Plains Acquisition Corporation and Subsidiaries

Consolidated Financial Report

December 31, 2023 and 2022

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Plains Acquisition Corporation and its subsidiaries (the Company), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, 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 Plains Acquisition Corporation and its subsidiaries as of December 31, 2023 and 2022, 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 Plains Acquisition Corporation and Subsidiaries, 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).

Weaver and Tidwell, L.L.P.
400 West Illinois Avenue, Suite 1550 | Midland, Texas 79701
Main: 432.683.5226

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 4, 2024

Consolidated Financial Statements

Plains Acquisition Corporation and Subsidiaries

Consolidated Statements of Financial Condition
December 31, 2023 and 2022

	2023	2022
ASSETS		
ASSETS		
Cash and cash equivalents	$ 4,781,201	$ 5,501,872
Interest bearing deposits in banks	111,605,375	113,174,070
Investment securities available-for-sale	50,327,108	61,311,794
Investment securities held-to-maturity (Fair value of $1,023,869 and $1,107,021 at December 31, 2023 and 2022, respectively)	1,317,155	1,324,835
Loans receivable, net of allowance for credit losses of $9,254,847 and $8,527,442 and discount of $1,025,059 and $1,456,951 at December 31, 2023 and 2022, respectively	623,050,212	617,894,239
Accrued interest receivable	3,432,703	2,866,062
Premises and equipment, net	6,819,495	6,421,115
Goodwill	5,961,698	1,602,252
Intangible assets, net	3,132,167	-
Servicing asset, net	1,231,427	1,550,855
Foreclosed assets, net of allowances	-	828,000
Deferred tax asset, net	3,654,341	3,495,603
Federal Home Loan Bank stock	569,500	493,600
Other assets	3,455,949	1,570,181
TOTAL ASSETS	$ 819,338,331	$ 818,034,478

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

Plains Acquisition Corporation and Subsidiaries

Consolidated Statements of Financial Condition

December 31, 2023 and 2022

	2023	2022
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Demand deposits	$ 156,234,058	$ 179,614,690
Savings deposits and NOW accounts	256,840,792	298,908,739
Time deposits	269,700,348	225,127,189
Total deposits	682,775,198	703,650,618
Accrued interest payable	511,558	229,298
Accrued expenses and other liabilities	5,527,131	2,819,894
Short-term borrowings	3,131,000	-
Subordinated debentures, net of debt issuance costs of $355,410 and $404,432 at December 31, 2023 and 2022, respectively	19,644,590	19,595,568
Total liabilities	711,589,477	726,295,378
STOCKHOLDERS' EQUITY		
Common stock - $1 par value; 25,000,000 shares authorized, 2,520,675 and 2,427,875 issued, 2,515,975 and 2,423,175 outstanding at December 31, 2023 and 2022, respectively	2,520,675	2,427,875
Additional paid-in capital	27,258,090	24,482,650
Additional paid-in capital stock options	1,792,324	1,902,277
Retained earnings	82,039,797	70,031,218
Treasury stock (4,700 shares at $34.13 average cost)	(160,400)	(160,400)
Accumulated other comprehensive loss, net of tax (expense) benefit of $1,515,624 and $1,846,011 at December 31, 2023 and 2022, respectively	(5,701,632)	(6,944,520)
Total stockholders' equity	107,748,854	91,739,100
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 819,338,331	$ 818,034,478

The Notes to Consolidated Financial Statements
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Plains Acquisition Corporation and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

	2023	2022
INTEREST INCOME		
Loans, including fees	$ 50,600,583	$ 38,929,374
Debt securities		
Taxable	913,504	974,726
Tax exempt	295,189	343,434
Due from banks	4,212,401	1,787,526
Total interest income	56,021,677	42,035,060
INTEREST EXPENSE		
Deposits	15,255,280	4,686,344
Short-term borrowings	47,094	-
Subordinated debentures	749,021	749,023
Total interest expense	16,051,395	5,435,367
Net interest income	39,970,282	36,599,693
Provision for credit losses - loans	950,000	1,000,000
Provision for credit losses - off-balance sheet	425,000	-
Total provision for credit losses	1,375,000	1,000,000
Net interest income after provision for credit losses	38,595,282	35,599,693
NONINTEREST INCOME		
Net premium on loan sales	377,747	579,036
Customer service fees	252,206	177,848
Net servicing fees	532,319	543,848
Foreclosed assets income	13,828	34,488
Other income	1,176,179	141,192
Total noninterest income	2,352,279	1,476,412

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

Plains Acquisition Corporation and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

	2023	2022
NONINTEREST EXPENSES		
Salaries and employee benefits	$ 11,250,151	$ 9,792,640
Occupancy expenses	1,960,677	1,770,080
Business development	252,270	196,930
Data and check processing	1,303,732	937,541
Professional services	1,374,009	1,501,097
Loan origination and maintenance expense	597,347	1,150,698
Office expense	580,299	516,930
Advertising and contributions	662,404	510,211
Training, travel and periodicals	178,008	140,080
Insurance expense	79,244	71,801
Outside services	352,050	264,000
Write-down of foreclosed assets	32,076	-
Foreclosed asset expenses	-	19,630
Other noninterest expenses	772,538	491,754
Total noninterest expenses	19,394,805	17,363,392
Income before income taxes	21,552,756	19,712,713
Income tax expense	4,726,244	3,984,259
NET INCOME	$ 16,826,512	$ 15,728,454
Earnings per share - basic	$ 6.83	$ 6.52
Earnings per share - diluted	$ 6.34	$ 6.13

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

Plains Acquisition Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

	2023	2022
Net income	$ 16,826,512	$ 15,728,454
Other items of comprehensive income		
Change in unrealized appreciation (depreciation) on investment securities available-for-sale, before tax	1,573,276	(8,122,096)
Total other items of comprehensive income	1,573,276	(8,122,096)
Comprehensive income before tax	18,399,788	7,606,358
Income tax (expense) benefit related to change in unrealized apprciation (depreciation) on investment securit	(330,388)	1,705,640
COMPREHENSIVE INCOME	$ 18,069,400	$ 9,311,998

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

Plains Acquisition Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2023 and 2022

	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, 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
Cumulative change in accounting principle (adoption of ASC 326)	-	-	-	-	(1,113,945)	-	-	(1,113,945)
BALANCE, January 1, 2023 (as adjusted for change in accounting principal)	2,427,875	2,427,875	24,482,650	1,902,277	68,917,273	(160,400)	(6,944,520)	90,625,155
Stock based compensation	-	-	-	353,463	-	-	-	353,463
Exercise of stock options	61,300	61,300	1,546,940	(463,416)	-	-	-	1,144,824
Issuance of common stock	31,500	31,500	1,228,500	-	-	-	-	1,260,000
Net income	-	-	-	-	16,826,512	-	-	16,826,512
Dividends paid	-	-	-	-	(3,703,988)	-	-	(3,703,988)
Change in net unrealized losses on available-for-sale securities	-	-	-	-	-	-	1,242,888	1,242,888
BALANCE, December 31, 2023	2,520,675	$ 2,520,675	$ 27,258,090	$ 1,792,324	$ 82,039,797	$ (160,400)	$ (5,701,632)	$ 107,748,854

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

Plains Acquisition Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 16,826,512	$ 15,728,454
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	451,110	495,401
Amortization of right of use assets	11,107	14,176
Amortization of intangible assets	82,833	-
Amortization of debt issuance costs	49,022	49,023
Amortization and disposals of servicing assets	516,926	749,202
Change in valuation allowance of servicing assets	(67,754)	(175,341)
Provision for credit losses - loans	950,000	1,000,000
Provision for credit losses - off-balance sheet	425,000	-
Net amortization of security discounts and premiums	238,706	349,735
Deferred income tax benefit	(193,014)	(186,193)
Stock based compensation	353,463	156,004
Net premium on loan sales	(377,747)	(579,036)
Writedown of foreclosed assets	32,076	-
Loss on sale of repossessed assets	1,295	22,299
Changes in operating assets and liabilities:		
Accrued interest receivable	(566,641)	(376,194)
Other assets	600,910	(172,432)
Accrued interest payable	282,260	206,820
Accrued expenses and other liabilities	1,118,609	(279,339)
Net cash provided by operating activities	20,734,673	17,002,579
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES		
Net change in interest bearing deposits in banks	1,568,695	(24,555,929)
Activity in available-for-sale securities		
Purchases	(149,980,173)	(156,006,804)
Proceeds from paydowns, calls and maturities	162,299,979	159,135,869
Activity in held-to-maturity securities		
Proceeds from paydowns, calls and maturities	7,129	6,816
Loan originations and principal collections, net	(16,520,093)	(25,152,383)
Additions to premises and equipment	(362,769)	(104,830)
Proceeds from sales of repossessed and foreclosed property	794,629	156,062
Proceeds from sales of loans	7,711,277	7,479,877
Net change in Federal Home Loan Bank stock	(75,900)	(77,100)
Cash paid for acquisitions, net	(3,463,534)	-
Net cash provided by (used for) investing activities	1,979,240	(39,118,422)

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

Plains Acquisition Corporation and Subsidiaries

Consolidated Statements of Cash Flows – Continued
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS (USED FOR) PROVIDED BY FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(20,875,420)	25,136,593
Dividends paid	(3,703,988)	(1,206,913)
Issuance of stock, net of offering costs	1,144,824	230,077
Net cash (used for) provided by financing activities	(23,434,584)	24,159,757
Net change in cash and cash equivalents	(720,671)	2,043,914
CASH AND CASH EQUIVALENTS, beginning of year	5,501,872	3,457,958
CASH AND CASH EQUIVALENTS, end of year	$ 4,781,201	$ 5,501,872
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 15,769,133	$ 5,228,547
Income taxes paid	5,125,098	4,228,064
SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized loss on securities	$ 1,573,276	$ (8,122,096)
Transfer of loan balance to repossessed and foreclosed property	-	(1,006,361)
Right-of-use asset obtained in exchange for lease liabilities	750,427	1,372,217
Transfers from loans to SBA recievable (other assets)	(2,248,644)	(863,215)
Acquisition of CORE+ Financial Strategies, LLC and CORE+ Tax Services, LLC		
Accounts receivable	(238,034)	-
Fixed assets	(42,054)	-
Intangible assets	(3,215,000)	-
Goodwill	(4,359,446)	-
Short-term debt	3,131,000	-
Common stock	31,500	-
Additional paid-in capital	1,228,500	-

The Notes to Consolidated Financial Statements
are an integral part of these 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 Financial Services, Inc (PFS) is a Texas corporation which offers a full range of financial services. The primary source of income is from providing tax preparation services to local clients.

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 and Plains Financial Services. 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 Subsidiaries (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 subsidiaries, Plains State Bank and Plains Financial Services. 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 credit losses.

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, 2023 and 2022. 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:

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

Level 2 inputs: 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.

Level 3 inputs: 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, 2023 and 2022.

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. No transfers were made between available-for-sale and held-to-maturity securities during the years ended December 31, 2023 and 2022.

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. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Allowance for Credit Losses – Held-to-Maturity Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the held-to-maturity portfolio into the following major security types: Mortgage-backed securities and subordinated debentures.

Nearly all of the mortgage-backed securities held by the Company are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The subordinated debentures held by the Company are issued by bank holding companies and are evaluated on a regular basis for potential credit loss.

Allowance for Credit Losses – Available-for-Sale Securities

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is excluded from the estimate of credit losses.

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 amortized cost basis, which includes 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 construction and development, residential real estate, commercial real estate, farmland, commercial, and consumer and other. In addition, the allowance is presented by portfolio segment.

Allowance for Credit Losses – Loans

The allowance for credit losses ("allowance" or "ACL") is a contra-asset valuation account, calculated in accordance with ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, ASC Topic 326 ("ASC 326"), that is deducted from the amortized cost basis of loans. The ACL represents an amount which, in management's judgement, is adequate to absorb the lifetime expected credit losses that may be experienced on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions and prepayment experience. The allowance for credit losses is measured and recorded upon the initial recognition of a financial asset. Determination of the adequacy of the allowance is inherently complex and requires the use of significant and highly subjective estimates. Loans are charged-off against the allowance when deemed uncollectible by management. Expected recoveries typically do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Adjustments to the allowance are reported in the income statement as a component of the provision for credit losses. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

The Company's methodology for estimating the allowance includes: (1) a collective quantified reserve that reflects the Company's historical default and loss experience adjusted for expected economic conditions throughout a reasonable and supportable period and the Company's prepayment and curtailment rates; (2) collective qualitative factors that consider concentrations of the loan portfolio, expected changes to the economic forecasts, large relationships, early delinquencies, and factors related to credit administrations, including, among others, loan-to-value ratios, borrowers' risk rating and credit score migrations; and (3) individual allowances on loans where borrowers are experiencing financial difficulty or when the Company determines that the foreclosure is probable.

In calculating the allowance for credit losses, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles include the type/purpose of loan, underlying collateral, geographical similarity and historical/expected credit loss patterns. In developing these loan pools for the purposes of modeling expected credit losses, the Company also analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors. For modeling purposes, loan portfolio segments include construction and development, residential real estate, commercial real estate, farmland, commercial, and consumer and other. The Company periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary. Refer to Note 4 for more details on the Company's portfolio segments.

The Company applies one methodology to estimate the allowance on its pooled portfolio segments: weighted average remaining life method. The model related to this methodology utilize the Company's historical default and loss experience adjusted for future economic forecasts. The reasonable and supportable forecast period represents a one-year economic outlook for the applicable economic

variables. Following the end of the reasonable and supportable forecast period expected losses revert back to the historical mean over the next three years on a straight-line basis.

Economic variables that have the most significant impact on the allowance include Texas unemployment rate, Texas house price index and Texas retail sales index.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within the loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk rating of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The Company reevaluates the fair value of collateral supporting collateral dependent loans on an ongoing basis.

Management qualitatively adjusts model results for risk factors that are not considered within the modeling processes but are nonetheless relevant in assessing the expected credit losses within the loan pools. These qualitative factor ("Q-Factor") adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. The various risks that may be considered in making Q-Factor adjustments include, among other things, the impact of (i) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (ii) actual and expected changes in national, regional, and local economic and business conditions and developments that affect the collectability of the loan pools, (iii) changes in the nature, volume and size of a loan or the loan pools and in the terms of the underlying loans, (iv) changes in the experience, ability, and depth of our lending management and staff, (v) changes in volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified or graded assets, (vi) changes in the quality of our credit review function, (vii) changes in the value of the underlying collateral for loans that are non-collateral dependent, (viii) the existence, growth, and effect of any concentrations of credit and (ix) other factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters or health pandemics.

Management believes it uses relevant information available to make determinations about the allowance and that it has established the existing allowance in accordance with GAAP. However, the determination of the allowance requires significant judgment, and estimates of expected lifetime losses in the loan portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize expected losses, future additions to the allowance may be necessary based on changes in the loans comprising the portfolio, changes in the current and forecasted economic conditions, changes to the interest rate environment which may directly impact prepayment and curtailment rate assumptions, and changes in the financial condition of borrowers.

Allowance for Credit Losses – Off-Balance-Sheet/Reserve for Unfunded Commitments

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. These obligations include unfunded lines of credit, commitments to extend credit and standby letters of credit.

No allowance is recognized if the Company has the unconditional right to cancel the obligation. The allowance is reported as a component of accrued expenses and other liabilities in the consolidated statements of financial condition.

Adjustments to the allowance are reported in the income statement as a component of the provision for credit losses. At December 31, 2023, the Company's reserve for unfunded commitments totaled $1,132,854. As of December 31, 2022, the Company did not record an allowance for unfunded commitments.

For modeling purposes, portfolio segments include construction and development, residential real estate, commercial, and consumer and other. The Company periodically reassess each pool to ensure the commitments within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary. Refer to Note 4 for more details on the Company's portfolio segments.

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 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 with borrowers in financial difficulty whose contractual terms have been modified (troubled loan modifications "TLM") 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.

TLMs that are on accrual status are reported as performing TLMs 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 TLMs bear less than a market rate of interest at the time of modification, they are reported as performing TLMs throughout the remaining lives of the loans.

The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. Credit 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 credit 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, 2023 and 2022, as of December 31, 2023 and 2022, 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, 2023 and 2022.

Foreclosed Assets

Foreclosed assets 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.

Credit losses arising from the acquisition of such properties are charged against the allowance for credit losses. Subsequent valuation adjustments are charged to expense, included in write down of foreclosed assets 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 $662,404 and $510,211 for the years ended December 31, 2023 and 2022, 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*. Management has determined there are no impairment losses of goodwill during the years ended December 31, 2023 and 2022.

Intangible Assets

Intangible assets with a finite life consist of covenants not to compete, customer relationships, and trademarks and are carried at cost less accumulated amortization. The Company amortizes the cost of identifiable intangible assets on a straight-line basis over the expected period of benefit, which is three years for covenants not to compete, twenty years for customer relationships and five years for trademarks.

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, 2023 and 2022, 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, 2023 and 2022 the Company did not record a liability related to uncertain tax positions.

For the years ended December 31, 2023 and 2022, 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 $47,927 and $48,000 for the years ended December 31, 2023 and 2022, respectively.

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 $353,463 and $156,004 in stock-based compensation expense for the years ended December 31, 2023 and 2022, 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

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, *Revenue from Contracts with Customers* (ASC 606), 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 ASC 606. As a result, no changes were made during the period related to these sources of revenue. The following revenue streams are considered in scope for ASC 606.

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

Credit Losses

On January 1, 2023, *ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, became effective for the Company. ASC 326 replaced the previous "incurred loss" model for measuring credit losses with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet (OBS) credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures (unfunded commitments). Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously acceptable GAAP. The Company recorded a net decrease to retained earnings of $1,113,945, net of tax, as of January 1, 2023, for the cumulative effect of adopting ASC 326. The transition adjustment includes an increase of $702,202 in allowance for credit losses – loans, an increase of $707,854 in allowance for credit losses –reserve for unfunded commitments, and a deferred tax adjustment of $296,111.

With the adoption of ASC 326, the Company revised certain accounting policies and implemented certain accounting policy elections which are described below. Prior to January 1, 2023, allowance for credit losses were based on the incurred loss methodology in accordance with accounting policies disclosed in Note 1 of the Consolidated Financial Statements included in the Company's 2022 consolidated financial statements.

The Company adopted ASC 326 using the prospective transition approach for securities for which other than-temporary impairment had been recognized prior to January 1, 2023. As a result, the amortized cost basis remains the same before and after the effective date of ASC 326. The effective interest rate on these debt securities was not changed. The Company did not have any securities for which other than temporary impairment (OTTI) had been recognized as of December 31, 2022.

The following table illustrates the impact of the adoption of ASC 326:

	Pre-ASU 2016-13 Adoption December 31, 2022	Impact of ASU 2016-13	As Reported Under ASU 2016-13 January 1, 2023
Assets			
Allowance for credit losses			
Loans			
Construction and development	$ 1,561,086	$ (265,521)	$ 1,295,565
Residential real estate	293,393	64,841	358,234
Commercial real estate	3,942,191	332,870	4,275,061
Farmland	63,643	(14)	63,629
Commercial	2,128,862	479,592	2,608,454
Consumer and other	538,267	90,434	628,701
Total allowance for credit losses on loans	$ 8,527,442	$ 702,202	$ 9,229,644
Liabilities			
Accrued expenses and other liabilities - Allowance for credit losses on unfunded commitments	$ -	$ 707,854	$ 707,854
Total allowance for credit losses	$ 8,527,442	$ 1,410,056	$ 9,937,498

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. As of December 31, 2023 and 2022, there was no required reserve.

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, 2023 and 2022. All fair values as of December 31, 2023 and 2022 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.*

Plains Acquisition Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The amortized cost and fair values of securities available-for-sale and held-to-maturity at December 31, 2023 and 2022 were as follows:

	At December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. agency and treasury	$ 5,004,963	$ -	$ (535,726)	$ 4,469,237
Municipal securities	5,826,573	-	(415,180)	5,411,393
Mortgage-backed securities	46,712,828	1,810	(6,268,160)	40,446,478
Total available-for-sale	$57,544,364	$ 1,810	$ (7,219,066)	$50,327,108
Held-to-maturity				
Subordinated debentures	$ 1,000,000	$ -	$ (281,727)	$ 718,273
Mortgage-backed securities	317,155	-	(11,559)	305,596
Total held-to-maturity	$ 1,317,155	$ -	$ (293,286)	$ 1,023,869

	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

All mortgage-backed securities included in the above tables were issued by U.S. government agencies. The municipal securities held at December 31, 2023 and 2022 are guaranteed by Texas municipalities and range from an AAA to an A bond rating. Included in municipal securities at December 31, 2023 and 2022 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 $1,883,703 and $8,379,104, which is 35% and 65% of the total carrying value of municipal securities, at December 31, 2023 and 2022, respectively.

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, 2023 were as follows:

	Available-for-sale Securities	
	Amortized Cost	Fair Value
Due in one year or less	$ 500,000	$ 499,500
Due from one year to five years	7,451,265	6,845,290
Due from five to ten years	2,692,106	2,378,857
Due after ten years	188,165	156,983
Mortgage-backed securities	46,712,828	40,446,478
Total	$ 57,544,364	$ 50,327,108

	Held-to-maturity Securities	
	Amortized Cost	Fair Value
Due from five to ten years	$ 500,000	$ 408,789
Due after ten years	500,000	309,484
Mortgage-backed securities	317,155	305,596
Total	$ 1,317,155	$ 1,023,869

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, 2023 and 2022. Securities with amortized cost totaling $37,123,723 and $32,527,523 and fair values totaling $31,860,970 and $27,292,305 were pledged to secure public deposits at December 31, 2023 and 2022, 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, 2023					
	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)	$ -	$ -	$ 4,469,238	$ (535,726)	$ 4,469,238	$ (535,726)
Municipal securities (22)	1,093,775	(3,328)	4,317,617	(411,852)	5,411,392	(415,180)
Mortgage-backed securities (28)	-	-	40,361,603	(6,268,160)	40,361,603	(6,268,160)
Total available-for-sale	$ 1,093,775	$ (3,328)	$ 49,148,458	$ (7,215,738)	$ 50,242,233	$ (7,219,066)
Held-to-maturity						
Mortgage-backed securities (1)	$ -	$ -	$ 305,596	$ (11,559)	$ 305,596	$ (11,559)
Subordinated debentures (2)	-	-	718,273	(281,727)	718,273	(281,727)
Total held-to-maturity	$ -	$ -	$ 1,023,869	$ (293,286)	$ 1,023,869	$ (293,286)

Plains Acquisition Corporation and Subsidiaries

Notes to Consolidated Financial Statements

	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)

The number of investments in an unrealized loss position totaled 54 at December 31, 2023. Any unrealized losses in the U.S. treasuries and government agencies, state and municipal, mortgage-backed, asset backed and corporate bonds investment securities at December 31, 2023 are due to changes in interest rates and not credit-related events. As such, no allowance for credit losses is required at December 31, 2023. Unrealized losses on investment securities are expected to recover over time as these securities approach maturity. Mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies. At December 31, 2023 and 2022, 100% of available-for sale securities that are obligations of states and political subdivisions were issued within the State of Texas.

As of December 31, 2023 and 2022, 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. As of December 31, 2022, 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

There were no sales of investment securities available-for-sale for the years ended December 31, 2023 and 2022.

Credit Quality Indicators

The Company monitors credit quality of debt securities held-to-maturity through the use of credit rating and through the use of publicly available financial information on a semi-annual basis. The following summarizes the amortized cost of debt securities held-to-maturity at December 31, 2023, aggregated by credit quality indicator:

	Held-to-Maturity	
	Mortgage-backed	Subordinated debentures
December 31, 2023:		
AAA	$ 317,155	$ -
Not Rated	-	1,000,000
Total	$ 317,155	$ 1,000,000

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

At December 31, 2023 and 2022, the components of loans receivable in the consolidated statements of financial condition were as follows:

	2023	Percent		2022	Percent
Construction and development	$ 140,830,750	22%	Real estate	$ 425,741,309	68%
Residential real estate	24,858,063	4%	Real estate - hotels	66,586,549	11%
Commercial real estate	344,691,994	54%	Agricultural	3,563,896	1%
Farmland	4,359,929	1%	Commercial	98,506,037	15%
Commercial	92,022,733	15%	Auto Leases	30,672,654	5%
Consumer and other	26,566,649	4%	Consumer and other	2,808,187	0%
Subtotal	633,330,118	100%		627,878,632	100%
Less discount on retained portion of loan sales	(1,025,059)		Less discount on retained portion of loan sales	(1,456,951)	
Less allowance for credit losses	(9,254,847)		Less allowance for loan and lease losses	(8,527,442)	
Net loans receivable	$ 623,050,212			$ 617,894,239	

Certain pools of loans were reclassified for the year ended December 31, 2023, to conform with presentation of ASC 326. The reclassifications do not have a material effect on prior period presentation.

An analysis of the loan portfolio and other assets at December 31, 2023 and 2022 was as follows:

	2023	2022
Interest income that would have been recorded on nonaccrual loans had they been on full-accrual status	$ 435,091	$ 202,086
Foreclosed and repossessed assets other than real estate	32,666	-
Overdraft balances classified as commercial loans	41,550	4,960
Overdraft balances classified as consumer loans	682	795

The following tables presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days and still accruing:

	December 31, 2023		
	Nonaccrual	Nonaccrual With No Allowance for Credit Loss	Loans Past Due Over 89 Days Still Accruing
Construction and development	$ -	$ -	$ -
Residential real estate	-	-	-
Commercial real estate	3,266,127	-	-
Farmland	-	-	-
Commercial	-	-	112,496
Consumer and other	-	-	-
Total	$ 3,266,127	$ -	$ 112,496

	December 31, 2022	
	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Real estate	$ 4,147,690	$ -
Real estate - hotels	-	-
Commercial	861,945	-
Auto Leases	-	-
Agricultural	-	-
Consumer and other	-	-
Total	$ 5,009,635	$ -

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

At December 31, 2023 and 2022, there was one nonaccrual loan with a government guarantee of 75% of the total principal balance which consisted of 100% and 4%, respectively, of total nonaccrual loan balances.

The Company's collateral dependent loans and related allowance as of December 31, 2023, is summarized by loan segment and collateral type in the following table:

	December 31, 2023				
	Collateral Type				
	Real Estate	Equipment	Other	Total	ACL
Construction and development	$ -	$ -	$ -	$ -	$ -
Residential real estate	-	-	-	-	-
Commercial real estate	16,139,886	-	-	16,139,886	244,866
Farmland	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total	$ 16,139,886	$ -	$ -	$ 16,139,886	$ 244,866

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

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
Total	$ 23,128,316	$ 19,011,674	$ 4,116,642	$ 23,128,316	$1,079,593	$ 23,183,485

At December 31, 2022, total impaired loans had government guarantees of 15% of the total principal balances. 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 collateral dependent and impaired loans by the Company during the years ended December 31, 2023 and 2022:

	2023		2022
Construction and development	$ -	Real estate	$ 519,574
Residential real estate	-	Real estate - hotels	704,857
Commercial real estate	831,352	Commercial	288,983
Total	$ 831,352		$ 1,513,414

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, 2023, the following summarizes the Company's internal ratings of its loans, net of discount on retained portion of loans sales, by year of origination:

	December 31, 2023				
	Loans Amortized Cost Basis by Origination Year				
	2023	2022	2021	Prior	Total
Construction and development					
Pass	$73,924,937	$34,465,463	$ 18,012,642	$ 4,760,604	$ 131,163,646
Special mention	-	-	-	9,630,000	9,630,000
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Total Construction and development loans	$73,924,937	$34,465,463	$ 18,012,642	$ 14,390,604	$ 140,793,646
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -

	December 31, 2023				
	Loans Amortized Cost Basis by Origination Year				
	2023	2022	2021	Prior	Total
Residential Real Estate					
Pass	$ 2,471,345	$ 6,520,521	$ 9,060,220	$ 6,805,977	$ 24,858,063
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Total residential real estate loans	$ 2,471,345	$ 6,520,521	$ 9,060,220	$ 6,805,977	$ 24,858,063
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -
Commercial real estate					
Pass	$48,471,406	$72,154,088	$ 95,240,333	$ 99,415,121	$ 315,280,948
Special mention	-	402,839	7,951,385	4,034,658	12,388,882
Substandard	9,854,170	-	-	6,285,716	16,139,886
Doubtful	-	-	-	-	-
Total Commercial real estate loans	$58,325,576	$72,556,927	$ 103,191,718	$109,735,495	$ 343,809,716
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -
Farmland					
Pass	$ 198,352	$ 1,973,604	$ 977,986	$ 1,209,987	$ 4,359,929
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Total farmland loans	$ 198,352	$ 1,973,604	$ 977,986	$ 1,209,987	$ 4,359,929
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -
Commercial					
Pass	$45,868,474	$ 9,133,219	$ 11,773,756	$ 19,923,893	$ 86,699,342
Special mention	2,061,807	-	76,555	3,079,352	5,217,714
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Total commercial loans	$47,930,281	$ 9,133,219	$ 11,850,311	$ 23,003,245	$ 91,917,056
Current period gross charge-offs	$ -	$ -	$ 695,945	$ 158,542	$ 854,487

	December 31, 2023				
	Loans Amortized Cost Basis by Origination Year				
	2023	2022	2021	Prior	Total
Consumer and other					
Pass	$ 5,857,199	$ 7,917,737	$ 6,768,536	$ 6,023,177	$ 26,566,649
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Total consumer and other loans	$ 5,857,199	$ 7,917,737	$ 6,768,536	$ 6,023,177	$ 26,566,649
Current period gross charge-offs	$ -	$ 435	$ 25,697	$ 117,168	$ 143,300

At December 31, 2022, the following summarizes the Company's internal ratings of its loans:

	December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	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
	$580,670,865	$ 25,804,277	$ 21,403,490	$ -	$ 627,878,632

At December 31, 2023 and 2022, the Company's past due loans are as follows:

	December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	Over 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Construction and development	$ 1,000,699	$ -	$ -	$ 1,000,699	$139,830,051	$ 140,830,750
Residential real estate	-	-	-	-	24,858,063	24,858,063
Commercial real estate	6,322,043	-	-	6,322,043	338,369,951	344,691,994
Farmland	-	-	-	-	4,359,929	4,359,929
Commercial	3,272,661	562,771	112,496	3,947,928	88,074,805	92,022,733
Consumer and other	42,225	43,287	-	85,512	26,481,137	26,566,649
Total	$ 10,637,628	$ 606,058	$ 112,496	$ 11,356,182	$621,973,936	$ 633,330,118

	December 31, 2022					
	30-59 Days Past Due	60-89 Days Past Due	Over 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
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

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	Real Estate						
	Construction and development	Residential real estate	Commercial real estate	Farmland	Commercial	Consumer and other	Total
Allowance for Credit Losses							
Balance at beginning of period	$ 1,561,086	$ 293,393	$ 3,942,191	$ 63,643	$ 2,128,862	$ 538,267	$ 8,527,442
Impact of adopting ASC 326	(265,521)	64,841	332,870	(14)	479,592	90,434	702,202
Charge-offs	-	-	-	-	(854,487)	(143,300)	(997,787)
Recoveries	-	-	35,495	-	22,070	15,425	72,990
Provision for credit losses	926,049	(62,689)	234,732	(17,245)	(84,653)	(46,194)	950,000
Balance at end of period	$ 2,221,614	$ 295,545	$ 4,545,288	$ 46,384	$ 1,691,384	$ 454,632	$ 9,254,847

Management has evaluated the appropriateness of the allowance for credit losses by estimating the losses in various categories of the loan portfolio. The following table presents the balance in the allowance for loan losses and recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022. 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
Allowance for loan losses							
Balance at beginning of period	$ 6,767,837	$ 930,337	$ 164,612	$ (196,646)	$ 59,040	$ 30,927	$ 7,756,107
Charge-offs	(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
Provisions	(190,165)	-	(148,704)	(172,233)	-	(12,432)	(523,534)
Balance at end of period	$ 5,251,921	$ 579,655	$ 2,102,225	$ 462,261	$ 116,589	$ 14,791	$ 8,527,442
Individually evaluated for impairment	$ 152,311	$ -	$ 927,282	$ -	$ -	$ -	$ 1,079,593
Collectively evaluated for impairment	5,099,610	579,655	1,174,943	462,261	116,589	14,791	$ 7,447,849
Balance at end of period	$ 5,251,921	$ 579,655	$ 2,102,225	$ 462,261	$ 116,589	$ 14,791	$ 8,527,442

December 31, 2022	Real Estate	Real Estate - Hotels	Commercial	Auto Leases	Agricultural	Consumer and Other	Total
Loans and Financing Receivables							
Individually evaluated for impairment	$ 7,783,515	$ 10,643,685	$ 4,701,116	$ -	$ -	$ -	$ 23,128,316
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
Balance at end of period	$ 425,741,309	$ 66,586,549	$ 98,506,037	$30,672,654	$ 3,563,896	$ 2,808,187	$ 627,878,632

The level of the allowance for credit 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 credit 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.

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. The Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the amortized cost, net of discount on retained portion of loans sales, in loans based on payment activity:

	December 31, 2023				
	Loans Amortized Cost Basis by Origination Year				
	2023	2022	2021	Prior	Total
Construction and development					
Performing	$73,924,937	$34,465,463	$ 18,012,642	$ 14,390,604	$ 140,793,646
Non-performing	-	-	-	-	-
Total Construction and development loans	$73,924,937	$34,465,463	$ 18,012,642	$ 14,390,604	$ 140,793,646
Residential Real Estate					
Performing	$ 2,471,345	$ 6,520,521	$ 9,060,220	$ 6,805,977	$ 24,858,063
Non-performing	-	-	-	-	-
Total residential real estate loans	$ 2,471,345	$ 6,520,521	$ 9,060,220	$ 6,805,977	$ 24,858,063
Commercial real estate					
Performing	$58,325,576	$72,556,927	$ 103,191,718	$ 106,469,369	$ 340,543,590
Non-performing	-	-	-	3,266,127	3,266,127
Total Commercial real estate loans	$58,325,576	$72,556,927	$ 103,191,718	$ 109,735,496	$ 343,809,717

	December 31, 2023				
	Loans Amortized Cost Basis by Origination Year				
	2023	2022	2021	Prior	Total
Farmland					
Performing	$ 198,352	$ 1,973,604	$ 977,986	$ 1,209,987	$ 4,359,929
Non-performing	-	-	-	-	-
Total farmland loans	$ 198,352	$ 1,973,604	$ 977,986	$ 1,209,987	$ 4,359,929
Commercial					
Performing	$47,930,281	$ 9,133,219	$ 11,850,311	$ 23,003,245	$ 91,917,056
Non-performing	-	-	-	-	-
Total commercial loans	$47,930,281	$ 9,133,219	$ 11,850,311	$ 23,003,245	$ 91,917,056
Consumer and other					
Performing	$ 5,857,199	$ 7,917,737	$ 6,768,536	$ 6,023,177	$ 26,566,649
Non-performing	-	-	-	-	-
Total consumer and other loans	$ 5,857,199	$ 7,917,737	$ 6,768,536	$ 6,023,177	$ 26,566,649

Troubled Loan Modifications

During the year ended December 31, 2023, the Company did not have any modifications of loans resulting in a troubled loan modification. The Company modified two loans during the year ended December 31, 2022 that would be considered a TDR. The Company's recorded investment in these loans were $13,654,294 and $12,125,156 as of December 31, 2023 and 2022, respectively.

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, 2023 and 2022, 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, 2023 and 2022, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

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 $7,711,277 and $7,479,877 from the sale of the guaranteed portions of loans during the years ended December 31, 2023 and 2022, respectively, resulting in net

realized gains on sales of $377,747 and $579,036 for the years ended December 31, 2023 and 2022, respectively. A discount was recognized on the retained portion of the loans in the amount of $61,199 and $58,549 for the years ended December 31, 2023 and 2022, 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 $129,744 and $164,896 for the years ended December 31, 2023 and 2022, respectively, which is to be amortized into income over the estimated lives of the related loans.

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 $569,500 and $493,600 at December 31, 2023 and 2022, respectively. No ready market exists for the FHLB stock, it has no quoted market value and is therefore carried at cost, and evaluate for impairment to determine if the par value is reasonable.

As of December 31, 2023 and 2022, the Company had an unfunded line of credit with the FHLB totaling $183,061,050 and $177,879,659, respectively, secured by a blanket pledge of certain loan categories totaling $278,643,050 and $269,247,659, respectively. Additionally, no investment securities have been pledged against the line as of December 31, 2023 and 2022 respectively. The Company had $95,582,000 and $91,350,000 of letters of credit issued under the line of credit as of December 31, 2023 and 2022, respectively.

Note 6. Premises and Equipment

Components of premises and equipment included in the consolidated statements of financial condition at December 31, 2023 and 2022 were as follows:

	2023	2022
Bank premises	$ 5,615,304	$ 5,563,450
Furniture and fixtures	932,614	900,261
Equipment	2,524,171	2,266,132
Software and intellectual property	760,777	727,576
Depreciable assets	9,832,866	9,457,419
Land	1,445,122	1,445,122
Total cost	11,277,988	10,902,541
Less accumulated depreciation	6,077,879	5,626,769
Premises and equipment, net, excluding right-of-use assets	5,200,109	5,275,772
Right-of-use assets, net of amortization	1,619,386	1,145,343
Premises and equipment, net	$ 6,819,495	$ 6,421,115

Depreciation expense was $451,110 and $495,401 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, 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 December 31, 2023 and 2022.

Total right-of-use assets and lease liabilities at December 31, 2023 and 2022 were as follows:

		December 31,	
Lease Assets	Classification	2023	2022
Operating right-of-use assets	Premises and equipment, net	$ 1,619,386	$ 1,145,343
Lease Liabilities	Classification		
Operating lease liabilities	Accrued expenses and other liabilities	$ 1,644,669	$ 1,159,519

Total lease costs for the years ended December 31, 2023 and 2022 were as follows:

	December 31,	
	2023	2022
Operating lease cost	$ 305,760	$ 249,612

The following table summarizes supplemental cash flow information for the years ended December 31, 2023 and 2022:

	December 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 294,653	$ 235,436

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

	December 31, 2023	December 31, 2022
Weighted-average remaining lease term		
Operating leases	5.08 Years	5.29 Years
Weighted-average discount rate		
Operating leases	3.14%	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, 2023:

	Operating
2024	$ 414,729
2025	425,037
2026	380,352
2027	275,104
2028	190,898
Thereafter	85,155
Total lease payments - undiscounted operating lease liability	1,771,275
Less interest	(126,606)
Present value of lease liabilities	$ 1,644,669

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.

On August 31, 2023, the Company acquired all of the membership interests of CORE+ Financial Strategies, LLC and CORE+ Tax Strategies, LLC. CORE+ Tax Strategies was merged into Plains Financial Services, Inc, a wholly owned subsidiary of the Company. CORE+ Financial Strategies was acquired by and all of its assets distributed to Plains State Bank, but the entity is yet to be legally dissolved. The acquisition was made primarily to provide the Company access to additional services to be provided by the Company. The purchase was accounted for using the purchase method of accounting. As a result of the purchase, the Company recorded $4,359,446 of goodwill. See note 22 for further information on the acquisition.

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, 2023 and 2022.

Intangible assets as of December 31, 2023, consist of the following:

	Gross Carrying Amount	Accumulated Amortization	Net
Amortized Intangible Assets			
Covenants not to compete	$ 180,000	$ (16,333)	$ 163,667
Customer relationships	2,790,000	(46,500)	2,743,500
Trademarks	245,000	(20,000)	225,000
	$ 3,215,000	$ (82,833)	$ 3,132,167

Amortization expense for the year ended December 31, 2023, was $82,833. Estimated future amortization expense related to these intangible assets is as follows:

Years Ending December 31,	Amount
2024	$ 248,500
2025	248,500
2026	228,500
2027	188,500
2028	172,167
Thereafter	2,046,000
Total	3,132,167

Note 9. Deposits

A summary of interest-bearing deposits at December 31, 2023 and 2022 is as follows:

	2023	2022
Savings deposits and NOW accounts	$ 256,840,792	$ 298,908,739
Time deposits less than $250,000	141,754,611	130,033,598
Time deposits of $250,000 or more	127,945,737	95,093,591
Total interest-bearing deposits	$ 526,541,140	$ 524,035,928

At December 31, 2023 and 2022, the scheduled maturities of time deposits are as follows:

	2023		2022	
Due in	Balance of Time Deposits	Percent	Balance of Time Deposits	Percent
One year or less	$ 214,375,159	79%	$ 159,268,212	71%
One through three years	55,325,189	21%	63,029,977	28%
Over three years	-	0%	2,829,000	1%
Total	$ 269,700,348	100%	$ 225,127,189	100%

Overdraft balances reclassified to loans were $42,232 and $5,755 as of December 31, 2023 and 2022, respectively. The Company provides for expected losses on overdrafts through a component of the allowance for credit 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, 2023 and 2022 are as follows:

	December 31,	
	2023	2022
Commitments to extend credit	$ 113,638,418	$ 107,044,817

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, 2023	December 31, 2022
Standby letters of credit	$ 992,101	$ 5,750,160

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, 2023 and 2022 are $121,714,519 and $105,396,734, 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 $1,231,427 and $1,550,855 net of accumulated amortization and valuation allowance of $1,253,162 and $1,309,736, at December 31, 2023 and 2022, respectively. The principal balance of new loans serviced by the Company on behalf of investors amounted to $8,915,294 and $6,792,060 as of December 31, 2023 and 2022 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, 2023 and 2022.

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:

	2023	2022
Discount rate	11.2% - 21.8%	4.3% - 7.3%
Constant prepayment rate (CPR)	0.0% - 48.5%	8.2% - 12.5%
Range of servicing rate	1.0%	1.0%
Range of annual servicing cost	0.40%	0.40%
Expected weighted-average life of financial assets	3.7 years	4.6 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 $532,319 and $543,848 on loans serviced on behalf of investors for the years ended December 31, 2023 and 2022, 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:

	2023	2022
Loan servicing rights		
Balance, January 1	$ 1,618,609	$ 2,202,915
Additions	129,744	164,896
Amortized to expense	(516,926)	(749,202)
Balance, December 31,	1,231,427	1,618,609
Valuation allowance		
Balance, January 1	(67,754)	(243,095)
Direct write-downs	67,754	175,341
Balance, December 31	-	(67,754)
Fair value of servicing rights at December 31,	$ 1,231,427	$ 1,550,855

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 as of December 31, 2023 and 2022, with no balances outstanding as of December 31, 2023 and 2022. Of the available amounts, agreements for $13,000,000 will expire in 2024 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, 2023 and 2022 were $325,956 and $294,943, 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, 2023 and 2022.

During the years ended December 31, 2023 and 2022, the Company's Board approved the issuance of 95,000 and 66,500 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, 2023 and 2022 are noted below.

	2023	2022
Expected volatility	7.43	6.75
Expected dividends	$ 1.50	$ 0.50
Risk-free rate	4.28%	3.44%
Expected term	10 years	10 years

A summary of option and warrant activity as of December 31, 2023 and 2022 and changes during the years then ended is presented below:

	2023		2022	
	Number of Shares	Exercise Price Weighted-Average	Number of Shares	Exercise Price Weighted-Average
Outstanding at beginning of year	223,800	$ 20.84	181,300	$ 18.16
Granted	95,000	32.58	66,500	27.64
Exercised	(61,300)	17.13	(13,700)	16.79
Forfeited	(11,500)	25.66	(10,300)	22.92
Outstanding at end of year	246,000	$ 26.07	223,800	$ 20.84
Exercisable at end of year	89,000	$ 18.22	129,000	$ 17.55

The following table summarizes information about stock options and warrants outstanding at December 31, 2023:

	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 - $32.58	246,000	7.28	$ 26.07	89,000	3.83	$ 18.22

A summary of the status of the Company's non-vested options and warrants as of December 31, 2023 and 2022 and changes during the years ended December 31, 2023 and 2022 is presented below:

	2023		2022	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested, beginning of year	94,800	$ 13.02	62,200	$ 7.69
Granted	95,000	9.33	66,500	15.74
Exercised	-	-	-	-
Vested	(23,900)	8.13	(23,600)	8.08
Forfeited	(8,900)	13.32	(10,300)	9.77
Nonvested at end of year	157,000	$ 11.51	94,800	$ 13.02

A summary of the status of the Company's fully vested options and warrants as of December 31, 2023 and 2022 and changes during the years ended December 31, 2023 and 2022 is presented below:

	2023		2022	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Vested, beginning of year	129,000	$ 17.55	119,100	$ 17.29
Granted	-	-	-	-
Vested	23,900	19.07	23,600	18.41
Exercised	(61,300)	17.13	(13,700)	16.79
Forfeited	(2,600)	18.41	-	-
Vested at end of year	89,000	$ 18.22	129,000	$ 17.55

For the years ended December 31, 2023 and 2022, the Company recognized $353,463 and $156,004 of compensation expense in connection with these options and warrants, respectively, based on the assumptions noted above. As of December 31, 2023 and 2022, there was $1,450,986 and $1,061,162, 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, 2023 and 2022, respectively, totaled $268,450 and $236,200.

Expense related to stock options and warrants granted to directors and advisory directors during the years ended December 31, 2023 and 2022, respectively, totaled $77,665 and $78,345. Deposits from related parties held by the Company at December 31, 2023 and 2022 amounted to $16,554,570 and $16,121,160, respectively.

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

	Year Ended December 31,	
	2023	2022
Beginning balance	$ 8,839,729	$ 10,306,477
Advances and additions of new related parties, net of participations sold	3,887,268	1,153,447
Participations sold on current year advances	-	(320,969)
Resignation of bank officer	-	(63,547)
Repayments	(2,099,120)	(2,235,679)
Ending balance	$ 10,627,877	$ 8,839,729

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, 2023 and 2022, the Company held $0 and $828,000, 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, 2023 and 2022, there was a valuation allowance of $0 and $67,754, respectively.

Collateral Dependent Loans: Collateral dependent 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, 2023 and 2022, there was a valuation allowance on collateral dependent loans of $244,866 and $1,079,593, respectively with a carrying value of $16,139,886 and $4,116,642, respectively, resulting in a net fair value of $15,895,020 and $3,037,049, 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, 2023				
Financial assets				
Investment securities available-for-sale	$ 50,327,108	$ -	$ 50,327,108	$ -
Total assets	$ 50,327,108	$ -	$ 50,327,108	$ -
December 31, 2022				
Financial assets				
Investment securities available-for-sale	$ 61,311,794	$ -	$ 61,311,794	$ -
Total assets	$ 61,311,794	$ -	$ 61,311,794	$ -

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. During the years ended December 31, 2023 and 2022, there were no transfers into or out of level 3.

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, 2023				
Collateral dependent loans	$ 15,895,020	$ -	$ -	$ 15,895,020
Servicing asset	1,231,427	-	-	1,231,427
Total assets	$ 17,126,447	$ -	$ -	$ 17,126,447
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

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) 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, 2023 and 2022, 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, 2023.

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, 2023				
Non-financial assets				
Foreclosed real estate	$ -	$ -	$ -	$ -
Total assets	$ -	$ -	$ -	$ -
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 2023 and 2022, are as follows (amounts in thousands):

	December 31, 2023				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value	Total Carrying Value
Financial assets					
Cash and cash equivalents	$ 4,781	$ -	$ -	$ 4,781	$ 4,781
Interest bearing deposits in banks	111,605	-	-	111,605	111,605
Investment securities held-to-maturity	-	1,024	-	1,024	1,317
Loans receivable, net	-	-	576,049	576,049	623,050
Accrued interest receivable	3,433	-	-	3,433	3,433
Financial liabilities					
Transaction accounts	-	-	411,097	411,097	413,075
Time deposits	-	-	273,510	273,510	269,700
Subordinated debentures	-	16,544	-	16,544	19,645
Short-term debt	-	3,131	-	3,131	3,131
Accrued interest payable	512	-	-	512	512

	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

Note 18. Federal Income Tax

The components of the provision for income taxes for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Federal income tax expense	$ 4,871,331	$ 4,122,452
Deferred income tax benefit	(193,014)	(186,193)
State income tax expense (benefit)	47,927	48,000
Income tax expense	$ 4,726,244	$ 3,984,259

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, 2023 and 2022, 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, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets		
Accrued interest on nonperforming loans	$ 88,643	$ 12,192
Non-qualified stock options	67,450	15,612
Unrealized loss on available-for-sale securities	1,515,624	1,846,011
Servicing asset	-	14,228
Intangible assets	-	31
Loan loss reserves	1,943,518	1,790,764
Credit loss reserves	237,899	-
Leases	2,333	-
Total deferred tax assets	3,855,467	3,678,838
Deferred tax liabilities		
Prepaid expenses	(57,059)	(47,996)
Depreciation	(117,278)	(135,239)
Intangible assets	(26,789)	-
Total deferred tax liabilities	(201,126)	(183,235)
Net deferred tax asset	$ 3,654,341	$ 3,495,603

No valuation allowance for deferred tax assets was recorded at December 31, 2023 and 2022 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, 2023 and 2022, the Bank's CBLR ratio was 15.04% and 13.73%, 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, 2023 and 2022, the Bank exceeded all minimum regulatory capital standards. There were dividends paid of $3,703,988 and $1,206,913 for the years ended December 31, 2023 and 2022, respectively.

Note 20. Subordinated Debentures

	December 31, 2023		December 31, 2022	
	Principal Amount	Unamortized Debt Issuance Costs	Principal Amount	Unamortized Debt Issuance Costs
Subordinated debentures fixed at 3.50%, due in 2031	$ 20,000,000	$ (355,410)	$ 20,000,000	$ (404,432)

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:

	2023	2022
Net Income	$16,826,512	$15,728,454
Weighted average shares outstanding for basic earnings per share:		
Average shares outstanding	2,464,126	2,413,594
Weighted average shares outstanding for basic earnings per share	2,464,126	2,413,594
Basic earnings per share	$ 6.83	$ 6.52
Additional dilutive shares	190,741	150,505
Weighted average shares outstanding for dilutive earnings per share	2,654,867	2,564,099
Dilutive earnings per share	$ 6.34	$ 6.13

Note 22. Business Combination

On August 17, 2023 the Company acquired CORE+ Financial Strategies, LLC for a purchase price of $6,094,500. The acquisition provides the Company with additional services they are able to provide to their customers.

The following table summarizes the fair value of the assets acquired at the acquisition date:

Fair value of assets acquired	
Fixed assets	$ 6,354
Intangible assets	2,758,750
Total assets acquired	2,765,104
Net assets acquired	2,765,104
Purchase consideration	6,094,500
Goodwill created by the transaction	$ 3,329,396

Goodwill of $3,329,396 arising from the acquisition consisted largely of synergies and cost savings resulting from combining of the operations of the companies. Goodwill recorded is not deductible for tax purposes.

On August 17, 2023 the Company acquired CORE+ Tax Strategies, LLC for a purchase prices of $1,760,034. The acquisition provides the Company with additional services they are able to provide to their customers.

The following table summarizes the fair value of the assets acquired at the acquisition date:

Fair value of assets acquired		
Accounts receivable	$	238,034
Fixed assets		35,700
Intangible assets		456,250
Total assets acquired		729,984
Net assets acquired		729,984
Purchase consideration		1,760,034
Goodwill created by the transaction	$	1,030,050

Goodwill of $1,030,050 arising from the acquisition consisted largely of synergies and cost savings resulting from combining of the operations of the companies. Goodwill recorded is not deductible for tax purposes.

Note 23. 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 4, 2024, the date the consolidated financial statements were available to be issued. On January 17, 2024, the Company declared two dividends. The first dividend is $0.75 per share payable on March 31, 2024, for shareholders on record as of February 29, 2024. The second dividend is $0.75 per share payable on September 30, 2024, for shareholders on record as of August 31, 2024.