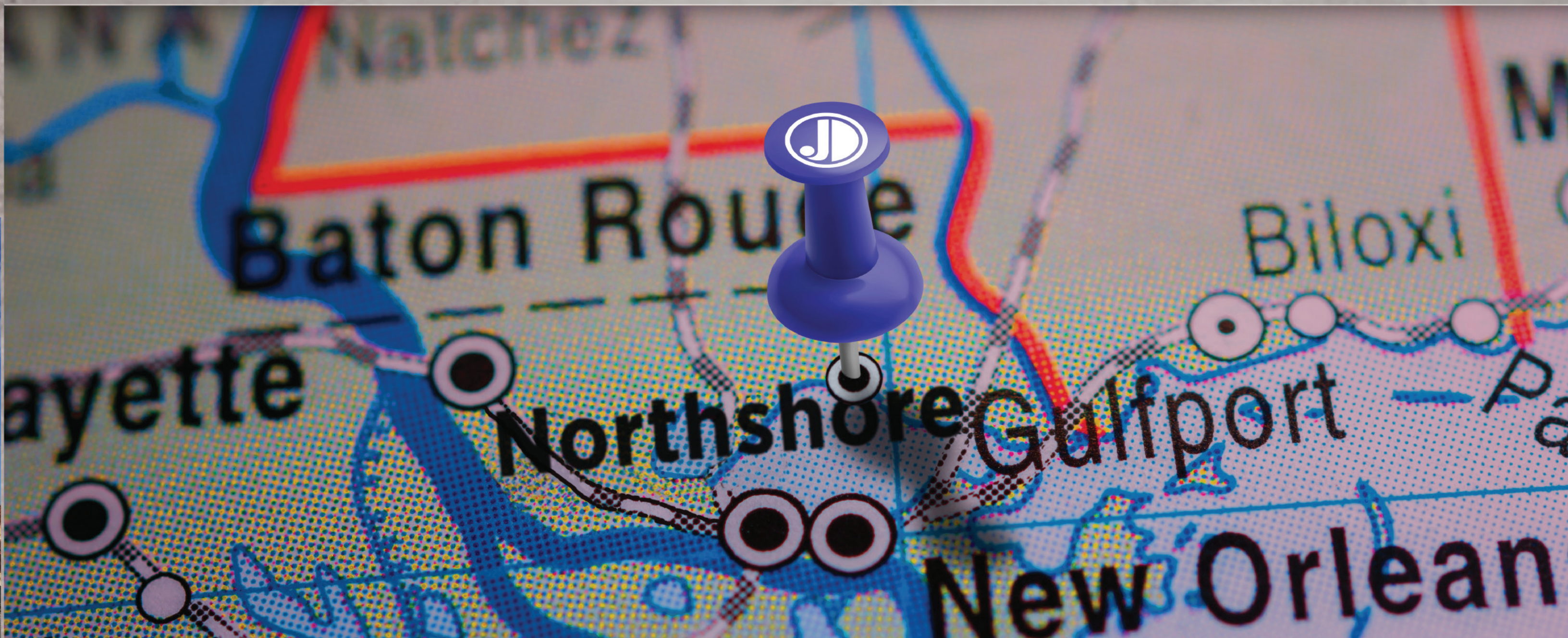
ANNUAL REPORT

2023

JD BANCSHARES INC



President's Message to Shareholders:

Despite the continuing challenges caused by the higher interest rate environment and inflation, JD Bancshares, Inc. enjoyed success in its core business results. After increasing short-term interest rates by 425 basis points in 2022, the Federal Reserve Open Market Committee increased those rates by another 100 basis points with increases of 25 basis points each in February, March, May and July of 2023. After reaching a high of 9.1% in June 2022, inflation moderated to 3.4% in December 2023. Although inflation, measured by the Consumer Price Index (CPI), saw significant improvement over the past twelve months, prices for core goods and services, such as food and gasoline, have remained high and impacted both commercial and retail customers in our markets.

Net income for the year ended December 31, 2023, is $6.6 million compared to $12.1 million for the prior twelve-month period ended December 31, 2022. The decline in net income in the current year was due to losses realized from the sale of securities available for sale. In 2023, the Company decided to reposition a portion of our securities portfolio and sell two groups of bonds to redeploy the proceeds into higher earning assets. The securities sales resulted in pre-tax losses of $7.8 million. After adjusting for the tax benefit, the net losses on the two transactions are $6.2 million. Adding back this non-recurring net loss associated with the securities sales results in net income from core business activities of $12.8 million. Return on Assets (ROA) and Return on Equity (ROE) for 2023 are 0.55% and 10.79% compared to 0.95% and 16.37%, respectively, for 2022. Adding back the net loss associated with the securities sales yields a 2023 ROA of 1.07% and an ROE of 19.01%.

Interest income from loans, investments and other earning assets for the year ended December 31, 2023, is $52.3 million, reflecting a $7.8 million increase over the $44.5 million reported for the prior year. Despite a $61.9 million decline in average earning assets outstanding for the year, the higher yield earned on those assets led to the 17.7% increase in total interest income. The average balance of loans held for investment for 2023 increased by $23.4 million but was more than offset by an $85.3 million decline in outstanding investment securities, interest-bearing deposits with banks and mortgage loans held for sale. However, the overall yield on average earning assets during the year increased 86 basis points from 3.68% to 4.54% leading to the $7.8 million increase in interest income.

Interest expense on deposits and borrowings for the twelve months ended December 31, 2023, is $8.2 million compared to $4.0 million for the prior year period resulting in an increase of $4.2 million. As was the case with earning assets, the interest rate environment had a much more pronounced impact than changes in the average volume of interest-bearing liabilities. The average volume of interest-bearing liabilities decreased by $54.0 million during 2023 compared to 2022. The potential savings in interest expenses were more than offset by a 52-basis point increase in the cost of interest-bearing liabilities from 0.44% to 0.96% resulting in an increase in total interest expenses of $4.2 million.

Net interest income increased by $3.6 million in 2023 to $44.1 million from $40.5 million in 2022. The substantial increase in interest income more than offset the increase in interest expense. The net interest margin for 2023 was 3.84% compared to 3.36% for 2022.

The aforementioned losses on sales of securities is presented in the Company's financial statements as a reduction to non-interest income. The pre-tax losses of $7.8 million account for much of the $8.2 million decrease in non-interest income from $11.7 million in 2022 to $3.5 million for 2023. Higher interest rates caused a challenging environment for mortgage loan originations resulting in a decline in gains on the sale of originated mortgages of $396,000. Service charges and other deposit related fees declined by $284,000 to $8.9 million from $9.2 million primarily due to lower levels of NSF fees. In response to a new regulatory interpretation regarding NSF items presented multiple times, the Company discontinued our properly disclosed practice of charging a fee for each representment.

Non-interest expense increased by $1.9 million from $37.0 million for 2022 to $38.9 million in 2023. The largest component of non-interest expense is salaries and employee benefits which increased by 7.1% from $18.9 million in 2022 to $20.3 million for 2023. Salaries and employee benefits expense is higher in the current year due the expansion of the Company's footprint into the Baton Rouge and Northshore markets, a full year of expense associated with the new W. Sale Road branch in Lake Charles, and higher overall salary expense due to inflationary conditions. Occupancy expenses have increased by $395,000 due to increased leasing and depreciation expenses associated with the expansions. Computer and processing expenses are up $665,000 or 14.6% to $5.2 million in 2023 from $4.5 million in 2022 due to normal contractual CPI increases as well as additional products and services such as enhanced fraud detection. Speaking of fraud detection, we experienced a nice decline in check, debit card and other fraud of $226,000 compared to 2022 fraud loss levels.

Total assets as of December 31, 2023 are $1.188 billion reflecting a $47.7 million net decrease from $1.236 billion as of December 31, 2022. The asset categories experiencing the largest declines include investment securities, other assets, and bank premises and equipment. Total investment securities decreased by $82.8 million which is comprised of principal paydowns and sales of $102.3 million less an improvement in the market value of available for sale securities of $19.5 million. Other assets declined by $3.6 million primarily due to decreases of $3.8 million in deferred tax assets, $1.0 million in bank premises and equipment as depreciation expense for the year exceeded newly acquired assets, and $0.6 million in mortgage loans held for sale. Asset categories experiencing increases include total cash of $26.2 million, net loans outstanding of $12.3 million, other stock investments of $0.8 million, other real estate owned of $0.7 million and cash value of bank owned life insurance of $0.4 million.

Total liabilities declined by $64.9 million between December 31, 2022 and December 31, 2023. The Company experienced an increase in total deposits from December 31, 2019 to December 31, 2021 of $429.3 million due to government sponsored stimulus for both small businesses and consumers. Over the past two years, some portion of that stimulus money has been spent. Total deposits declined by $57.5 million during 2022 and another $116.1 million in 2023. At year end, total deposits are $1.0 billion. Partially offsetting the decline in total deposits, other liabilities categories increased by $51.1 million with the most significant increase occurring in other borrowings. The Company borrowed $50.0 million in the Bank Term Funding Program that matures in January 2025.

Total stockholders' equity increased by $17.3 million over the course of 2023. The largest component of the increase was due to an improvement in the accumulated other comprehensive loss (AOCL). The AOCL represents the unrealized losses within the securities available for sale portfolio, net of any tax benefits. The AOCL improved by $15.4 million which is comprised of $9.2 million higher net market value of securities and $6.2 million of net losses from the sale of securities that were reclassified from unrealized to realized losses. The other significant components of the net increase in stockholders' equity are net income of $6.6 million less $3.7 million in dividends paid and a $1.2 million adjustment to implement the new Current Expected Credit Loss accounting model.

In 2023, the Company introduced a new corporate Vison Statement, revised our corporate Mission Statement and developed a set of Core Values that we will use as a lens to guide our actions so that we might achieve the mission and vision. The Company's Core Values are described through the acronym CARE which stands for Community, Accountability, Relationship and Experience. If all our teammates can incorporate the values outlined by CARE, we will be able to achieve our mission to "Create Value for Customers, Employees, Shareholders and Communities." And if we can successfully execute our mission, we can achieve and be perceived as "Being the Best Community Bank in Louisiana!"

As for corporate actions during 2023, the Company increased its quarterly dividend by $0.02 per share and paid out $1.08 for the year. The expansion of JD Bank's footprint into Baton Rouge and Mandeville, LA has been fully integrated and staffed and is contributing to the Company's success.

In closing, although net income was less than that of 2022 due to the economically prudent decision to restructure a portion of our investment portfolio, management and the Board of Directors remain focused on providing solid future financial performance. Thank you for your continued support of JD Bancshares, Inc. 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)

	2023	2022	Change
Deposits and Repurchase Agreements	$ 1,028,258	$ 1,144,315	-10.14%
Loans (Net)	675,710	663,975	1.77%
Net Income	6,581	12,096	-45.59%
Stockholder's Equity	74,359	57,096	30.24%
Dividends Declared	3,694	3,416	8.13%

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

	2023	2022	2021	2020	2019
Assets and Liabilities at Year End					
Total Assets	$ 1,188,470	$ 1,236,136	$ 1,356,576	$ 1,288,055	$ 885,049
Loans (Net)	675,710	663,975	615,081	622,535	615,166
Investments Available-for-Sale (AFS) (Fair Value)	360,387	441,605	471,851	325,220	151,777
Investments Held-to-Maturity (HTM) (at Amortized Cost)	9,474	11,069	13,531	15,263	18,154
Other Stocks, at Cost	3,232	2,416	7,503	7,603	9,661
Deposits and Repurchase Agreements	1,028,258	1,144,315	1,201,760	1,163,996	772,432
Stockholders' Equity					
Common Stock	$ 21,372	$ 21,379	$ 21,438	$ 9,742	$ 9,750
Additional paid-in-capital	9,996	9,874	10,549	3,790	3,850
Retained earnings	78,540	76,822	68,142	78,784	74,341
Accumulated Other Comprehensive Income (Loss)	(35,507)	(50,873)	1,271	6,606	1,270
Note Receivable for Common Stock	(42)	(106)	(171)	(202)	(349)
Total Stockholders' Equity	$ 74,359	$ 57,096	$ 101,229	$ 98,720	$ 88,862
Earnings for the Year					
Consolidated Net Income	$ 6,581	$ 12,096	$ 11,015	$ 7,204	$ 8,948
Net Interest Income	44,117	40,511	35,804	34,032	35,287
Non Interest Income	3,529	11,712	12,908	10,540	9,756
Non Interest Expense	38,951	37,016	35,236	33,471	33,681
Cash Dividends	3,694	3,416	3,172	2,761	3,680
Per Share Data					
Net Income	$ 1.92	$ 3.54	$ 3.21	$ 2.10	$ 2.61
Cash Dividends	1.08	1.00	0.92	0.81	1.07
Book Value at Year-end	21.75	16.69	29.51	28.79	25.89
Return on Average Assets	0.55 %	0.95 %	0.82 %	0.70 %	1.02 %
Return on Average Equity	10.79 %	16.37 %	11.24 %	7.65 %	10.85 %

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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 accompanying consolidated financial statements of JD Bancshares, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, 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 financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows 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, 2023, 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, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

Basis for Opinions

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 and Internal Control Over Financial Reporting section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements and an audit of internal controls over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness 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 financial statements and an audit of internal controls over financial reporting in accordance with GAAS, 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 financial statement 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 28, 2024

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

A S S E T S

	2023	2022
ASSETS		
Cash and due from banks	$ 29,553,368	$ 26,434,524
Interest bearing deposits in other banks	44,981,870	21,855,505
Cash and cash equivalents	74,535,238	48,290,029
Securities available-for-sale, at fair value	360,387,210	441,605,123
Securities held-to-maturity, at amortized cost	9,474,313	11,068,891
Other stocks	3,231,643	2,415,643
Loans held for sale	-	549,984
Loans held for investment, net allowances for credit losses of $9,907,722 and $9,208,070 at December 31, 2023 and 2022, respectively	675,710,294	663,424,870
Accrued interest receivable	4,908,323	4,985,487
Bank premises and equipment, net	21,668,586	22,692,381
Other real estate owned	1,513,964	863,101
Goodwill	4,179,545	4,179,545
Life insurance contracts	17,727,284	17,362,309
Other assets	15,133,494	18,698,694
Total Assets	$ 1,188,469,894	$ 1,236,136,057

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

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

LIABILITIES AND STOCKHOLDERS' EQUITY

	2023	2022
LIABILITIES		
Deposits		
Demand deposit accounts, non-interest bearing	$ 254,516,587	$ 272,045,198
Demand deposit accounts, interest bearing	311,708,545	393,662,454
Individual retirement accounts	11,339,406	13,717,625
Savings and money market accounts	317,061,235	376,093,273
Certificates of deposit - $250,000 and over	44,851,839	24,165,870
Other certificates of deposit	88,460,165	64,310,926
	1,027,937,777	1,143,995,346
Securities sold under repurchase agreements	320,094	319,802
Accrued interest payable	1,570,702	143,312
Other borrowings	50,000,000	-
Accrued expenses and other liabilities	4,695,845	5,137,140
Subordinated debentures	29,586,497	29,444,724
Total liabilities	1,114,110,915	1,179,040,324
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; 3,419,560 shares issued and outstanding at December 31, 2023 and 3,420,560 shares issued and outstanding at December 31, 2022	21,372,250	21,378,500
Additional paid-in-capital	9,995,508	9,874,341
Retained earnings	78,539,814	76,822,076
Notes receivable for common stock	(41,620)	(106,061)
Accumulated other comprehensive loss	(35,506,973)	(50,873,123)
Total stockholders' equity	74,358,979	57,095,733
Total Liabilities and Stockholders' Equity	$ 1,188,469,894	$ 1,236,136,057

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, 2023 AND 2022

	2023	2022
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 40,028,396	$ 34,237,758
Investment securities:		
Taxable	7,686,350	6,241,272
Non-taxable	3,143,562	3,219,465
Federal funds sold, dividends, and interest bearing deposits in other banks	1,483,390	773,626
Total interest and dividend income	52,341,698	44,472,121
INTEREST EXPENSE		
Interest on deposits	5,787,748	2,651,566
Interest on subordinated notes	1,266,772	1,309,531
Interest on federal funds purchased and securities sold under repurchase agreement	68,915	320
Interest on other borrowings	1,101,361	-
Total interest expense	8,224,796	3,961,417
NET INTEREST INCOME	44,116,902	40,510,704
Provision for credit losses	1,252,399	722,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	42,864,503	39,788,704
NONINTEREST INCOME		
Service charges and fees on deposit accounts	8,870,908	9,154,191
Trust department income	557,324	667,450
Fees and commissions from securities brokerage	444,253	337,257
Gain on sale of mortgage loans held for sale	443,682	839,341
Realized loss on sale of securities available-for-sale	(7,840,872)	-
Income from life insurance contracts	364,975	303,191
Other income	688,385	410,268
Total noninterest income	3,528,655	11,711,698

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, 2023 AND 2022

	2023	2022
NONINTEREST EXPENSES		
Salaries and employee benefits	$ 20,277,901	$ 18,935,649
Occupancy expenses	5,545,031	5,151,082
Computer and processing expenses	5,199,378	4,534,272
Business promotion and advertising expenses	991,352	1,024,741
Other operating expenses	6,936,995	7,370,460
Total noninterest expense	38,950,657	37,016,204
INCOME BEFORE INCOME TAX EXPENSE	7,442,501	14,484,198
Income tax expense	861,594	2,388,434
NET INCOME	$ 6,580,907	$ 12,095,764
Per common share data:		
Earnings	$ 1.92	$ 3.54
Weighted average number of shares outstanding	3,420,055	3,416,143

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, 2023 AND 2022

	2023	2022
NET INCOME	$ 6,580,907	$ 12,095,764
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized losses on securities:		
Unrealized holdings gains (losses) arising during the period	11,191,059	(66,006,009)
Less: Credit loss expense	418,892	-
Less: Reclassification adjustments for losses (gains) included in net income	7,840,872	-
Tax effect	(4,084,673)	13,861,245
Total other comprehensive income (loss)	15,366,150	(52,144,764)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 21,947,057	$ (40,049,000)

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, 2023 AND 2022

	Common Stock		
	Shares	Amount	Notes Receivable
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)
Net income	-	-	-
Restricted common stock forfeited	(1,000)	(6,250)	-
Stock-based compensation expense	-	-	-
Forgiveness of notes receivable	-	-	64,441
Cumulative effect of change in accounting principle	-	-	-
Other comprehensive income	-	-	-
Dividends on common stock, $1.08 per share	-	-	-
Balance at December 31, 2023	3,419,560	$ 21,372,250	$ (41,620)

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

Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
$ 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
-	6,580,907	-	6,580,907
6,250	-	-	-
114,917	-	-	114,917
-	-	-	64,441
-	(1,169,504)	-	(1,169,504)
-	-	15,366,150	15,366,150
-	(3,693,665)	-	(3,693,665)
$ 9,995,508	$ 78,539,814	$ (35,506,973)	$ 74,358,979

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,580,907	$ 12,095,764
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	179,358	79,316
Depreciation	2,216,680	2,080,664
Provision for credit losses	1,252,399	722,000
Change in cash surrender value of life insurance	(364,975)	(303,191)
Write-down of other real estate	27,000	48,056
Net amortization of securities available-for-sale	2,029,380	2,502,285
Net amortization of securities held-to-maturity	18,557	20,766
Amortization of debt issuance costs	141,773	135,408
Deferred income taxes	(347,623)	(136,085)
Loss on sales of other real estate and property	1,023	4,037
Loss on sales of premises and equipment	-	249,596
Loss on disposal of premises and equipment	14,255	-
Loss on the sale of available-for-sale securities	7,840,872	-
Loss on other stocks	-	285,604
Net change in operating assets and liabilities:		
Other operating assets and liabilities	(1,036,866)	(1,102,414)
Loans held for sale	549,984	155,966
Accrued interest receivable	77,164	(493,450)
Accrued interest payable	1,427,390	(566,381)
Net cash provided by operating activities	20,607,278	15,777,941
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from calls, paydowns, and maturities of available-for-sale securities	17,097,076	27,045,745
Proceeds from sales of available-for-sale securities	73,282,516	-
Proceeds from sales of other stock	-	4,816,538
Proceeds from maturities of held-to-maturity securities	1,576,021	2,441,035
Purchases of available-for-sale securities	-	(65,307,821)
Purchases of other stocks	(816,000)	(15,066)
Loan originations, net of principal repayment	(14,577,678)	(49,780,656)
Purchases of bank premises and equipment	(1,207,140)	(3,942,458)
Proceeds from sales of bank premises and equipment	-	2,080,801
Proceeds from sales of other real estate and property	34,078	147,567
Net cash provided by (used in) investing activities	75,388,873	(82,514,315)

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, 2023 AND 2022

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	$ (116,057,569)	$ (57,445,006)
Net increase in repurchase agreements	292	107
Proceeds from other borrowed funds	146,000,000	-
Repayment of other borrowed funds	(96,000,000)	-
Payment of dividends	(3,693,665)	(3,415,610)
Paydown of subordinated notes	-	(17,500,000)
Subordinated notes repurchase and issuance costs	-	(74,734)
Retirement of common stock	-	(748,432)
Net cash used in financing activities	(69,750,942)	(79,183,675)
Net increase (decrease) in cash and cash equivalents	26,245,209	(145,920,049)
Cash and cash equivalents - beginning of year	48,290,029	194,210,078
Cash and cash equivalents - end of year	$ 74,535,238	$ 48,290,029

Supplemental disclosures of cash flow information:

	2023	2022
Cash paid for interest	$ 6,797,406	$ 4,527,798
Cash paid for income taxes	$ 865,000	$ 2,268,602
Transfer of loans to other real estate	$ 712,964	$ 9,063
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ -	$ 192,669
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, 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 southern Louisiana. The Bank's primary deposit products are demand deposits, savings deposits, and certificates of deposits, and its primary lending products are commercial, 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 credit 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 credit 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 estimated credit 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 for credit losses. Such agencies may require the Bank to recognize additional losses

1. Summary of significant accounting policies (continued)

Use of estimates (continued)

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 credit 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, estimated credit losses for securities, and the fair value of financial instruments.

New accounting pronouncements adopted

The Company recently adopted the following Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB").

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard significantly changes how financial assets measured at amortized cost are presented. Such assets, which include most loans and held-to-maturity securities, are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. The standard also changes the accounting for credit losses related to securities available-for-sale. The Company adopted ASU No. 2016-13 on January 1, 2023, and recorded a cumulative effect adjustment of approximately $1,170,000 to retained earnings.

Results for the year ended December 31, 2023, are presented under Accounting Standards Codification (ASC) 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards generally accepted in the United States (US GAAP). See Investment Securities, Loans, and Allowance for Credit Losses on Loans and Unfunded Loan Commitments below for changes to accounting policies and see Notes 3 and 4 for additional disclosures related to this new accounting pronouncement.

ASU No. 2022-02, *Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses)* – This standard eliminates the recognition and measurement guidance for troubled debt restructurings by creditors under ASC Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, and, instead, requires the Company to evaluate (consistent with other loan modification accounting standards) whether a loan modification represents a new loan or a continuation of an existing loan. The amendments to the standard also enhance existing disclosure requirements, and introduce new requirements related to certain modifications of loans made to borrowers experiencing financial difficulty. The Company adopted ASU No. 2022-02 on January 1, 2023, on a prospective basis. See Note 4 for new disclosures related to the new accounting standard.

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.

1. Summary of significant accounting policies (continued)

Investment securities

Investment 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 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, 2023 and 2022. Held-to-maturity securities are stated at amortized cost less any estimated credit losses. 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 amortized cost of debt securities classified as held-to-maturity or available-for-sale, less any estimated credit losses, 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 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.

For reporting periods beginning on and after January 1, 2023

Effective January 1, 2023, the Company evaluates individual securities available-for-sale in an unrealized loss position by first determining whether the decline in fair value below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. In determining whether a credit loss exists, the Company considers the extent to which the fair value is less than the amortized cost basis, adverse conditions related to the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that fair value is less than the amortized cost basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Impairment related to other factors is recognized in other comprehensive income (loss). Management has elected to exclude accrued interest receivable on available-for-sale debt securities, which totaled approximately $2,326,000 at December 31, 2023, from estimates of credit losses.

During the year ended December 31, 2023, the Bank recorded provision for credit losses related to the available-for-sale portfolio of approximately $419,000. The Bank held subordinated debt issued by Signature Bank and recorded an allowance equal to 100% of the book value of the bond after Signature Bank's failure. The bond was subsequently sold and the allowance was removed.

ASC 326 requires management to measure the expected credit losses on the Bank's held-to-maturity securities on a collective basis or by major security type. As of December 31, 2023, the Bank deemed the cumulative expected credit loss of all held-to-maturity securities immaterial and did not record an

1. Summary of significant accounting policies (continued)

Investment securities (continued)

allowance for credit losses.

For reporting periods prior to January 1, 2023

Prior to January 1, 2023, declines in fair value of debt securities that were deemed to be other than temporary, if applicable, were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considered the length of time and the extent to which fair value had been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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.

Loans

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 credit 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 credit losses on loans and unfunded loan commitments

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. Refer to the New Accounting Pronouncements section of this note for more information on the impact to the consolidated financial statements.

The allowance for credit losses on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Company's loan portfolio. The allowance for credit losses on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for credit losses on loans, and subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

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.

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.

1. Summary of significant accounting policies (continued)

Allowance for credit losses on loans and unfunded loan commitments (continued)

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.

For reporting periods beginning on and after January 1, 2023

Effective January 1, 2023, the Company uses a current expected credit loss ("CECL") model to estimate the allowance for credit losses on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan. The Company segments the loan portfolio into loan pools based on loan type and similar credit risk. Management evaluates all collectively evaluated loans using the discounted cash flow methodology. The discounted cash flow methodology uses loan level attributes (such as interest rates and maturity dates), as well as pool level inputs (such as prepayment rates and probability of default and loss given default rates), to estimate credit losses over the contractual term of each collectively evaluated loan. Expected credit losses are determined by comparing the loan's amortized cost with the expected future principal and interest cash flows. Individual loan level results are aggregated for collectively evaluated loans and are then adjusted for qualitative factors deemed appropriate by management.

The quantitative discounted cash flow analysis described above is supplemented with other qualitative factors based on the risks present for each collectively evaluated loan pool, including, but not limited to, the institution's lending policies and procedures, the experience, ability, and depth of the institution's staff, the volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified assets, the quality of the institution's credit review function, and the existence, growth, and effect of any concentrations of credit.

Under the CECL model, loans that do not share similar risk characteristics are individually evaluated and are excluded from the pooled loan analysis. Loans with a risk rating of substandard or worse with a total exposure over $100,000 are individually evaluated. The ACL for loans that are individually evaluated is based on a comparison of the recorded investment in the loan and the fair value of the loan’s collateral.

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the fair value of the collateral as of the date of the consolidated balance sheet, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

1. Summary of significant accounting policies (continued)

Allowance for credit losses on loans and unfunded loan commitments (continued)

For reporting periods beginning on or after January 1, 2023 (continued)

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest. Accrued interest receivable on loans totaled approximately $2,483,000 at December 31, 2023.

In addition to the allowance for credit losses on loans, the Company maintains a separate reserve for unfunded loan commitments, which is included in accrued expenses and other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit losses in the consolidated statements of operations. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics with the respective loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

For reporting periods prior to January 1, 2023

Prior to January 1, 2023, the allowance for loan losses was a valuation allowance available for losses incurred on loans. All losses were charged to the allowance for loan losses when the loss actually occurred or when a determination was made that a loss is likely to occur. Recoveries were credited to the allowance at the time of recovery. Periodically, during the year, management estimated the likely level of existing losses to determine whether the allowance for loan losses was adequate to absorb reasonably anticipated losses in the existing portfolio. Management also evaluated 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.

The allowance for loan losses consisted of allocated and general components. The allocated component related to loans that were classified as impaired. For these loans that were impaired, an allowance was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan. The general component covered non-impaired loans and was based on historical loss experience adjusted for qualitative factors. The Bank estimated loan losses using a five-year weighted average historical loss percentage for all loans, which was based on historical loss percentage and estimated losses on individually evaluated impaired loans. Management then applied 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 those portfolios as of the reporting date.

1. Summary of significant accounting policies (continued)

Allowance for credit losses on loans and unfunded loan commitments (continued)

For reporting periods prior to January 1, 2023 (continued)

Prior to the adoption of ASU No. 2022-02, TDRs were individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs were measured at the present value of estimated future cash flows using the loan's original effective rate. If a TDR was considered to be a collateral dependent loan, the loan was measured at the fair value of the collateral less applicable estimated selling costs. For TDRs that subsequently defaulted, the Company determined the amount of the allowance on that loan in accordance with the accounting policy for the allowance for credit losses on loans individually identified as impaired under the incurred loss impairment model. Subsequent to adoption of ASU No. 2022-02, TDRs are no longer required to be individually evaluated for credit losses.

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 credit 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 noninterest income in the consolidated statements of operations.

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, 2023 or 2022.

Leases

The Company applies ASC 842 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.

1. Summary of significant accounting policies (continued)

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.

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.

1. Summary of significant accounting policies (continued)

Stockholders' 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. No shares were repurchased by the Company during the year ended December 31, 2023.

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 resulting weighted-average number of common shares outstanding are 3,420,055 and 3,416,143 for 2023 and 2022, respectively.

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.

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 Company 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 the purchases and sales of investment products. 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.

1. Summary of significant accounting policies (continued)

Revenue recognition (continued)

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.

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, 2023, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Treasury securities	$ 19,757,377	$ -	$ (1,982,963)	$ 17,774,414
US Govt. agency securities	17,061,238	-	(2,858,572)	14,202,666
Mortgage-backed securities	220,078,463	137,918	(26,654,467)	193,561,914
States and political subdivisions	136,442,045	40,460	(12,714,315)	123,768,190
Corporate bonds	11,993,623	-	(913,597)	11,080,026
Totals	$ 405,332,746	$ 178,378	$ (45,123,914)	$ 360,387,210

At December 31, 2023 and 2022, 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, 2023, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
States and political subdivisions	$ 9,474,313	$ -	$ (132,930)	$ 9,341,383

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

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

The following is a summary of amortized cost and estimated market value of debt securities by contractual maturity as of December 31, 2023. Contractual maturities will differ from expected maturities for mortgage-backed securities because borrowers may have the right to call or prepay obligations without penalties.

Available-for-Sale:	Amortized Cost	Fair Value
Within one year	$ 353,217	$ 349,672
Greater than one but within five years	31,432,555	28,528,408
Greater than five but within ten years	26,242,103	23,173,598
Greater than ten years	127,226,408	114,773,618
Subtotal	185,254,283	166,825,296
Mortgage-backed securities	220,078,463	193,561,914
Total	$ 405,332,746	$ 360,387,210

3. Investment securities (continued)

Held-to-Maturity:

	Amortized Cost	Fair Value
Within one year	$ 2,235,442	$ 2,217,800
Greater than one but within five years	3,860,871	3,745,583
Greater than five but within ten years	3,098,000	3,098,000
Greater than ten years	280,000	280,000
Total	$ 9,474,313	$ 9,341,383

Investment securities with carrying values of approximately $88,811,000 and $92,494,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits and securities sold under repurchase agreements. Additionally, investment securities with carrying values of approximately $84,269,000 at December 31, 2023 were pledged to the Bank Term Funding Program ("BTFP"). Lastly, at December 31, 2022, the Company had 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. There were no outstanding Federal Home Loan Bank letters of credit as of December 31, 2023.

Information pertaining to securities with gross unrealized losses at December 31, 2023, 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	-	$ -	$ -	3	$ (1,982,963)	$ 17,774,414
US Govt. Agency Securities	-	-	-	7	(2,858,572)	14,202,666
State and political Subdivisions	2	(5,758)	933,527	164	(12,708,557)	117,831,733
Corporate bonds	1	(34,981)	765,019	11	(878,616)	8,565,007
Mortgage-backed Securities	2	(14,852)	1,585,199	116	(26,639,615)	174,154,235
Totals	5	$ (55,591)	$ 3,283,745	301	$ (45,068,323)	$332,528,055

3. Investment securities (continued)

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

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, 2023 and 2022.

Available-for-Sale:

	2023	2022
Proceeds from sales of securities	$ 73,282,516	$ -
Gross gains on sales of securities	9,805	-
Gross losses on sales of securities	7,850,677	-

4. Loans and allowance for credit losses

The components of loans in the consolidated balance sheets at December 31, 2023 and 2022 were as follows:

(dollars in thousands)	December 31, 2023	December 31, 2022
Commercial	$ 90,504	$ 96,216
Commercial real estate	349,105	333,125
Consumer	34,069	29,919
Residential	211,276	212,126
PPP, net of deferred fees	664	1,247
Total loans	685,618	672,633
Less allowance for credit losses	(9,908)	(9,208)
Total loans, net	$ 675,710	$ 663,425

Deposit accounts in an overdraft position and reclassified as loans totaled approximately $662,000 at December 31, 2023 and $241,000 at December 31, 2022.

The Company's allowance for credit losses on loans information for the year ended December 31, 2023, is presented under ASC 326. The Company's allowance for credit losses on loans information for the year ended December 31, 2022, is presented under the incurred loss impairment model. Refer to the New Accounting Pronouncements Adopted section of Note 1 for more information.

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	PPP, net of deferred fees	Total
Allowance for credit losses:						
Balance, December 31, 2022	$ 1,503	$ 4,132	$ 619	$ 2,954	$ -	$ 9,208
Adoption of ASC 326	(303)	865	(93)	104	-	573
Charge-offs	(269)	(408)	(169)	(146)	-	(992)
Recoveries	22	48	29	14	-	113
Provision for credit losses	183	778	102	(57)	-	1,006
Ending balance - allowance for credit losses	$ 1,136	$ 5,415	$ 488	$ 2,869	$ -	$ 9,908
Ending allowance balance, individually assessed	$ 67	$ 356	$ -	$ 267	$ -	$ 690
Ending allowance balance, collectively assessed	$ 1,069	$ 5,059	$ 488	$ 2,602	$ -	$ 9,218
Loans:						
Ending loan balance, individually assessed	$ 301	$ 15,083	$ 20	$ 8,987	$ -	$ 24,391
Ending loan balance, collectively assessed	$ 90,203	$ 334,022	$ 34,049	$ 202,289	$ 664	$ 661,227
Ending total loan balance	$ 90,504	$ 349,105	$ 34,069	$ 211,276	$ 664	$ 685,618

At December 31, 2023, the reserve for unfunded loan commitments was approximately $424,000. As a part of the adoption of ASU No. 2016-13, the Company recorded an initial adjustment to the reserve for unfunded loan commitments of approximately $597,000. For the year ended December 31, 2023, the Company recorded a reversal of provision for credit losses on unfunded loan commitments of approximately $173,000.

4. Loans and allowance for credit losses (continued)

The following table summarizes the activity related to the allowance for loan losses 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

Credit Quality Information

All 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. Risk ratings are assigned based on the definitions below and correlate to a risk rating grouping as shown in the table below.

4. Loans and allowance for credit losses (continued)

Credit quality information (continued)

Risk Rating Grouping	Definition
Pass	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).
	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.
	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.
Watch	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 Company'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 Company's position.
Special Mention	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	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 Company 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.

4. Loans and allowance for credit losses (continued)

Credit quality information (continued)

The following table presents the Company's loan portfolio by credit quality indicators by year of origination as of December 31, 2023:

	Term Loans by Year of Origination					
(dollars in thousands)	2023	2022	2021	Prior	Revolving	Total
Commercial						
Pass	$ 13,589	$ 15,413	$ 5,624	$ 9,870	$ 13,557	$ 58,053
Special Mention	-	-	-	159	4,384	4,543
Substandard	14	101	67	321	168	671
Watch	3,972	3,276	345	767	18,877	27,237
Total Commercial	$ 17,575	$ 18,790	$ 6,036	$ 11,117	$ 36,986	$ 90,504
Current period gross write-offs	$ -	$ 3	$ 157	$ 59	$ 50	$ 269
Commercial Real Estate						
Pass	$ 48,271	$ 46,194	$ 47,658	$ 87,503	$ 2,730	$ 232,356
Special Mention	-	-	3,438	3,098	-	6,536
Substandard	396	3,309	2,912	8,623	50	15,290
Watch	5,553	35,822	24,064	29,091	393	94,923
Total Commercial Real Estate	$ 54,220	$ 85,325	$ 78,072	$ 128,315	$ 3,173	$ 349,105
Current period gross write-offs	$ 90	$ 24	$ -	$ 294	$ -	$ 408
Residential						
Pass	$ 35,444	$ 27,810	$ 18,664	$ 79,146	$ 28,083	$ 189,147
Special Mention	351	-	6	117	-	474
Substandard	966	837	1,370	8,500	452	12,125
Watch	3,005	2,788	798	2,054	885	9,530
Total Residential	$ 39,766	$ 31,435	$ 20,838	$ 89,817	$ 29,420	$ 211,276
Current period gross write-offs	$ 3	$ -	$ 119	$ 24	$ -	$ 146
Consumer						
Pass	15,178	6,830	5,263	5,542	607	33,420
Special Mention	-	-	-	-	-	-
Substandard	1	141	52	455	-	649
Watch	-	-	-	-	-	-
Total Consumer	$ 15,179	$ 6,971	$ 5,315	$ 5,997	$ 607	$ 34,069
Current period gross write-offs	$ 16	$ 42	$ 40	$ 53	$ 18	$ 169
PPP, net of deferred fees						
Pass	$ -	$ -	$ -	$ 664	$ -	$ 664
Total PPP	$ -	$ -	$ -	$ 664	$ -	$ 664
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
Total Loans	$ 126,740	$ 142,521	$ 110,261	$ 235,910	$ 70,186	$ 685,618

4. Loans and allowance for credit losses (continued)

Credit quality information (continued)

The following table presents the Company's loan portfolio by credit quality indicators as of December 31, 2022:

	Commercial	Commercial Real Estate	Residential	Consumer	PPP, net of deferred fees	Total
Pass	70,550	248,649	196,586	29,426	1,247	546,458
Special Mention	11	1,220	7	-	-	1,238
Substandard	4,681	22,911	10,260	488	-	38,340
Watch	20,974	60,345	5,273	5	-	86,597
Total	96,216	333,125	212,126	29,919	1,247	672,633

Modifications Made to Borrowers Experiencing Financial Difficulty

In some cases, the Company will modify a certain loan by providing concessions. Concessions can come in the form of term extensions, principal forgiveness, rate concessions and/or change of repayment terms. The following table shows the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modification made:

Class of Loans	Number of Contracts	Amortized Basis	Financial Effect
Residential	2	2,405	Provided extension of time, where interest only payments are required for borrowers to sell or refinance loans.
Commercial real estate	2	779	Provided extension of time, where interest only payments are required for borrowers to sell or refinance loans.
Commercial	1	21	Provided extension oto give borrower additioanl time to generate business revenue to make timely loan payments.
Total	5	3,205	

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

4. Loans and allowance for credit losses (continued)

Age analysis of past due loans by class

The following table presents an analysis of past due loans as of December 31, 2023:

(dollars in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 Days or More Past Due	Current Loans	Total Loans
Commercial	$ 279	$ 85	$ 255	$ 89,885	$ 90,504
Commercial Real Estate	1,432	401	5,433	341,839	349,105
Consumer	257	21	185	33,606	34,069
Residential	2,342	466	2,547	205,921	211,276
PPP, net of deferred fees	-	-	-	664	664
Total Loans	$ 4,310	$ 973	$ 8,420	$ 671,915	$ 685,618

The following table presents an analysis of past due loans as of December 31, 2022:

	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

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.

4. Loans and allowance for credit losses (continued)

Nonaccrual loans (continued)

The following table is a summary of the Bank's nonaccrual loans by major categories as of December 31, 2023:

(dollars in thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Commercial	$ 208	$ 212	$ 420
Commercial Real Estate	5,945	268	6,213
Consumer	29	258	287
Residential	2,174	1,526	3,700
Total Loans	$ 8,356	$ 2,264	$ 10,620

The Company recognized no interest income on nonaccrual loans during the year ended December 31, 2023.

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2023:

(dollars in thousands)	For the Year Ended December 31, 2023
Commercial	$ 12
Commercial Real Estate	92
Consumer	16
Residential	55
Total Loans	$ 175

Collateral dependent loans

The following table presents collateral dependent loans by loan segment and the related ACL as of December 31, 2023:

(dollars in thousands)	Loans	ACL
Commercial	$ 301	$ 67
Commercial Real Estate	15,083	356
Consumer	20	-
Residential	8,987	267
Total Loans	$ 24,391	$ 690

4. Loans and allowance for credit losses (continued)

Impaired loans

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, 2023
(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

5. Bank premises and equipment

Components of Bank premises and equipment included in the consolidated balance sheets at December 31, 2023 and 2022, were as follows:

	2023	2022
Buildings and leasehold improvements	$ 26,690,366	$ 26,600,313
Equipment	19,057,189	18,819,616
Land	4,979,357	4,979,357
	50,726,912	50,399,286
Less: accumulated depreciation and amortization	(29,058,326)	(27,706,905)
	$ 21,668,586	$ 22,692,381

Depreciation expense amounted to approximately $2,217,000 and $2,081,000 during the years ended December 31, 2023 and 2022, respectively.

6. Time deposits

At December 31, 2023, the scheduled maturities of all outstanding certificates of deposit and IRA's were as follows:

Year ending December 31st	Amount
2024	$ 125,930,755
2025	13,355,635
2026	3,025,658
2027	2,339,362
	$ 144,651,410

Included in deposits are approximately $45,242,000 and $27,749,000 of certificates of deposit and IRA accounts greater than or equal to $250,000 at December 31, 2023 and 2022, respectively.

7. Other operating expenses

Other operating expenses for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Reserve for ad valorem taxes	$ 1,041,615	$ 1,060,381
Telephone, stationary, and supplies	754,956	764,661
Professional fees and expenses	823,223	766,628
Regulatory assessments	735,569	574,113
Debit card and other losses	326,241	552,695
Director fees	461,464	451,455
Uncollected overdrafts	165,410	286,663
Other real estate expenses, net	177,595	101,956
Other	2,450,922	2,811,908
	$ 6,936,995	$ 7,370,460

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, 2023 and 2022, are as follows:

	2023		2022	
	Amount	Percent	Amount	Percent
Income before income taxes	$ 7,442,501	100.0%	$ 14,484,197	100.0%
U.S. Federal income tax expense	$ 1,562,925	21.0%	$ 3,041,681	21.0%
Tax free municipal income	(525,936)	(7.1)	(626,667)	(4.3)
Other	(175,395)	(2.3)	(26,580)	(0.2)
Income tax expense	$ 861,594	11.6%	$ 2,388,434	16.5%

The components of income tax expense during the years ended December 31, 2023 and 2022, were as follows:

	2023	2022
Current tax expense	$ 1,209,217	$ 2,524,519
Deferred tax (benefit)	(347,623)	(136,085)
	$ 861,594	$ 2,388,434

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:

	2023	2022
Depreciation and amortization	$ (568,440)	$ (710,766)
Goodwill amortization	(356,169)	(356,169)
Purchase accounting-securities	-	(6)
Other items	(160,191)	(93,037)
Gross deferred tax liability	$ (1,084,800)	$ (1,159,978)
Allowance for credit losses	$ 2,080,621	$ 1,933,695
Unrealized losses on available-for-sale securities	9,438,563	13,523,235
Deferred compensation	209,022	196,283
Other	121,907	9,127
Gross deferred tax asset	11,850,114	15,662,340
Net deferred tax asset	$ 10,765,313	$ 14,502,362

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 approximately $486,000 and $471,200 to the Plan in 2023 and 2022, respectively. At December 31, 2023 and 2022, the Plan held 74,852 and 76,972 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, 2023 and 2022, there were 154,000 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, 2023 and 2022, the Company recognized approximately $115,000 and $15,000 in compensation cost related to restricted stock awards, respectively, which is included in other operating expenses in the accompanying consolidated statements of operations. At December 31, 2023 and 2022, there was approximately $322,000 and $461,000, respectively, of unrecognized compensation cost related to restricted stock awards.

Number of restricted shares outstanding as of December 31, 2022	Shares granted in 2023	Shares vested in 2023	Shares forfeited in 2023	Number of restricted shares outstanding as of December 31, 2023
17,000	-	-	1,000	16,000

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 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, 2023 and 2022, of the various financial instruments entered into by the Bank:

	2023	2022
Commitments to extend credit	$ 166,003,787	$ 159,371,226
Standby letters of credit	1,329,599	1,468,505

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Minimum regulatory capital requirements (continued)

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, 2023, that the Bank meets all applicable capital adequacy requirements.

As of December 31, 2023, 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 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, 2023 and 2022, 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, 2023:						
Total Regulatory Capital to risk weighted assets	$141,312,000	16.96%	$66,650,000	≥8.0%	$83,312,000	≥10.0%
Tier I Capital to risk weighted assets	130,981,000	15.72%	49,987,000	≥6.0%	66,650,000	≥8.0%
Tier I Leverage Capital	130,981,000	10.67%	49,111,000	≥4.0%	61,388,000	≥5.0%
Common Equity Tier 1 capital (to risk weighted assets):	130,981,000	15.72%	37,490,000	≥4.5%	54,153,000	≥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, 2022:						
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%

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.

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.

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

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.

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

	Level 1	Level 2	Level 3
December 31, 2023			
Treasuries	$ 17,774,414	$ -	$ -
US govt. securities	-	14,202,666	-
Mortgage-backed securities	-	193,561,914	-
State & political subdivisions	-	123,768,190	-
Corporate bonds	-	11,080,026	-
Securities available-for-sale	$ 17,774,414	$ 342,612,796	$ -
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	$ -

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, 2023 or 2022.

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

Assets and liabilities measured at fair value on a non-recurring basis (continued)

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:

Individually evaluated loans

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.

Other real estate owned

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:		
(dollars in thousands)	Fair Value	Level 1	Level 2	Level 3
December 31, 2023				
Assets				
Individually evaluated loans				
Commercial	$ -	-	-	$ -
Commercial real estate	68	-	-	68
Consumer	-	-	-	-
Residential	299	-	-	299
Other real estate owned	1,514	-	-	1,514
Total	$ 1,881	-	-	$ 1,881

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

Other real estate owned (continued)

(dollars in thousands)	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Level 1	Level 2	Level 3
December 31, 2022				
Assets:				
Impaired Loans				
Commercial	$ 22	$ -	$ -	$ 22
Commercial Real Estate	1,022	-	-	1,022
Consumer	35	-	-	35
Residential	369	-	-	369
Other real estate owned	863	-	-	863
Total	$ 2,311	$ -	$ -	$ 2,311

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2023 and 2022, the Company utilized the following valuation techniques and significant unobservable inputs.

Individually evaluated loans

For individually evaluated 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 a discount range of 5% to 30%.

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

Financial instruments

The carrying amounts and estimated fair values of financial instruments at December 31, 2023 are as follows (in thousands):

		Fair Value Measurements at December 31, 2023 Using:			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and due from banks and Interest bearing deposits in other banks	$ 74,535	$ 74,535	$ -	$ -	$ 74,535
Securities available-for-sale	360,387	17,774	342,613	-	360,387
Securities held-to-maturity	9,474	-	9,341	-	9,341
Loans held for sale	-	-	-	-	-
Loans, net of allowance	675,710	-	-	670,998	670,998
Other stocks	3,232	-	3,232	-	3,232
Life insurance contracts	17,727	17,727	-	-	17,727
Accrued interest receivable	4,908	-	2,483	2,425	4,908
Financial Liabilities:					
Noninterest bearing deposits	$ 254,517	$ -	$ 254,517	$ -	$ 254,517
Interest bearing deposits	773,421	-	639,985	-	639,985
Securities sold under repurchase agreements	320	-	320	-	320
Accrued interest payable	1,571	-	1,571	-	1,571
Other borrowings	50,000	-	50,092	-	50,092
Subordinated debentures	29,586	-	24,306	-	24,306

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, 2022, were as follows (in thousands):

	Carrying Amount	Fair Value Measurements at December 31, 2022 Using: 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	$ 272,045	$ -	$ 272,045	$ -	$ 272,045
Interest bearing deposits	871,950	-	871,950	-	871,950
Securities sold under repurchase agreements	320	-	320	-	320
Accrued interest payable	143	-	143	-	143
Subordinated debentures	29,445	-	26,502	-	26,502

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.

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.

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

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, 2023 and 2022. 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, 2023 or 2022.

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, 2023 and 2022. No amounts were drawn under this agreement at December 31, 2023 or 2022.

The Bank has established a line-of-credit with Federal Home Loan Bank of Dallas (FHLB) and can borrow up to

15. Other borrowed funds and lines of credit (continued)

approximately $256,635,000 and $230,564,000 as of December 31, 2023 and 2022, respectively. The Bank made blanket pledges consisting of qualifying mortgage assets totaling $637,047,000 and $627,888,000 as of December 31, 2023 and 2022, respectively, and FHLB stock totaling $1,446,300 and $630,300 as of December 31, 2023 and 2022, respectively, as collateral to secure the FHLB line-of-credit. Under this FHLB agreement, the Bank has Letters of Credit totaling $0 and $19,330,000 as of December 31, 2023 and 2022, respectively.

The Bank participated in the Federal Reserve's Bank Term Funding Program ("BTFP"). The program commenced on March 12, 2023, and offered loans in terms of up to one year. The loans are secured by pledging the Bank's eligible investment securities. As of December 31, 2023, the Bank had approximately $98,600,000 in bonds pledged (at par value) and outstanding borrowings totaling $50,000,000 at a rate of 4.81% under the BTFP, which all becomes due in 2025.

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 was approximately $1,267,000 and $1,391,000 at December 31, 2023 and 2022, respectively, and the principal balance owed was $30,000,000. Debt issuance costs amounting to $413,503 and $555,276 remained as of December 31, 2023 and 2022 are being amortized over the life of the debt. Amortization expense during the years ended December 31, 2023 and 2022 was approximately $142,000 and $135,000, 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 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.

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 2023 and 2022 with respect to loans to officers and directors of the Bank is as follows:

	2023	2022
Balance – beginning of year	$ 928,597	$ 1,606,706
Change in related parties	9,283,077	-
New loans	1,781,529	1,576,980
Payments	(1,796,157)	(2,255,089)
Balance - end of year	$ 10,197,046	$ 928,597

Included in deposits are deposits from directors, officers, their immediate families, and related companies. These accounts totaled approximately $24,105,000 and $15,566,000 at December 31, 2023 and 2022, 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 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, 2023 or 2022.

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 3.28% and the weighted average remaining term of all leases is 3.27 years.

The Company had a right-of-use asset totaling approximately $684,000 and $960,000, and a lease liability totaling approximately $684,000 and $963,000 for the years ended December 31, 2023 and 2022, respectively. The Company recognized lease expense of approximately $323,000 and $236,000 during the years ended December 31, 2023 and 2022, respectively.

19. Leases (continued)

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

Year ending December 31st	Amount
2024	$ 293,176
2025	248,164
2026	207,364
2027	153,243
Total lease payments	721,947
Less: Interest	(37,586)
Present value of lease liabilities	$ 684,361

20. Subsequent events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, March 28, 2024, 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, 2023 AND 2022

ASSETS

	2023	2022
Cash and due from banks	$ 29,553,368	$ 26,434,524
Interest bearing deposits in other banks	40,634,372	17,733,570
Cash and cash equivalents	70,187,740	44,168,094
Securities available-for-sale, at fair value	360,387,210	441,605,123
Securities held-to-maturity, at amortized cost	9,474,313	11,068,891
Other stocks	3,231,643	2,415,643
Loans held for sale	-	549,984
Loans held for investment, less allowances for credit losses of $9,907,722 and $9,208,070 at December 31, 2023 and 2022, respectively	675,710,294	663,424,870
Accrued interest receivable	4,908,323	4,985,487
Bank premises and equipment, net	21,668,586	22,692,381
Other real estate owned	1,513,964	863,101
Goodwill and other intangibles	4,179,545	4,179,545
Life insurance contracts	17,727,284	17,362,309
Other assets	14,850,445	18,394,579
Total assets	$ 1,183,839,347	$ 1,231,710,007

21. Bank Only Financials Statements (continued)

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities:	2023	2022
Deposits		
Demand deposit accounts, non-interest bearing	$ 254,579,229	$ 272,146,071
Demand deposit accounts, interest bearing	311,708,545	393,662,454
Individual retirement accounts	11,339,406	13,717,625
Savings and money market accounts	317,061,235	376,093,273
Certificates of deposit - $250,000 and over	44,851,839	24,165,870
Other certificates of deposit	88,460,165	64,310,926
	1,028,000,419	1,144,096,219
Securities sold under repurchase agreements	320,094	319,802
Accrued interest payable	1,570,702	143,312
Other borrowings	50,000,000	-
Accrued expenses and other liabilities	4,657,396	5,099,595
Total liabilities	1,084,548,612	1,149,658,928
Stockholder's equity:		
Common stock; $12.50 par value; 1,536,000 shares authorized; 768,000 shares issued and outstanding at December 31, 2023 and 2022	9,600,000	9,600,000
Additional paid-in-capital	47,400,000	47,400,000
Retained earnings	77,797,708	75,924,202
Accumulated other comprehensive loss	(35,506,973)	(50,873,123)
Total stockholder's equity	99,290,735	82,051,079
Total liabilities and stockholder's equity	$ 1,183,839,347	$ 1,231,710,007

21. Bank Only Financial Statements (continued)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 40,028,396	$ 34,237,758
Investment securities:		
Taxable	7,686,350	6,241,272
Non-taxable	3,143,562	3,219,465
Federal funds sold and interest bearing deposits in other banks	1,262,566	689,534
Total interest income	52,120,874	44,388,029
INTEREST EXPENSE		
Interest on deposits	5,787,748	2,651,567
Interest on securities sold under repurchase agreements and other borrowing	68,915	320
Interest on other borrowings	1,101,361	-
Total interest expense	6,958,024	2,651,887
NET INTEREST INCOME	45,162,850	41,736,142
Provision for credit losses	1,252,399	722,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	43,910,451	41,014,142
NONINTEREST INCOME		
Service charges and fees on deposit accounts	8,870,553	9,154,191
Trust department income	557,324	667,450
Fees and commissions from securities brokerage	444,253	337,257
Gain on sale of mortgage loans held for sale	443,682	839,341
Realized losses on sale of investments	(7,840,872)	-
Other income	951,038	615,419
	3,425,978	11,613,658

21. Bank Only Financial Statements (continued)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
NONINTEREST EXPENSES		
Salaries and employee benefits	$ 20,277,901	$ 18,935,649
Occupancy expenses	5,545,031	5,151,082
Computer and processing expenses	5,199,378	4,534,272
Business promotion and advertising expenses	991,352	1,024,741
Other operating expenses	6,642,839	7,136,480
	38,656,501	36,782,224
INCOME BEFORE INCOME TAX EXPENSE	8,679,928	15,845,576
Income tax expense	1,123,055	2,667,622
NET INCOME	7,556,873	13,177,954
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains/losses on securities:		
Unrealized holding gains/losses arising during the period net of taxes of $2,438,090 and ($13,861,245)	11,191,059	(52,144,764)
Less: reclassification adjustments for gains included in net income, net of taxes of $1,646,583 and $0	7,840,872	-
Other comprehensive income (loss)	19,031,931	(52,144,764)
COMPREHENSIVE INCOME (LOSS)	$ 26,588,805	$ (38,966,811)

22. Parent Only Financial Statements

BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

ASSETS

	2023	2022
Cash in subsidiary bank	$ 13,492	$ 10,171
Cash in Texas Capital	4,347,498	4,121,935
Cash and cash equivalents	4,360,990	4,132,106
Investment in subsidiary bank	99,290,735	82,051,079
Investment in JD Bank Insurance, LLC	27,788	71,999
Other assets and income taxes receivable	282,936	302,246
Total assets	$ 103,962,449	$ 86,557,430

LIABILITIES AND STOCKHOLDERS' EQUITY

	2023	2022
Subordinated debentures	$ 29,586,497	$ 29,444,724
Accrued interest - subordinated debentures	-	-
Other liabilities	16,973	16,973
Total liabilities	29,603,470	29,461,697
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; 3,419,560 shares issued and outstanding at December 31, 2023 and 3,420,560 shares issued and outstanding at December 31, 2022	21,372,250	21,378,500
Additional paid-in capital	9,995,508	9,874,341
Retained earnings	78,539,814	76,822,076
Note receivable for common stock	(41,620)	(106,061)
Accumulated other comprehensive loss	(35,506,973)	(50,873,123)
Total stockholders' equity	74,358,979	57,095,733
Total liabilities and stockholders' equity	$ 103,962,449	$ 86,557,430

JD BANCSHARES, INC. AND SUBSIDIARIES
JENNINGS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Parent Only Financial Statements (continued)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
INCOME		
Dividends from subsidiary bank	$ 4,513,864	$ 4,259,360
Dividends from subsidiary insurance company	125,000	100,000
Interest income	220,825	84,092
	4,859,689	4,443,452
EXPENSES		
Interest expense	1,266,772	1,309,531
Operating expenses	293,745	233,922
Taxes and other expenses	(282,936)	(299,761)
	1,277,581	1,243,692
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	3,582,108	3,199,760
Equity in undistributed earnings of subsidiaries and excess distribution of earnings	2,998,799	8,896,004
NET INCOME	6,580,907	12,095,764
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains/losses on securities:		
Unrealized holding gains (losses) arising during the period, net of taxes of $2,438,090 and ($13,861,245)	7,525,278	(52,144,764)
Less: reclassification adjustments for losses (gains) included in net income, net of taxes of $1,646,583 and $0	7,840,872	-
Other comprehensive income (loss)	15,366,150	(52,144,764)
COMPREHENSIVE INCOME (LOSS)	$ 21,947,057	$ (40,049,000)

22. Parent Only Financial Statements (continued)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,580,907	$ 12,095,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Non cash compensation expense	179,358	79,316
Amortization	141,772	135,408
Undistributed earnings of Bank	(3,043,009)	(8,918,594)
Undistributed earnings of JD Bank Ins.	(80,789)	(77,411)
Changes in dividend receivable	-	-
Changes in deferred income tax	-	2,485
Changes in income tax receivable	19,310	1,007
Changes in accrued interest payable	-	(541,503)
Changes in dividend payable	-	-
Net cash provided by operating activities	3,797,549	2,776,471
CASH FLOWS FROM INVESTING ACTIVITIES		
Contribution to the Bank	-	-
Net cash provided by (used in) investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(3,693,665)	(3,415,609)
Proceeds from issuance of subordinated notes	-	-
Subordinated notes issuance costs	-	(74,733)
Share repurchases	-	(748,432)
Subordinated notes repurchase and issuance costs	-	(17,500,000)
Stock dividend issuance costs	-	-
Distribution from Subsidiary - JD Bank Ins.	125,000	100,000
Net cash used in financing activities	(3,568,665)	(21,638,774)
Increase (decrease) in cash	228,884	(18,862,303)
Cash - beginning of year	4,132,106	22,994,409
Cash - end of year	$ 4,360,990	$ 4,132,106

23. JD Bank Insurance, LLC Financial Statements

BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

ASSETS

	2023	2022
Cash	$ 49,150	$ 90,702
Other assets	114	1,869
Total assets	$ 49,264	$ 92,571

LIABILITIES AND STOCKHOLDER'S EQUITY

	2023	2022
Other liabilities	$ 21,476	$ 20,572
Total liabilities	21,476	20,572
Stockholder's equity	685,000	685,000
Accumulated deficit	(657,212)	(613,001)
Total stockholder's equity	27,788	71,999
Total liabilities and stockholder's equity	$ 49,264	$ 92,571

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

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
INCOME		
Commissions earned	$ 102,321	$ 98,040
	102,321	98,040
EXPENSES		
Insurance expenses	57	56
Other operating expenses	21,475	20,573
	21,532	20,629
NET INCOME	$ 80,789	$ 77,411

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 80,789	$ 77,411
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	2,659	(656)
Net cash provided by operating activities	83,448	76,755
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(125,000)	(100,000)
Net cash used in financing activities	(125,000)	(100,000)
Change in cash	(41,552)	(23,245)
Cash - beginning of year	90,702	113,947
Cash - end of year	$ 49,150	$ 90,702

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

DARYL V. BURCKEL

ANDREW CORMIER

MILTON RAY CROCHET

MICHAEL A. GUILLORY

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

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