in the prior year. The higher annual return ratios for the three months ended March 31, 2021 was due to an increase in income which outpaced the increases in average assets and average tangible common equity compared to the same period in the prior year. The growth in average tangible common equity between the two periods is primarily related to earnings, net of preferred dividends paid, from March 31, 2020 to March 31, 2021. The growth in average assets is primarily attributable to growth in loans.

The following table presents non-GAAP reconciliations of annual return on average tangible common equity:

(Dollars in thousands, except percentages)	As of and for the Three Months Ended March 31, 2021	As of and for the Three Months Ended March 31, 2020
Income available to common shareholders	$ 3,910	$ 2,013
Average shareholders' equity	$ 60,716	$ 50,705
Less: average goodwill	10,729	10,729
Less: average core deposit intangible	928	1,162
Less: average preferred stock	17,250	17,250
Average tangible common equity	$ 31,809	$ 21,564
Annual return on average tangible common equity	49.85%	37.55%

Total assets grew by $25.0 million, or 4.9%, to $538.4 million as of March 31, 2021 from $513.4 million as of December 31, 2020. This increase was primarily due to an increase in our loans, net of allowance for loan losses, of $29.4 million, or 7.4%, to $427.0 million as of March 31, 2021, from $397.6 million as of December 31, 2020, due primarily to loans originated under the second round of the PPP, offset by repayments or forgiveness of PPP loans, primarily those made under the first round of the PPP. Substantially all loans outside of those made under the PPP are secured by specific collateral, including business assets, consumer assets, and commercial real estate. We anticipate that as the majority of PPP loans are forgiven or paid off, which we believe will occur principally over the next nine months, and as customers spend down their PPP funds, this will result in a reduction in both loans and borrowings.

Shareholders' equity increased $3.8 million, or 6.3%, to $63.8 million as of March 31, 2021, from $60.0 million as of December 31, 2020. See analysis of shareholders' equity in the section captioned "Capital Resources and Regulatory Capital Requirements" included elsewhere in this discussion.

Results of Operations for the Three Months Ended March 31, 2021 and 2020

Details of the changes in the various components of net income are discussed below.

Net Interest Income

Net interest income is the difference between interest income on interest-earning assets, such as loans, investment securities, and interest-bearing cash, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Changes in net interest income result from changes in volume and spread, and are reflected in the net interest margin, as well as changes in average interest rates. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Margin refers to net interest income divided by average interest-earning assets, and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

The Federal Reserve influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The effective federal funds rate decreased 150 basis points during March 2020 (50 basis points on March 3, 2020 and 100 basis points on March 15, 2020) to zero to 0.25%, where it remained through March 31, 2021.

The following table presents the changes in net interest income and identifies the changes due to differences in the average volume of interest-earning assets and interest–bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities. The changes in net interest income due to changes in both average volume and average interest rate have been allocated to the average volume change or the average interest rate change in proportion to the absolute amounts of the change in each.

	Three Months Ended March 31, 2021 vs March 31, 2020		
	Increase (Decrease) Due to Change in		
(In thousands)	**Rate**	**Average Volume**	**Total**
Interest-bearing deposits and federal funds sold	$ (57)	$ -	$ (57)
Securities	(191)	25	(166)
Loans, net of unearned discount (1)	(595)	2,017	1,422
Total earning assets	(843)	2,042	1,199
Savings and interest-bearing demand	(4)	2	(2)
Money market deposit accounts	(143)	41	(102)
Time deposits	(465)	(28)	(493)
FHLB and other borrowings	(19)	67	48
Subordinated notes	(1)	1	-
Total interest-bearing liabilities	(632)	83	(549)
Changes in net interest income	$ (211)	$ 1,959	$ 1,748

(1) Average loans include non-accrual.

Net interest income increased $1.8 million, or 50.0%, from $3.6 million for the three months ended March 31, 2020 to $5.4 million for the three months ended March 31, 2021. Net interest margin for the three months ended March 31, 2021 and 2020 was 4.47% and 4.24%, respectively, an increase of 23 basis points. The increase in net interest income was primarily due to PPP fees of $1.6 million recognized for the three months ended March 31, 2021. Other changes included an increase in the average volume of loans and decrease in average rates paid on interest-bearing deposits and borrowings, partly offset by a decrease in average yields on earning assets and increase in average volume of interest-bearing deposits and borrowings. The loan yield was impacted by the PPP loans with an average balance of $103.3 million for the three months ended March 31, 2021, with a rate of 1.00%.

The average volume of interest-earning assets increased $144.4 million, or 42.0%, from $343.1 million for the three months ended March 31, 2020 to $487.2 million for the three months ended March 31, 2021. The average volume of loans increased $141.4 million, or 47.6%, from $297.4 million for the three months ended March 31, 2020 to $438.8 million for the three months ended March 31, 2021. PPP loans account for $103.3 million of the average volume increase. The average yield for loans decreased 77 basis points from 6.47% for the three months ended March 31, 2020 to 5.70% for the three months ended March 31, 2021. 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. In 2020, we funded $98.3 million of PPP loans. As of March 31, 2021, approximately $60.4 million of the PPP loans originated in 2020 have been forgiven by the SBA and were paid off, leaving an outstanding balance of $37.9 million as of March 31, 2021. During the first quarter of 2021, we funded an additional $64.2 million of PPP loans. Total outstanding PPP loans were $102.1 million as of March 31, 2021. During the three months ended March 31, 2021, we recognized $1.6 million in PPP loan related deferred fees (net of amortization of related deferred origination costs) as a yield adjustment and this amount is included in interest income on loans. As a result of the inclusion of these net fees in interest income, the average yield on PPP loans was 7.4% during the three months ended March 31, 2021. For the outstanding balance of PPP loans funded through March 31, 2021, we expect to recognize additional PPP loan related deferred fees (net of deferred origination costs) totaling approximately $3.2 million as a yield adjustment, all in 2021. Net discount accretion for acquired loans decreased $340,000 from $377,000 for the three months ended March 31, 2020 to $37,000 for the three months ended March 31, 2021. The average yield on interest-bearing deposits (primarily held in an interest-bearing account at the Federal Reserve) decreased 97 basis points from 1.06% for the three months ended March 31, 2020 to 0.09% for the three months ended March 31, 2021 as a result of aforementioned decrease in market interest rates.

The average volume of interest-bearing liabilities increased $113.3 million, or 40.9%, from $277.0 million for the three months ended March 31, 2020 to $390.3 million for the three months ended March 31, 2021. The average volume of interest-bearing deposits increased $35.3 million, or 13.5%, from $260.8 million for the three months ended March 31, 2020 to $296.1 million for the three months ended March 31, 2021, and the average interest rate paid on interest-bearing deposits decreased 105 basis points from 1.96% for the three months ended March 31, 2020 to 0.91% for the three months ended March 31, 2021. Non-interest bearing deposits increased $20.2 million, or 56.4%, from $35.8 million for the three months ended March 31, 2020 to $56.0 million for the three months ended March 31, 2021. The average cost of deposits during the three months ended March 31, 2021 was impacted by decreases in interest rates paid on money market and time deposits as a result of the aforementioned decrease in market interest rates. The average volume of FHLB and other borrowings increased $77.9 million from $4.2 million for the three months ended March 31, 2020 to $82.1 million for the three months ended March 31, 2021, consisting entirely of funding from the PPPLF program, at an interest rate of 0.35%, used to fund the PPP loans. The average cost of FHLB and other borrowings decreased 178 basis points from 2.13% for the three months ended March 31, 2020 to 0.35% for the three months ended March 31, 2021.

The following table sets forth our average balances of assets, liabilities and shareholders' equity, in addition to the major components of net interest income and our net interest margin, for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31,					
	2021			2020		
(In thousands, except percentages)	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Assets						
Interest-bearing deposits and federal funds sold	$ 22,468	$ 5	0.09%	$ 23,802	$ 62	1.06%
Securities	25,939	146	2.28	21,865	312	5.79
Loans, net of unearned discount (1)	438,784	6,163	5.70	297,397	4,741	6.47
Total earning assets	487,191	6,314	5.26	343,064	5,115	6.00
Cash and other assets	31,128			28,798		
Allowance for loan losses	(2,945)			(1,424)		
Total assets	$ 515,374			$ 370,438		
Liabilities and Shareholders' Equity						
Savings and interest-bearing demand	$ 12,091	7	0.23%	$ 9,255	9	0.39%
Money market deposit accounts	107,089	98	0.37	63,752	200	1.27
Time deposits	176,968	556	1.27	187,816	1,049	2.27
Total interest-bearing deposits	296,148	661	0.91	260,823	1,258	1.96
FHLB and other borrowings	82,113	70	0.35	4,194	22	2.13
Subordinated notes	12,000	219	7.40	12,000	219	7.40
Total interest-bearing liabilities	390,261	950	0.99	277,017	1,499	2.19
Non-interest-bearing deposits	56,044			35,813		
Other liabilities	8,353			6,903		
Total liabilities	454,689			319,733		
Shareholders' equity	60,716			50,705		
Total liabilities and shareholders' equity	$ 515,374			$ 370,438		
Net interest income		$ 5,364			$ 3,616	
Net interest spread			4.27%			3.81%
Net interest margin			4.47%			4.24%

(1) Includes non-accrual loans.

Provision for Loan Losses

The provision for loan losses totaled $428,000 for the three months ended March 31, 2021, a decrease of $360,000 compared to $788,000 for the three months ended March 31, 2020. Included in the provision in the prior year period was $224,000, which represented the amount of reserve for loan loss required in excess of the discount balance on loans acquired. We determined a provision for loan losses that we consider sufficient to maintain an allowance to absorb probable losses inherent in our portfolio as of the balance sheet date.

For additional information concerning this determination, see the section captioned "Allowance for Loan Losses" elsewhere in this discussion.

Non-Interest Income

The components of non-interest income were as follows:

	Three Months Ended March 31,	
(In thousands)	**2021**	**2020**
Trust income	$ 1,440	$ 1,277
Gain on sale of loans	-	432
Advisory income	3,017	2,494
Brokerage income	2,466	2,071
Service fees and other income	2,306	1,736
Rental income	88	91
Total	$ 9,317	$ 8,101

Total non-interest income for the three months ended March 31, 2021 increased $1.2 million, or 15.0%, compared to the same period in the prior year. Material changes in the various components of non-interest income are discussed below.

Trust Income. Trust income is earned for trust services on the value of managed and non-managed assets held in custody. Volatility in the bond and equity markets impacts the market value of trust assets and the related fees. Trust income for the three months ended March 31, 2021 increased $163,000, or 12.8%, compared to the same period in the prior year. The increase in the fee income for the three months ended March 31, 2021 is due to an increase in the average market value of the trust assets as compared to the three month period in the prior year. The expectation of an economic recovery from the COVID-19 pandemic has increased market values of trust assets over those experienced during the latter part of the three months ended March 31, 2020, when the impacts of the COVID-19 pandemic were first being felt, causing extreme volatility and decreasing fees during the three month period in the prior year. Volatility related to an uneven recovery from the economic downturn related to the COVID-19 pandemic could result in future net decreases in the average values of our assets held in custody, and/or continued volatility in asset values, potentially decreasing our trust income.

Gain on sale of loans. Gain on sale of loans is generally gain on sales of the guaranteed portion of loans within our SBA loan portfolio. There were no loan sales, and consequently, no gain on sale of loans for the three months ended March 31, 2021. Gain on sale of loans for the three months ended March 31, 2020 was $432,000, resulting from the sale of $6.2 million of SBA loans.

Advisory income. Advisory fees are typically based on a percentage of the underlying average asset values for a given period, where each percentage point represents 100 basis points. These revenues are of a recurring nature, but are directly affected by increases and decreases in the values of the underlying assets. For the three months ended March 31, 2021, advisory income increased $523,000, or 21.0%, compared to the same period in the prior year. The increase in advisory income between the two periods is due to an increase in the average market value of the advisory assets during the three months ended March 31, 2021 as compared to the same period in the prior year. Similar to our trust income, changes in the value of our assets under management will result in comparable changes in our advisory income. The expectation of an economic recovery from the COVID-19 pandemic has increased market values of our advisory assets, whereas the economic disruption caused by the start of the COVID-19 pandemic during the three months ended March 31, 2020 increased market volatility leading to lower advisory fees in the earlier three month period. Volatility related to an uneven or difficult to sustain recovery from the COVID-19 pandemic could result in future net decreases to our assets under management, potentially decreasing advisory income.

Brokerage income. Brokerage revenues are generally based on a per share fee or commission to trade a share of a particular stock, bond or other security. In addition, brokerage revenues, in this context, include private placements, participation in syndication of public offerings, and certain other brokerage revenues, including interest earned on margin lending. Brokerage revenue is dependent on the volume of trading, and on private placement and syndication activity during the period, and in the case of margin lending, on interest rates. Brokerage income for the three months ended March 31, 2021 increased $395,000, or 19.1%, compared to the same periods in the prior year. The economic disruption related to the COVID-19 pandemic led to a dramatic slowing of activity that began during the first quarter 2020 and continued throughout the remainder of the year. This led to delays in private placements and syndicated public offerings, which have begun to recover along with general trading activity. This activity may face a prolonged recovery.

The table below reflects a rollforward of our client assets, which includes both advisory and brokerage assets, as of March 31, 2021 and December 31, 2020, and the inflows and outflows and net market appreciation during the three months ended March 31,2021. Our brokerage and advisory assets experienced an increase of approximately $417.0 million, or 9.2%, during the three months ended March 31, 2021, related to positive net flows and market appreciation.

(In thousands)		Client Assets
As of December 31, 2020	$	4,524,376
Client inflows		519,177
Client outflows		(437,760)
Net flows		81,417
Market appreciation		335,882
As of March 31, 2021	$	4,941,675

Service fees and other income. Service fees includes fees for deposit-related services, loan servicing, and third party administration fees. Service fees and other income for the three months ended March 31, 2021 increased $570,000, or 32.8%, compared to the same period in the prior year. This increase is the result of an increase in third party administration fees of $459,000, and in loan servicing fees of $153,000 primarily due to reversal of the servicing asset valuation allowance during the three months ended March 31, 2021. In addition, there was an increase in other income of $85,000 related to an income distribution from an interest in securities not readily marketable during the three months ended March 31, 2021. These increases were offset by a decrease in other income of approximately $124,000 related to a non-recurring extinguishment of a retirement liability during the first quarter of 2020, and immaterial fluctuations totaling a net $3,000 decrease compared to the same period in the prior year. The increase in third party administration fees during the three months ended March 31, 2021 as compared to the same period in the prior year, was in part due to the COVID-19 pandemic and the resulting lag in information from plan sponsors to complete annual plan administration work related to the shutdown of dental practices nationwide which began in March 2020, whereas during the three months ended March 31, 2021, information was received timely and therefore, a larger percentage of plan administration work was able to be completed earlier.

Rental income. The Company receives monthly rental income from tenants leasing space in the Bank building. Rental income for the three months ended March 31, 2021 decreased $3,000 from the same period in the prior year.

Non-Interest Expense

The components of non-interest expense were as follows:

	Three Months Ended March 31,			
(In thousands)		2021		2020
Salaries and employee benefits	$	5,768	$	4,904
Occupancy and equipment		427		533
Trust expenses		564		555
Brokerage and advisory direct costs		506		486
Professional fees		450		374
Data processing		205		192
Other		775		778
Total	$	8,695	$	7,822

Total non-interest expense for the three months ended March 31, 2021 increased $873,000, or 11.2%, compared to the same period in the prior year, primarily due to increases in salaries and employee benefits and professional fees, as well as increases in our brokerage and advisory direct costs and data processing fees, which were partially offset by a decrease in depreciation expense within our occupancy and equipment expense. Material changes in the various components of non-interest income are discussed below.

Salaries and employee benefits. Salaries and employee benefits for the three months ended March 31, 2021 increased $864,000, or 17.6%, compared to the same period in the prior year. The increase was due to increases in salaries, bonuses and earnouts and related payroll taxes at our other financial services segment, which was partially offset by a decrease in certain incentive bonuses, and salary increases at our Banking segment and increases in stock compensation expense in our HoldCo segment, and increases in health insurance costs across the Company, compared to the same period in the prior year. In our Other Financial Services segment, $137,000 of the increase related to merit increases in salaries and an increase in headcount related to growth in the Bank's Nolan division, which provides TPA services, and $53,000 related to salary increases at Sanders Morris. In addition, there was a net increase in earnouts and incentive bonuses at Sanders Morris related to increases in brokerage commission activity of $93,000 compared to the same period in the prior year, during which the COVID-19 pandemic had begun to suppress private placements and syndicated offerings, as well as certain trading activity on which Sanders Morris earns higher margins, which recovered somewhat during the three months ended March 31, 2021. Payroll taxes increased in our Other Financial Services segment by $146,000 related to the increases and the timing of bonus payouts. Salaries in our Banking segment increased $144,000 for the three months ending March 31, 2021. The increase was the result of an increase in salary and payroll tax expense of $135,000 and $31,000, respectively, resulting from annual salary merit increases and an increase in staff, slightly offset by a decrease in bonuses of $22,000. Stock compensation expense increased by $61,000 related to stock grants made on September 30, 2020 offset by a decrease in expense related to options granted, and bonus expense in our Holdco segment increased by $38,000 related to an increase in bonus accrued compared to the same period in the prior year. Health insurance costs increased across the Company by $38,000 during the three months ended March 31, 2021, compared to the same period in the prior year.

Occupancy and equipment expense. Occupancy and equipment expense for three months ended March 31, 2021 decreased $106,000, or 19.9%, compared to the same period in the prior year. The decrease is attributable to a decrease of $69,000 in depreciation expense at our Other Financial Services segment related primarily to a group of fixed assets and software costs reaching full depreciation/amortization during the three months ended June 30, 2020, and decrease in rent, utilities and common area maintenance expenses in that segment of $36,000, slightly offset by an increase in repairs and maintenance expense of $7,000, and decreases in facilities telephone and depreciation of $8,000 in our Banking segment.

Trust expenses. Trust expenses are advisory fees paid to a fund advisor to advise the Company on the common trust funds managed by the Company, and are based on the value of the assets held in custody. Volatility in the bond and equity markets impacts the market value of trust assets and the related expenses. The monthly advisory fees are assessed based on the market value of assets at month-end. Trust expenses increased $9,000, or 1.6%, due to an increase in the market value of trust assets for the three months ended March 31, 2021 over the market value during the three months ended March 31, 2020, which represented a recovery in asset values.

Brokerage and advisory direct costs. Brokerage and advisory direct costs for three months ended March 31, 2021 increased $20,000, or 4.1%, compared to the same periods in the prior year. The increase related primarily to increases in advisory program fees at Sanders Morris related to increases in asset values of $85,000, offset by decreases in brokerage and exchange clearing fees at Sanders Morris of approximately $47,000, and in information services and referral fees of $18,000.

Professional fees. Professional fees, which include legal, consulting, audit and tax fees, for the three months ended March 31, 2021 increased $76,000, or 20.3%, compared to the same period in the prior year. The increase was the result of an increase of $96,000 in our Other Financial Services segment, offset by decreases in our Banking and Holdco segments of $5,000 and $15,000, respectively. The increase in our other financial services segment was related to increases in consulting fees related to our participant directed recordkeeping group, where staffing changes led to an increase in consulting expense of $30,000 compared to the same period in the prior year, and an increase in professional fees in our Nolan division related to an agreement with the former owner of Nolan under which payments increased by $35,000 due to an increase in the earnings from our Nolan division over the same period in the prior year, and an increase in tax consulting expense related to the completion of the tax returns for the trust department's pooled funds earlier in the year compared to the prior period of $9,000, and other individually immaterial increases of approximately $20,000. The offsetting decreases related to a decrease in audit and tax consulting fees at the Bank totaling $37,000, offset by increases in legal and professional fees of $18,000 and $14,000, respectively, and a decrease in professional fees at our Holdco segment of $15,000, compared to the same period in the prior year.

Data processing. Data processing includes costs related to the Company's operating systems. Data processing expense for three months ended March 31, 2021 increased $13,000, or 6.8%, compared to the same periods in the prior year. The increase was due to an increase in trust data processing for the three months ended March 31, 2021 of $14,000, related to discounts received during the three months ended March 31, 2020 which decreased expense for that three month period, offset slightly by a $1,000 decrease in data processing and operating systems at Sanders Morris and Tectonic Advisors compared to the same period in the prior year.

Other. Other expenses include costs for insurance, Federal Deposit Insurance Corporation ("FDIC") and Office of the Comptroller of the Currency ("OCC") assessments, director fees, regulatory filing fees related to our brokerage business, business travel, management fees, and other operational expenses. Other expenses for three months ended March 31, 2021 decreased $3,000, or 0.4%, compared to the same period in the prior year. The net decrease was primarily related to a decrease of $43,000 in our Banking segment, offset by increases of $15,000 and $25,000 in our Other Financial Services and Holdco segments, respectively. The decrease in other expenses in our Banking segment relates primarily to a decrease in employee recruitment costs of $20,000, and to decreases in travel, meals, and entertainment costs of approximately $14,000, and a decrease in payroll processing fees of $9,000. The offsetting increases primarily relate to increases in computer software, supplies, and office expenses in our Other Financial Services segment of $83,000, offset by decreases of $37,000 across travel, meals and entertainment expense, and a decrease in public relations expense of $12,000, and other individually immaterial increases totaling $34,000. The increase in our Holdco segment of $25,000 relates to an increase of $14,000 in our directors' and officers' insurance coverage, and an increase of $11,000 in our directors' fees related to timing.

Income Taxes

Income tax expense for the three months ended March 31, 2021 was $1.3 million, for an effective income tax rate of 22.7%, compared to $706,000, for an effective income tax rate of 22.7%, for the same period in the prior year.

Segment Reporting

We have three operating segments: Banking, Other Financial Services and HoldCo. Our primary operating segments are Banking and Other Financial Services.

Our Banking operating segment includes both commercial and consumer banking services. Commercial banking services are provided primarily to small to medium-sized businesses and their employees, which includes a wide array of lending and cash management products. Consumer banking services include lending and depository services.

Our Other Financial Services segment includes Tectonic Advisors, Sanders Morris, the Bank's Trust Division, which includes a TPA services unit, and HWG. Through these business divisions, we offer investment advisory and brokerage services to individuals and businesses, private trust services, and financial management services, including personal wealth management, retirement plan design and administrative services, and insurance brokerage services.

A third operating segment, HoldCo, includes the Bank's immediate parent and related subordinated debt, as well as operations of the financial holding company that serves as parent for the group overall. Our principal source of revenue is dividends from our subsidiaries.

The following table presents key metrics related to our segments:

	Three Months Ended March 31, 2021			
(In thousands)	**Banking**	**Other Financial Services**	**HoldCo**	**Consolidated**
Revenue(1)	$ 5,767	$ 9,048	$ (134)	$ 14,681
Income (loss) before taxes	$ 3,112	$ 2,929	$ (483)	$ 5,558

	Three Months Ended March 31, 2020			
(In thousands)	**Banking**	**Other Financial Services**	**HoldCo**	**Consolidated**
Revenue(1)	$ 4,297	$ 7,639	$ (219)	$ 11,717
Income (loss) before taxes	$ 1,385	$ 2,181	$ (459)	$ 3,107

(1) Net interest income plus non-interest income

Banking

Income before taxes for the three months ended March 31, 2021 increased $1.7 million, or 124.7%, compared to the same period in the prior year. The increase was primarily the result of a $1.7 million increase in net interest income, a $360,000 decrease in the provision for loan losses, partly offset by a $278,000 decrease in non-interest income and by a $103,000 increase in non-interest expense.

Net interest income for the three months ended March 31, 2021 increased $1.7 million, or 45.6%, compared to the same period in the prior year, due primarily to PPP fees of $1.6 million recognized for the three months ended March 31, 2021. Other changes included an increase in the average volume of loans and decrease in average rates paid on interest-bearing deposits and borrowings, partly offset by a decrease in average yields on earning assets and increase in average volume of interest-bearing deposits and borrowings. See the analysis of net interest income included in the section captioned "Net Interest Income" included elsewhere in this discussion.

The provision for loan losses for the three months ended March 31, 2021, totaled $428,000, compared to $788,000 for the same period in the prior year. See "Allowance for Loan Losses" included elsewhere in this discussion.

Non-interest income for the three months ended March 31, 2021 decreased $278,000, or 60.2%, compared to the same period in the prior year. The decrease wase primarily due to a $432,000 decrease in gain on sale of loans resulting from the Company having no loan sales during the three months ended March 31, 2021, partly offset by a $153,000 increase in net loan servicing income for three months ended March 31, 2021. The increase in net loan servicing income was the result of a $175,000 decrease in servicing rights amortization, partly offset by a $22,000 decrease in servicing fees for the three months ended March 31, 2021. See the analysis of non-interest income included in the section captioned "Non-Interest Income" included elsewhere in this discussion.

Non-interest expense for the three months ended March 31, 2021 increased $103,000, or 4.8%, compared to the same period in the prior year. The increase for the three months ended March 31, 2021 was due to a $159,000 increase in salaries and employee benefits, for annual merit increases and increases in staff and incentive bonuses. The increase was partly offset by a $43,000 decrease in other expenses including $20,000 for recruiting fees, $10,000 for travel and meals and $13,000 for various other expenses. The increase was also partly offset by an $8,000 decrease in occupancy and equipment and $4,000 in professional fees. See the analysis of non-interest expense included in the section captioned "Non-Interest Expense" included elsewhere in this discussion.

Other Financial Services

Income before taxes for the three months ended March 31, 2021 increased $748,000, or 34.3%, compared to the same period in the prior year. The increase during the three months ended March 31, 2021 was primarily the result of an increase in $1.4 million in non-interest income, offset by an increase of $661,000 in non-interest expense.

Non-interest income for the three months ended March 31, 2021 increased $1.4 million, or 18.48%, compared to the same period in the prior year. The increase was primarily due to increases in advisory and trust income of $395,000 and $163,000, respectively, related primarily to a recovery in the value of our assets under management at Tectonic Advisors and Sanders Morris, and increases in brokerage income of $523,000 related to a recovery in private placement and syndicated offering activity at Sanders Morris, as well as in commission based trading activity, and in services fees related to the Nolan division of $328,000, due to an increase in the work completed and billed by Nolan related to earlier timing of that work and an increase in Nolan's clients overall. See also the analysis of non-interest income included in the section captioned "Non-Interest Income" included elsewhere in this discussion.

Non-interest expense for the three months ended March 31, 2021 increased $661,000, or 12.1%, compared to the same periods in the prior year. These increases were related to increases in salaries and employee benefits of $605,000, primarily related to increases in brokerage activity, including private placement activity, at Sanders Morris leading to an increase in commissions and earnouts compared to the same period in the prior year, partially offset by staffing additions at Nolan during late 2020 to add capacity for additional plan administration work. Occupancy and equipment expense decreased by $98,000 for the three months ended March 31, 2021, related to software that became fully depreciated as of April 2020. Professional fees increased by $96,000 related to increases in consulting expense related to our participant direction services group due to staffing changes, and an increase in fee expense under our agreement with the former owner of Nolan related to increase in results from that group. The remaining variances for the three months ended March 31, 2021 related to increases in trust expenses, brokerage and advisory direct costs, and data processing and other expenses, from increases in advisory fees and certain segments of brokerage activity and related advisory service fees, and information services expense. See also the analysis of non-interest income included in the section captioned "Non-Interest Expense" included elsewhere in this discussion.

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Loss before taxes for the three months ended March 31, 2021 increased $24,000, or 5.2%, compared to the same period in the prior year. The increase in the loss was due to an increase of $100,000 in salaries and benefits expense related to an increase in stock compensation expense related to stock grants made in September 2020, and of $25,000 in other expenses related primarily to an increase in our directors' and officers' insurance coverage, offset by a decrease in professional fees of $16,000 and income of $85,000 related to an income distribution from an interest in the securities not readily marketable. See also the analysis of non-interest income included in the section captioned "Non-Interest Expense" included elsewhere in this discussion.

Financial Condition

Investment Securities

The primary purpose of the Company's investment portfolio is to provide a source of earnings for liquidity management purposes, to provide collateral to pledge against borrowings, and to control interest rate risk. In managing the portfolio, the Company seeks to attain the objectives of safety of principal, liquidity, diversification, and maximized return on investment.

As of March 31, 2021, securities available for sale consisted of U.S. government agency securities and mortgage-backed securities guaranteed by U.S. government agencies. Securities held to maturity consisted of Property Assessed Clean Energy investments. These investment contracts or bonds, located in California and Florida, originate under a contractual obligation between the property owners, the local county administration, and a third-party administrator and sponsor. The assessments are created to fund the purchase and installation of energy saving improvements to the property, such as solar panels. Generally, as a property assessment, the total assessment is repaid in installments over a period up to 15 years by the then current property owner(s). Each installment is collected by the County Tax Collector where the property is located. The assessments are an obligation of the property. Each assessment is equal in priority to the other property taxes and assessments associated with the property, including local school, city, and county ad-valorem taxes.

As of March 31, 2021 and December 31, 2020, the Bank held FRB stock in the amount of $1.2 million. The Bank held FHLB stock in the amount of $1.2 million as of March 31, 2021 and December 31, 2020. The FRB stock and FHLB stock were classified as restricted securities.

Securities not readily marketable consists of an income interest in a private investment.

The following table presents the amortized cost and fair values of the securities portfolio as of the dates indicated:

	As of March 31, 2021		As of December 31, 2020	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Securities available for sale:				
U.S. government agencies	$ 14,200	$ 13,934	$ 14,936	$ 14,949
Mortgage-backed securities	2,119	2,181	2,373	2,447
Total securities available for sale	$ 16,319	$ 16,115	$ 17,309	$ 17,396
Securities held to maturity:				
Property assessed clean energy	$ 5,753	$ 5,753	$ 5,776	$ 5,776
Securities, restricted:				
Other	$ 2,431	$ 2,431	$ 2,431	$ 2,431
Securities not readily marketable	$ 100	$ 100	$ 100	$ 100

The following table summarizes the maturity distribution schedule with corresponding weighted-average yields of securities available for sale and securities held to maturity as of March 31, 2021. Yields are calculated based on amortized cost. Mortgage-backed securities are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Other securities classified as restricted include stock in the FRB and the FHLB, which have no maturity date. These securities have been included in the total column only and are not included in the total yield.

	Maturing									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
(In thousands, except percentages)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available for sale:										
U.S. government agencies	$ -	-%	$ 1,251	0.89%	$ 8,995	1.01%	$ 3,954	1.00%	$ 14,200	1.00%
Mortgage-backed securities	-	-	1,051	3.08	-	-	1,068	1.87	2,119	2.47
Total	$ -	-%	$ 2,302	1.89%	$ 8,995	1.01%	$ 5,022	1.19%	$ 16,319	1.19%
Securities held to maturity:										
Property assessed clean energy	$ -	-%	$ 830	4.23%	$ 2,194	6.43%	$ 2,729	7.32%	$ 5,753	6.54%
Securities, restricted:										
Other	$ -	-%	$ -	-%	$ -	-%	$ -	-%	$ 2,430	-%
Securities not readily marketable	$ -	-%	$ -	-%	$ -	-%	$ -	-%	$ 100	-%

Loan Portfolio Composition

Total loans excluding allowance for loan losses, increased $29.7 million, or 7.4%, to $430.2 million at March 31, 2021, compared to $400.5 million at December 31, 2020. SBA loans comprise the largest group of loans in our portfolio totaling $279.7 million, or 65.0% (54.1% excluding PPP loans) of the total loans at March 31, 2021, compared to $252.4 million, or 63.0% (53.4% excluding PPP loans) at December 31, 2020. Commercial and industrial loans totaled $77.9 million, or 18.1% (23.7% excluding PPP loans), of the total loans at March 31, 2021, compared to $79.9 million, or 19.9% (25.1% excluding PPP loans), at December 31, 2020. Commercial and construction real estate loans totaled $57.9 million, or 13.5% (17.7% excluding PPP loans), of the total loans at March 31, 2021, compared to $52.9 million, or 13.2% (16.6% excluding PPP loans), at December 31, 2020.

The following table sets forth the composition of our loans held for investment:

(In thousands, except percentages)	March 31, 2021		December 31, 2020	
Commercial and industrial	$ 77,889	18.1%	$ 79,864	19.9%
Consumer installment	10,334	2.4	10,259	2.6
Real estate – residential	3,581	0.8	4,319	1.1
Real estate – commercial	49,236	11.5	44,484	11.1
Real estate – construction and land	8,673	2.0	8,396	2.1
SBA 7(a) guaranteed	190,292	44.2	164,687	41.1
SBA 7(a) unguaranteed	51,947	12.1	52,179	13.0
SBA 504	37,423	8.7	35,553	8.9
USDA	802	0.2	801	0.2
Other	2	-	-	-
Total Loans	$ 430,179	100.0%	$ 400,542	100.0%

At origination, the Company determines whether holding the guaranteed portion of SBA 7(a) and USDA loans provide better long-term risk adjusted returns than selling the loans, and records as either held for investment or held for sale. The Company records held for sale loans at the lower of cost or fair value. Loans held for sale totaled $13.8 million and $14.9 million at March 31, 2021 and December 31, 2020, respectively. During the three months ended March 31, 2021, the Company elected to reclassify $8.8 million of the SBA 7(a) loans held for sale to held for investment.

Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. As of March 31, 2021, our loan portfolio included $68.1 million of loans, approximately 15.8% of our total funded loans (20.8% excluding PPP loans), to the dental industry, compared to $67.2 million, or 16.8% (21.1% excluding PPP loans), of total funded loans, as of December 31, 2020. We believe that these loans are to credit worthy borrowers and are diversified geographically.

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. 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 or five years, depending on the date of origination, (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 40% 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). During 2020, we funded $98.3 million of PPP loans. As of March 31, 2021, approximately $60.4 million of the PPP loans originated in 2020 have been forgiven by the SBA and were paid off, leaving an outstanding balance of $37.9 million as of March 31, 2021. The Consolidated Appropriations Act, 2021, which was signed into law on December 27, 2020, allocated an additional $284 billion to the SBA to fund a second round of PPP and extended the application period for the PPP to March 31, 2021. The PPP application period was later extended to the earlier of May 31, 2021, or such date when all PPP funds are exhausted. During the three months ended March 31, 2021, we originated $64.2 million of PPP loans, and received $3.3 million of PPP-related fees from the SBA. We deferred $3.2 million of the PPP-related fees, net of $99,000 which represented costs incurred to originate these loans.

We are also participating in the PPPLF which, through June 30, 2021, will extend loans to banks who are loaning money to small businesses under the PPP. The total amount borrowed under the PPPLF as of March 31, 2021 was $102.1 million and is non-recourse and secured by an equal amount of the PPP loans we originated. The maturity date of a borrowing under the PPPLF is equal to 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%.

As of March 31, 2021, 40.2% of the loan portfolio, or $173.1 million, matured or re-priced within one year or less. The following table presents the contractual maturity ranges for the loan portfolio as of March 31, 2021 and December 31, 2020, and also presents for each maturity range the portion of loans that have fixed interest rates or variable interest rates over the life of the loan in accordance with changes in the interest rate environment as represented by the base rate:

	As of March 31, 2021					
		Over 1 Year through 5 Years		Over 5 Years		
(In thousands)	**One Year or Less**	**Fixed Rate**	**Floating or Adjustable Rate**	**Fixed Rate**	**Floating or Adjustable Rate**	**Total**
Commercial and industrial	$ 8,522	$ 10,809	$ 5,870	$ 52,688	$ -	$ 77,889
Consumer installment	7,772	2,549	-	13	-	10,334
Real estate – residential	713	2,868	-	-	-	3,581
Real estate – commercial	6,842	7,906	24,541	1,740	8,207	49,236
Real estate – construction and land	5,455	2,831	-	198	189	8,673
SBA 7(a) guaranteed	75,466	98,987	15,368	471	-	190,292
SBA 7(a) unguaranteed	45,117	27	5,571	1,232	-	51,947
SBA 504	22,434	-	11,245	-	3,744	37,423
USDA	802	-	-	-	-	802
Other	2	-	-	-	-	2
Total	$ 173,125	$ 125,977	$ 62,595	$ 56,342	$ 12,140	$ 430,179

(In thousands)	As of December 31, 2020 One Year or Less	Over 1 Year through 5 Years Fixed Rate	Over 1 Year through 5 Years Floating or Adjustable Rate	Over 5 Years Fixed Rate	Over 5 Years Floating or Adjustable Rate	Total
Commercial and industrial	$ 11,330	$ 9,631	$ 6,937	$ 51,391	$ 575	$ 79,864
Consumer installment	6,015	4,231	-	13	-	10,259
Real estate – residential	768	3,551	-	-	-	4,319
Real estate – commercial	3,410	7,628	23,790	2,130	7,526	44,484
Real estate – construction and land	1,690	2,344	4,159	20	183	8,396
SBA 7(a) guaranteed	69,968	80,951	13,286	482	-	164,687
SBA 7(a) unguaranteed	45,387	29	4,878	1,239	646	52,179
SBA 504	20,513	-	11,274	-	3,766	35,553
USDA	801	-	-	-	-	801
Other	-	-	-	-	-	-
Total	$ 159,882	$ 108,365	$ 64,324	$ 55,275	$ 12,696	$ 400,542

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is less than their average contractual terms due to prepayments.

Loans acquired in acquisitions are initially recorded at fair value with no carryover of the related allowance for credit losses. The fair value of the loans is determined using market participant assumptions in estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

Under the accounting model for acquired loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the “accretable yield,” is accreted into interest income over the life of the loans.

Non-performing Assets

Our primary business segments are Banking and Other Financial Services, and as outlined above, the Banking segment’s primary business is lending. That activity entails potential loan losses, the magnitude of which depends on a variety of economic factors affecting borrowers which are beyond our control. While we have instituted underwriting guidelines and policies and credit review procedures to protect us from avoidable credit losses, some losses will inevitably occur. The COVID-19 pandemic has contributed to an increased risk of delinquencies, defaults and foreclosures. Through the date of this filing, the Company has not experienced any loan charge-offs caused by the economic impact from COVID-19.

Non-performing assets include non-accrual loans, loans 90 days or more past due and still accruing and foreclosed assets. Non-performing assets totaled $4.9 million as of March 31, 2021, compared to $1.8 million as of December 31, 2020. As of March 31, 2021, non-performing assets consisted of SBA non-accrual loans totaling $4.9 million, of which $3.6 million was guaranteed by the SBA, and commercial real estate non-accrual loans totaling $156,000. As of December 31, 2020, non-performing assets consisted of SBA non-accrual loans totaling $1.6 million, of which $1.1 million was guaranteed by the SBA, and commercial and industrial non-accrual loans totaling $158,000. There were no foreclosed assets as of March 31, 2021 and December 31, 2020.

Loans are considered past due when principal and interest payments have not been received as of the date such payments are contractually due. Loans are placed on non-accrual status when management has concerns relating to the ability to collect the loan interest and generally when such loans are 90 days or more past due. A loan is considered impaired when it is probable that not all principal and interest amounts will be collected according to the original loan contract. There were no loans past due 90 days or more and still accruing interest as of March 31, 2021 and December 31, 2020.

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for possible loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs are provided for subsequent declines in value and are included in other non-interest expense along with other expenses related to maintaining the properties. There were no foreclosed assets as of March 31, 2021 and December 31, 2020.

The following table sets forth certain information regarding non-performing assets and restructured loans by type, including ratios of such loans to total assets as of the dates indicated:

	March 31, 2021		December 31, 2020	
(In thousands, except percentages)	**Amount**	**Loan Category to Total Assets**	**Amount**	**Loan Category to Total Assets**
Non-accrual loans**:**				
Real estate – commercial	$ 156	0.03%	$ 158	0.03%
SBA guaranteed	3,590	0.67	1,118	0.22
SBA unguaranteed	1,127	0.21	517	0.10
Total non-accrual loans	4,873	0.91	1,793	0.35
Loans past due 90 days and accruing	-	-	-	-
Foreclosed assets	-	-	-	-
Total non-performing assets	$ 4,873	0.91%	$ 1,793	0.35%
Restructured loans on non-accrual	$ -	-%	$ -	-%

Restructured loans are considered "troubled debt restructurings" if, due to the borrower's financial difficulties, we have granted a concession that we would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modifications of terms that could potentially qualify as a troubled debt restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current market rate for new debt with similar risk, or a reduction of the face amount of debt, either forgiveness of principal or accrued interest. As of March 31, 2021 and December 31, 2020, we had no loans considered to be a troubled debt restructuring.

As noted in Note 3, "Loans and Allowance for Loan Losses," Section 4013 of the CARES Act provides financial institutions the option to suspend troubled debt restructuring accounting under GAAP in certain circumstances and the Company has elected that option. The Company has worked proactively with customers experiencing financial challenges from the COVID-19 pandemic. As of March 31, 2021, the Company had granted no principal and interest payment deferrals related to COVID-19.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses ("ALLL") is a valuation allowance for credit losses in the loan portfolio. Management has adopted a methodology to properly analyze and determine an adequate loan loss allowance, which includes allowance allocations calculated in accordance with FASB ASC Topic 310, *Receivables*, and allowance allocations calculated in accordance with FASB ASC Topic 450, *Contingencies*. The analysis is based on sound, reliable and well documented information and is designed to support an allowance that is adequate to absorb all estimated incurred losses in our loan portfolio.

In estimating the specific and general exposure to loss on impaired loans, we have considered a number of factors, including the borrower's character, overall financial condition, resources and payment record, the prospects for support from any financially responsible guarantors, and the realizable value of any collateral.

We also consider other internal and external factors when determining the allowance for loan losses, which include, but are not limited to, changes in national and local economic conditions, loan portfolio concentrations, and trends in the loan portfolio. Given the level of economic disruption and uncertainty within the State of Texas and the nation as a whole, arising from the COVID-19 pandemic and volatility, the Company qualitatively adjusted the analysis for the allowance for loan losses for these and other risk factors as discussed in Item 1.A. "Risk Factors" of the 2020 Form 10-K. Based on an analysis performed by management at March 31, 2021, the allowance for loan losses is believed to be adequate to cover estimated loan losses in the portfolio as of that date based on the loan loss methodology employed by management. However, management's judgment is based upon a number of assumptions about future events, which are believed to be reasonable, but which may or may not prove valid. Thus, charge-offs in future periods may exceed the allowance for loan losses or significant additional increases in the allowance for loan losses may be required.

Senior management and the Directors' Loan Committee review this calculation and the underlying assumptions on a routine basis not less frequently than quarterly.

The allowance for loan losses totaled $3.1 million and $2.9 million, as of March 31, 2021 and December 31, 2020, respectively. During the three months ended March 31, 2021, the Company had one SBA charge-off of $215,000 and recoveries of $4,000.

The table below presents a summary of the Company's net loan loss experience and provisions to the ALLL for the period indicated:

(In thousands, except percentages)	As of and for the Three Months Ended March 31, 2021	2020
Average loans outstanding	$ 438,784	$ 297,397
Gross loans outstanding at end of period	$ 430,179	$ 292,922
Allowance for loan losses at beginning of period	$ 2,941	$ 1,408
Provision for loan losses	428	788
Charge offs:		
SBA 7(a)	215	11
Total charge-offs	215	11
Recoveries:		
Commercial and industrial	-	33
SBA 7(a)	4	3
Total recoveries	4	36
Net (charge-offs) recoveries	(211)	25
Allowance for loan losses at end of period	$ 3,158	$ 2,221
Ratio of allowance to end of period loan	0.73%	0.76%
Ratio of net charge-offs to average loans (annualized)	0.05%	0.03%

The following table sets forth the allocation of the allowance as of the date indicated and the percentage of allocated possible loan losses in each category to total gross loans as of the date indicated:

(In thousands, except percentages)	March 31, 2021		December 31, 2020	
Allocated:	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans
Commercial and industrial	$ 1,037	18.1%	$ 928	19.9%
Consumer installment	100	2.4	91	2.6
Real estate – residential	46	0.8	52	1.1
Real estate – commercial	581	11.5	527	11.1
Real estate – construction and land	111	2.0	100	2.1
SBA	1,264	65.0	1,225	63.0
USDA	19	0.2	18	0.2
Total allowance for loan losses	$ 3,158	100.0%	$ 2,941	100.0%

Sources of Funds

General

Deposits, loan and investment security repayments and prepayments, proceeds from the sale of securities, and cash flows generated from operations are the primary sources of our funds for lending, investing, and other general purposes. Loan repayments are generally a relatively stable source of funds, while deposit inflows and outflows tend to fluctuate with prevailing interests rates, markets and economic conditions, and competition.

Deposits

Deposits are attracted principally from our primary geographic market area with the exception of time deposits, which, due to the Company's attractive rates, are attracted from across the nation. The Company offers a broad selection of deposit products, including demand deposit accounts, NOW accounts, money market accounts, regular savings accounts, term certificates of deposit and retirement savings plans (such as IRAs). Deposit account terms vary, with the primary differences being the minimum balance required, the time period the funds must remain on deposit, and the associated interest rates. Management sets the deposit interest rates periodically based on a review of deposit flows and a survey of rates among competitors and other financial institutions. The Company relies on customer service and long-standing relationships with customers to attract and retain deposits, and also on CD listing services. During the second quarter of 2020, we received $40.0 million in brokered deposits through an Insured Cash Sweep One-Way Buy agreement to provide liquidity to fund PPP loan originations. This brokered deposit is included in our money market accounts as of March 31, 2021.

Total deposits increased $4.7 million, or 1.4%, to $352.7 million as of March 31, 2021, as compared to $348.0 million as of December 31, 2020. The following table sets forth our average deposit account balances, the percentage of each type of deposit to total deposits, and average cost of funds for each category of deposits for the periods indicated:

	For the three months ended March 31,					
	2021			2020		
(In thousands, except percentages)	**Average Balance**	**Percent of Deposits**	**Average Rate**	**Average Balance**	**Percent of Deposits**	**Average Rate**
Non-interest-bearing deposits	$ 56,044	15.9%	0.00%	$ 35,813	12.1%	0.00%
Savings and interest-bearing demand	12,091	3.4	0.23	9,255	3.1	0.39
Money market accounts	107,089	30.4	0.37	63,752	21.5	1.27
Time deposits	176,968	50.3	1.27	187,816	63.3	2.27
Total deposits	$ 352,192	100.00%	0.91%	$ 296,636	100.00%	1.96%

Borrowings

The table below presents balances of each of the borrowing facilities as of the dates indicated:

(In thousands)	**March 31, 2021**	**December 31, 2020**
Borrowings:		
FRB borrowings (PPPLF)	$ 102,100	$ 83,690
Subordinated notes	12,000	12,000
	$ 114,100	$ 95,690

The Company has a credit line with the FHLB with borrowing capacity of $34.7 million secured by commercial loans. The Company determines its borrowing needs and renews the advances accordingly at varying terms. The Company had no borrowings with FHLB as of March 31, 2021 and December 31, 2020.

The Company also has a credit line with the FRB with borrowing capacity of $25.9 million, which is secured by commercial loans. There were no outstanding borrowings against the FRB line of credit as of March 31, 2021 and December 31, 2020.

In connection with the PPPLF, the Company has $161.4 million of PPP loans available to be pledged, of which $102.1 million was pledged to the Federal Reserve and borrowed as of March 31, 2021, at an interest rate of 0.35%.

As of March 31, 2021 and December 31, 2020, the Company also had subordinated notes totaling $12.0 million, consisting of $8.0 million issued in 2017 bearing an interest rate of 7.125% payable semi-annually and maturing on July 20, 2027, and $4.0 million issued in 2018 bearing an interest rate of 7.125% payable semi-annually and maturing on March 31, 2028. The subordinated notes are unsecured and subordinated in right of payment to the payment of our existing and future senior indebtedness and structurally subordinated to all existing and future indebtedness of our subsidiaries.

Capital Resources and Regulatory Capital Requirements

Shareholders' equity increased $3.8 million, or 6.3%, to $63.8 million as of March 31, 2021, from $60.0 million as of December 31, 2020. The increase included net income of $3.9 million, $229,000 net after-tax decrease in other comprehensive income related to the market value of the securities available for sale, and $85,000 related to stock compensation expense. Use of capital included $388,000 of dividends paid on the Series B preferred stock.

Together with the Bank, the Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's and, accordingly, the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As of March 31, 2021, the Company and the Bank met all capital adequacy requirements to which they were subject. As of March 31, 2021, the Bank qualified as "well capitalized" under the prompt corrective action regulations of Basel III and the OCC.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations).

The following table presents our regulatory capital ratios, as well as those of the Bank, as of the dates indicated**:**

(In thousands, except percentages)	**March 31, 2021**		**December 31, 2020**	
	Amount	**Ratio**	**Amount**	**Ratio**
Tectonic Financial, Inc.				
Tier 1 Capital (to Average Assets)	$ 52,129	12.34%	$ 48,046	11.66%
Common Equity Tier 1 (to Risk Weighted Assets)	34,879	12.35	30,796	11.01
Tier 1 Capital (to Risk Weighted Assets)	52,129	18.46	48,046	17.17
Total Capital (to Risk Weighted Assets)	55,286	19.58	50,987	18.22
T Bank, N.A.				
Tier 1 Capital (to Average Assets)	$ 50,467	12.15%	$ 47,071	11.58%
Common Equity Tier 1 (to Risk Weighted Assets)	50,467	18.03	47,071	17.17
Tier 1 Capital (to Risk Weighted Assets)	50,467	18.03	47,071	17.17
Total Capital (to Risk Weighted Assets)	53,624	19.16	50,012	18.25

In addition to the regulatory requirements of the federal banking agencies, Sanders Morris and Tectonic Advisors are subject to the regulatory framework applicable to registered investment advisors under the SEC's Division of Investment Management.

Sanders Morris is regulated by FINRA, which, among other requirements, imposes minimums on its net regulatory capital. As of March 31, 2021, Sanders Morris is in compliance with its net regulatory capital requirement.

Liquidity

Our liquidity relates to our ability to maintain a steady flow of funds to support our ongoing operating, investing and financing activities. Our board of directors establishes policies and analyzes and manages liquidity to ensure that adequate funds are available to meet normal operating requirements in addition to unexpected customer demands for funds, such as high levels of deposit withdrawals or loan demand, in a timely and cost-effective manner. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and funds. Ultimately, public confidence is generated through profitable operations, sound credit quality and a strong capital position. Liquidity management is viewed from a long-term and a short-term perspective as well as from an asset and liability perspective. We monitor liquidity through a regular review of loan and deposit maturities and forecasts, incorporating this information into a detailed projected cash flow model.

The Bank's liquidity is monitored by its management, the Asset-Liability Committee and its board of directors who review historical funding requirements, current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds, and anticipated future funding needs, including the level of unfunded commitments.

The Company's primary sources of funds are retail, small business, custodial, wholesale commercial deposits, loan repayments, maturity of investment securities, other short-term borrowings, and other funds provided by operations. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and loan prepayments are more influenced by interest rates, general economic conditions, and competition. The Company will maintain investments in liquid assets based upon management's assessment of (1) the need for funds, (2) expected deposit flows, (3) yields available on short-term liquid assets, and (4) objectives of the asset/liability management program.

As of March 31, 2021 the Company had approximately $38.1 million held in an interest-bearing account at the Federal Reserve. The Company has the ability to borrow funds as members of the FHLB and the FRB. As of March 31, 2021, the Company's borrowing capacity with the FHLB was $34.7 million based upon loan collateral pledged to the FHLB, of which none was utilized. In addition, the Company had $15.7 million of unpledged securities that could be pledged to the FHLB as collateral to increase the borrowing capacity. The borrowing capacity with the FRB was $25.9 million, of which none was utilized as of March 31, 2021. In addition, the Company has approximately $91.4 million of SBA guaranteed loans held for investment that could be sold to investors.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the accompanying balance sheets. Our exposure to credit loss in the event of non-performance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. We follow the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of credit extended is based on management's credit evaluation of the customer and, if deemed necessary, may require collateral.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

As of March 31, 2021, we had commitments to extend credit and standby letters of credit of approximately $16.6 million and $162,000, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity and Market Risk

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

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 of 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 exposure to interest rates by structuring the balance sheet in the ordinary course of business. We use no off-balance-sheet financial instruments to manage interest rate risk.

Our exposure to interest rate risk is managed by the Bank's Asset Liability Committee in accordance with policies approved by the Bank's 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, 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. We employ 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. 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 at lease an annual basis, we run various stress tests to measure the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static model, rates are shocked instantaneously and ramped rates change over a twelve-month and twenty-four month horizon based upon parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Additionally, we run non-parallel simulation involving analysis of interest income and expense under various changes in the shape of the yield curve.

The following table summarizes the impact of an instantaneous, sustained simulated change in net interest income over a 12-month horizon as of March 31, 2021:

Change in Interest Rates (basis points)	% Change in Net Interest Income
+200	11.27
+100	5.61
-100	(4.93)
-200	(14.43)

We have found that, historically, interest rates on 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, meaning that process by which we measure the gap between interest rate sensitive assets verses interest rate sensitive liabilities. 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 prospectus 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. Inflation generally increases the costs of funds and operating overhead, and to the extent loans and other assets bear variable rates, the yields on such assets. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on the performance of a financial institution than the effects of general levels of inflation. In addition, inflation affects a financial institution's cost of goods and services purchased, the cost of salaries and benefits, occupancy expense and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings and shareholders' equity.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-Q, an evaluation was performed by the Company, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective at the end of the period covered by this Form 10-Q.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2021 that has materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of its business. Based on the information presently available, management believes that the ultimate outcome in such proceedings, in the aggregate, will not have a material adverse effect on the business's financial condition or results of operations of the Company on a consolidated basis.

Item 1A. Risk Factors.

There have been no material changes in the risk factors disclosed under Item 1A., "Risk Factors," of the Company's 2020 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None during the quarter ended March 31, 2021.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits and Financial Statement Schedules.

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Formation (incorporated by reference from Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1/A filed with the SEC on May 9, 2019 (File No. 333-230949))
3.2	Certificate of Designation of 10.0% Series A Non-Cumulative Perpetual Preferred Stock (incorporated by reference from Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on May 16, 2019 (File No. 001-38910))
3.3	Certificate of Designation of 9.00% Fixed-to-Floating Rate Series B Non-Cumulative Perpetual Preferred Stock (incorporated by reference from Exhibit 3.2 to the Current Report on Form 8-K filed with the SEC on May 16, 2019 (File No. 001-38910))
3.4	Certificate of Amendment to effect Reverse Stock Split (incorporated by reference from Exhibit 3.3 to the Current Report on Form 8-K filed with the SEC on May 16, 2019 (File No. 001-38910))
3.5	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.5 to Amendment No. 1 to the Registration Statement on Form S-1/A filed with the SEC on May 6, 2019 (File No. 333-230949))
10.1	Form of Restricted Stock Award Agreement under T Acquisition, Inc. Amended and Restated 2017 Equity Incentive Plan
31.1	Rule 13a-14(a) Certification of Principal Executive Officer*
31.2	Rule 13a-14(a) Certification of Principal Financial Officer*
32.1	Section 1350 Certification**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Label Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements 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.

TECTONIC FINANCIAL, INC.

Date: May 14, 2021

By: /s/ A. Haag Sherman

A. Haag Sherman
Chief Executive Officer/Principal Executive Officer

By: /s/ Ken Bramlage

Ken Bramlage
Executive Vice President and Chief Financial Officer/Principal Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, A. Haag Sherman, Chief Executive Officer of Tectonic Financial, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tectonic Financial, Inc. (the “registrant”) for the quarter ended March 31, 2021 (this “report”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 14, 2021

By: /s/ A. Haag Sherman
A. Haag Sherman
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Ken Bramlage, Executive Vice President & Chief Financial Officer of Tectonic Financial, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tectonic Financial, Inc. (the “registrant”) for the quarter ended March 31, 2021 (this “report”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 14, 2021

By: /s/ Ken Bramlage
Ken Bramlage
Executive Vice President & Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of Tectonic Financial, Inc. (the "Company") for the quarter ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), A. Haag Sherman, as Chief Executive Officer of the Company, and Ken Bramlage, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

TECTONIC FINANCIAL, INC.

Date: May 14, 2021

By: /s/ A. Haag Sherman
A. Haag Sherman
Chief Executive Officer

Date: May 14, 2021

By: /s/ Ken Bramlage
Ken Bramlage
Executive Vice President & Chief Financial Officer