ANNUAL REPORT 2022

75 YEARS | SINCE 1947

JD BANCSHARES INC.

President’s Message to Shareholders:

Inflation was elephant in the room during 2022. All of the government stimulus pumped into the economy in 2020 and 2021 resulted in businesses and consumers having significant amounts of cash and as the pandemic began to wind down, pent up demand for goods, services and travel skyrocketed. The inflation resulting from the demand versus supply imbalance was misinterpreted by monetary policymakers. Beginning in March 2022, the Federal Reserve Bank Open Market Committee (FOMC) embarked on a series of short-term interest rate hikes which by year end would increase the prime lending rate of interest from 3.25% to 7.50%. While the US and Louisiana economies have remained relatively resilient to the sudden rate movements, 2022 was a year of increasing uncertainty which gives rise to both opportunities and challenges.

Due primarily to both the increasing interest rate environment and growth in our loan and investment portfolios, JD Bancshares, Inc. (the “Company”) reported net income of $12.1 million or $3.54 per share for the year ended December 31, 2022. These results represent a 10% increase over the $11.0 million in net income or $3.21 per share earned in the year ended December 31, 2021. Return on Assets (ROA) and Return on Equity (ROE) for 2022 is 0.95% and 16.37% compared to 0.82% and 11.24%, respectively, for the prior year period. Both metrics were positively impacted by higher net income and the ROE measure is also higher due to a reduction in total average equity capital. The rapidly rising interest rate environment in 2022 caused a reduction in the fair market value of our securities portfolio. These securities are marked to market and the unrealized loss, net of deferred income taxes, is adjusted through a reduction to equity capital.

Interest income increased by $4.1 million to $44.5 million for 2022 compared to $40.3 million in 2021. Interest income from loans is $3.5 million higher due to an increase in average loans outstanding year over year of $23.2 million and the higher interest rate environment. This is partially offset by a $2.1 million decline in the recognition of origination fees on Paycheck Protection Program (PPP) loans. Fees on PPP loans are $605,000 in 2022 compared to $2.7 million in 2021. Interest income on investment securities increased by $2.2 million to $9.5 million from $7.3 million due to an increase in average volume of $67.6 million and the higher interest rates. Despite a decline in average interest bearing deposits in other banks of $114.9 million used to fund earning asset growth and deposit outflows, interest income from deposits with other banks actually increased by $513,000 due to higher yields.

Interest expense declined by $570,000 to less than $4.0 million in 2022 from $4.5 million the prior year. Interest expense on deposits declined by $386,000 to $2.7 million in 2022 from $3.0 million in 2021 primarily due to a decrease in average deposits of $23.7 million. Despite a $9.7 million increase in average borrowings outstanding, interest expense on Federal Home Loan Bank advances and subordinated debt declined by $185,000. The primary driver of the decline is a reduction in the interest rate on the subordinated debt from 6.75% in 2021 to 3.75% in 2022. The net increase in interest income on earning assets, plus the decrease in interest expense on interest-bearing liabilities resulted in a $4.7 million increase in net interest income from $35.8 million in 2021 to $40.5 million in 2022.

Non-interest income decreased by $1.2 million from $12.9 million in 2021 to $11.7 million in 2022. Service charges and other deposit related fees increased by $430,000 to $9.2 million from $8.7 million primarily due to higher levels of NSF fees. Revenue from trust activities is $667,000 compared to $594,000 for the prior year. These increases are more than offset by declines in gains on mortgage loan sales, securities brokerage revenue and other non-interest income. The frequency and magnitude of the FOMC interest rate hikes had an adverse impact on the volume of new mortgage loan originations in the last nine months of 2022. Gains on the sale of originated mortgage loans are $839,000 in 2022 compared to $1.6 million for 2021 reflecting a 48% decline. The rate environment also had an impact on our securities brokerage revenue which experienced a decline of $415,000 in 2022. Other non-interest income decreased by $511,000. In 2021, the Company recognized a $364,000 gain on a land swap transaction which accounts for a significant portion of the decline.

Non-interest expenses are $37.0 million for 2022 compared to $35.2 million in 2021 reflecting a $1.8 million increase. The largest component of non-interest expense is salaries and employee benefits which increased by 5% from $18.0 million in 2021 to $18.9 million in 2022. Computer and processing expenses increased to $4.5 million in 2022 from $4.2 million in the prior year and business promotion and advertising expenses increased by $135,000. Other non-interest expenses increased by $429,000 due primarily to a loss on the sale of a former bank branch, increases in professional fees and partially offset by a decrease in FDIC deposit insurance premiums.

Total assets for the Company are $1.2 billion as of December 31, 2022 reflecting a $120.4 million decrease from December 31, 2021. The 9% decline is due to a reduction in total deposits, the repayment of subordinated debt and lower equity capital resulting from the net unrealized loss on investment securities. After experiencing significant deposit growth in 2020 and 2021 from a variety of government stimulus programs and the receipt of insurance proceeds from the two hurricanes hitting southwest Louisiana in the fall of 2020, depositors spent money to repair property and to satisfy pent up demand from the end of COVID 19. The inflationary environment prevalent in 2022 increased the cost of those repairs, goods and services. After experiencing an increase in total deposits of $429.3 million over the two year period December 31, 2019 to December 31, 2021, the Company experienced net outflows of $57.5 million during 2022. Total deposits are $1.1 billion at December 31, 2022. In December 2021, the Company issued $30.0 million in new subordinated debt for the purpose of refinancing existing debt and other general corporate purposes. The existing subordinated debt, $17.5 million, was redeemed in January 2022.

The biggest change on the asset side of the balance sheet was a reduction in interest bearing deposits with other banks. The Company used cash to fund a net increase in loans of $49.8 million, purchase net new investment securities of $33.3 million, fund the deposit outflows of $57.5 million and redeem the $17.5 million in old subordinated debt. Total loan and investment securities portfolios at December 31, 2022 are $672.6 million and $452.7 million, respectively.

Total equity capital declined by $44.1 million during 2022. Net income of $12.1 million was more than offset by the payment of $3.4 million in dividends to shareholders and $52.1 million in net unrealized losses on our investment securities portfolio.

Several important events took place in 2022. March 12, 2022 was JD Bank's 75th year anniversary. A community bank is able to achieve that type of longevity if the communities we serve are prosperous. To celebrate our communities, JD Bank made twenty-five donations of $3,000 each to organizations who play an important role in improving the quality of life in our markets. We believe the original CEO Frank Gallaugher, the original President Frank West and the founding Directors would be very proud of the Company today that they helped create 75 years ago.

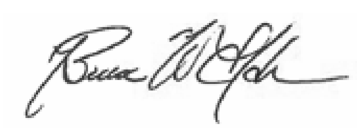
We had two corporate actions in 2022. First, we announced a stock repurchase program that was in place from January 31, 2022 through December 31, 2022. Over the course of the eleven month period, the Company repurchased 26,500 shares for a total of $748,000 or approximately $28.24 per share. The Company paid dividends to shareholders of $1.00 per share in 2022.

Back in 2020, as a result of hurricane Laura, our McNeese branch at the corner of Ryan Street and Sale Road in Lake Charles, LA was damaged beyond repair. Large stretches of the Ryan Street corridor were significantly impacted by the storm. Through a unique partnership with the McNeese University Foundation, we swapped our location for a location the Foundation had just off the intersection on Sale Road. Just shy of two years after the storm, in July 2022, we reopened the branch on 119 W. Sale Road, Lake Charles, LA.

In the fourth quarter of 2022, we realized one of our strategic objectives through the expansion of JD Bank across the Atchafalaya Basin into the Baton Rouge and Northshore markets. These two locations are Loan and Deposit Production Offices. We have hired teams of commercial bankers and look forward to bringing the JD Bank brand of community banking to these markets.

In closing, the Company has taken advantage of opportunities to expand our footprint and growing our loan portfolio with quality credits. We met the challenges presented through the rapid increase in interest rates and inflation. And we will continue to make prudent decisions that create value for customers, employees, stockholders and communities.

Thank you for your continued support of JD Bancshares and please let me know if I can answer questions or be of assistance.



Bruce W. Elder, President & CEO; (337)246-5399, bruce.elder@jdbank.com

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JD BANCSHARES, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS (in thousands)

		2022		2021	Change
Deposits and Repurchase Agreements	$	1,144,315	$	1,201,760	-4.78%
Loans (Net)		663,975		615,081	7.95%
Net Income		12,096		11,015	9.81%
Stockholder's Equity		57,096		101,229	-43.60%
Dividends Declared		3,416		3,172	7.69%

FIVE YEAR FINANCIAL REVIEW (in thousands, except per share amounts)

		2022		2021		2020		2019		2018	
Assets and Liabilities at Year End											
Total Assets	$	1,236,136	$	1,356,576	$	1,288,055	$	885,049	$	864,688	
Loans (Net)		663,975		615,081		615,081		615,166		619,775	
Investments Available-for-Sale (AFS) (Fair Value)		441,605		471,851		325,220		151,777		126,408	
Investments Held-to-Maturity (HTM) (at Amortized Cost)		11,069		13,531		15,263		18,154		22,408	
Other Stocks, at Cost		2,416		7,503		7,603		9,661		8,313	
Deposits and Repurchase Agreements		1,144,315		1,201,760		1,201,760		772,432		759,281	
Stockholders' Equity											
Common Stock	$	21,379	$	21,438	$	9,742	$	9,750	$	9,720	
Surplus		9,874		10,549		3,790		3,850		3,598	
Undivided Profits		76,822		68,142		78,784		74,341		69,073	
Accumulated Other Comprehensive Income (Loss)		(50,873)		1,271		6,606		1,270		(1,390)	
Note Receivable on Common Stock		(106)		(171)		(202)		(349)		-	
Total Stockholders' Equity	$	57,096	$	101,229	$	98,720	$	88,862	$	81,001	
Earnings for the Year											
Consolidated Net Income	$	12,096	$	11,015	$	7,204	$	8,948	$	9,391	
Net Interest Income		40,511		35,804		34,032		35,287		33,033	
Non Interest Income		11,712		12,908		10,540		9,756		11,251	
Non Interest Expense		37,016		35,236		33,471		33,681		32,745	
Cash Dividends		3,416		3,172		2,761		3,680		3,484	
Per Share Data											
Net Income	$	3.54	$	3.21	$	2.10	$	2.61	$	2.74	
Cash Dividends		1.00		0.92		1.77		2.36		2.24	
Book Value at Year-end		16.69		29.51		13.41		28.79		25.89	
Return on Average Assets		0.95	%	0.82	%	0.70	%	1.02	%	1.09	%
Return on Average Equity		16.37	%	11.24	%	7.65	%	10.85	%	11.59	%

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Independent Auditor's Report

To the Audit Committee and Stockholders
JD Bancshares, Inc. and Subsidiaries
Jennings, Louisiana

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the consolidated financial statements of JD Bancshares, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income (loss), 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 referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2022 and 2021, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America (''GAAP'').

We also have audited the Company’s internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with instructions to the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income (“Call Report”), as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

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 Consolidated Financial Statements section of our report. We are required to be independent of JD Bancshares, Inc. 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 Consolidated Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report.

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 the financial statements are available to be issued.

Auditor's Responsibility for the Audits of the Consolidated Financial Statements and Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance 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 GAAP 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 GAAP, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- 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.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with GAAP. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with GAAP and with Call Report instructions.

An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Wipfli LLP

Wipfli LLP

Atlanta, Georgia
March 24, 2023

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

A S S E T S

	2022	2021
ASSETS		
Cash and due from banks	$ 26,434,524	$ 18,552,783
Interest bearing deposits in other banks	21,855,505	175,657,295
Cash and cash equivalents	48,290,029	194,210,078
Securities available-for-sale	441,605,123	471,851,343
Securities held-to-maturity	11,068,891	13,530,692
Other stocks	2,415,643	7,502,719
Loans held for sale	549,984	705,950
Loans held for investment, net allowances for loan losses of $9,208,070 and $8,189,747 at December 31, 2022 and 2021, respectively	663,424,870	614,375,277
Accrued interest receivable	4,985,487	4,492,037
Bank premises and equipment, net	22,692,381	23,160,984
Other real estate owned	863,101	1,053,698
Goodwill	4,179,545	4,179,545
Life insurance contracts	17,362,309	17,059,118
Other assets	18,698,694	4,454,953
Total Assets	$ 1,236,136,057	$ 1,356,576,394

The accompanying notes are an integral part of these consolidated financial statements.

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

LIABILITIES AND STOCKHOLDERS' EQUITY

	2022	2021
LIABILITIES		
Deposits		
Demand deposit accounts, non-interest bearing	$ 421,213,684	$ 419,021,686
Demand deposit accounts, interest bearing	244,493,968	241,045,730
Individual retirement accounts	13,717,625	13,528,194
Savings and money market accounts	376,093,273	425,749,333
Certificates of deposit - $250,000 and over	24,165,870	33,297,133
Other certificates of deposit	64,310,926	68,798,276
	1,143,995,346	1,201,440,352
Securities sold under repurchase agreements	319,802	319,695
Accrued interest payable	143,312	709,693
Accrued expenses and other liabilities	5,137,140	5,993,145
Subordinated debentures	29,444,724	46,884,050
Total liabilities	1,179,040,324	1,255,346,935
STOCKHOLDERS' EQUITY		
Preferred stock; no par value; 2,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock; $6.25 par value; 10,000,000 shares authorized; 3,420,560 shares issued and outstanding at December 31, 2022 and 3,430,060 shares issued and outstanding at December 31, 2021	21,378,500	21,437,875
Additional paid-in-capital	9,874,341	10,548,523
Retained earnings	76,822,076	68,141,922
Notes receivable for common stock	(106,061)	(170,502)
Accumulated other comprehensive income (loss)	(50,873,123)	1,271,641
Total stockholders' equity	57,095,733	101,229,459
Total Liabilities and Stockholders' Equity	$ 1,236,136,057	$ 1,356,576,394

The accompanying notes are an integral part of these consolidated financial statements.

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 34,237,758	$ 32,784,054
Investment securities:		
Taxable	6,241,272	4,089,734
Non-taxable	3,219,465	3,201,034
Federal funds sold and		
interest bearing deposits in other banks	773,626	260,879
Total interest income	44,472,121	40,335,701
INTEREST EXPENSE		
Interest on deposits	2,651,566	3,037,489
Interest on subordinated notes	1,309,531	1,408,540
Interest on federal funds purchased and securities		
sold under repurchase agreement	320	85,843
Total interest expense	3,961,417	4,531,872
NET INTEREST INCOME	40,510,704	35,803,829
Provision for loan losses	722,000	330,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	39,788,704	35,473,829
NONINTEREST INCOME		
Service charges and fees on deposit accounts	9,154,191	8,723,760
Trust department income	667,450	594,272
Fees and commissions from securities brokerage	337,257	752,722
Gain on sale of mortgage loans held for sale	839,341	1,605,749
Realized gains on sale of securities available-for-sale	-	6,682
Income from life insurance contracts	303,191	382,194
Other income	410,268	842,391
	11,711,698	12,907,770

The accompanying notes are an integral part of these consolidated financial statements.

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
NONINTEREST EXPENSES		
Salaries and employee benefits	$ 18,935,649	$ 18,010,588
Occupancy expenses	5,151,082	5,187,603
Computer and processing expenses	4,534,272	4,206,408
Business promotion and advertising expenses	1,024,741	889,601
Other operating expenses	7,370,460	6,941,453
	37,016,204	35,235,653
INCOME BEFORE INCOME TAX EXPENSE	14,484,198	13,145,946
Income tax expense	2,388,434	2,130,978
NET INCOME	$ 12,095,764	$ 11,014,968
Per common share data:		
Earnings	$ 3.54	$ 3.21
Weighted average number of shares outstanding	3,416,143	3,429,564

The accompanying notes are an integral part of these consolidated financial statements.

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
NET INCOME	$ 12,095,764	$ 11,014,968
OTHER COMPREHENSIVE LOSS		
Unrealized losses on securities:		
Unrealized holdings losses arising during the period, net of tax of ($13,861,245) and ($1,432,855), respectively	(52,144,764)	(5,329,524)
Less: reclassification adjustments for gains included in net income, net of tax of $0 and $1,403, respectively	-	(5,279)
Total other comprehensive loss	(52,144,764)	(5,334,803)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ (40,049,000)	$ 5,680,165

The accompanying notes are an integral part of these consolidated financial statements.

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JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common Stock		
	Shares	Amount	Notes Receivable
Balance at December 31, 2020	1,558,757	$ 9,742,231	$ (202,500)
Net income	-	-	-
10% Common stock dividend	155,773	973,581	-
Common stock issuance with note receivable	500	3,125	(25,955)
Stock split effected in the form of a dividend	1,715,030	10,718,938	-
Stock dividend issuance costs	-	-	-
Forgiveness of notes receivable	-	-	57,953
Other comprehensive loss	-	-	-
Dividends on common stock, $.92 per share	-	-	-
Balance at December 31, 2021	3,430,060	21,437,875	(170,502)
Net income	-	-	-
Shares repurchased	(26,500)	(165,625)	-
Restricted common stock issued	17,000	106,250	-
Forgiveness of notes receivable	-	-	64,441
Other comprehensive loss	-	-	-
Dividends on common stock, $1.00 per share	-	-	-
Balance at December 31, 2022	3,420,560	$ 21,378,500	$ (106,061)

The accompanying notes are an integral part of these consolidated financial statements.

Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
$ 3,790,068	$ 78,783,577	$ 6,606,444	$ 98,719,820
-	11,014,968	-	11,014,968
6,735,625	(7,709,206)	-	-
22,830	-	-	-
-	(10,718,938)	-	-
-	(56,123)	-	(56,123)
-	-	-	57,953
-	-	(5,334,803)	(5,334,803)
-	(3,172,356)	-	(3,172,356)
10,548,523	68,141,922	1,271,641	101,229,459
-	12,095,764	-	12,095,764
(582,807)	-	-	(748,432)
(91,375)	-	-	14,875
-	-	-	64,441
-	-	(52,144,764)	(52,144,764)
-	(3,415,610)	-	(3,415,610)
$ 9,874,341	$ 76,822,076	$ (50,873,123)	$ 57,095,733

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 12,095,764	$ 11,014,968
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	79,316	57,953
Depreciation	2,080,664	2,248,614
Provision for loan losses	722,000	330,000
Change in cash surrender value of life insurance	(303,191)	(348,994)
Write-down of other real estate	48,056	316,886
Net amortization of securities available-for-sale	2,502,285	2,711,061
Net amortization of securities held-to-maturity	20,766	34,145
Amortization of debt issuance costs	135,408	177,975
Deferred income taxes	(136,085)	(106,103)
Loss on sales of other real estate and property	4,037	383,569
Loss (gain) on sales of premises and equipment	249,596	48,723
Loss (gain) on the sale of available-for-sale securities	-	(6,682)
Loss (gain) on other stocks	285,604	150,063
Net change in operating assets and liabilities:		
Other operating assets and liabilities	(1,102,414)	1,386,833
Loans held for sale	155,966	212,699
Interest receivable	(493,450)	435,512
Interest payable	(566,381)	(4,725)
Net cash provided by operating activities	15,777,941	19,042,497
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from calls, paydowns, and maturities of available-for-sale securities	27,045,745	35,266,851
Proceeds from sales of available-for-sale securities	-	24,876,813
Proceeds from sales of other stock	4,816,538	
Maturities of held-to-maturity securities	2,441,035	7,483,015
Purchases of available-for-sale securities	(65,307,821)	(216,332,348)
Purchases of equity securities	(15,066)	(49,910)
Purchases of held-to-maturity securities	-	(5,785,000)
Proceeds from life insurance policy	-	300,291
Loan originations, net of principal repayment	(49,780,656)	5,133,009
Purchases of bank premises and equipment	(3,942,458)	(2,395,802)
Proceeds from sales of bank premises and equipment	2,080,801	67,537
Proceeds from sales of other real estate and property	147,567	314,460
Net cash used in investing activities	(82,514,315)	(151,121,084)

The accompanying notes are an integral part of these consolidated financial statements.

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	$ (57,445,006)	$ 37,889,524
Net increase (decrease) in repurchase agreements	107	(125,231)
Repayment of other borrowed funds	-	(2,763,431)
Payment of dividends	(3,415,610)	(3,172,356)
Proceeds from issuance of subordinated notes	-	30,000,000
Paydown of subordinated notes	(17,500,000)	
Subordinated notes repurchase and issuance costs	(74,734)	(617,329)
Retirement of common stock	(748,432)	-
Stock dividend issuance costs	-	(56,123)
Net cash provided by financing activities	(79,183,675)	61,155,054
Net increase (decrease) in cash and cash equivalents	(145,920,049)	(70,923,533)
Cash and cash equivalents - beginning of year	194,210,078	265,133,611
Cash and cash equivalents - end of year	$ 48,290,029	$ 194,210,078

Supplemental disclosures of cash flow information:

	2022	2021
Cash paid for interest	$ 4,527,798	$ 4,536,597
Cash paid for income taxes	$ 2,268,602	$ 443,180
Transfer of loans to other real estate	$ 9,063	$ 1,777,913
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 192,669	$ 126,186
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 243,975	$ -

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The accounting and reporting policies of JD Bancshares, Inc. (the Company) and its subsidiaries conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the banking industry. A summary of significant accounting policies is as follows:

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, JD Bank (the "Bank") and JD Bank Insurance, LLC (formerly JD Prime Financial Services, LLC), the owner of an insurance agency. All significant intercompany accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not assets of the Bank and, accordingly, are not included in the accompanying consolidated financial statements. The Company operates as a community bank in southern Louisiana.

Nature of operations

The Bank provides a variety of banking services to individuals and businesses primarily in and around southwest Louisiana. The Bank's primary deposit products are demand deposits, savings deposits, and certificates of deposits, and its primary lending products are commercial, business, real estate, and consumer loans.

Comprehensive income (loss)

Comprehensive income (loss) includes net earnings and other comprehensive income (loss) which, in the case of the Company, includes only unrealized gains and losses on securities available-for-sale, net of tax.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and 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.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions and the real estate industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance

1. Summary of significant accounting policies (continued)

Use of estimates (continued)

for loan losses. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for loan losses may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Other estimates that are susceptible to significant change in the near term relate to the determination of the valuation of deferred tax assets, other-than-temporary impairments of securities, and the fair value of financial instruments.

Interest bearing deposits in other banks

Interest bearing deposits in other banks mature within 90 days or less and are carried at cost, which approximates market.

Securities

Securities are accounted for in accordance with applicable guidance contained in the Accounting Standards Codification (ASC) which requires the classification of securities into one of three categories: trading, available-for-sale, or held-to-maturity.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates this classification periodically. Trading account securities are held for resale in anticipation of short-term market movements. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities not classified as held-to-maturity or trading are classified as available-for-sale. The Company had no trading account securities during the years ended December 31, 2022 and 2021. Held-to-maturity securities are stated at amortized cost. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of income taxes, reported as other comprehensive income (loss) until realized.

The Financial Accounting Standards Board (FASB) issued accounting guidance related to the recognition and presentation of other-than-temporary impairment. The accounting guidance specifies that (a) if a Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income (loss) for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-backed securities, over the estimated life of the security. Premiums that exceed the amount repayable by the

1. Summary of significant accounting policies (continued)

Securities (continued)

issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Amortization, accretion, and interest are included in interest income on securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

Other Stocks

The Bank, as a member of the Federal Home Loan Bank (FHLB) system and various other institutions, is required to maintain an investment in capital stock of each entity. Based on the redemption provisions of the FHLB and other institutions, the stocks have no quoted market value and are carried at cost. At their discretion, the companies may declare dividends on the stocks. Management reviews for impairment based on the ultimate recoverability of the cost basis of these stocks.

Marketable equity securities have a readily determinable value and are measured at fair value with changes in fair value reported in non-interest income. Gains and losses on the sale of marketable equity securities are recorded on the trade date and determined using the specific-identification method.

Loans held for sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value. Mortgage loans held for sale are sold with mortgage servicing rights released by the Bank. Gains and losses on the sale of loans are accounted for by imputing gain or loss by charging a varying premium and servicing fee to the buyer. The gain or loss is increased or reduced by the amount of fees carried on the loan. Realized gains and losses are recognized as non-interest income in the financial statements for the year of sale.

Loans

The Company grants commercial, real estate, and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in Southwest Louisiana. The ability of the Company's creditors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any unamortized deferred fees or costs on originated loans. Unearned discounts relate principally to residential installment loans. Interest on loans is recognized as income based on the unpaid principal amount outstanding using methods that approximate the interest method.

The Company follows the accounting guidance on sales of financial assets, which includes participating interests in loans. For loan participations that are structured in accordance with this guidance, the sold portions are recorded as a reduction of the loan portfolio. Loan participations that do not meet the criteria are accounted for as secured borrowings. Application of this guidance also delays the accounting recognition for sales of the guaranteed portions of SBA loans for 90 days.

1. Summary of significant accounting policies (continued)

Loans (continued)

Certain loan origination fees and certain direct origination costs are deferred and recognized as an adjustment to the yield on the related loan. Interest on loans is recorded to income as earned. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on the contractual terms of the loan. All unpaid accrued interest is reversed and payments subsequently received are applied first to principal. Interest income is recorded after principal has been satisfied and as payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses

The allowance for loan losses is a valuation allowance available for losses incurred on loans. All losses are charged to the allowance for loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance at the time of recovery. Periodically, during the year, management estimates the likely level of existing losses to determine whether the allowance for loan losses is adequate to absorb reasonably anticipated losses in the existing portfolio. Management also evaluates 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.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Based on these estimates, an amount is charged to the provision for loan losses and credited to the allowance for loan losses in order to adjust the allowance to a level determined to be adequate to absorb existing losses. It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses reflected in the consolidated balance sheets is adequate to absorb probable losses in the existing loan portfolio.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For these loans that are impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

Management considers the following when assessing risk in the Company's loan portfolio segments:

Commercial real estate loans are dependent on the industries tied to these loans. Agricultural loans are included in commercial real estate loans and are primarily for land acquisition. Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, small retail shopping facilities and various special purpose properties, including hotels and restaurants. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

1. Summary of significant accounting policies (continued)

Allowance for loan losses (continued)

Residential real estate loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination.

Commercial loans are primarily for working capital, physical asset expansion, asset acquisition loans and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flows sufficiency to service debt and are periodically updated during the life of the loan.

Consumer loans may take the form of installment loans, demand loans, or single payment loans and are extended to individual for household, family, and other personal expenditures. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores.

Bank premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation, which is computed using straight-line over the estimated useful lives of the assets, which range from 3 to 39 years.

Other real estate owned

Other real estate owned is reported at the lower of cost or fair value at the date of foreclosure. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Real estate and other property acquired in lieu of loan balances, net of an appropriate reserve for possible losses, are included in the accompanying consolidated balance sheet. Operating expenses of such properties, net of related income, are included in other operating expenses. Gains and losses on their disposition are included in other operating income.

Goodwill

Goodwill is subject to a periodic impairment test at least annually and whenever events or changes in circumstances indicate it is more likely than not that the fair value of goodwill is less than its carrying amount. The Company has performed impairment tests on its goodwill and determined that there is no impairment at December 31, 2022 or 2021.

1. Summary of significant accounting policies (continued)

Leases

The Company applies ASU 2016-02 and determines if an arrangement is a lease at inception of the contract. For leases with terms greater than twelve months, right of use assets and lease liabilities are recognized at contract commencement date based on the present value of lease payments over the lease term. Right of use assets represent the Company's right to use the underlying assets for the lease term. Lease liabilities represent the Company's obligation to make lease payments arising from these contracts. The Company uses their incremental borrowing rate in determining the present value of lease payments.

Off Balance sheet instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Statements of cash flows

The Company has defined cash equivalents as the amount in the consolidated balance sheet caption "Cash and Due from Banks," "Interest bearing deposits in other banks," and "Federal Funds Sold," if any exist at year-end.

Life insurance contracts

Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the owner of these policies, which were purchased as a vehicle to fund split dollar endorsement plans.

Income taxes

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets 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.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent. Deferred tax assets are reduced by a valuation allowance, if based on the weight of evidence available, it is more likely than not that some portion or all of deferred tax asset will not be realized.

The Company follows the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

1. Summary of significant accounting policies (continued)

Income taxes (continued)

A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Company has evaluated its positions regarding the accounting for uncertain tax positions and does not believe it has any material uncertain tax positions.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Shareholders' Equity

Shares reacquired by the Company are treated as authorized but unissued shares. For the year ended December 31, 2022, the cost of shares repurchased by the Company has been allocated to common stock and additional paid-in capital.

Earnings per share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. The weighted-average number of common shares outstanding for the year ended December 31, 2021 is adjusted for the 10% stock dividend on January 4, 2021 and the 2-for-1 stock split that occurred on August 20, 2021. The resulting weighted-average number of common shares outstanding are 3,416,143 and 3,429,564 for 2022 and 2021, respectively.

Stock dividend

On January 4, 2021, the Company paid a 10% stock dividend to shareholders of record as of December 28, 2020. Shares in the amount of 155,773 were issued as a result of the 10% stock dividend.

On July 21, 2021 the Company announced that its Board of Directors had declared a 2-for-1 stock split of its common shares. The stock split was affected in the form of a 100% stock dividend and shareholders received one additional share of common stock for every share held on the record date. The additional shares were distributed on August 20, 2021 to shareholders of record at the close of business August 13, 2021. Shares in the amount of 1,715,030 were issued as a result of the 2-for-1 stock split.

Stock based compensation

The Company accounts for its stock-based compensation plan using a fair value-based method of accounting, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is also the vesting period.

1. Summary of significant accounting policies (continued)

Postretirement benefits

The Company adopted accounting guidance related to postretirement benefits for certain employees. The Company has effectively agreed to maintain a life insurance policy during the employees' retirement.

Revenue recognition

The following significant revenue-generating transactions are within the scope of ASC 606, which are presented in the consolidated statements of operations as components of noninterest income.

Service charges and fee income include deposit and lending-related fees. Deposit-related fees consist of fees earned on customer activities and are generally recognized when the transactions occur or as the service is performed. Fees are earned on deposit accounts for account maintenance and various transaction-based services, such as ATM transactions, wire transfer activities, check and money order processing and insufficient funds/overdraft transactions. Lending-related fees generally represent transactional fees earned from late payments and other miscellaneous fees.

Trust fee revenue represents fees charged by the Bank for administration, investment management, and other ordinary expenses. Trust fees are recorded as earned. The fees charged are as a percentage of the assets held in the trust and the amount of services provided.

Fees and commissions from securities brokerage are related to referral of business. The fees and commissions are recorded as earned.

Card interchange fees are recognized upon settlement of debit card payment transactions and are generally determined on fixed rates for debit cards based on the corresponding payment network's rates.

There are no significant judgments relating to the amount and timing of revenue recognition for revenue streams. Due to the nature of the services provided, the Bank does not incur costs to obtain contracts and there are no material incremental costs to fulfill these contracts that should be capitalized. Additionally, there are no material contract assets or receivables as the Bank does not typically enter into long-term revenue contracts with its customers.

Reclassification

Certain amounts in the prior year consolidated financial statements have been reclassified to conform with the current year presentation.

Accounting pronouncements issued but not yet adopted

ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments - This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans and securities held to maturity, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard will also change the accounting for credit losses related to securities held to maturity and purchased financial assets with a more-than-insignificant

1. Summary of significant accounting policies (continued)

Accounting pronouncements issued by not yet adopted (continued)

amount of credit deterioration since origination. This new accounting standard is effective for financial statements issued for interim and annual periods beginning after December 15, 2022. The Company has been evaluating the impacts this new standard will have on its financial statements, and based on its methodologies that are anticipated to be implemented at adoption, the Company is estimating an overall increase in its allowance for credit losses ranging between 5.00% and 10.00%. The actual amount determined from the adoption of this accounting standard will be recognized as a cumulative effect adjustment to the January 1, 2023 retained earnings balance.

2. Cash and due from banks

Effective March 12, 2021, the Federal Reserve's board of directors approved the final rule reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future.

In the normal course of business, the Company maintains cash and due from bank balances with correspondent banks. Balances in these accounts may exceed the Federal Deposit Insurance Corporation's insured limit of $250,000. Management believes these financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

3. Investment securities

Debt securities have been classified in the balance sheets according to management's intent. The amortized cost and estimated fair value of securities classified as available-for-sale at December 31, 2022, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Treasury securities	$ 84,202,851	$ -	$ (9,869,856)	$ 74,332,995
US Govt. agency securities	27,118,066	-	(3,747,316)	23,370,750
Mortgage-backed securities	239,333,788	82,146	(31,545,215)	207,870,719
States and political subdivisions	142,105,419	12,551	(18,727,348)	123,390,622
Corporate bonds	13,241,357	-	(601,320)	12,640,037
Totals	$ 506,001,481	$ 94,697	$ (64,491,055)	$ 441,605,123

At December 31, 2022 and 2021, the Company held no securities of any single issuer (excluding the U.S. government and federal agencies) with a book value that exceeded 10% of stockholders' equity.

3. Investment securities (continued)

Securities classified as held-to-maturity at December 31, 2022, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
States and political subdivisions	$ 11,068,891	$ 90	$ (223,857)	$ 10,845,124

Securities classified as available-for-sale at December 31, 2021, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Treasury securities	$ 74,293,758	$ -	$ (311,333)	$ 73,982,425
US Govt. agency securities	17,174,053	-	(512,246)	16,661,807
Mortgage-backed securities	229,604,206	700,707	(4,591,576)	225,713,337
States and political subdivisions	136,674,701	6,612,394	(430,028)	142,857,067
Corporate bonds	12,494,974	170,839	(29,106)	12,636,707
Totals	$ 470,241,692	$ 7,483,940	$ (5,874,289)	$ 471,851,343

Securities classified as held-to-maturity at December 31, 2021, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
States and political subdivisions	$ 13,530,692	$ 42,991	$ (255,352)	$ 13,318,331

The following is a summary of amortized cost and estimated market value of debt securities by contractual maturity as of December 31, 2022. Contractual maturities will differ from expected maturities for mortgage-related securities because borrowers may have the right to call or prepay obligations without penalties.

Available-for-Sale:	Amortized Cost	Fair Value
Within one year	$ -	$ -
Greater than one but within five years	32,273,113	30,531,074
Greater than five but within ten years	100,371,837	88,139,760
Greater than ten years	134,022,743	115,063,570
Subtotal	266,667,693	233,734,404
Mortgage-backed securities	239,333,788	207,870,719
Total	$ 506,001,481	$ 441,605,123

3. Investment securities (continued)

Held-to-Maturity:	Amortized Cost
Within one year	$ 1,576,021
Greater than one but within five years	6,007,870
Greater than five but within ten years	2,544,000
Greater than ten years	941,000
	$ 11,068,891

Investment securities with carrying values of approximately $92,494,000 and $58,363,000 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and securities sold under repurchase agreements and for other purposes as required or permitted by law. At December 31, 2022, the Bank also has a $19,330,000 fluctuating balance letter of credit with Federal Home Loan Bank of Dallas for the purpose of securing public funds, of which, $19,330,000 was pledged.

Information pertaining to securities with gross unrealized losses at December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

Available-for-sale:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
Treasury Securities	2	$ (460,392)	$ 9,337,695	9	$ (9,409,464)	$ 64,995,300
US Govt. Agency Securities	1	(259,360)	9,740,640	7	(3,487,956)	13,630,110
State and political Subdivisions	147	(12,671,028)	101,145,960	26	(6,056,320)	19,100,706
Corporate bonds	10	(273,410)	7,417,947	3	(327,910)	2,672,090
Mortgage-backed Securities	50	(6,596,429)	72,032,794	74	(24,948,786)	121,501,283
Totals	210	$ (20,260,619)	$ 199,675,036	119	$ (44,230,436)	$221,899,489

Held-to-maturity:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
State and political Subdivisions	2	$ (14,440)	$ 1,011,430	4	$ (209,417)	$ 4,400,583

3. Investment securities (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

Available-for-sale:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
Treasury Securities	9	$ (311,333)	$ 73,982,425	-	$ -	$ -
US Govt. Agency Securities	4	(289,578)	9,884,474	3	(222,668)	6,777,333
State and political Subdivisions	21	(263,634)	19,830,037	9	(166,394)	9,472,467
Corporate bonds	3	(29,106)	2,970,894	-	-	-
Mortgage-backed Securities	47	(1,628,474)	107,052,631	31	(2,963,102)	58,495,332
Totals	84	$ (2,522,125)	$ 213,720,461	43	$ (3,352,164)	$ 74,745,132

Held-to-maturity:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
State and political Subdivisions	5	$ (255,352)	$ 5,529,648	-	$ -	$ -

Most of these unrealized losses resulted from securities which were purchased at a premium in anticipation of a more stable interest rate environment. Management and the Asset/Liability Committee are continually monitoring the securities portfolio. The Company follows FASB guidance related to the recognition and presentation of other-than-temporary impairment. The guidance specifies that if an entity does not have the intent to sell a debt security prior to recovery, the security would not be considered other-than-temporary impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will be recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss). Additionally, the Company believes that its premium amortization policies are appropriate and will result in a reasonable return on these investments being recorded in the statements of operations.

The following is a summary of the proceeds from sales of securities available-for-sale, as well as gross gains and losses for the years ended December 31, 2022 and 2021.

Available-for-Sale:

	2022	2021
Proceeds from sales of securities	$ -	$ 24,876,813
Gross gains on sales	-	107,701
Gross losses on sales	-	101,019

4. Loans and allowance for loan losses

The components of loans in the consolidated balance sheets at December 31, 2022 and 2021 were as follows (in thousands):

	2022	2021
Commercial loans	$ 96,216	$ 91,441
Commercial real estate loans	333,125	272,055
Consumer loans	29,919	32,666
Residential loans	212,126	210,797
PPP, net of deferred fees	1,247	15,606
	672,633	622,565
Allowances for loan losses	(9,208)	(8,190)
Loans, net	$ 663,425	$ 614,375

During the year ended December 31, 2021, the Bank originated approximately $36,366,000 in Paycheck Protection Program (PPP) loans under the Coronavirus Aid, Relief and Economic Security (CARES) Act. These loans are guaranteed by the Small Business Administration (SBA). The interest rate on all PPP loans was set at 1% and fees were calculated based on the loan balance, ranging between 1% and 5%. There were a total of approximately $1,247,000 and $15,607,000 PPP loans, net of deferred fess, outstanding at December 31, 2022 and 2021, respectively. These are loans that are 100% guaranteed by the SBA to help businesses keep their workforces employed during the Coronavirus Pandemic. These loans were not included in the allowance for loan loss calculations, as they are fully forgivable and guaranteed by the SBA. The bank recorded approximately $605,000 and $2,683,000 in fee income associated with the origination of these loans, and has approximately $0 and $619,000 in deferred income as of December 31, 2022 and 2021, respectively.

The Bank has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Bank's portfolio. For purposes of determining the allowance for loan losses, the Bank segments loans in its portfolio by class code. The models and assumptions the Bank uses to determine the allowance are reviewed internally to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

Deposit accounts in an overdraft position and reclassified as loans totaled approximately $241,000 at December 31, 2022 and $456,000 at December 31, 2021.

The Bank's Estimation Process

The Bank estimates loan losses using a 5 year weighted average historical loss percentage for all loans, which are based on historical loss percentage and estimated losses on individually evaluated impaired loans. Management then applies judgment to develop its own view of loss probability using external and internal parameters with the objective of establishing an allowance for the losses inherent for these portfolios as of the reporting date.

4. Loans and allowance for loan losses (continued)

The Bank's Estimation Process (continued)

Substantially all of the Bank's consumer loans are secured by collateral. In order to track and measure the risk of nonperformance for these loans, the Bank periodically obtains updated credit scores for all loans and considers local economic factors which may affect collateral values.

Reflected in the portions of the allowance previously described is an amount for uncertainty inherent in estimates used for the allowance, which may change from period to period. This amount is the result of management's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Bank's view of risk in the loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

Loans by Segment

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the consolidated balance sheet date. The Bank considers the allowance for loan losses of $9,208,070 and $8,189,747 adequate to cover loan losses inherent in the loan portfolio at December 31, 2022 and 2021, respectively. The following table presents, by loan segment, the changes in the allowance for loan losses and the recorded investment in loans.

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2022

	Commercial	Commercial Real Estate	Consumer	Residential	PPP, net of deferred fees	Total
Allowance for Loan Losses (in thousands):						
Beginning balance	$ 1,911	$ 3,143	$ 461	$ 2,675	$ -	$ 8,190
Charge-offs	(100)	(31)	(162)	(92)	-	(385)
Recoveries	178	19	265	219	-	681
Provision (credit)	(486)	1,001	55	152	-	722
Ending balance	$ 1,503	$ 4,132	$ 619	$ 2,954	$ -	$ 9,208
Ending allowance balance, individually evaluated for impairment	$ 139	$ 28	$ 76	$ 216	$ -	$ 459
Ending allowance balance, collectively evaluated for impairment	$ 1,364	$ 4,104	$ 543	$ 2,738	$ -	$ 8,749
Loans (in thousands):						
Ending loan balance, individually evaluated for impairment	$ 3,757	$ 10,456	$ 149	$ 1,847	$ -	$ 16,209
Ending loan balance, collectively evaluated for impairment	$ 92,459	$ 322,669	$ 29,770	$ 210,279	$ 1,247	$ 656,424
Ending total loan balance	$ 96,216	$ 333,125	$ 29,919	$ 212,126	$ 1,247	$ 672,633

4. Loans and allowance for loan losses

Loans by Segment (continued)

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2021

	Commercial	Commercial Real Estate	Consumer	Residential	PPP, net of deferred fees	Total
Allowance for Loan Losses (in thousands):						
Beginning balance	$ 2,119	$ 1,950	$ 1,742	$ 2,772	$ -	$ 8,583
Charge-offs	(349)	(584)	(244)	(164)	-	(1,341)
Recoveries	55	369	167	27	-	618
Provision (credit)	86	1,408	(1,204)	40	-	330
Ending balance	$ 1,911	$ 3,143	$ 461	$ 2,675	$ -	$ 8,190
Ending allowance balance, individually evaluated for impairment	$ 152	$ 58	$ 3	$ 249	$ -	$ 462
Ending allowance balance, collectively evaluated for impairment	$ 1,759	$ 3,085	$ 458	$ 2,426	$ -	$ 7,728
Loans (in thousands):						
Ending loan balance, individually evaluated for impairment	$ 480	$ 4,508	$ 71	$ 2,020	$ -	$ 7,079
Ending loan balance, collectively evaluated for impairment	$ 90,961	$ 267,547	$ 32,595	$ 208,777	$ -	$ 599,880
Ending total loan balance	$ 91,441	$ 272,055	$ 32,666	$ 210,797	$ 15,606	$ 622,565

Credit Quality Information

All commercial loans are subject to individual risk assessments using the following factors: ability of borrower to pay, financial condition of borrower, management ability of the borrower, collateral and guarantors, loan structure, and industry and economics. The Bank uses the following risk rating definitions to assess risk within the loan portfolio.

a) Loans Not Adversely Classified:

1 – High Quality – High quality loans are characterized by liquid collateral adequately margined and/or supported by a strong financial statement of recent date that is unquestionably reliable. Character of endorsers or guarantors is unquestionable. The business or individual is consistently above its peers. The borrower is characterized by liquidity, minimum risks, significant earning capacity and low handling costs (reflect no loss under any conceivable situation).

2 – Desirable – Reflects strong, current financial statements and/or secured by collateral that is adequately margined to cover total debt plus any collection costs incurred in foreclosure if necessary. Primary, as well as secondary, source of repayment is evident. A defined agreed upon repayment schedule over a reasonable period exists.

4. Loans and allowance for loan losses (continued)

Credit Quality Information (continued)

3 – Satisfactory – Satisfactory loans of average strength, having some deficiency or vulnerability to changing economics or industry conditions but currently collectible. Secured loan lacking in margin and/or liquidity. Assets supporting loans are generally non liquid and/or some form of documentation of support and/or repayment ability may be deficient or lacking.

4 – Pass/Watch – This is a warning classification which portrays one or more deficiencies that has potential weakness that may result in deterioration of repayment prospects for the asset or in the Bank's credit position at some future date. This is not adversely classified. Apparent deterioration in financial condition of credit is evident and deserves immediate attention and correction of its causes by the lending staff in order to prevent further deterioration of the Bank's position.

5 – Special Mention – Loans which are superior in quality to those classified substandard, doubtful, or loss but which are believed to warrant more than usual management attention. Loans in this category are not considered to be classified because they are currently protected but are potentially weak. They constitute an undue and unwarranted credit risk. Economic or market conditions may affect the borrower in the future. Adverse trends or an unbalanced financial position have not reached a point where liquidation of the debt is jeopardized, but that point could be reached in the future if trends continue.

b) Loans Adversely Classified:

Classified loans in this group are comprised of loans that have undue and unwarranted credit risk, may be inadequately protected by current sound worth and/or collection or liquidation in full is questionable, but because of certain reasonably specific pending factors which may strengthen the credit, its classification of a loss is deferred until a more exact status can be determined. The Bank uses the following risk rating definitions to assess risk within the loan portfolio. "Classified" categories are:

6 – Substandard – Loans that are inadequately protected by current sound worth and paying capacity of the borrower, or pledged collateral, if any, or represents a protracted workout. These loans must have well defined weaknesses that are characterized by the distinct possibility that the Bank will sustain a loss if the deficiencies are not corrected.

7 – Doubtful – Loans that have all the weaknesses inherent in a substandard loan plus their collection or liquidation in full is highly questionable. The possibility of loss is extremely high, but because of certain reasonably specific pending factors which may strengthen the credit, its classification as a loss is deferred until a more exact status can be determined.

8 – Loss – Loans that are considered uncollectible in full within a reasonable length of time and are of such little value that their continuance as an active asset is not warranted. This classification does not mean that there is no possibility of recovery or salvage value, but rather it is not practical to defer writing off the asset even though a partial recovery may be made in the future.

4. Loans and allowance for loan losses (continued)

Credit Quality Information (continued)

The Bank uses the following risk rating definitions to assess risk within the consumer and residential loan portfolio.

Pass – Loans not meeting the special mention, doubtful, and substandard ratings are considered to be pass rated loans.

Special Mention – Loans which are superior in quality to those classified substandard, doubtful, or loss but which are believed to warrant more than usual management attention. Loans in this category are not considered to be classified because they are currently protected but are potentially weak. They constitute an undue and unwarranted credit risk. Economic or market conditions may affect the borrower in the future. Adverse trends or an unbalanced financial position have not reached a point where liquidation of the debt is jeopardized, but that point could be reached in the future if trends continue.

Substandard – Loans that are inadequately protected by current sound worth and paying capacity of the borrower, or pledged collateral, if any, or represents a protracted workout. These loans must have well defined weaknesses that are characterized by the distinct possibility that the Bank will sustain a loss if the deficiencies are not corrected.

Doubtful – Loans that have all the weaknesses inherent in a substandard loan plus their collection or liquidation in full is highly questionable. The possibility of loss is extremely high, but because of certain reasonably specific pending factors which may strengthen the credit, its classification as a loss is deferred until a more exact status can be determined.

Loss – Loans that are considered uncollectible in full within a reasonable length of time and are of such little value that their continuance as an active asset is not warranted. This classification does not mean that there is no possibility of recovery or salvage value, but rather it is not practical to defer writing off the asset even though a partial recovery may be made in the future.

Performing – Loans not meeting the non-performing criteria are considered to be performing.

Non-performing – Loans which are past due greater than 90 days and still accruing interest and loans on nonaccrual.

4. Loans and allowance for loan losses (continued)

Credit Quality Information (continued)

The table below presents classes of outstanding loans by risk category (in thousands):

Credit Quality Indicators
Credit Risk Profile by Creditworthiness Category by Class of Loan
December 31, 2022

	Commercial Loans	Commercial Real Estate	Residential Loans	Consumer Loans	PPP, net of Deferred Fees
Risk Rating 1	$ 4,065	$ 492	$ -	$ -	$ 1,247
Risk Rating 2	6,560	37,282	-	-	-
Risk Rating 3	59,925	210,875	-	-	-
Risk Rating 4	20,974	60,345	-	-	-
Risk Rating 5	11	1,220	-	-	-
Risk Rating 6	4,635	22,911	-	-	-
Risk Rating 7	46	-	-	-	-
Risk Rating 8	-	-	-	-	-
Pass	-	-	201,859	-	-
Special Mention	-	-	7	-	-
Substandard	-	-	10,260	-	-
Doubtful	-	-	-	-	-
Performing	-	-	-	29,431	-
Non-performing	-	-	-	488	-
Total	$ 96,216	$ 333,125	$ 212,126	$ 29,919	$ 1,247

Credit Quality Indicators
Credit Risk Profile by Creditworthiness Category by Class of Loan
December 31, 2021

	Commercial Loans	Commercial Real Estate	Residential Loans	Consumer Loans	PPP, net of Deferred Fees
Risk Rating 1	$ 3,618	$ 9,048	$ -	$ -	$ 15,606
Risk Rating 2	8,321	44,022	-	-	-
Risk Rating 3	43,425	181,137	-	-	-
Risk Rating 4	20,582	16,602	-	-	-
Risk Rating 5	13,407	12,336	-	-	-
Risk Rating 6	2,088	8,910	-	-	-
Risk Rating 7	-	-	-	-	-
Risk Rating 8	-	-	-	-	-
Pass	-	-	199,357	-	-
Special Mention	-	-	4,154	-	-
Substandard	-	-	7,286	-	-
Doubtful	-	-	-	-	-
Performing	-	-	-	32,520	-
Non-performing	-	-	-	146	-
Total	$ 91,441	$ 272,055	$ 210,797	$ 32,666	$ 15,606

4. Loans and allowance for loan losses (continued)

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession for other than an insignificant period of time to the borrower that the Bank would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Bank strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Bank grants the borrower new terms that provide for a reduction of either interest or principal, the Bank measures and records any impairment on the restructuring as previously noted for impaired loans.

The following table includes loans modified as TDRs by portfolio class during the year ended December 31, 2022:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Residential	1	$ 67,656	$ 67,756
Consumer	3	90,382	87,543
Total	4	$ 158,038	$ 155,299

The following table includes loans modified as TDRs by portfolio class during the year ended December 31, 2021:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Residential	1	$ 247,444	$ 245,931
Commercial Real Estate	1	752,549	752,549
Total	2	$ 999,993	$ 998,480

4. Loans and allowance for loan losses (continued)

Troubled Debt Restructurings (continued)

The modification of the terms of such commercial loans performed during the year ending December 31, 2021 included an extension to the maturity of the loans. The modification of the commercial real estate loans performed during the year ended December 31, 2021 included an extension of the maturity date. The modification of the residential loan during December 31, 2022 and 2021 included an extension in maturity date and a stated rate of interest lower than the current market rate. The modification of the consumer loans during the year ending December 31, 2022 included extensions to the maturity of the loans. One of these loans is in bankruptcy where the plan has yet to be confirmed. There was one TDR loan modified within the prior year totaling $806,970 that defaulted during the year ended December 31, 2021. All other loans are performing in accordance with the modified terms.

Age Analysis of Past Due Loans by Class

Following is a table which includes an aging analysis of the recorded investment of past due loans as of December 31, 2022.

Credit Quality Information
Age Analysis of Past Due Loans by Class of Loan
As of December 31, 2022
(in thousands)

	30-89 Days Past Due	Greater than 90 Days & still accruing	Total Past Due	Nonaccruals	Current	Total
Commercial	$ 78	$ -	$ 78	$ 3,727	$ 92,411	$ 96,216
Commercial Real Estate	840	-	840	7,841	324,444	333,125
Consumer	207	-	207	139	29,573	29,919
Residential	1,218	-	1,218	2,170	208,738	212,126
PPP, net of deferred fees	-	-	-	-	1,247	1,247
Ending balance	$ 2,343	$ -	$ 2,343	$ 13,877	$ 656,413	$ 672,633

4. Loans and allowance for loan losses (continued)

Age Analysis of Past Due Loans by Class (continued)

Following is a table which includes an aging analysis of the recorded investment of past due loans as of December 31, 2021.

Credit Quality Information
Age Analysis of Past Due Loans by Class of Loan
As of December 31, 2021
(in thousands)

	30-89 Days Past Due	Greater than 90 Days & still accruing	Total Past Due	Nonaccruals	Current	Total
Commercial	$ 27	$ -	$ 27	$ 270	$ 91,144	$ 91,441
Commercial Real Estate	513	-	513	746	270,796	272,055
Consumer	126	-	126	146	32,394	32,666
Residential	633	-	633	2,938	207,226	210,797
PPP, net of deferred fees	-	-	-	-	15,606	15,606
Ending balance	$ 1,299	$ -	$ 1,299	$ 4,100	$ 617,166	$ 622,565

Nonaccrual loans

The Bank places a loan on nonaccrual status, until it qualifies for return to accrual status. Generally, the Bank returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Bank has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the borrower's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

Impaired loans

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The Company's impaired loans include TDRs and non-performing loans with balances of $100,000 or greater. Non-major homogenous loans, which are evaluated on an overall basis, generally include all loans under $100,000. The Company calculates an allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of its collateral. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is required as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

4. Loans and allowance for loan losses (continued)

Impaired loans (continued)

If the Bank determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Bank recognizes impairment through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. The Bank determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

Impaired loans information
Impaired loans by class with no related allowance recorded
As of December 31, 2022
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial	$ 3,596	$ 3,596	$ -	$ 33	$ 1,903
Commercial Real Estate	9,406	9,406	-	351	6,413
Consumer	38	38	-	1	34
Residential	1,262	1,262	-	105	1,404
PPP, net of deferred fees	-	-	-	-	-
	$ 14,302	$ 14,302	$ -	$ 490	$ 9,754

Impaired loans information
Impaired loans by class with an allowance recorded
As of December 31, 2022
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial	$ 161	$ 161	$ 139	$ 3	$ 216
Commercial Real Estate	1,050	1,050	28	49	1,069
Consumer	111	111	76	7	76
Residential	585	585	216	11	529
PPP, net of deferred fees	-	-	-	-	-
	$ 1,907	$ 1,907	$ 459	$ 70	$ 1,890

4. Loans and allowance for loan losses (continued)

Impaired loans (continued)

Impaired loans information
Impaired loans by class with no related allowance recorded
As of December 31, 2021
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial	$ 210	$ 210	$ -	$ 13	$ 828
Commercial Real Estate	3,420	3,420	-	141	3,757
Consumer	29	29	-	6	55
Residential	1,546	1,546	-	70	1,942
PPP, net of deferred fees	-	-	-	-	-
	$ 5,205	$ 5,205	$ -	$ 230	$ 6,582

Impaired loans information
Impaired loans by class with an allowance recorded
As of December 31, 2021
(in thousands)

	Recorded Investment	Unpaid Principal balance	Related allowance	Interest income recognized	Average Recorded Investment
Commercial	$ 270	$ 270	$ 152	$ 7	$ 456
Commercial Real Estate	1,088	1,088	58	65	2,154
Consumer	42	42	3	4	21
Residential	474	474	249	5	334
PPP, net of deferred fees	-	-	-	-	-
	$ 1,874	$ 1,874	$ 462	$ 81	$ 2,965

5. Bank premises and equipment

Components of Bank premises and equipment included in the consolidated balance sheets at December 31, 2022 and 2021, were as follows:

	2022	2021
Buildings and leasehold improvements	$ 26,600,313	$ 26,367,602
Equipment	18,819,616	18,004,200
Land	4,979,357	5,799,557
	50,399,286	50,171,359
Less: accumulated depreciation and amortization	(27,706,905)	(27,010,375)
	$ 22,692,381	$ 23,160,984

5. Bank premises and equipment (continued)

Depreciation expense amounted to approximately $2,081,000 and $2,249,000 during the years ended December 31, 2022 and 2021, respectively.

6. Time deposits

At December 31, 2022, the scheduled maturities of all outstanding certificates of deposit and IRA's were as follows:

Year ending December 31st	Amount
2023	$ 83,363,428
2024	12,350,557
2025	3,636,141
2026	2,844,295
2027	-
	$ 102,194,421

Included in deposits are approximately $27,749,000 and $36,507,000 of certificates of deposit and IRA accounts greater than or equal to $250,000 at December 31, 2022 and 2021, respectively.

7. Other operating expenses

Other operating expenses for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Reserve for ad valorem taxes	$ 1,060,381	$ 1,016,502
Telephone, stationary, and supplies	764,661	786,899
Professional fees and expenses	766,628	336,884
Regulatory assessments	574,113	763,910
Debit card and other losses	552,695	480,348
Director fees	451,455	385,521
Uncollected overdrafts	286,663	190,153
Other real estate expenses, net	101,956	585,896
Other	2,811,908	2,395,340
	$ 7,370,460	$ 6,941,453

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Income taxes

The source and tax effect of items reconciling income tax expense to the amount computed by applying the federal income tax rates in effect to net income before income tax expense for the years ended December 31, 2022 and 2021, are as follows:

	2022			2021		
		Amount	Percent		Amount	Percent
Income before income taxes	$	14,484,197	100.0%	$	13,145,946	100.0%
U.S. Federal income tax expense	$	3,041,681	21.0%	$	2,760,649	21.0%
Tax free municipal income		(626,667)	(4.3)		(620,362)	(4.7)
Other		(26,580)	(0.2)		(9,309)	(0.1)
Income tax expense	$	2,388,434	16.5%	$	2,130,978	16.2%

The components of income tax expense during the years ended December 31, 2022 and 2021, were as follows:

		2022		2021
Current tax expense	$	2,524,519	$	2,237,081
Deferred tax (benefit)		(136,085)		(106,103)
	$	2,388,434	$	2,130,978

The Company records deferred income taxes on the tax effect of changes in temporary differences. Deferred tax assets are subject to a valuation allowance if their realization is less than 50% probable. The deferred tax assets and liabilities were comprised of the following at December 31, 2022 and 2021:

		2022		2021
Depreciation and amortization	$	(710,766)	$	(635,802)
Unrealized gains on available-for-sale securities		-		(338,031)
Goodwill amortization		(356,169)		(356,169)
Purchase accounting-securities		(6)		(43)
Other items		(93,037)		(79,729)
Gross deferred tax liability	$	(1,159,978)	$	(1,409,774)
Allowance for loan losses	$	1,933,695	$	1,719,847
Unrealized losses on available-for-sale securities		13,523,235		-
Deferred compensation		196,283		164,717
Other		9,127		30,221
Gross deferred tax asset		15,662,340		1,914,785
Net deferred tax asset	$	14,502,362	$	505,011

9. Employee benefits

The Company offers a 401(k) Plan (the "Plan") to all employees who have completed three months of service and who have attained age 20. Plan assets are invested in a menu of diversified investment options including Company stock. The Plan is a "Safe-Harbor 401(k) Plan." The Company contributes a safe-harbor match equal to the sum of 100% of the amount of participant's salary reductions that are not in excess of 3% of compensation, plus 50% of the amount of salary reductions that exceed 3% of participant's compensation but not in excess of 5% of compensation. Participant's salary deferrals and Company's safe-harbor match are 100% vested. Any additional Company contributions to the Plan are at the discretion of the Board of Directors, with limitations based on a percentage of the participants' compensation. A participant's interest in his or her discretionary account balance becomes fully vested after completion of five years of service. The Company contributed $471,196 and $459,213 to the Plan in 2022 and 2021, respectively. At December 31, 2022 and 2021, the Plan held 76,972 and 79,169 shares in common stock of the Company, respectively.

The Bank also offers a life insurance joint beneficiary plan to some of its executive officers. The Bank is the owner and beneficiary of split-dollar life insurance policies covering the lives of the officers. The plan provides for payment upon death of a calculated amount based primarily on the officer's salary to be paid from the proceeds of the policies to the officers' designated beneficiaries. The benefits have been accrued in the accompanying consolidated financial statements.

10. Equity incentive plan

On May 10, 2022, the Company's stockholders approved the 2022 Omnibus Incentive Plan which authorized the issuance of up to 170,000 shares of the Company's stock through the restricted stock awards, stock options, and other equity awards to its officers and employees. At December 31, 2022, there were 153,000 shares available to be issued.

On November 15, 2022, the Company granted 17,000 restricted stock awards to certain officers and employees at $28.00 per share. The total fair value of the restricted stock awards at the grant date was approximately $476,000. Restricted stock awards vest over a four year period. For the year ended December 31, 2022, the Company recognized approximately $15,000 in compensation cost related to restricted stock awards, which is included in other operating expenses in the accompanying consolidated statements of operations. At December 31, 2022, there was approximately $461,000 of unrecognized compensation cost related to restricted stock awards which is expected to be recognized over a period of 3.9 years.

11. Contingencies

The Company is a party to various legal proceedings arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

12. Financial instruments with off-balance-sheet risk

To meet the financing needs of its customers the Bank is a party to various financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the involvement the Bank has in particular classes of financial instruments. The Bank's exposure to credit loss in the event of

12. Financial instruments with off-balance-sheet risk (continued)

nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments.

The following is a summary as of December 31, 2022 and 2021, of the various financial instruments entered into by the Bank:

	2022	2021
Commitments to extend credit	$ 159,371,226	$ 145,839,996
Standby letters of credit	1,468,505	1,722,774

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 Bank evaluates customers' creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit and commercial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers. The contractual amounts of credit-related financial instruments, such as commitments to extend credit and letters of credit, represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

13. Minimum regulatory capital requirements

The Bank is subject to various regulatory capital requirements administered by federal and state 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 Company's 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 judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1, and Total capital to risk-weighted assets and of Tier 1 capital to average assets. It is management's opinion, as of December 31, 2022, that the Bank meets all applicable capital adequacy requirements.

As of December 31, 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank

13. Minimum regulatory capital requirements (continued)

must maintain minimum regulatory capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2022 and 2021, are also presented in the table below:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Bank:						
Total Regulatory Capital to risk weighted assets	$138,309,000	16.55%	$66,868,000	≥8.0%	$83,585,000	≥10.0%
Tier I Capital to risk weighted assets	129,101,000	15.45%	50,151,000	≥6.0%	66,868,000	≥8.0%
Tier I Leverage Capital	129,101,000	10.04%	51,417,000	≥4.0%	64,271,000	≥5.0%
Common Equity Tier 1 capital (to risk weighted assets):	129,101,000	15.45%	37,613,000	≥4.5%	54,330,000	≥6.50%

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021:						
Bank:						
Total Regulatory Capital to risk weighted assets	$128,373,000	17.17%	$59,822,000	≥8.0%	$74,778,000	≥10.0%
Tier I Capital to risk weighted assets	120,183,000	16.07%	44,867,000	≥6.0%	59,822,000	≥8.0%
Tier I Leverage Capital	120,183,000	9.04%	53,180,000	≥4.0%	66,475,000	≥5.0%
Common Equity Tier 1 capital (to risk weighted assets):	120,183,000	16.07%	33,650,000	≥4.5%	48,606,000	≥6.50%

14. Disclosures about fair value of financial instruments

In accordance with the *Fair Value Measurements and Disclosure* topic of the Accounting Standards Codification, disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments. Therefore, the aggregate fair value amounts presented do not represent the underlying value of the Company.

14. Disclosures about fair value of financial instruments (continued)

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation; or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement, determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following describes the hierarchy designations, valuation methodologies, and key inputs to measure fair value on a recurring basis for designated financial instruments.

Available for Sale Securities

Fair value estimates for investment securities are based on quoted market prices, where available (Level 1 inputs). If quoted market prices are not available, fair values are based on quoted market prices or comparable instruments (Level 2). The carrying amount of accrued interest on securities approximates its fair value.

14. Disclosures about fair value of financial instruments (continued)

Assets measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3
December 31, 2022			
Treasuries	$ 74,332,995	$ -	$ -
US govt. securities	-	23,370,750	-
Mortgage-backed securities	-	207,870,719	-
State & political subdivisions	-	123,390,622	-
Corporate bonds	-	12,640,037	-
Securities available-for-sale	$ 74,332,995	$ 367,272,128	$ -
December 31, 2021			
Treasuries	$73,982,425	$ -	$ -
US govt. securities	-	16,661,807	-
Mortgage-backed securities	-	225,713,337	-
State & political subdivisions	-	142,857,067	-
Corporate bonds	-	12,636,707	-
Securities available-for-sale	$ 73,982,425	$ 397,868,918	$ -

The Company did not record any liabilities at fair market value for which measurement of the fair value was made on a recurring basis at December 31, 2022 or 2021.

There were no transfers between Level 1 or Level 2 during 2022 or 2021.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The following describes the hierarchy designation, valuation methodologies, and key inputs for those assets that are measured at fair value on a non-recurring basis:

Impaired Loans

At the time a loan is considered impaired, it is recorded at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.

Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification.

14. Disclosures about fair value of financial instruments (continued)

Other Real Estate Owned (OREO)

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments typically result in a Level 3 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value on a non-recurring basis (in thousands) are summarized below:

	Fair Value Measurements at Reporting Date Using:			
December 31, 2022	Fair Value	Level 1	Level 2	Level 3
Assets:				
Impaired Loans				
Commercial	$ 3,619	$ -	$ -	$ 22
Commercial Real Estate	9,406	-	-	1,022
Consumer	73	-	-	35
Residential	1,405	-	-	369
Other real estate owned	863	-	-	863
Total	$ 15,366	$ -	$ -	$ 2,311

	Fair Value Measurements at Reporting Date Using:			
December 31, 2021	Fair Value	Level 1	Level 2	Level 3
Assets:				
Impaired Loans				
Commercial	$ 328	$ -	$ -	$ 118
Commercial Real Estate	4,450	-	-	1,030
Consumer	68	-	-	39
Residential	1,771	-	-	225
Other real estate owned	1,054	-	-	1,054
Total	$ 7,671	$ -	$ -	$ 2,466

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross carrying amount of approximately $16,209,000 as of December 31, 2022, with a valuation allowance of $459,000. As of December 31, 2021, impaired loans had a gross carrying amount of approximately $7,079,000 with a valuation allowance of $462,000.

OREO measured at fair value less costs to sell, had a net carrying amount of approximately $863,000 and $1,054,000 as of December 31, 2022 and 2021, respectively. There were no valuation allowances associated with the OREO.

14. Disclosures about fair value of financial instruments (continued)

Other Real Estate Owned (continued)

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2022 and 2021, the Company utilized the following valuation techniques and significant unobservable inputs.

Impaired Loans

For individually evaluated impaired loans, the amount of impairment is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the estimated fair value of the underlying collateral for collateral-dependent loans, resulting in an average discount of 5% to 30%.

Financial Instruments

The carrying amounts and estimated fair values of financial instruments at December 31, 2022 are as follows (in thousands):

		Fair Value Measurements at December 31, 2022 Using:			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and due from banks and Interest bearing deposits in other banks	$ 48,290	$ 48,290	$ -	$ -	$ 48,290
Securities available-for-sale	441,605	74,333	367,272	-	441,605
Securities held-to-maturity	11,069	-	10,845	-	10,845
Loans held for sale	550	-	-	550	550
Loans, net of allowance	663,425	-	-	647,057	647,057
Other stocks	2,416	-	2,416	-	2,416
Life insurance contracts	17,362	17,362	-	-	17,362
Accrued interest receivable	4,985	-	2,248	2,737	4,985
Financial Liabilities:					
Noninterest bearing deposits	$ 421,214	$ -	$ 421,214	$ -	$ 421,214
Interest bearing deposits	722,781	-	722,781	-	722,781
Securities sold under repurchase agreements	320	-	320	-	320
Accrued interest payable	143	-	143	-	143
Subordinate debentures	29,445	-	26,502	-	26,502

14. Disclosures about fair value of financial instruments (continued)

Financial Instruments (continued)

The estimated fair values of the Company's financial instruments at December 31, 2021, were as follows (in thousands):

	Carrying Amount	Fair Value Measurements at December 31, 2021 Using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and due from banks and Interest bearing deposits In other banks	$ 194,210	$ 194,210	$ -	$ -	$ 194,210
Securities available-for-sale	471,851	73,982	397,869	-	471,851
Securities held-to-maturity	13,531	-	13,318	-	13,318
Loans held for sale	706	-	-	706	706
Loans, net of allowance	614,375	-	-	612,810	612,810
Other stocks	7,503	-	7,503	-	7,503
Life insurance contracts	17,059	17,059	-	-	17,059
Accrued interest receivable	4,492	-	2,361	2,131	4,492
Financial Liabilities:					
Noninterest bearing deposits	$ 419,022	$ -	$ 419,022	$ -	$ 419,022
Interest bearing deposits	782,418	-	728,093	-	728,093
Securities sold under repurchase agreements	320	-	320	-	320
Accrued interest payable	710	-	710	-	710
Subordinate debentures	46,884	-	47,214	-	47,214

The estimated fair value approximates carrying amounts for all items except those described below. The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2. Estimated fair value for both securities available-for-sale and held-to-maturity is as previously described for securities available-for-sale. Fair value of loans are estimated as set forth below:

The methods assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

Interest Earning Deposits in Other Depository Institutions

The carrying amount of interest-earning deposits approximate fair value and are classified as Level 1.

14. Disclosures about fair value of financial instruments (continued)

Loans Receivable, Net

The fair value of loans is estimated through discounted cash flow analysis using current rates at which loans with similar terms would be made to borrowers of similar credit quality resulting in a Level 3 classification. Appropriate adjustments are made to reflect probable credit losses. The carrying amount of accrued interest on loans approximated its fair value.

Other stocks

The value of the stock is based on the current book value per common share of stock and is classified as Level 2.

Life insurance contracts

The carrying amounts of life insurance contracts approximate fair values and are classified as Level 1.

Deposit Liabilities

ASC 825 specifies that the fair value of deposit liabilities with no defined maturity is the amount payable on demand at the reporting date, i.e., their carrying or book value. The fair value of fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently offered on certificates of similar remaining maturities to a schedule of aggregate expected cash flows on time deposits and are classified as Level 2.

Short-Term Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements and are classified as Level 2.

Accrued Interest Receivable/Payable

The carrying amount of accrued interest receivable/payable approximates its fair value resulting in a Level 2 or Level 3 classification consistent with the classification of the asset/liability with which they are associated.

Off-Balance Sheet Instruments

Off-balance sheet financial instruments include commitments to extend credit and undisbursed lines of credit. The fair value of such instruments is estimated using fees currently charged for similar arrangements in the marketplace, adjusted for changes in terms and credit risk as appropriate. The estimated fair value for these instruments was not significant at December 31, 2022 and 2021. The contract or notional amounts of the Company's financial instruments with off-balance sheet risk are disclosed in Note 12.

15. Other borrowed funds and lines of credit

The Company has a $5,000,000 revolving line-of-credit with First National Bankers' Bank (FNBB), and has pledged 768,000 shares of the Bank's common stock as security under the agreement. No amounts were drawn under this agreement as of December 31, 2022 or 2021.

The Bank has also established a federal funds line-of-credit with FNBB to provide additional sources of operating funds. The Bank can borrow up to $35,000,000 at December 31, 2022 and 2021. No amounts were drawn under this agreement at December 31, 2022 or 2021.

The Bank has established a line-of-credit with Federal Home Loan Bank of Dallas (FHLB) and can borrow up to approximately $230,564,000 and $244,519,000 as of December 31, 2022 and 2021, respectively. The Bank made blanket pledges consisting of qualifying mortgage assets totaling $627,888,000 and $599,444,000 as of December 31, 2022 and 2021, respectively, as collateral to secure the FHLB line-of-credit. Under this FHLB agreement, the Bank has Letters of Credit totaling $19,330,000 and $97,000,000 as of December 31, 2022 and 2021, respectively.

As of December 31, 2020, the Bank had a Community Investment Program advance from the FHLB totaling approximately $2,763,000, with a fixed rate of 2.448% and a maturity date of September 3, 2030. The bank repaid the outstanding advance in September 2021 and had no outstanding advances at December 31, 2022 or 2021.

16. Subordinated Notes

The Company issued $17,500,000 and $30,000,000 in aggregate principal amount of fixed-to-floating subordinated notes during the years ended December 31, 2017 and 2021, respectively. The terms are listed below.

Issue date	January 11, 2017
Maturity date	January 15, 2027
Interest rate	6.75% through January 15, 2022, then LIBOR plus 469.0 basis points through maturity

Issue date	December 15, 2021
Maturity date	December 15, 2031
Interest rate	3.75% through December 15, 2026, then SOFR plus 264.0 basis points through maturity

Interest expense as of December 31, 2022 was $1,390,531 and the principal balance owed was $30,000,000. Debt issuance costs amounting to $555,276 remaining as of December 31, 2022 are being amortized over the life of the debt. Amortization expense during the years ended December 31, 2022 and 2021 was approximately $135,000 and $178,000, respectively.

The Company redeemed the $17,500,000 on January 15, 2022, and at its option, may redeem the $30,000,000 beginning with the interest payment date of December 15, 2027, and on any scheduled interest payment date thereafter, in whole or in part, upon not fewer than 30 nor greater than 60 days' notice to holders, at a redemption price equal to 100% of the principal amount of the subordinated notes to be redeemed plus accrued interest to, but excluding, the date of redemption. Any partial redemption will be made pro rata among all of the holders.

As part of the agreements, the Company will not declare or pay any dividend or make any distribution on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock or other equity securities of any kind, if (i) the total risk-based capital ratio, Tier 1 risk-based capital ratio or leverage ratio of the Company or any of the Company's banking subsidiaries becomes less than ten percent (10%), six percent (6%) or five percent (5%), respectively, or (ii) there exists an Event of Default, in each case except for dividends payable

16. Subordinated Notes (continued)

solely in shares of common stock of the Company or as required by any federal or state Governmental Agency.

The subordinated notes may be included in Tier 1 capital for the Bank (with certain limitations applicable) under current regulatory guidelines and interpretations. During 2017, a portion of the proceeds of the subordinated notes, $14,000,000, was contributed to the Bank as Tier 1 capital. During 2021, an additional $7,000,000 was contributed to the Bank as Tier 1 capital.

17. Related Party Transactions

Loans are made in the normal course of business to its directors, executive officers and their associates on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Such loans did not involve more than normal risks of collectability. An analysis of activity during 2022 and 2021 with respect to loans to officers and directors of the Bank is as follows:

	2022	2021
Balance - beginning of year	$ 1,606,706	$ 1,999,931
New loans	1,576,980	1,503,975
Payments	(2,255,089)	(1,897,200)
Balance - end of year	$ 928,597	$ 1,606,706

Included in deposits are deposits from directors, officers, their immediate families, and related companies. These accounts totaled approximately $15,566,000 and $9,815,000 at December 31, 2022 and 2021, respectively.

18. Forgivable Loan Agreements

During 2019, the Company executed two agreements with key executives of the Company in order to enable them to purchase shares of the Company's stock. In each case, the loans are secured by the 2,000 shares of stock purchased with the proceeds of the loan. For one agreement, the initial amount of the loan was $117,240 payable in four equal annual installments, to be forgiven as long as the executive continues to be employed as of January 1st of each year, beginning on February 1, 2020 and thereafter on each subsequent February 1st until principal is paid in full. For the other agreement, the initial amount of the loan was $114,570 payable in four equal annual installments, to be forgiven as long as the executive continues to be employed as of January 1st of each year, beginning on February 1, 2021 and thereafter on each subsequent February 1st until principal is paid in full.
During 2021, the Company executed one agreement with a key executive of the Company in order to enable them to purchase shares of the Company's stock. The loan is secured by the 500 shares of stock purchased with the proceeds of the loan. The initial amount of the loan was $25,955 payable in four equal annual installments, to be forgiven as long as the executive continues to be employed as of January 1st of each year, beginning on May 31, 2022 and thereafter on each subsequent May 31st until principal is paid in full.

19. Leases

The Bank has four leases under operating leases expiring in 2023, 2024, 2025 and 2027. Leases with an initial term of 12 months or less are not recorded on the balance sheet and lease expense is recognized on a straight-line basis over the lease term. The Bank had no finance leases as of December 31, 2022 or 2021.

The Bank uses its FHLB advance fixed rates, which are the Bank's incremental borrowing rates for secured borrowings, as the discount rates to calculate lease liabilities. The weighted average discount rate used is 3.26%

19. Leases (continued)

and the weighted average remaining term of all leases is 3.99 years.

The Company had a right-of-use asset totaling $960,465 and $504,486, and a lease liability totaling $962,527 and $508,131 for the years ended December 31, 2022 and 2021, respectively. The Company recognized lease expense of $235,534 and $167,895 during the years ended December 31, 2022 and 2021, respectively.

As lessee, operating lease liabilities under non-cancellable leases (excluding short-term leases) are as follows:

Year ending December 31st	Amount
2023	$ 305,482
2024	248,176
2025	203,164
2026	162,364
2027	108,243
Total lease payments	1,027,429
Less: Interest	(64,902)
Present value of lease liabilities	$ 962,527

20. Subsequent Events

On March 12, 2023, in response to liquidity concerns in the United States banking system, the Federal Reserve and U.S. Department of Treasury, along with banking regulators, collaboratively approved certain actions with a stated intention to reduce stress across the financial system, support financial stability and minimize any impact on business, households, taxpayers, and the broader economy. Among other actions, the Federal Reserve Board created a new Bank Term Funding Program (BTFP) to make additional funding available to eligible depository institutions, to help assure institutions can meet the needs of their depositors. Eligible institutions may obtain liquidity against a wide range of collateral. BTFP advances can be requested through at least March 11, 2024. Through the date the financial statements were available to be issued, the Company has not requested funding through the BTFP.

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, March 24, 2023, and determined that there were no events that require disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

21. Bank Only Financial Statements

BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Cash and due from banks	$ 26,434,524	$ 18,552,783
Interest bearing deposits in other banks	17,733,570	152,694,727
Cash and cash equivalents	44,168,094	171,247,510
Securities available-for-sale	441,605,123	471,851,343
Securities held-to-maturity	11,068,891	13,530,692
Other stocks	2,415,643	7,502,719
Loans held for sale	549,984	705,950
Loans held for investment, less allowances for loan losses of $9,208,070 and $8,189,747 at December 31, 2022 and 2021, respectively	663,424,870	614,375,277
Accrued interest receivable	4,985,487	4,492,037
Bank premises and equipment, net	22,692,381	23,160,984
Other real estate owned	863,101	1,053,698
Goodwill and other intangibles	4,179,545	4,179,545
Life insurance contracts	17,362,309	17,059,118
Other assets	18,394,579	4,151,700
Total assets	$ 1,231,710,007	$ 1,333,310,573

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Bank Only Financials Statements (continued)

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities:	2022	2021
Deposits		
Demand deposit accounts, non-interest bearing	$ 421,314,557	$ 419,167,474
Demand deposit accounts, interest bearing	244,493,968	241,045,730
Individual retirement accounts	13,717,625	13,528,194
Savings and money market accounts	376,093,273	425,749,333
Certificates of deposit - $250,000 and over	24,165,870	33,297,133
Other certificates of deposit	64,310,926	68,798,276
	1,144,096,219	1,201,586,140
Securities sold under repurchase agreements	319,802	319,695
Accrued interest payable	143,312	168,190
Accrued expenses and other liabilities	5,099,595	5,959,304
Total liabilities	1,149,658,928	1,208,033,329
Stockholder's equity:		
Common stock; $12.50 par value; 1,536,000 shares authorized; 768,000 shares issued and outstanding at December 31, 2022 and 2021	9,600,000	9,600,000
Additional paid-in-capital	47,400,000	47,400,000
Retained earnings	75,924,202	67,005,603
Accumulated other comprehensive income (loss)	(50,873,123)	1,271,641
Total stockholder's equity	82,051,079	125,277,244
Total liabilities and stockholder's equity	$ 1,231,710,007	$ 1,333,310,573

21. Bank Only Financial Statements (continued)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 34,237,758	$ 32,784,054
Investment securities:		
Taxable	6,241,272	4,089,734
Non-taxable	3,219,465	3,201,034
Federal funds sold and interest bearing deposits in other banks	689,534	251,212
Total interest income	44,388,029	40,326,034
INTEREST EXPENSE		
Interest on deposits	2,651,567	3,037,489
Interest on securities sold under repurchase agreements and other borrowing	320	85,843
Total interest expense	2,651,887	3,123,332
NET INTEREST INCOME	41,736,142	37,202,702
Provision for loan losses	722,000	330,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	41,014,142	36,872,702
NONINTEREST INCOME		
Service charges and fees on deposit accounts	9,154,191	8,723,760
Trust department income	667,450	594,272
Fees and commissions from securities brokerage	337,257	752,722
Gain on sale of mortgage loans held for sale	839,341	1,605,749
Realized gains on sale of investments	-	6,682
Other income	615,419	1,132,096
	11,613,658	12,815,281

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Bank Only Financial Statements (continued)

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
NONINTEREST EXPENSES		
Salaries and employee benefits	$ 18,935,649	$ 18,010,588
Occupancy expenses	5,151,082	5,187,280
Computer and processing expenses	4,534,272	4,206,408
Business promotion and advertising expenses	1,024,741	889,601
Other operating expenses	7,136,480	6,807,766
	36,782,224	35,101,643
INCOME BEFORE INCOME TAX EXPENSE	15,845,576	14,586,340
Income tax expense	2,667,622	2,418,242
NET INCOME	13,177,954	12,168,098
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains/losses on securities:		
Unrealized holding gains/losses arising during the period net of taxes of ($13,861,245) and ($1,432,855)	(52,144,764)	(5,329,524)
Less: reclassification adjustments for gains included in net income, net of taxes of $0 and $1,403	-	(5,279)
Other comprehensive income (loss)	(52,144,764)	(5,324,245)
COMPREHENSIVE INCOME (LOSS)	$ (38,966,811)	$ 6,843,853

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Parent Only Financial Statements

BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Cash in subsidiary bank	$ 10,171	$ 31,841
Cash in Texas Capital	4,121,935	22,962,568
Cash and cash equivalents	4,132,106	22,994,409
Investment in subsidiary bank	82,051,079	125,277,244
Investment in JD Bank Insurance, LLC	71,999	94,588
Other assets and income taxes receivable	302,246	303,258
Total assets	$ 86,557,430	$ 148,669,499

LIABILITIES AND STOCKHOLDERS' EQUITY

	2022	2021
Subordinated debentures	$ 29,444,724	$ 46,884,050
Accrued interest - subordinated debentures	-	541,503
Other liabilities	16,973	14,487
Total liabilities	29,461,697	47,440,040
Preferred stock; no par value; 2,000,000 shares authorized no shares issued or outstanding	-	-
Common stock; $6.25 par value; 10,000,000 shares authorized; 3,420,560 shares issued and outstanding at December 31, 2022 and 3,430,060 shares issued and outstanding at December 31, 2021	21,378,500	21,437,875
Additional paid-in capital	9,874,341	10,548,523
Retained earnings	76,822,074	68,141,922
Note receivable for common stock	(106,061)	(170,502)
Accumulated other comprehensive income (loss)	(50,873,123)	1,271,641
Total stockholders' equity	57,095,731	101,229,459
Total liabilities and stockholders' equity	$ 86,557,428	$ 148,669,499

22. Parent Only Financial Statements (continued)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INCOME		
Dividends from subsidiary bank	$ 4,259,360	$ -
Dividends from subsidiary insurance company	100,000	-
Interest income	84,092	9,667
	4,443,452	9,667
EXPENSES		
Interest expense	1,309,531	1,408,540
Operating expenses	233,923	133,687
Taxes and other expenses	(299,761)	(306,624)
	1,243,693	1,235,603
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	3,199,759	(1,225,936)
Equity in undistributed earnings of subsidiaries and excess distribution of earnings	8,896,004	12,240,904
NET INCOME	12,095,763	11,014,968
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains/losses on securities:		
Unrealized holding gains/losses arising during the period net of taxes of ($13,861,245) and ($1,432,855)	(52,144,764)	(5,329,524)
Less: reclassification adjustment for realized gains included in net income, net of taxes of $0 and $1,403	-	(5,279)
Other comprehensive income (loss)	(52,144,764)	(5,334,803)
COMPREHENSIVE INCOME (LOSS)	$ (40,049,001)	$ 5,680,165

22. Parent Only Financial Statements (continued)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 12,095,763	$ 11,014,968
Adjustments to reconcile net income to net cash provided by operating activities:		
Non cash compensation expense	79,316	57,953
Amortization	135,408	177,970
Undistributed earnings of Bank	(8,918,594)	(12,168,098)
Undistributed earnings of JD Bank Ins.	(77,411)	(72,806)
Changes in dividend receivable	-	-
Changes in deferred income tax	2,485	25,259
Changes in income tax receivable	1,007	(20,509)
Changes in accrued interest payable	(541,503)	49,314
Changes in dividend payable	-	-
Net cash provided (used in) operating activities	2,776,471	(935,949)
CASH FLOWS FROM INVESTING ACTIVITIES		
Contribution to the Bank	-	(7,000,000)
Net cash provided (used in) investing activities	-	(7,000,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(3,415,609)	(3,172,356)
Proceeds from issuance of subordinated notes	-	30,000,000
Subordinated notes issuance costs	(74,733)	(617,329)
Share repurchases	(748,432)	-
Subordinated notes repurchase and issuance costs	(17,500,000)	-
Stock dividend issuance costs	-	(56,123)
Distribution from Subsidiary - JD Bank Ins.	100,000	-
Net cash provided (used in) financing activities	(21,638,774)	26,154,192
Increase (decrease) in cash	(18,862,303)	18,218,243
Cash - beginning of year	22,994,409	4,773,161
Cash - end of year	$ 4,132,106	$ 22,991,404

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. JD Bank Insurance, LLC Financial Statements

BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Cash	$ 90,702	$ 113,947
Other assets	1,869	-
Total assets	$ 92,571	$ 113,947

LIABILITIES AND STOCKHOLDER'S EQUITY

	2022	2021
Other liabilities	$ 20,572	$ 19,359
Total liabilities	20,572	19,359
Stockholder's equity	685,000	685,000
Accumulated deficit	(613,001)	(590,412)
Total stockholder's equity	71,999	94,588
Total liabilities and stockholder's equity	$ 92,571	$ 113,947

23. JD Bank Insurance, LLC Financial Statements (continued)

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INCOME		
Commissions earned	$ 98,040	$ 92,489
	98,040	92,489
EXPENSES		
Insurance expenses	56	323
Other operating expenses	20,573	19,359
	20,629	19,682
NET INCOME	$ 77,411	$ 72,807

23. JD Bank Insurance, LLC Financial Statements (continued)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 77,411	$ 72,807
Adjustments to reconcile net income to net cash provided by operating activities:		
Net change in operating assets and liabilities:		
Income taxes payable and other liabilities	(656)	(6,576)
Net cash provided by operating activities	76,755	66,231
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(100,000)	-
Net cash used in financing activities	(100,000)	-
Change in cash	(23,245)	66,231
Cash - beginning of year	113,947	47,716
Cash - end of year	$ 90,702	$ 113,947

EXECUTIVE OFFICERS

JD BANK

BRUCE W. ELDER
President and Chief Executive Officer

PAUL E. BRUMMETT, II
Executive Vice President and Chief Financial Officer

BAVO GALL
Executive Vice President and Chief Information Officer

DORENE GOTHREAUX
Executive Vice President and Chief Retail Banking Officer

SARA HUVAL
Executive Vice President and Chief Human Resource Director

JIMMY LEBLANC
Executive Vice President and Chief Commercial Banking Officer

RAMONA SCHEXNIDER
Executive Vice President and Chief Risk Officer

MARSHA WILLIAMS
Executive Vice President and Chief Credit Officer

ANN BARILLEAUX
Senior Vice President and Marketing Director

GEORGE SHAFER
Senior Vice President and Attorney/Chief Compliance Officer

DIRECTORS

JD BANCSHARES, INC.
AND
JD BANK

DAN L. DONALD, JR.
Chairman
JD Bancshares, Inc.
JD Bank

DAVID B. DONALD
Vice Chairman
JD Bancshares, Inc.
JD Bank

SARA A. ROBERTS
Secretary
JD Bancshares, Inc.
JD Bank

BRUCE W. ELDER
President and Chief Executive Officer
JD Bancshares, Inc.
JD Bank

G. VINCENT BAILEY

CLARENCE A. BERKEN

DARYL V. BURCKEL

ANDREW CORMIER

MILTON RAY CROCHET

RAY HINES

THOMAS E. LEGER

TERRY J. TERREBONNE

JD BANK LOCATIONS

CARLYSS
4507 Hwy 27 S, Sulphur, LA 70665

EUNICE
300 Park Ave., Eunice, LA 70535

IOWA
414 S. Kinney, Iowa, LA 70647

JENNINGS – MAIN
507 N. Main St., Jennings, LA 70546

JENNINGS – WEST DIVISION
407 W. Division, Jennings, LA 70546

JENNINGS – ROBERTS AVENUE
446 Roberts Ave., Jennings, LA 70546

KINDER
438 N. Ninth St., Kinder, LA 70648

LAFAYETTE – JOHNSTON STREET
3600 Johnston St., Lafayette, LA 70503

LAFAYETTE – VEROT SCHOOL ROAD
300 Verot School Rd., Lafayette, LA 70508

LAKE ARTHUR
338 Arthur Ave, Lake Arthur, LA 70549

LAKE CHARLES – SALE ROAD
119 W. Sale Rd., Lake Charles, LA 70605

LAKE CHARLES – HWY 14
2726 Gerstner Memorial Dr., Lake Charles, LA 70601

LAKE CHARLES – KIRBY
535 Kirby St., Lake Charles, LA 70601

LAKE CHARLES – MORGANFIELD
4989 E McNeese St., Lake Charles, LA 70607

LAKE CHARLES – NELSON
4400 Nelson Rd., Lake Charles, LA 70605

MAMOU
609 Main St., Mamou, LA 70554

MOSS BLUFF
120 Sam Houston Jones Pkwy., Lake Charles, LA 70611

NEW IBERIA – E. ADMIRAL DOYLE DRIVE
631 E. Admiral Doyle Dr., New Iberia, LA 70560

NEW IBERIA – N. LEWIS STREET
529 N Lewis St., New Iberia, LA 70563

OPELOUSAS
1614 S. Union St., Opelousas, LA 70570

SULPHUR
2905 Maplewood Dr., Sulphur, LA 70663

VILLE PLATTE
1311 W Lasalle, Ville Platte, LA 70586

WELSH
101 N. Adams St., Welsh, LA 70591

WESTLAKE
1511 Sampson St., Westlake, LA 70669

LOAN PRODUCTION/DEPOSIT PRODUCTION OFFICES

BATON ROUGE
9026 Jefferson Hwy., Ste. 402
Baton Rouge, LA 70809

NORTHSHORE
1409 West Causeway Approach
Mandeville, LA 70471

Pictured: Frank Gallaugher and Frank West on opening day March 12, 1947.