Plains Acquisition Corporation and Subsidiary

Consolidated Financial Report

December 31, 2022 and 2021

C O N T E N T S

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Plains Acquisition Corporation and Subsidiary (the Company), which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Plains Acquisition Corporation and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued (or when applicable, one year after the date that the consolidated financial statements are available to be issued).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.
Midland, Texas

March 13, 2023

Consolidated Financial Statements

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Financial Condition

December 31, 2022 and 2021

		2022		2021
ASSETS				
ASSETS				
Cash and cash equivalents	$	5,501,872	$	3,457,958
Interest bearing deposits in banks		113,174,070		88,618,141
Investment securities available-for-sale		61,311,794		72,911,720
Investment securities held-to-maturity (Fair value of $1,107,021 and $1,345,836 at December 31, 2022 and 2021, respectively)		1,324,835		1,332,621
Loans receivable, net of allowance for loan and lease losses of $8,527,442 and $7,756,107 and discount of $1,456,951 and $2,217,483 at December 31, 2022 and 2021, respectively		617,894,239		602,677,169
Accrued interest receivable		2,866,062		2,489,868
Premises and equipment, net		6,421,115		5,666,343
Goodwill		1,602,252		1,602,252
Servicing asset, net		1,550,855		1,959,820
Foreclosed assets, net of allowances		828,000		-
Deferred tax asset, net		3,495,603		1,603,770
Federal Home Loan Bank stock		493,600		416,500
Other assets		1,570,181		534,534
TOTAL ASSETS	$	818,034,478	$	783,270,696

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

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Financial Condition

December 31, 2022 and 2021

	2022	2021
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Demand deposits	$ 179,614,690	$ 149,916,640
Savings deposits and NOW accounts	298,908,739	292,979,770
Time deposits	225,127,189	235,617,615
Total deposits	703,650,618	678,514,025
Accrued interest payable	229,298	22,478
Accrued expenses and other liabilities	2,819,894	1,939,714
Subordinated debentures, net of debt issuance costs of $404,432 and $453,455 at December 31, 2022 and 2021, respectively	19,595,568	19,546,545
Total liabilities	726,295,378	700,022,762
STOCKHOLDERS' EQUITY		
Common stock - $1 par value; 25,000,000 shares authorized, 2,427,875 and 2,414,175 issued, 2,423,175 and 2,409,475 outstanding at December 31, 2022 and 2021, respectively	2,427,875	2,414,175
Additional paid-in capital	24,482,650	24,165,759
Additional paid-in capital stock options	1,902,277	1,846,787
Retained earnings	70,031,218	55,509,677
Treasury stock (4,700 shares at $34.13 average cost)	(160,400)	(160,400)
Accumulated other comprehensive loss, net of tax benefit of $1,846,011 and $140,371 at December 31, 2022 and 2021, respectively	(6,944,520)	(528,064)
Total stockholders' equity	91,739,100	83,247,934
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 818,034,478	$ 783,270,696

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Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Income
Years Ended December 31, 2022 and 2021

	2022	2021
INTEREST INCOME		
Loans, including fees	$ 38,929,374	$ 30,742,348
Debt securities		
Taxable	974,726	724,116
Tax exempt	343,434	399,161
Due from banks	315,282	43,470
Federal funds sold	1,472,244	111,951
Total interest income	42,035,060	32,021,046
INTEREST EXPENSE		
Deposits	4,686,344	2,718,603
Subordinated debentures	749,023	596,766
Total interest expense	5,435,367	3,315,369
Net interest income	36,599,693	28,705,677
Provision for loan losses	1,000,000	1,075,000
Net interest income after provision for loan losses	35,599,693	27,630,677
NONINTEREST INCOME		
Net premium on loan sales	579,036	2,722,574
Customer service fees	177,848	157,854
Net servicing fees	543,848	722,336
Foreclosed real estate income	34,488	-
Gain on sale of securities	-	140,231
Other income	141,192	131,905
Total noninterest income	1,476,412	3,874,900

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Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2022 and 2021

	2022	2021
NONINTEREST EXPENSES		
Salaries and employee benefits	$ 9,792,640	$ 9,383,260
Occupancy expenses	1,770,080	1,918,059
Business development	196,930	153,031
Data and check processing	937,541	911,778
Professional services	1,501,097	1,226,790
Loan origination and maintenance expense	1,150,698	808,811
Office expense	516,930	375,620
Advertising and contributions	510,211	337,661
Training, travel and periodicals	140,080	164,133
Insurance expense	71,801	95,839
Outside services	264,000	288,000
Loss on sale of foreclosed assets	-	290,810
Write-down of foreclosed assets	-	514,766
Foreclosed real estate expenses	19,630	6,349
Other noninterest expenses	491,754	412,419
Total noninterest expenses	17,363,392	16,887,326
Income before income taxes	19,712,713	14,618,251
Income tax expense	3,984,259	3,009,354
NET INCOME	$ 15,728,454	$ 11,608,897
Earnings per share - basic	$ 6.52	$ 4.83
Earnings per share - diluted	$ 6.13	$ 4.64

The Notes to Consolidated Financial Statements
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Plains Acquisition Corporation and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

	2022	2021
Net income	$ 15,728,454	$ 11,608,897
Other items of comprehensive income		
Change in unrealized depreciation on investment securities available-for-sale, before tax	(8,122,096)	(1,584,328)
Reclassification adjustment for realized losses (gains) on investment securities included in net income	-	(140,231)
Total other items of comprehensive income	(8,122,096)	(1,724,559)
Comprehensive income before tax	7,606,358	9,884,338
Income tax benefit related to change in unrealized depreciation on investment securities	1,705,640	332,709
Income tax benefit related to reclassification adjustment for realized gains on investment securities	-	29,448
COMPREHENSIVE INCOME	$ 9,311,998	$ 10,246,495

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

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2022 and 2021

	Common Stock		Additional Paid-In Capital	Additional Paid-In Capital Stock Options	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income Net of Tax	Total Stockholders' Equity
	Shares	Amount						
BALANCE, December 31, 2020	2,392,675	$2,392,675	$23,664,981	$1,893,089	$ 44,859,870	$ -	$ 834,338	$ 73,644,953
Stock based compensation	-	-	-	112,210	-	-	-	112,210
Exercise of stock options	21,500	21,500	500,778	(158,512)	-	-	-	363,766
Net income	-	-	-	-	11,608,897	-	-	11,608,897
Dividends paid	-	-	-	-	(959,090)	-	-	(959,090)
Purchase of treasury stock	-	-	-	-	-	(160,400)	-	(160,400)
Change in net unrealized losses on available-for-sale securities	-	-	-	-	-	-	(1,362,402)	(1,362,402)
BALANCE, December 31, 2021	2,414,175	2,414,175	24,165,759	1,846,787	55,509,677	(160,400)	(528,064)	83,247,934
Stock based compensation	-	-	-	156,004	-	-	-	156,004
Exercise of stock options	13,700	13,700	316,891	(100,514)	-	-	-	230,077
Net income	-	-	-	-	15,728,454	-	-	15,728,454
Dividends paid	-	-	-	-	(1,206,913)	-	-	(1,206,913)
Change in net unrealized losses on available-for-sale securities	-	-	-	-	-	-	(6,416,456)	(6,416,456)
BALANCE, December 31, 2022	2,427,875	$2,427,875	$24,482,650	$1,902,277	$ 70,031,218	$(160,400)	$ (6,944,520)	$ 91,739,100

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

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 15,728,454	$ 11,608,897
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	495,401	610,186
Amortization of right of use assets	14,176	-
Amortization of debt issuance costs	49,023	36,766
Amortization and disposals of servicing assets	749,202	485,365
Change in valuation allowance of servicing assets	(175,341)	(62,223)
Provision for loan losses	1,000,000	1,075,000
Net amortization of security discounts and premiums	349,735	476,893
Deferred income tax benefit	(186,193)	(128,347)
Net realized (gain) loss on sale of available-for-sale securities	-	(140,231)
Stock based compensation	156,004	112,210
Net premium on loan sales	(579,036)	(2,722,574)
Loss on sale of foreclosed real estate	-	290,810
Write-down of foreclosed real estate	-	514,766
Loss on sale of repossessed assets	22,299	4,271
Changes in operating assets and liabilities:		
Accrued interest receivable	(376,194)	(529,368)
Other assets	(172,432)	566,412
Accrued interest payable	206,820	(9,001)
Accrued expenses and other liabilities	(279,339)	(1,448,712)
Net cash provided by operating activities	17,002,579	10,741,120
CASH FLOWS USED IN INVESTING ACTIVITIES		
Net change in interest bearing deposits in banks	(24,555,929)	19,987,494
Activity in available-for-sale securities		
Sales	-	8,453,205
Purchases	(156,006,804)	(162,776,489)
Proceeds from paydowns, calls and maturities	159,135,869	142,991,386
Activity in held-to-maturity securities		
Purchases	-	(1,000,000)
Proceeds from paydowns, calls and maturities	6,816	367,730
Loan originations and principal collections, net	(25,152,383)	(130,157,104)
Additions to premises and equipment	(104,830)	(777,803)
Proceeds from sales of repossessed and foreclosed property	156,062	1,690,008
Proceeds from sales of loans	7,479,877	27,770,547
Net change in Federal Home Loan Bank stock	(77,100)	(173,300)
Net cash used in investing activities	(39,118,422)	(93,624,326)

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

Plains Acquisition Corporation and Subsidiary

Consolidated Statements of Cash Flows – Continued
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	25,136,593	66,360,211
Proceeds from issuance of subordinated debentures	-	20,000,000
Payments of debt issuance costs	-	(490,221)
Purchase of treasury stock	-	(160,400)
Dividends paid	(1,206,913)	(959,090)
Issuance of stock, net of offering costs	230,077	363,766
Net cash provided by financing activities	24,159,757	85,114,266
Net change in cash and cash equivalents	2,043,914	2,231,060
CASH AND CASH EQUIVALENTS, beginning of year	3,457,958	1,226,898
CASH AND CASH EQUIVALENTS, end of year	$ 5,501,872	$ 3,457,958
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 5,228,547	$ 3,324,370
Income taxes paid	4,228,064	3,090,239
SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized loss on securities	$ (8,122,096)	$ (1,724,559)
Loans issued to fund sale of foreclosed property	-	(4,025,000)
Transfer of loan balance to repossessed and foreclosed property	(1,006,361)	(238,213)
Right-of-use asset obtained in exchange for lease liabilities	1,372,217	-
Transfers from loans to SBA recievable (other assets)	(863,215)	-

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

Plains Acquisition Corporation and Subsidiary

Notes to Consolidated Financial Statements

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

Nature of Operations

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

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

On April 29, 2022, the Company listed on Over-The-Counter (OTC) Markets Pink public market under ticker symbol PLQC.

Summary of Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates

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

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

Risks and Uncertainties

During the years ended December 31, 2022 and 2021, many countries around the world, including the United States, were impacted by the coronavirus (the "virus" or COVID-19) outbreak. While the virus is continuing to evolve, its implications could involve unavailability of personnel, and disruptions of supply chains. In addition, the Company has been impacted by the broader effects of COVID-19 as a result of the negative impact the virus has had on the global economy and major financial markets. At this time, management is not aware of any material risk to the Company's consolidated financial statements and cannot quantify the full extent the virus will have on the Company's financial information.

Significant Group Concentration of Credit Risk

Most of the Company's loan and banking activity is with customers located throughout west and southeast Texas and their respective surrounding areas. A substantial portion of the debtors' ability to honor their obligations is dependent upon the economy in these regions.

Should significant deterioration of the climate and economic conditions occur, these factors could impact the Company's collectability of its loans receivable and its deposit base. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of lending in which the Company engages. The Company's loan portfolio has a significant concentration in real estate.

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

Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, non-interest bearing balances due from banks and federal funds sold. There were no federal funds sold at December 31, 2022 and 2021. In monitoring credit risk associated with uninsured deposits, the Company periodically evaluates the stability of the correspondent financial institutions and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Interest Bearing Deposits in Banks

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

Fair Values of Financial Instruments

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

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Valuation techniques utilized to determine fair value are consistently applied. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company uses fair value to measure certain assets and liabilities on a recurring basis and on a nonrecurring basis. See Note 16 for disclosures about fair value of financial instruments for assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2022 and 2021.

Investment Securities

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

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

Interest income on securities is recognized in income on an accrual basis. Premiums and discounts are amortized into interest income using the effective interest method over the contractual life of the security. As prepayments are received, a proportionate amount of the related premium or discount is recognized in income so that the effective interest rate on the remaining portion of the security continues unchanged.

The methodology used to calculate fair market value of investment securities is outlined in Note 16.

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

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

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

The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management has determined there are no other-than-temporary impairment losses of available-for-sale securities during the years ended December 31, 2022 and 2021 and no other-than-temporary impairment losses of held-to-maturity securities during the years ended December 31, 2022 and 2021.

Loans Receivable

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

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

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

Allowance for Loan and Lease Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

Nonperforming Loans and Leases, Charge-offs and Delinquencies

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

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

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

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

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

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

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

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

The allowance for loan and lease losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. The classification as held-for-sale may be made upon origination or subsequent to the origination or purchase. Once a decision has been made to sell loans not previously classified as held-for-sale, such loans are transferred into the held-for-sale classification and carried at the lower of cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on loan sales (sales proceeds minus carrying amount) are recorded in noninterest income when realized. While the Company sold loans during the years ended December 31, 2022 and 2021, as of December 31, 2022 and 2021, the Company did not have any loans designated as held-for-sale.

Transfers and Servicing of Financial Assets

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

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

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

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

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

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

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

Premises and Equipment

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

Long-lived assets, which include premises and equipment, are evaluated for impairment when events or changes in circumstances have indicated that an asset may not be recoverable. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of the other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest charges) is less than the carrying value of the assets, the assets will be written down to the estimated fair value and a loss recognized in income from operations in the period in which the determination is made. Management has determined there to be no impairment of long-lived assets during the years ended December 31, 2022 and 2021.

Foreclosed Real Estate

Foreclosed real estate consists of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Such properties are carried at the lower of cost or fair value based on appraisal value, less estimated costs to sell.

Loan losses arising from the acquisition of such properties are charged against the allowance for loan and lease losses. Subsequent valuation adjustments are charged to expense, included in write down of foreclosed real estate on the consolidated statements of income, and the basis of the properties are reduced accordingly by a reserve account. These properties are not held for the production of income and, therefore, are not depreciated. Significant improvements to increase resale value are capitalized and added to the value of the property.

Advertising and Contributions

The Company expenses advertising and contribution costs as incurred. The Company incurred advertising and contribution expenses of $510,211 and $337,661 for the years ended December 31, 2022 and 2021, respectively.

Goodwill

Goodwill is the price paid over the fair value of assets acquired in a business acquisition and is not amortized. Goodwill is evaluated for impairment at least annually, or more frequently in certain circumstances in accordance with FASB ASC 350, *Intangibles – Goodwill and Other*. Goodwill is subject to ongoing periodic impairment tests and is evaluated using a two-step impairment approach. If impaired, goodwill is recorded at fair value with a charge to earnings. Management has determined there are no impairment losses of goodwill during the years ended December 31, 2022 and 2021.

Financial Instruments with Off-Balance-Sheet Risk

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

Income Taxes

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

Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets or liabilities. As of December 31, 2022 and 2021, the Company had deferred tax assets and liabilities for differences between book and tax reporting for such items as allowance for loan losses, depreciation, start-up costs and accruals.

FASB ASC 740, *Income Taxes*, prescribes accounting for and disclosure of uncertainty in tax positions. This Topic defines the criteria that must be met for the benefits of a tax position to be recognized in the consolidated financial statements and the measurement of tax benefits recognized. For the years ended December 31, 2022 and 2021 the Company did not record a liability related to uncertain tax positions.

For the years ended December 31, 2022 and 2021, the Company did not recognize any interest or penalty expense related to uncertain tax positions or income taxes. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

Servicing Asset

Servicing asset includes servicing rights on originated loans that have been sold are capitalized by allocating the total cost of the mortgage loans between the servicing rights and the loans based on their relative fair values. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights.

Federal Home Loan Bank (FHLB) Stock

The Company, as a member of the FHLB system, is required to maintain an investment in capital stock. The stock is carried at cost, classified as restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Franchise Taxes

The state of Texas franchise tax applies to legal entities conducting business in Texas. The tax is calculated by applying a tax rate to a base that considers both revenues and expenses and, therefore, has the characteristics of an income tax. The Company is also subject to various other state taxes. As a result, the Company incurred state tax expense of $48,000 for the years ended December 31, 2022 and 2021.

Stock-Based Compensation

The Company's stock-based compensation policy applies to all forms of stock-based compensation including stock options, restricted stock units, and incentive based stock units. All stock-based compensation is accounted for under the fair value method as required by FASB ASC 718, *Compensation – Stock Compensation*. The Company values stock-based awards on the date of grant using the Black-Scholes option-pricing model. The Company recognizes compensation expense for its awards on a straight-line basis over the requisite service period for the entire award (straight-line attribution method), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date fair value of the award that is vested at that time.

The Company recorded $156,004 and $112,210 in stock-based compensation expense for the years ended December 31, 2022 and 2021, respectively, which is included in salaries and employee benefits for employees' compensation and other expense for directors' compensation.

Treasury Stock

Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Gains and losses on the subsequent reissuance of shares are credited or charged to paid-in capital in excess of par value using the average-cost method.

Revenue Recognition

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

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

Gains and Losses on Sales of Foreclosed Assets
The Company records a gain from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed assets to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed assets asset is derecognized and the gain on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain on the sale, the Company adjusts the transaction price and related gain on sale if a significant financing component is present.

Earnings Per Share

Basic earnings per share is net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential shares issuable under stock options using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 21 - Earnings Per Share.

Recently Adopted Accounting Pronouncements

Leases
In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard requires organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also requires qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements.

The amendments in this update were effective for non-public companies for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years and was adopted by the Company in the first quarter of 2022. The adoption of the standard did not have a significant impact on our consolidated financial statements. The Company's operating leases primarily relate to branch locations. The Company currently leases three locations that are full-service branches. The leases expire on various dates through 2030. As a result of adopting the lease standard on January 1, 2022, the Company recorded right of use assets of $1,372,217 and corresponding lease liabilities. The right of use assets are included in premises and equipment, net and the lease liabilities are included in accrued expenses and other liabilities on the consolidated statement of financial condition. See Note 7 for further disclosure of the Company's lease contracts.

Nonrefundable Fees and Other Costs
In October 2020, the FASB issued ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs* which states an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33. As revised, the standard requires that, premiums be amortized to the next call date, unless the guidance in ASC 310-20-35-26 is applied to consider estimated prepayments. ASU 2020-08 was effective on January 1, 2022 and did not have a significant impact on the Company's consolidated financial statements.

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

Income Taxes
In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes* which is intended to simplify various aspects related to accounting for income taxes.

ASU 2019-12 modifies certain exceptions to the general principles of FASB ASC 740, Income Taxes, and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 was effective on January 1, 2022 and did not have a significant impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

Credit Losses
ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 along with several other subsequent codification updates related to accounting for credit losses, 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 judgements 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. We currently expect the adoption of ASU 2016-13 will result in a combined 5.0% to 20.0% increase in our allowance for loan losses and our reserves for unfunded commitments. As we are currently finalizing the execution of our implementation controls and processes, the ultimate impact of the adoption of ASU 2016-13 as of January 1, 2023, could differ from our current expectation. The expected increase is a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, ASU 2016-13 will necessitate that we establish an allowance for expected credit losses for certain debt securities and other financial assets; however, we do not expect these allowances to be significant. The adoption of ASU 2016-13 is not expected to have a significant impact on our regulatory capital ratios.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform with the current year presentation, none of which were considered material to the Company's consolidated financial statements.

Note 2. Restrictions on Cash and Due from Bank Accounts

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

Note 3. Investment Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. All other debt and equity securities have been classified as available-for-sale in the consolidated statements of financial condition according to management's intent at December 31, 2022 and 2021. All fair values as of December 31, 2022 and 2021 are measured on a recurring basis and considered Level 2 fair value measurements for reporting purposes in accordance with FASB ASC 820, *Fair Value Measurement and Disclosures.*

The amortized cost and fair values of securities available-for-sale and held-to-maturity at December 31, 2022 and 2021 were as follows:

	At December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. agency and treasury	$ 5,006,086	$ -	$ (668,299)	$ 4,337,787
Municipal securities	13,304,706	5,300	(508,263)	12,801,743
Mortgage-backed securities	51,791,533	-	(7,619,269)	44,172,264
Total available-for-sale	$70,102,325	$ 5,300	$ (8,795,831)	$61,311,794
Held-to-maturity				
Subordinated debentures	$ 1,000,000	$ -	$ (197,429)	$ 802,571
Mortgage-backed securities	324,835	-	(20,385)	304,450
Total held-to-maturity	$ 1,324,835	$ -	$ (217,814)	$ 1,107,021

	At December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. agency and treasury	$ 5,007,210	$ -	$ (48,521)	$ 4,958,689
Municipal securities	15,593,289	291,252	(26,080)	15,858,461
Mortgage-backed securities	52,979,656	242,381	(1,127,467)	52,094,570
Total available-for-sale	$73,580,155	$ 533,633	$ (1,202,068)	$72,911,720
Held-to-maturity				
Subordinated debentures	$ 1,000,000	$ -	$ -	$ 1,000,000
Mortgage-backed securities	332,621	13,215	-	345,836
Total held-to-maturity	$ 1,332,621	$ 13,215	$ -	$ 1,345,836

All mortgage-backed securities included in the above tables were issued by U.S. government agencies. The municipal securities held at December 31, 2022 and 2021 are guaranteed by Texas municipalities and range from an AAA to an A bond rating. Included in municipal securities at December 31, 2022 and 2021 is Plains Texas Independent School District (ISD) securities which are guaranteed by the Texas Permanent School Fund and have an AAA bond rating. The carrying value of Plains Texas ISD securities totaled $8,379,104 and $9,608,923, which is 65% and 61% of the total carrying value of municipal securities, at December 31, 2022 and 2021, respectively.

Plains Acquisition Corporation and Subsidiary
Notes to Consolidated Financial Statements

Expected maturities of securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The contractual maturities of securities available-for-sale and held-to-maturity securities at December 31, 2022 were as follows:

	Available-for-sale Securities	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,035,667	$ 2,030,618
Due from one year to five years	5,772,302	5,712,246
Due from five to ten years	10,314,821	9,251,321
Due after ten years	188,002	145,345
Mortgage-backed securities	51,791,533	44,172,264
Total	$ 70,102,325	$ 61,311,794

	Held-to-maturity Securities	
	Amortized Cost	Fair Value
Due from five to ten years	$ 500,000	$ 428,092
Due after ten years	500,000	374,479
Mortgage-backed securities	324,835	304,450
Total	$ 1,324,835	$ 1,107,021

The Company does not own securities (other than Plains Texas ISD and the U.S. government and its agencies) that have an aggregate adjusted cost exceeding ten percent (10%) of consolidated stockholders' equity at December 31, 2022 and 2021. Securities with amortized cost totaling $32,527,523 and $25,063,731 and fair values totaling $27,292,305 and $24,357,352 were pledged to secure public deposits at December 31, 2022 and 2021, respectively.

Gross Unrealized Losses and Fair Value

Securities with unrealized losses, segregated by length of time individual securities have been in a continuous loss position were as follows:

	December 31, 2022					
	Less Than 12 Months		12 Months or Longer		Total	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale						
U.S. agency and treasury (1)	$ -	$ -	$ 4,337,788	$ (668,299)	$ 4,337,788	$ (668,299)
Municipal securities (23)	5,597,697	(56,677)	2,637,598	(451,586)	8,235,295	(508,263)
Mortgage-backed securities (29)	11,509,855	(1,040,400)	32,662,409	(6,578,869)	44,172,264	(7,619,269)
Total available-for-sale	$ 17,107,552	$ (1,097,077)	$ 39,637,795	$ (7,698,754)	$ 56,745,347	$ (8,795,831)
Held-to-maturity						
Mortgage-backed securities (1)	$ 304,450	$ (20,385)	$ -	$ -	$ 304,450	$ (20,385)
Subordinated debentures (2)	-	-	802,571	(197,429)	802,571	(197,429)
Total held-to-maturity	$ 304,450	$ (20,385)	$ 802,571	$ (197,429)	$ 1,107,021	$ (217,814)

	December 31, 2021					
	Less Than 12 Months		12 Months or Longer		Total	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale						
U.S. agency and treasury (1)	$ 4,958,689	$ (48,521)	$ -	$ -	$ 4,958,689	$ (48,521)
Municipal securities (14)	2,067,831	(19,777)	853,714	(6,303)	2,921,545	(26,080)
Mortgage-backed securities (13)	25,415,538	(529,233)	17,546,096	(598,234)	42,961,634	(1,127,467)
Total available-for-sale	$ 32,442,058	$ (597,531)	$ 18,399,810	$ (604,537)	$ 50,841,868	$ (1,202,068)

At December 31, 2021, the Company had no held-to-maturity securities in an unrealized loss position.

As of December 31, 2022 and 2021, management does not have the intent to sell any of the securities classified as available-for-sale in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair values are expected to recover as the securities approach their maturity date or re-pricing date. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, management believes the impairments detailed in the tables above are temporary and no impairment loss has been realized in the Company's consolidated statements of income.

Realized Gains and Losses on Sales of Securities

The following table shows proceeds from calls and sales, and the gross realized gains and losses on the sales of investment securities available-for-sale for the years ended December 31, 2022 and 2021.

	2022	2021
Proceeds from sales of securities	$ -	$ 8,453,205
Gross realized gains	-	140,231

Note 4. Loans Receivable and Allowance for Loan Losses and Impaired Loans

At December 31, 2022 and 2021, the components of loans receivable in the consolidated statements of financial condition were as follows:

	2022	Percent	2021	Percent
Real estate	$ 425,741,309	68%	$ 393,712,914	64%
Real estate - hotels	66,586,549	11%	54,257,879	9%
Commercial	98,506,037	15%	120,002,120	19%
Auto Leases	30,672,654	5%	35,617,823	6%
Agricultural	3,563,896	1%	4,342,643	1%
Consumer and other	2,808,187	0%	4,717,380	1%
Subtotal	627,878,632	100%	612,650,759	100%
Less discount on retained portion of loan sales	(1,456,951)		(2,217,483)	
Less allowance for loan and lease losses	(8,527,442)		(7,756,107)	
Net loans receivable	$ 617,894,239		$ 602,677,169	

An analysis of the loan portfolio and other assets at December 31, 2022 and 2021 was as follows:

	2022	2021
Interest income that would have been recorded on nonaccrual loans had they been on full-accrual status	$ 202,086	$ 118,782
Foreclosed and repossessed assets other than real estate	-	72,393
Overdraft balances classified as commercial loans	4,960	-
Overdraft balances classified as consumer loans	795	13,791

Non-accrual loans consisted of the following:

	2022	2021
Real estate	$ 4,147,690	$ 1,995,281
Real estate - hotels	-	-
Commercial	861,945	449,906
Auto Leases	-	-
Agricultural	-	-
Consumer and other	-	-
Total	$ 5,009,635	$ 2,445,187

No additional funds are committed to be advanced in connection with non-accrual loans.

At December 31, 2022, there was one nonaccrual loan with government guarantee of 75% of the total principal balance which consisted of 4% of total nonaccrual loan balances. At December 31, 2021, total non-accrual loans had no government guarantees of the total principal balances.

The Company's impaired loans and related allowance as of December 31, 2022 and 2021 is summarized in the following tables:

December 31, 2022	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real estate	$ 7,783,515	$ 6,508,955	$ 1,274,560	$ 7,783,515	$ 152,311	$ 6,700,668
Real estate - hotels	10,643,685	10,643,685	-	10,643,685	-	8,250,976
Commercial	4,701,116	1,859,034	2,842,082	4,701,116	927,282	8,231,841
Auto leases	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Total	$ 23,128,316	$ 19,011,674	$ 4,116,642	$ 23,128,316	$1,079,593	$ 23,183,485

December 31, 2021	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real estate	$ 5,617,820	$ 5,617,820	$ -	$ 5,617,820	$ -	$ 10,888,945
Real estate - hotels	5,858,266	5,858,266	-	5,858,266	-	3,301,122
Commercial	11,762,566	11,313,811	448,755	11,762,566	88,616	8,316,332
Auto leases	-	-	-	-	-	87,570
Agricultural	-	-	-	-	-	76,236
Total	$ 23,238,652	$ 22,789,897	$ 448,755	$ 23,238,652	$ 88,616	$ 22,670,205

At December 31, 2022 and 2021, total impaired loans had government guarantees of 15% and 17% of the total principal balances, respectively. Interest payments received on impaired loans are recorded as interest income unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal.

The following table summarizes the interest income recognized on impaired loans by the Company during the years ended December 31, 2022 and 2021:

	2022	2021
Real estate	$ 519,574	$ 282,140
Real estate - hotels	704,857	277,862
Commercial	288,983	564,346
Total	$ 1,513,414	$ 1,124,348

From a credit risk standpoint, the Company classifies its loans in one of four categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful. Loans classified as loss are charged-off. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits as part of its on-going monitoring of the credit quality of the loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

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

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

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual. At December 31, 2022 and 2021, the following summarizes the Company's internal ratings of its loans:

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate	$ 397,355,987	$ 11,682,948	$ 16,702,374	$ -	$ -	$ 425,741,309
Real estate - hotels	57,705,640	8,880,909	-	-	-	66,586,549
Commercial	88,564,501	5,240,420	4,701,116	-	-	98,506,037
Auto leases	30,672,654	-	-	-	-	30,672,654
Agricultural	3,563,896	-	-	-	-	3,563,896
Consumer and other	2,808,187	-	-	-	-	2,808,187
Total	$ 580,670,865	$ 25,804,277	$ 21,403,490	$ -	$ -	$ 627,878,632

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate	$ 379,802,992	$ 9,111,000	$ 4,798,922	$ -	$ -	$ 393,712,914
Real estate - hotels	51,579,536	2,678,343	-	-	-	54,257,879
Commercial	108,239,554	-	11,762,566	-	-	120,002,120
Auto leases	35,617,823	-	-	-	-	35,617,823
Agricultural	4,342,643	-	-	-	-	4,342,643
Consumer and other	4,717,380	-	-	-	-	4,717,380
Total	$ 584,299,928	$ 11,789,343	$ 16,561,488	$ -	$ -	$ 612,650,759

At December 31, 2022 and 2021, the Company's past due loans are as follows:

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Real estate	$ 775,577	$ 903,444	$ -	$ 1,679,021	$ 424,062,288	$425,741,309	$ -
Real estate - hotels	-	-	-	-	66,586,549	66,586,549	-
Commercial	790,104	184,172	-	974,275	97,531,762	98,506,037	-
Auto leases	240,123	45,373	-	285,496	30,387,158	30,672,654	-
Agricultural	-	-	-	-	3,563,896	3,563,896	-
Consumer and other	-	-	-	-	2,808,187	2,808,187	-
Total	$ 1,805,803	$ 1,132,989	$ -	$ 2,938,792	$ 624,939,840	$627,878,632	$ -

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Real estate	$ 4,123,961	$ 1,229,167	$ 2,823,289	$ 8,176,417	$ 385,536,497	$393,712,914	$ 828,008
Real estate - hotels	-	-	-	-	54,257,879	54,257,879	-
Commercial	-	-	448,755	448,755	119,553,365	120,002,120	-
Auto leases	108,402	91,555	-	199,957	35,417,866	35,617,823	-
Agricultural	-	-	-	-	4,342,643	4,342,643	-
Consumer and other	-	-	-	-	4,717,380	4,717,380	
Total	$ 4,232,363	$ 1,320,722	$ 3,272,044	$ 8,825,129	$ 603,825,630	$612,650,759	$ 828,008

Management has evaluated the appropriateness of the allowance for loan and lease losses by estimating the losses in various categories of the loan portfolio. The following tables details the allowance for loan and lease loss at December 31, 2022 and 2021 by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

December 31, 2022	Real Estate	Real Estate - Hotels	Commercial	Auto Leases	Agricultural	Consumer and Other	Total
Loans individually evaluated for impairment	$ 152,311	$ -	$ 927,282	$ -	$ -	$ -	$ 1,079,593
Loans collectively evaluated for impairment	5,099,610	579,655	1,174,943	462,261	116,589	14,791	7,447,849
Total	$ 5,251,921	$ 579,655	$ 2,102,225	$ 462,261	$ 116,589	$ 14,791	$ 8,527,442

December 31, 2021	Real Estate	Real Estate - Hotels	Commercial	Auto Leases	Agricultural	Consumer and Other	Total
Loans individually evaluated for impairment	$ -	$ -	$ 88,616	$ -	$ -	$ -	$ 88,616
Loans collectively evaluated for impairment	6,767,837	930,337	75,996	(196,646)	59,040	30,927	7,667,491
Total	$ 6,767,837	$ 930,337	$ 164,612	$ (196,646)	$ 59,040	$ 30,927	$ 7,756,107

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

Plains Acquisition Corporation and Subsidiary

Notes to Consolidated Financial Statements

An analysis of the change in the allowance for loan losses by classification during the years ended December 31, 2022 and 2021 was as follows:

December 31, 2022	Real Estate	Real Estate - Hotels	Commercial	Auto Leases	Agricultural	Consumer and Other	Total
Beginning balance	$ 6,767,837	$ 930,337	$ 164,612	$ (196,646)	$ 59,040	$ 30,927	$ 7,756,107
Provision (Credit) for loan losses	(1,470,197)	(350,682)	2,065,687	701,377	57,549	(3,734)	1,000,000
Recoveries	144,446	-	20,630	129,763	-	30	294,869
Charge-offs	(190,165)	-	(148,704)	(172,233)	-	(12,432)	(523,534)
Ending balance	$ 5,251,921	$ 579,655	$ 2,102,225	$ 462,261	$ 116,589	$ 14,791	$ 8,527,442

December 31, 2021	Real Estate	Real Estate - Hotels	Commercial	Auto Leases	Agricultural	Consumer and Other	Total
Beginning balance	$ 5,571,325	$ 930,337	$ 127,978	$ (146,098)	$ 59,040	$ 28,928	$ 6,571,510
Provision (Credit) for loan losses	1,075,000	-	-	-	-	-	1,075,000
Recoveries	121,512	-	238,650	33,156	-	1,999	395,317
Charge-offs	-	-	(202,016)	(83,704)	-	-	(285,720)
Ending balance	$ 6,767,837	$ 930,337	$ 164,612	$ (196,646)	$ 59,040	$ 30,927	$ 7,756,107

The Company's recorded investment in loans as of December 31, 2022 and 2021 related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology was as follows:

December 31, 2022	Real Estate	Real Estate - Hotels	Commercial	Leases	Agriculture	Consumer and Other	Total
Loans individually evaluated for impairment	$ 7,783,515	$10,643,685	$ 4,701,116	$ -	$ -	$ -	$ 23,128,316
Loans collectively evaluated for impairment	417,957,794	55,942,864	93,804,921	30,672,654	3,563,896	2,808,187	604,750,316
Total	$ 425,741,309	$66,586,549	$ 98,506,037	$30,672,654	$3,563,896	$2,808,187	$627,878,632
December 31, 2021							
Loans individually evaluated for impairment	$ 5,617,820	$ 5,858,266	$ 11,762,566	$ -	$ -	$ -	$ 23,238,652
Loans collectively evaluated for impairment	388,095,094	48,399,613	108,239,554	35,617,823	4,342,643	4,717,380	589,412,107
Total	$ 393,712,914	$54,257,879	$ 120,002,120	$35,617,823	$4,342,643	$4,717,380	$612,650,759

Troubled Debt Restructuring

The Company modified two loans during the year ended December 31, 2022 and one loan during the year ended December 31, 2021 that would be considered a TDR. The Company's loans that were modified during 2022 and 2021 and considered a TDR are as follows:

	December 31, 2022		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real estate	2	$ 12,125,156	$ 12,125,156
Total	2	$ 12,125,156	$ 12,125,156

	December 31, 2021		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real estate - hotels	1	$ 4,024,370	$ 4,024,370
Total	1	$ 4,024,370	$ 4,024,370

The modifications during the reporting period related to deferral of certain principal and interest payments. The modifications did not significantly impact the Company's determination of the allowance for loan and lease losses.

As of December 31, 2022 and 2021, there were no loans restructured during the year that were in excess of 90 days past due. All remaining troubled debt restructurings are classified as accrual with payments received applied in accordance with accrual loans.

As of December 31, 2022 and 2021, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

The Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from troubled debt restructuring classifications under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2022 and 2021, the Company had 2 and 4 loans with COVID-19 related modifications with outstanding balances of $5,072,331 and $9,689,435, respectively.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Small Business Administration (SBA) and United States Department of Agriculture (USDA) Loan Sales

In the ordinary course of business, the Company originates certain SBA and USDA loans for resale in the secondary market. The Company sells the guaranteed portion of SBA and USDA loans (guaranteed portions) for a premium and retains the unguaranteed portions. The Company received proceeds of $7,479,877 and $27,770,547 from the sale of the guaranteed portions of loans during the years ended December 31, 2022 and 2021, respectively, resulting in net realized gains on sales of $579,036 and $2,722,574 for the years ended December 31, 2022 and 2021, respectively. A discount was recognized on the retained portion of the loans in the amount of $58,549 and $472,018 for the years ended December 31, 2022 and 2021, respectively, which is to be amortized into income over the estimated lives of the related loans. Additionally, a servicing asset was recognized on the sold loans in the amount of $164,896 and $586,534 for the years ended December 31, 2022 and 2021, respectively, which is to be amortized into income over the estimated lives of the related loans.

Paycheck Protection Program

The Company is participating in the Paycheck Protection Program (PPP), which is a loan program that originated from the CARES Act and was subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act. The PPP is designed to provide U. S. small businesses with cash-flow assistance through loans fully guaranteed by the Small Business Administration (SBA). If the borrower meets certain criteria and uses the proceeds towards certain eligible expenses, the borrower's obligation to repay the loan can be forgiven up to the full principal amount of the loan and any accrued interest. Upon borrower forgiveness, the SBA pays the Company for the principal and accrued interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original terms with the 100 percent SBA guaranty remaining. During the year ended December 31, 2022, the Company did not originate any PPP loans. During the year ended December 31, 2021, the Company had originated 822 PPP loans with balances totaling $92,144,145. As compensation for originating the loans, the Company received lender processing fees from the SBA, which are capitalized, along with the loan origination costs, and will be amortized over the loans' contractual lives and recognized as interest income. Upon forgiveness of a loan and repayment by the SBA, any unrecognized net capitalized fees and costs related to the loan will be recognized as interest income in that period. As of December 31, 2022 and 2021, the Company had 5 and 33 PPP loans outstanding with balances totaling $560,097 and $6,944,909, respectively.

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

The Federal Home Loan Bank (FHLB) of Dallas requires that the Company maintain a minimum investment in stock of the FHLB. This requirement is determined on a daily basis and is computed as a percentage of net mortgage loans and contracts secured by residential properties and FHLB advances. The Company's investment in FHLB stock totaled $493,600 and $416,500 at December 31, 2022 and 2021, respectively. No ready market exists for the FHLB stock, it has no quoted market value and is therefore carried at cost.

As of December 31, 2022 and 2021, the Company had an unfunded line of credit with the FHLB totaling $177,897,659 and $105,860,562, respectively, secured by a blanket pledge of certain loan categories totaling $269,247,659 and $195,470,562, respectively. Additionally, no investment securities have been pledged against the line as of December 31, 2022 and 2021 respectively. The Company had $91,350,000 and $89,610,000 of letters of credit issued under the line of credit as of December 31, 2022 and 2021, respectively.

Note 6. Premises and Equipment

Components of premises and equipment included in the consolidated statements of financial condition at December 31, 2022 and 2021 were as follows:

	2022	2021
Bank premises	$ 5,563,450	$ 5,545,509
Furniture and fixtures	900,261	891,084
Equipment	2,266,132	2,189,887
Software and intellectual property	727,576	726,109
Depreciable assets	9,457,419	9,352,589
Land	1,445,122	1,445,122
Total cost	10,902,541	10,797,711
Less accumulated depreciation	5,626,769	5,131,368
Premises and equipment, net, excluding right-of-use assets	5,275,772	5,666,343
Right-of-use assets, net of amortization	1,145,343	-
Premises and equipment, net	6,421,115	5,666,343

Depreciation expense was $495,401 and $610,186 for the years ended December 31, 2022 and 2021, respectively, and are included in occupancy expenses on the consolidated statements of income. Premises and equipment are depreciated on a straight-line basis over estimated useful lives of three to forty years. During the years ended December 31, 2022 and 2021, the Company did not dispose of any assets.

Note 7. Leases

The Company leases certain office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2027 and provide for renewal options ranging from 1 year to 5 years. The Company included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Also, the agreements generally require the Company to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Company estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Company's applicable borrowing rates and the contractual lease term.

The Company has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

The Company elected the practical expedient to not separate lease and non-lease components for a real estate lease.

The Company only had operating right-of-use assets and lease liabilities at January 1, 2022 and December 31, 2022.

Total right-of-use assets and lease liabilities at December 31, 2022 were as follows:

Lease Assets	Classification		
Operating right-of-use assets	Premises and equipment, net	$	1,145,343

Lease Liabilities	Classification		
Operating lease liabilities	Accrued expenses and other liabilities	$	1,159,519

Total lease costs for the year ended December 31, 2022 were as follows:

Operating lease cost	$	249,612

Total lease expense under noncancelable leases was $341,483 for the year ended December 31, 2021.

The following table summarizes supplemental cash flow information for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	235,436

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted-average remaining lease term	
Operating leases	5.29 Years
Weighted-average discount rate	
Operating leases	1.96%

The future minimum lease payments under noncancelable operating and finance leases with terms greater than one year are listed below as of December 31, 2022:

		Operating
2023	$	241,243
2024		253,166
2025		259,434
2026		210,609
2027		101,117
Thereafter		158,146
Total lease payments - undiscounted operating lease liability		1,223,715
Less interest		(64,196)
Present value of lease liabilities	$	1,159,519

Note 8. Goodwill and Other Intangibles

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

Based on the Company's annual goodwill and intangible impairment review, management did not determine goodwill or intangibles to be impaired as of December 31, 2022 and 2021.

Note 9. Deposits

A summary of interest-bearing deposits at December 31, 2022 and 2021 is as follows:

	2022	2021
Savings deposits and NOW accounts	$ 298,908,739	$ 292,979,770
Time deposits less than $250,000	130,033,598	180,123,077
Time deposits of $250,000 or more	95,093,591	55,494,538
Total interest-bearing deposits	$ 524,035,928	$ 528,597,385

At December 31, 2022 and 2021, the scheduled maturities of time deposits are as follows:

	2022		2021	
Due in	Balance of Time Deposits	Percent	Balance of Time Deposits	Percent
One year or less	$ 159,268,212	71%	$ 201,417,357	85%
One through three years	63,029,977	28%	34,200,258	15%
Over three years	2,829,000	1%	-	0%
Total	$ 225,127,189	100%	$ 235,617,615	100%

Overdraft balances reclassified to loans were $5,755 and $13,791 as of December 31, 2022 and 2021, respectively. The Company provides for expected losses on overdrafts through a component of the allowance for loan losses.

Note 10. Commitments and Contingencies

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

The Company uses the same credit policies in making commitments to extend credit as it does for instruments that are included in the consolidated financial statements.

Financial instruments whose contract amounts represent off-balance-sheet credit risk at December 31, 2022 and 2021 are as follows:

	December 31, 2022	December 31, 2021
Commitments to extend credit	$ 107,044,817	$ 74,048,407

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

	December 31, 2022	December 31, 2021
Standby letters of credit	$ 5,750,160	$ 1,616,814

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

Legal Contingencies

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

Note 11. Servicing Asset

The Company services loans on behalf of other investors. The principal balance of these loans as of December 31, 2022 and 2021 are $105,396,734 and $135,115,721, respectively. These loans are not reported as assets.

Capitalized servicing rights are reported as a servicing asset and are amortized into noninterest income in proportion to, and over the period of, the estimated future servicing of the underlying financial assets. The Company's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted periodically to consider market consensus loan prepayment predictions at that date. The carrying value of the servicing asset totaled $1,550,855 and $1,959,820 net of accumulated amortization and valuation allowance of $1,309,736 and $1,527,859, at December 31, 2022 and 2021, respectively. The principal balance of new loans serviced by the Company on behalf of investors amounted to $6,792,060 and $24,929,439 as of December 31, 2022 and 2021 respectively. The servicing asset is evaluated for impairment based upon the fair value of the rights as compared to amortized cost.

Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. The Company used the discounted cash flow market-based analysis to determine the fair value of the servicing asset generated during the years ended December 31, 2022 and 2021.

Key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred at the time of sale include the following during the years ended December 31:

	2022	2021
Discount rate	4.3% - 7.3%	1.2% - 14.5%
Constant prepayment rate (CPR)	8.2% - 12.5%	7.2% - 19.9%
Range of servicing rate	1.0%	1.0%
Range of annual servicing cost	0.40%	0.40%
Expected weighted-average life of financial assets	4.6 years	4.5 years

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

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

The Company recorded service fee income (net of amortization of the servicing asset) of $543,848 and $722,336 on loans serviced on behalf of investors for the years ended December 31, 2022 and 2021, respectively. This service fee income is included in noninterest income in the consolidated statements of income.

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

	2022	2021
Loan servicing rights		
Balance, January 1	$ 2,202,915	$ 2,101,746
Additions	164,896	586,534
Amortized to expense	(749,202)	(423,142)
Other	-	(62,223)
Balance, December 31,	1,618,609	2,202,915
Valuation allowance		
Balance, January 1	(243,095)	(305,318)
Direct write-downs	175,341	62,223
Balance, December 31	(67,754)	(243,095)
Fair value of servicing rights at December 31,	$ 1,550,855	$ 1,959,820

Note 12. Lines of Credit

Amounts of unused lines of credit, subject to terms of the related agreements with correspondent financial institutions, available were $34,000,000 and $16,000,000 as of December 31, 2022 and 2021, respectively, with no balances outstanding as of December 31, 2022 and 2021. Of the available amounts, agreements for $13,000,000 will expire in 2023 and agreements for $21,000,000 have no stated expiration.

Note 13. 401(k) Plan

Employees become eligible to participate in the Plains State Bank 401(k) Plan immediately upon employment, and must meet certain minimum age requirements. Employees may make salary reduction contributions, which may be matched by the Company as a percentage of the employee's compensation. Such contributions shall not exceed the maximum deferral percentage computed in accordance with Internal Revenue Code 401(k)(3).

Company matches are discretionary and are fully vested. Matching contributions made during the years ended December 31, 2022 and 2021 were $294,943 and $279,439, respectively, and are included in salaries and employee benefits in the consolidated statements of income.

Note 14. Stock Option Plan and Stock Warrants

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

The plan expired in 2019 and no options were available to be granted during the years ended December 31, 2022 and 2021.

During the years ended December 31, 2022 and 2021, the Company's Board approved the issuance of 66,500 and 5,000 warrants, respectively, for the purchase of shares of common stock to the Company's employees, directors and advisory directors.

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

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

A summary of the option valuation model assumptions for the options and warrants granted during the years ended December 31, 2022 and 2021 are noted below.

	2022	2021
Expected volatility	6.75	8.05
Expected dividends	$ 0.50	$ 0.40
Risk-free rate	3.44%	1.49%
Expected term	10 years	10 years

A summary of option and warrant activity as of December 31, 2022 and 2021 and changes during the years then ended is presented below:

	2022		2021	
	Number of Shares	Exercise Price Weighted-Average	Number of Shares	Exercise Price Weighted-Average
Outstanding at beginning of year	181,300	$ 18.16	245,000	$ 17.91
Granted	66,500	27.64	5,000	26.97
Exercised	(13,700)	16.79	(21,500)	16.92
Forfeited	(10,300)	22.92	(47,200)	18.36
Outstanding at end of year	223,800	$ 20.84	181,300	$ 18.16
Exercisable at end of year	129,000	$ 17.55	119,100	$ 17.29

The following table summarizes information about stock options and warrants outstanding at December 31, 2022:

	Options & Warrants Outstanding			Options & Warrants Exercisable		
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price
$14.00 - $27.64	223,800	6.10	$ 20.84	129,000	4.28	$ 17.55

A summary of the status of the Company's non-vested options and warrants as of December 31, 2022 and 2021 and changes during the years ended December 31, 2022 and 2021 is presented below:

	2022		2021	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested, beginning of year	62,200	$ 7.69	172,080	$ 8.02
Granted	66,500	15.74	5,000	2.37
Exercised	-	-	-	-
Vested	(23,600)	8.08	(99,700)	7.99
Forfeited	(10,300)	9.77	(15,180)	8.19
Nonvested at end of year	94,800	$ 13.02	62,200	$ 7.69

A summary of the status of the Company's fully vested options and warrants as of December 31, 2022 and 2021 and changes during the years ended December 31, 2022 and 2021 is presented below:

	2022		2021	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Vested, beginning of year	119,100	$ 17.29	72,920	$ 16.06
Granted	-	-	-	-
Vested	23,600	18.41	99,700	18.31
Exercised	(13,700)	16.79	(21,500)	16.92
Forfeited	-	-	(32,020)	17.89
Vested at end of year	129,000	$ 17.55	119,100	$ 17.29

For the years ended December 31, 2022 and 2021, the Company recognized $156,004 and $112,210 of compensation expense in connection with these options and warrants, respectively, based on the assumptions noted above. As of December 31, 2022 and 2021, there was $1,061,162 and $242,994, respectively, of total unrecognized compensation cost, including forfeiture estimates related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a remaining period of less than five (5) years.

Note 15. Related-Party Transactions

The Company has entered into transactions with its executive officers, directors, principal shareholders, and their affiliates (related parties). Fees paid to directors during the years ended December 31, 2022 and 2021, respectively, totaled $236,200 and $235,250. Expense related to stock options and warrants granted to directors and advisory directors during the years ended December 31, 2022 and 2021, respectively, totaled $78,345 and $35,768. Deposits from related parties held by the Company at December 31, 2022 and 2021 amounted to $16,121,160 and $8,775,049, respectively.

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

	Year Ended December 31,	
	2022	2021
Beginning balance	$ 10,306,477	$ 11,266,938
Advances, net of participations sold	1,153,447	5,545,223
Participations sold on current year advances	(320,969)	(1,469,495)
Resignation of bank officer	(63,547)	-
Repayments	(2,235,679)	(5,036,189)
Ending balance	$ 8,839,729	$ 10,306,477

Note 16. Fair Value Measurements

In general, fair value is based upon quoted market prices, where available. If such quoted prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below. Transfers, if any, between levels of the fair value hierarchy, as described in Note 1, are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's quarterly or annual valuation process. The Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis.

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

Foreclosed Real Estate: The fair values are estimated based upon recent appraisal values of the property, less estimated costs to sell the property or based upon applicable sale contract. Certain inputs in appraisals are not observable, and, therefore, foreclosed real estate is categorized as Level 3 within the fair value hierarchy. Fair values are based upon the appraisals performed by appraisers approved by the Company. The assumptions in the appraisals are unadjusted by management; however, estimated costs to sell the assets of 5% to 7% are deducted from the appraised value. As of December 31, 2022 and 2021, the Company held $828,000 and $0, respectively, in foreclosed real estate.

Servicing Asset: The servicing asset is subject to impairment testing. A valuation model which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used for impairment testing and initial recording. If the valuation model reflects a value less than the carrying value, the servicing asset is adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies the servicing asset as Level 3. As of December 31, 2022 and 2021, there was a valuation allowance of $67,754 and $243,095, respectively.

Impaired Loans: Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria or market appraisals. As of December 31, 2022 and 2021, there was a valuation allowance on impaired loans of $1,079,593 and $88,616, respectively with a carrying value of $4,116,642 and $448,755, respectively, resulting in a net fair value of $3,037,049 and $360,139, respectively.

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

	Total Fair Value	Level 1	Level 2	Level 3
December 31, 2022				
Financial assets				
Investment securities available-for-sale	$ 61,311,794	$ -	$ 61,311,794	$ -
Total assets	$ 61,311,794	$ -	$ 61,311,794	$ -
December 31, 2021				
Financial assets				
Investment securities available-for-sale	$ 72,911,720	$ -	$ 72,911,720	$ -
Total assets	$ 72,911,720	$ -	$ 72,911,720	$ -

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

The following table sets forth by level, within the fair value hierarchy, the Company's financial assets measured on a nonrecurring basis at fair value as of:

	Total Fair Value	Level 1	Level 2	Level 3
December 31, 2022				
Impaired loans	$ 3,037,049	$ -	$ -	$ 3,037,049
Servicing asset	1,550,855	-	-	1,550,855
Total assets	$ 4,587,904	$ -	$ -	$ 4,587,904
December 31, 2021				
Impaired loans	$ 360,139	$ -	$ -	$ 360,139
Servicing asset	1,959,820	-	-	1,959,820
Total assets	$ 2,319,959	$ -	$ -	$ 2,319,959

Non-Financial Assets and Non-Financial Liabilities: The Company does not have any non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. Non-financial assets measured at fair value on a non-recurring basis during the reported periods include certain foreclosed assets which, upon initial recognition, were re-measured and reported at fair value through a charge-off to the allowance for loan losses and certain foreclosed assets which, subsequent to their initial recognition, were re-measured at fair value through a write-down included in other non-interest expense. The fair value of a foreclosed asset is estimated using Level 3 inputs based on third party appraisals. During the years ended December 31, 2022 and 2021, all fair value measurements for foreclosed assets utilized Level 3 inputs.

The following table presents foreclosed assets that were re-measured and reported at fair value during the year ended December 31, 2022:

Forclosed assets remeasured at initial recognition:	
Carrying value of foreclosed assets prior to remeasurement	$ 969,378
Write-downs included as charge-off to the allowance for loan losses	(141,378)
Fair value	$ 828,000

There were no foreclosed assets at December 31, 2021.

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

	Total Fair Value	Level 1	Level 2	Level 3
December 31, 2022				
Non-financial assets				
Foreclosed real estate	$ 828,000	$ -	$ -	$ 828,000
Total assets	$ 828,000	$ -	$ -	$ 828,000

Note 17. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in any of the estimates. The carrying amounts and estimated fair values of financial instruments not carried at fair value at December 31 2022 and 2021, are as follows (amounts in thousands):

	December 31, 2022				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Total Carrying Value
Financial assets					
Cash and cash equivalents	$ 5,502	$ -	$ -	$ 5,502	$ 5,502
Interest bearing deposits in banks	113,174	-	-	113,174	113,174
Investment securities held-to-maturity	-	1,107	-	1,107	1,325
Loans receivable, net	-	-	575,787	575,787	617,894
Accrued interest receivable	2,866	-	-	2,866	2,866
Financial liabilities					
Transaction accounts	-	-	477,957	477,957	478,523
Time deposits	-	-	226,652	226,652	225,127
Subordinated debentures	-	17,413	-	17,413	19,596
Accrued interest payable	229	-	-	229	229

	December 31, 2021				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Total Carrying Value
Financial assets					
Cash and cash equivalents	$ 3,458	$ -	$ -	$ 3,458	$ 3,458
Interest bearing deposits in banks	88,618	-	-	88,618	88,618
Investment securities held-to-maturity	-	1,346	-	1,346	1,333
Loans receivable, net	-	-	590,406	590,406	602,677
Accrued interest receivable	2,490	-	-	2,490	2,490
Financial liabilities					
Transaction accounts	-	-	442,896	442,896	442,896
Time deposits	-	-	235,684	235,684	235,618
Subordinated debentures	-	19,785	-	19,785	19,547
Accrued interest payable	22	-	-	22	22

Note 18. Federal Income Tax

The components of the provision for income taxes for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Federal income tax expense	$ 4,122,452	$ 3,089,701
Deferred income tax benefit	(186,193)	(128,347)
State income tax expense (benefit)	48,000	48,000
Income tax expense	$ 3,984,259	$ 3,009,354

Federal income tax expense is computed by applying the federal income tax rate of 21% to earnings before federal income tax expense for the years ended December 31, 2022 and 2021, respectively. Accordingly, the Company has calculated its deferred taxes at 21% in accordance with ASC 740, *Income Taxes*, which stipulates that the effects of deferred income taxes should be measured at the rate effective during the period that the deferred tax assets or liabilities are expected to be realized. These differences are primarily caused by expenses that are not deductible for tax purposes and tax adjustments related to prior federal income tax returns.

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets		
Accrued interest on nonperforming loans	$ 12,192	$ 26,695
Non-qualified stock options	15,612	-
Unrealized loss on available-for-sale securities	1,846,011	140,371
Servicing asset	14,228	51,050
Intangible / goodwill	31	412
Loan loss reserves	1,790,764	1,628,782
Total deferred tax assets	3,678,838	1,847,310
Deferred tax liabilities		
Prepaid expenses	(47,996)	(48,021)
Depreciation	(135,239)	(195,519)
Total deferred tax liabilities	(183,235)	(243,540)
Net deferred tax asset	$ 3,495,603	$ 1,603,770

No valuation allowance for deferred tax assets was recorded at December 31, 2022 and 2021 as management believes that it is more likely than not that all of the deferred tax assets will be realized. The Company files income tax returns in the U.S. federal jurisdiction, and one state jurisdiction.

Note 19. Regulatory Matters

The Bank 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

Under the CLBR framework, banks and their bank holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9%, are eligible to opt into the CBLR framework.

Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules (generally applicable capital rules) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Accordingly, a qualifying community banking organization that exceeds the 9% CBLR will be considered to have met: (i) the generally applicable risk-based and leverage capital requirements of the generally applicable capital rules; (ii) the capital ratio requirements in order to be considered well-capitalized under the prompt corrective action framework; (iii) any other applicable capital or leverage requirements. A qualifying community banking organization that elects to be under the CBLR framework generally would be exempt from the current capital framework, including risk-based capital requirements and capital conservation buffer requirements.

On April 6, 2020, the federal banking regulators, implementing the applicable provisions of the CARES Act, issued interim rules which modified the CBLR framework so that: (i) beginning second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework; and (ii) community banking organizations will have until January 1, 2022 before the CBLR requirement is reestablished at greater than 9%. Under the interim rules, the minimum CBLR was 8.5% for calendar year 2021, reverting back to 9% beginning on January 1, 2022. The interim rules also maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1% below the applicable community bank leverage ratio.

The Bank has opted into the Community Bank Leverage Ratio (CBLR) framework, beginning with the Call Report filed for the first quarter of 2020. At December 31, 2022 and 2021, the Bank's CBLR ratio was 13.73% and 12.83%, respectively, which exceeded all regulatory capital requirements under the CBLR framework and the Bank was considered to be "well-capitalized."

The amount of dividends or distributions which the Company may pay is subject to restrictions and minimum levels of capital required by bank regulatory agencies. At December 31, 2022 and 2021, the Bank exceeded all minimum regulatory capital standards. There were dividends paid of $1,206,913 and $959,090 for the years ended December 31, 2022 and 2021, respectively.

Note 20. Subordinated Debentures

	December 31, 2022		December 31, 2021	
	Principal Amount	Unamortized Debt Issuance Costs	Principal Amount	Unamortized Debt Issuance Costs
Subordinated debentures fixed at 3.50%, due in 2031	$ 20,000,000	$ (404,432)	$ 20,000,000	$ (453,455)

In March 2021, the Company completed the issuance of $20,000,000 in aggregate principal amount of unsecured subordinated notes due in 2031 in a private placement transaction to certain qualified institutional accredited investors. The notes will bear interest at an annual fixed rate of 3.50% payable quarterly. Starting July 1, 2026, interest will accrue at a floating rate per annum equal to a benchmark rate, which is expected to be three-month term Secured Overnight Financing Rate ("SOFR") plus a spread of 2.79%, payable quarterly. The notes are subject to redemption at the option of the Company on or after March 12, 2026.

Note 21. Earnings Per Share (EPS)

The factors used in the earnings per share computation follow:

	2022	2021
Net Income	$15,728,454	$11,608,897
Weighted average shares outstanding for basic earnings per share:		
Average shares outstanding	2,413,594	2,401,553
Weighted average shares outstanding for basic earnings per share	2,413,594	2,401,553
Basic earnings per share	$ 6.52	$ 4.83
Additional dilutive shares	150,505	102,659
Weighted average shares outstanding for dilutive earnings per share	2,564,099	2,504,212
Dilutive earnings per share	$ 6.13	$ 4.64

Note 22. Subsequent Events

The Company evaluates subsequent events in accordance with FASB ASC 855, *Subsequent Events*. In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 13, 2023, the date the consolidated financial statements were available to be issued.