COMMERCE FINANCIAL CORPORATION AND SUBSIDIARIES

SAN ANTONIO, TEXAS

Consolidated Financial Statements

December 31, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors of Commerce Financial Corporation

Opinion

We have audited the accompanying consolidated financial statements of Commerce Financial Corporation and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Commerce Financial Corporation and Subsidiaries as of December 31, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Commerce Financial Corporation and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Bumgardner, Morrison & Company, LLP

Bumgardner, Morrison & Company, LLP
Victoria, Texas
December 8, 2023

COMMERCE FINANCIAL CORPORATION AND SUBSIDIARIES
SAN ANTONIO, TEXAS

Consolidated Statements of Financial Condition
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and Due From Banks	$ 301,716	$ 355,469
Interest-bearing Demand Deposits in Banks	4,795,095	14,022,007
Total Cash and Cash Equivalents	5,096,811	14,377,476
Investment Securities Available-for-Sale	15,345,353	14,929,122
Investment Securities Held-to-Maturity	9,973,331	9,986,176
Loans Receivable, Net of Allowance for Loan Losses of $308,168 in 2022 and 2021	29,808,453	25,787,797
Federal Home Loan Bank Stock, at Cost	300,900	298,300
Banking Premises and Equipment, Net	557,162	617,905
Goodwill	2,574,991	2,574,991
Accrued Interest Receivable	250,742	186,752
Prepaid Federal Income Tax	-	38,282
Deferred Tax Asset	627,447	6,437
Other Assets	108,221	81,873
Total Assets	$ 64,643,411	$ 68,885,111
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$ 19,114,925	$ 18,404,278
Interest bearing	37,755,953	40,686,736
Total Deposits	56,870,878	59,091,014
Accrued Interest Payable	12,146	13,740
Income Tax Payable	16,550	-
Other Liabilities	24,884	37,204
Total Liabilities	56,924,458	59,141,958
Stockholders' Equity		
Cumulative series B convertible, nonvoting preferred stock, no par value; 35,000 shares authorized; 10,550 shares issued and outstanding in 2022 and 2021	1,055,000	1,055,000
Common stock - $1 par value; 10,000,000 shares authorized; 841,280 shares issued and outstanding in 2022 and 2021	841,280	841,280
Additional paid-in capital	6,881,361	6,881,361
Retained earnings	1,599,266	1,315,824
Accumulated other comprehensive loss	(2,657,954)	(350,312)
Total Stockholders' Equity	7,718,953	9,743,153
Total Liabilities and Stockholders' Equity	$ 64,643,411	$ 68,885,111

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

COMMERCE FINANCIAL CORPORATION AND SUBSIDIARIES
SAN ANTONIO, TEXAS

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

	2022	2021
Interest Income		
Interest and fees on loans	$ 1,664,103	$ 1,673,488
Interest on investment account securities		
U.S. government agencies	465,614	308,042
Tax exempt municipals	19,786	21,480
Mortgage backed securities	10,686	14,194
Interest on other deposits	107,573	11,604
Total Interest Income	2,267,762	2,028,808
Interest Expense		
Interest on deposits	105,093	149,535
Total Interest Expense	105,093	149,535
Net Interest Income	2,162,669	1,879,273
(Reduction of Provision) Provision for Loan Losses	-	(30,000)
Net Interest Income After Provision for Loan Losses	2,162,669	1,909,273
Noninterest Income		
Service charges on deposit accounts	59,299	56,320
Other service charges and noninterest income	22,463	19,140
Gain on sale of other real estate owned	-	13,717
Total Noninterest Income	81,762	89,177
Total Income After Interest Expense and Provision for Loan Losses	2,244,431	1,998,450
Noninterest Expenses		
Salaries and employee benefits	800,891	771,846
Occupancy expense	395,516	376,666
Other expense	535,513	520,507
Total Noninterest Expenses	1,731,920	1,669,019
Income Before Income Taxes	512,511	329,431
Income Tax Expense	109,016	67,358
Net Income	$ 403,495	$ 262,073

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

COMMERCE FINANCIAL CORPORATION AND SUBSIDIARIES
SAN ANTONIO, TEXAS

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

	2022	2021
Net Income	$ 403,495	$ 262,073
Items of Other Comprehensive Income		
Unrealized holding gain (loss) arising during period	(2,921,065)	(406,589)
Total items of other comprehensive income	(2,921,065)	(406,589)
Comprehensive income before tax	(2,517,570)	(144,516)
Income Tax Effect on Items of Other Comprehensive Income		
Income tax benefit (expense)-unrealized holding gain/loss	613,423	85,384
Total income tax effect on comprehensive income	613,423	85,384
Comprehensive Income after Tax	$ (1,904,147)	$ (59,132)

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

COMMERCE FINANCIAL CORPORATION AND SUBSIDIARIES
SAN ANTONIO, TEXAS

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

	Series A Convertible Preferred	Series B Convertible Preferred	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2020	$ 1,055,000	$ -	$ 841,280	$ 6,881,361	$ 1,148,565	$ (29,107)	$ 9,897,099
Conversion to Series B Preferred	(1,055,000)	1,055,000			-	-	-
Cash Dividends	-	-	-	-	(94,814)	-	(94,814)
Net income	-	-	-	-	262,073	-	262,073
Change in comprehensive income	-	-	-	-	-	(321,205)	(321,205)
Balance at December 31, 2021	-	1,055,000	841,280	6,881,361	1,315,824	(350,312)	9,743,153
Cash Dividends	-	-	-	-	(120,053)	-	(120,053)
Net income	-	-	-	-	403,495	-	403,495
Change in comprehensive income	-	-	-	-	-	(2,307,642)	(2,307,642)
Balance at December 31, 2022	$ -	$ 1,055,000	$ 841,280	$ 6,881,361	$ 1,599,266	$ (2,657,954)	$ 7,718,953

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

COMMERCE FINANCIAL CORPORATION AND SUBSIDIARIES
SAN ANTONIO, TEXAS

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

	2022	2021
Cash Flows From Operating Activities		
Net income	$ 403,495	$ 262,073
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization on investment securities, net	12,571	16,136
Depreciation and amortization	71,040	73,167
Reduction in provision for loan losses	-	(30,000)
Gain on sale of OREO	-	(13,717)
Net change in		
Accrued interest receivable	(63,990)	(15,635)
Accrued interest payable	(1,594)	(8,474)
Other assets	(26,348)	(5,156)
Prepaid FIT	38,282	(38,282)
Federal income tax payable	16,550	(47,707)
Other liabilities	(12,320)	13,869
Deferred tax	(7,586)	43,625
Non-cash dividends of FHLB stock	(2,600)	(100)
Net cash provided by operating activities	427,500	249,799
Cash Flows From Investing Activities		
Maturities, calls, and paydowns of investment securities - held-to-maturity	1,081	130,376
Maturities, calls, and paydowns of investment securities - available-for-sale	161,897	3,782,658
Purchases of investment securities - available for sale	(3,500,000)	(3,000,000)
Purchases of investment securities - held-to-maturity	-	(8,000,000)
Net (increase) decrease in loans to customers	(4,020,656)	5,066,462
Purchases of premises and equipment	(10,298)	(25,475)
Proceeds from sale of OREO	-	786,631
Net cash used in investing activities	(7,367,976)	(1,259,348)
Cash Flows From Financing Activities		
Net increase in non-interest bearing deposit accounts	710,647	3,680,591
Net increase (decrease) in interest bearing deposit accounts	(2,930,783)	7,466,310
Dividends paid	(120,053)	(94,814)
Net cash provided by (used in) financing activities	(2,340,189)	11,052,087
Net Increase (Decrease) in Cash and Cash Equivalents	(9,280,665)	10,042,538
Cash and Cash Equivalents at Beginning of Year	14,377,476	4,334,938
Cash and Cash Equivalents at End of Year	$ 5,096,811	$ 14,377,476
Schedules of Other Cash Flow Information		
Cash paid for interest	$ 106,687	$ 158,009
Cash paid for income tax	$ 57,500	$ 111,196

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

Note 1 Summary of Significant Accounting Policies

The accounting and reporting policies of Commerce Financial Corporation and Subsidiaries (collectively, the "Company") conform with accounting principles generally accepted in the United States of America and within the banking industry. Those policies that materially affect financial position and results of operations are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Commerce Financial Corporation ("Financial"); Security State Bancshares, Inc. ("Bancshares), the wholly-owned subsidiary of Commerce Financial Corporation; and the accounts of Bancshares's wholly-owned subsidiary, Commerce Bank Texas (the "Bank"). The Company was incorporated on September 26, 2007. All significant intercompany transactions and balances are eliminated in consolidation.

The Company has two classes of stock: common stock and preferred stock. A total of 10,550 shares of 5% cumulative, nonvoting Series A Convertible preferred stock were issued in 2014. In 2021, the Series A Convertible preferred stock was converted to Series B Convertible preferred stock. The preferred stock is redeemable at $100 per share.

Nature of Operations

The company provides lending and depository products to small and mid-sized businesses, professionals, investors, and consumers primarily in the Wilson and Bexar County, Texas banking market.

Preferred Stock

During 2021, all of the Series A Preferred Stock was converted to Series B Preferred Stock, which extended the automatic redemption date to June 30, 2023. The holders of Series B Convertible Preferred Stock will be entitled to receive cumulative dividends at a rate of 5% per year, payable annually on the 30th day of June beginning on June 30, 2022. Payment of future dividends, if any, will be at the discretion of the board of directors after taking into account various financial reporting and operating factors and whether the Bank has the ability to pay dividends to the Company. As of December 31, 2022 and 2021, the Company had restricted cash of $100 and $100, respectively, which is being reserved for future annual dividends. At any time on or after June 30, 2021, the Company will have the absolute right to redeem the Series B Convertible Preferred Stock for an amount equal to $100 per share plus any dividends accrued but unpaid. If a notice of redemption is issued, each share of preferred stock may be converted by the stockholder into 9 shares of common stock.

If the preferred stock is not redeemed by the Company prior to April 30, 2023, for a period of 60 days, each share of preferred stock may be converted by the stockholder into 8 shares of common stock. The preferred stock must be redeemed by the Company on or before June 30, 2023. The Series B Convertible Preferred Stock was redeemed pursuant to its terms at $100 per share plus accrued but unpaid dividends through payment delivered on July 6, 2023.

Note 1 Summary of Significant Accounting Policies, Continued

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: (1) the reported amounts of assets and liabilities, (2) disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in Wilson and Bexar Counties. The types of securities in which the Company invests are described in Note 5. The types of lending in which the Company engages are described in Note 6.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, short term interest-bearing deposits with maturities of 90 days or less, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Investment Securities

Securities may be classified into three categories: held-to-maturity, available-for-sale, or trading. The subsidiary bank has determined that its securities will be classified as held-to-maturity and available-for-sale.

Securities which the subsidiary bank has the ability and intent to hold to maturity are classified as held-to-maturity. Such securities are recorded at amortized cost. Securities not classified as held-to-maturity or trading are classified as available-for-sale and are reported at fair value (in aggregate), determined as of the balance sheet date. Unrealized gains and losses on securities available-for-sale, net of the tax effect, are recognized as direct increases or decreases in accumulated other comprehensive income in stockholders' equity; current year increases or decreases in unrealized gains and losses, net of tax, are reported as a net amount in other comprehensive income.

Any permanent declines in the value of securities are charged to income in the period in which such declines are determined. Premiums and discounts are recognized in interest income using the interest method over the period to the call date or maturity. Gains and losses on the sales of securities are recognized in net income when realized. The cost of securities used in determining gains and losses is based on the specific-identification method.

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by the issuers of the securities. Market interest rate fluctuations can affect the prepayment speed of principal and the yield on the security.

Note 1 Summary of Significant Accounting Policies, Continued

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a restricted investment and its carrying value is determined by the ultimate recoverability of par value, rather than by recognizing temporary declines in value.

Loans

The Company grants real estate secured, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate and commercial loans throughout Wilson and Bexar Counties. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in these counties. Loans, which are determined to be uncollectible, are charged to the allowance for loan losses.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, and the allowance for loan losses. Loan origination fees are recognized as income and loan origination costs are expensed as incurred, as management has determined that capitalization of these items would be immaterial to the consolidated financial statements.

Interest income on loans is accrued on a daily basis based on principal balances due. The accrual of interest on mortgage, consumer, and commercial loans is discontinued at the time when, in management's opinion, the borrower may be unable to meet payments as they become due.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosures as determined by independent appraisal or the balance of the underlying loan. Subsequently, if the fair value of the repossessed collateral is determined to be less than the new basis, the collateral is written down to fair value by a charge to the statement of operations. Revenue and expenses from operations and changes in the valuation allowance are included in other income and other expenses.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors.

Note 1 Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses, Continued

The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to changes in the near term.

Impaired loans are loans for which it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications.

The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability. Factors considered by management in determining impairment include payment status and collateral value.

The amount of impairment on impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral less estimated costs to sell.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment evaluation.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the bank has entered into off-balance-sheet financial instruments consisting of commitments to extend commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Banking Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the following estimated useful lives of the assets:

Buildings and improvements	10-40 years
Furniture and equipment	5-10 years

When an asset is sold, retired, or otherwise disposed of, cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in current operations. Repairs and maintenance are charged to expense as incurred and expenditures for renewals and betterments are capitalized.

Note 1 Summary of Significant Accounting Policies, Continued

Goodwill and Other Intangible Assets

U.S. generally accepted accounting principles include guidance addressing the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. The guidance provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized but rather be tested at least annually for impairment. No goodwill impairment was noted in 2022 or 2021.

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. Goodwill is assigned to reporting units and is tested for impairment at least annually, or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. The goodwill as of December 31, 2022 and 2021, resulted from a 2008 stock purchase agreement with the stockholders of Bancshares which resulted in goodwill of $2,574,991.

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. The Company's intangible assets relate to non-compete agreements and customer relationships. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets with indefinite useful lives are not amortized until their lives are determined to be definite. Intangible assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Income Taxes

Deferred income tax assets and liabilities are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Under the provisions of the franchise tax law for the State of Texas, the franchise tax is based on net margin, which is revenues less the greater of interest expense or compensation and benefits. The franchise tax based on net margin is recorded as state income tax expense in the year the income was earned.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2022 and 2021, advertising expenses were $8,764 and $6,897, respectively.

Note 1 Summary of Significant Accounting Policies, Continued

Short-term Disability

The Company allows employees to accrue unused paid time off to be used for future illness, up to 45 days. The accrued leave may only be used for the employee's own short-term disability as defined by the Family Medical Leave Act. The potential liability has not been included in the consolidated financials as management has determined that the event of such liability would be remote.

Operating Leases

The Company has entered into an operating lease for the San Antonio location and has determined the liability associated with this agreement to be immaterial to the consolidated financial statements as a whole.

Note 2 Revenue from Contracts with Customers

A description of the Company's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed, as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

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

Interchange Income: The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Total revenue subject to ASC 606 recognized at a point in time totaled $49,918 and $58,342 for the years ending December 31, 2022 and 2021, respectively.

Total revenue subject to ASC 606 recognized over a period of time totaled $28,991and $30,492 for the years ending December 31, 2022 and 2021, respectively.

Note 2 Revenue from Contracts with Customers, Continued

Following is a detail of noninterest income, including a disaggregation of revenue from contracts with customers, gains(losses) on transfers of nonfinancial assets, and other revenue for the years ended December 31, 2022 and 2021.

In Scope of FASB ASC 606	2022	2021
Deposit service charges	49,090	51,874
Debit and credit card interchange income	7,355	4,103
Gain on disposal of OREO	-	13,717
Other	22,464	19,140
	78,909	88,834
Out of Scope of FASB ASC 606		
Dividend Income	2,853	343
Security Gains	-	-
Total Non-Interest Income	81,762	89,177

Note 3 Related Party Transactions

The bank has entered into transactions with its officers, directors, principal shareholders, and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amounts of deposit accounts for such related parties at December 31, 2022 and 2021 were $1,141,275 and $685,609 respectively. Activity in related party loans during 2022 and 2021 is presented in the following table.

	2022	2021
Balance Beginning of the Year	$ 549,873	$ 1,517,849
Principal Additions	516,444	360,000
Principal Reductions	(190,589)	(1,327,976)
Balance End of the Year	$ 875,728	$ 549,873

Note 4 Federal Home Loan Bank Stock

In 2013, the bank became a member of the Federal Home Loan Bank of Dallas. The bank owned 3,009 and 2,983 shares of its capital stock as of December 31, 2022 and 2021, respectively. The stock has a par value and cost of $100 per share. Ownership of Federal Home Loan Bank stock is restricted. The stock can be sold only at par and only to the Federal Home Loan Bank or to another member institution.

Note 5 Investment Securities

The amortized cost of securities and their approximate fair values as of December 31, 2022 and 2021 are as follows:

	2022			
Securities Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. Government and federal agency	$ 18,315,576	$ -	$ 3,345,650	$ 14,969,926
Mortgage-backed and related securities	394,276	77	18,926	375,427
Total Debt Securities Available for Sale	$ 18,709,852	$ 77	$ 3,364,576	$ 15,345,353
Securities Held-to-Maturity				
U.S. Government and federal agency	$ 9,000,000	$ -	$ 1,791,035	$ 7,208,965
Mortgage-backed and related securities	-	-	-	-
Municipal	973,331	-	24,060	949,271
Total Debt Securities Held-to-Maturity	$ 9,973,331	$ -	$ 1,815,095	$ 8,158,236

	2021			
Securities Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. Government and federal agency	$ 14,814,436	$ -	$ 458,976	$ 14,355,460
Mortgage-backed and related securities	558,120	15,542	-	573,662
Total Debt Securities Available for Sale	$ 15,372,556	$ 15,542	$ 458,976	$ 14,929,122
Securities Held-to-Maturity				
U.S. Government and federal agency	$ 9,000,000	$ 30	$ 134,415	$ 8,865,615
Mortgage-backed and related securities	1,081	49	-	1,130
Municipal	985,095	29,374	-	1,014,469
Total Debt Securities Held-to-Maturity	$ 9,986,176	$ 29,453	$ 134,415	$ 9,881,214

Note 5 Investment Securities, Continued

The amortized cost and estimated fair value of securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due from one to five years	2,001,140	1,834,560	2,258,464	2,094,343
Due from five to ten years	4,472,191	3,681,231	14,065,643	11,381,298
Due after ten years	3,500,000	2,642,445	2,385,745	1,869,712
Total Debt Securities	$ 9,973,331	$ 8,158,236	$ 18,709,852	$ 15,345,353

There were no securities sold during the year ending December 31, 2022 and 2021.

Investment securities with a book value of $7,973,331 and $6,985,095, and a fair value of $6,376,083 and $6,878,702 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Information pertaining to securities with gross unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2022				
Securities Available-for-sale				
U.S. Government and federal agency	$ (293,715)	$ 3,206,285	$ (3,051,935)	$ 11,763,641
Mortgage-backed and related securities	(18,926)	364,538	-	-
Total Debt Securities Available-for-Sale	$ (312,641)	$ 3,570,823	$ (3,051,935)	$ 11,763,641
Securities Held-to-Maturity				
U.S. Government and federal agency	$ (380,355)	$ 1,119,645	$ (1,410,680)	$ 6,089,320
Municipal	(24,060)	949,271	-	-
Total Debt Securities Held-to-Maturity	$ (404,415)	$ 2,068,916	$ (1,410,680)	$ 6,089,320

Note 5 Investment Securities, Continued

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2021				
Securities Available-for-sale				
U.S. Government and federal agency	$ (171,801)	$ 7,904,224	$ (287,175)	$ 6,451,235
Mortgage-backed and related securities	-	-	-	-
Total Debt Securities Available-for-Sale	$ (171,801)	$ 7,904,224	$ (287,175)	$ 6,451,235
Securities Held-to-Maturity				
U.S. Government and federal agency	$ (134,415)	$ 7,365,585	$ -	$ -
Mortgage-backed and related securities	-	-	-	-
Total Debt Securities Held-to-Maturity	$ (134,415)	$ 7,365,585	$ -	$ -

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2022, twenty-nine (29) debt securities have unrealized losses with aggregate depreciation of 18.06% from the bank's amortized cost basis. At December 31, 2021, fourteen (14) debt securities have unrealized losses with aggregate depreciation of 2.66% from the bank's amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

Note 6 Loans and Allowance for Loan Losses

Major classifications of loans at December 31, 2022 and 2021 are as follows:

	2022	2021
Commercial	$ 4,767,795	$ 4,843,230
Real estate	25,129,615	21,073,708
Other (consumer and agriculture)	219,211	179,027
	30,116,621	26,095,965
Allowance for loan losses	(308,168)	(308,168)
Net Loans	$ 29,808,453	$ 25,787,797

Loan Origination and Risk Management. The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. It is the intent of management to originate loans to borrowers of good character and integrity. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial loans are underwritten after evaluation and understanding the borrower's ability to repay the loan through operating profitably and effectively growing its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the credit quality and cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value.

Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee to add strength to the credit and reduce the risk on a transaction to an acceptable level; however, some short-term loans may be made on an unsecured basis to the most credit worthy borrowers. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Due to the nature of accounts receivable and inventory secured loans, the Company closely monitors credit availability and collateral through the use of various tools, including but not limited to borrowing-base formulas, accounts receivable agings, periodic inventory audits, and/or collateral inspections.

Real estate (commercial real estate or consumer real estate) loans are subject to underwriting standards and processes similar to commercial loans. Repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria. As a general rule, the Company avoids financing special use projects unless strong secondary support is present to help mitigate risk.

Note 6 Loans and Allowance for Loan Losses, Continued

With respect to loans to developers and builders, the Company generally requires the borrower to have a proven record of success and an expertise in the building industry. Construction loans are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption, and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing. Due to the nature of the real estate industry, the Company evaluates the borrower's ability to service the interest of the debt from other sources other than the sale of the constructed property for a period of 12 months.

The Company engages an external consulting firm to complete an independent loan review that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the Board of Directors. The loan review process complements and reinforces the risk ratings and credit quality assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Non-Accruals and Past Due Loans. Special monitoring is performed on loans that develop delinquencies or that evidence the development of serious deficiencies in cash flow, credit quality, collateral deficiencies, or other deteriorating factors. This monitoring is achieved through past due reports, daily account overdraft monitoring, and quarterly loan loss allowance evaluations. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet the payment obligations as they become due and there is doubt as to collectability of all principal and interest. The bank did not have any loans on non-accrual as of December 31, 2022 and 2021.

Impaired Loans and Troubled Debt Restructurings. A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties.

At December 31, 2022 and 2021, the Bank had no loans that were modified in troubled debt restructurings and impaired.

Note 6 Loans and Allowance for Loan Losses, Continued

Credit Quality Indicators. As part of the on-going monitoring of the credit quality of the Company's loan portfolio, the Company utilizes a risk grading system to assign a risk grade to each of its loans. Accurate and timely credit grading is a primary component of an effective loan review system. Loans are graded on a scale of 1 to 7.

A description of the general characteristics of the seven risk grades is as follows:

Grade 1 – PASS. These grade loans are to borrowers that represent the least possible credit risk, the purpose of the loan is specifically known, and have a well-defined source of repayment and readily available financing alternatives. These loans will primarily be secured with cash or cash equivalents, insured by the US government and/or secured by financial obligations of the United States Government.

Grade 2 – PASS/SATISFACTORY. These grade loans represent minimal risk and have no exceptions to the loan policies. Borrowers are adequately able to service debt, the purpose of the loan is clearly known, have two or more verifiable sources of repayment, and the borrower must have substantial management and/or industry experience with a proven track record. If collateral is required, the loan/value is at or below the loan policy stated limits. Loans within this grade are primarily to local and regional businesses with a strong performance record, consumers with adequate cash flow, and loans secured by improved real estate and/or marketable securities.

Grade 3 – PASS/ACCEPTABLE. These grade loans represent acceptable risk. Borrowers have solid credit quality, acceptable performance record and credit history, marketable collateral, and moderate leverage.

Grade 4 – SPECIAL MENTION. The loans in this grade are well-collateralized, however, they have undue and unwarranted credit risk. This grade is intended to be temporary and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation.

Grade 5 – SUBSTANDARD. The loans in this grade are considered to be inadequately protected by the current financial condition and the paying capacity of the borrower. These loans also exhibit well-defined weaknesses related to adverse financial, managerial, economic, and other conditions which have clearly jeopardized repayment of principal and interest as originally intended. These loans may be placed on non-accrual.

Grade 6 – DOUBTFUL. This grade includes "Doubtful" loans in accordance with regulatory guidelines. Such loans are placed on non-accrual status, have well-defined weaknesses, and liquidation of collateral is the most likely source of repayment and collateral value does not cover existing exposure.

Grade 7 – LOSS. This grade includes "Loss" loans in accordance with regulatory guidelines. Such loans are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. "Loss" is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

Note 6 Loans and Allowance for Loan Losses, Continued

The following tables summarize the Bank's internal ratings of its loans as of December 31, 2022 and 2021.

	Classified and Impaired Loans as of December 31, 2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial Loans	$ 4,423,821	$ -	$ 343,974	$ -	$ -	$ 4,767,795
Real Estate Loans	24,774,505	355,110	-	-	-	25,129,615
Other Loans	219,211	-	-	-	-	219,211
Total	$ 29,417,537	$ 355,110	$ 343,974	$ -	$ -	$ 30,116,621

	Classified and Impaired Loans as of December 31, 2021					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial Loans	$ 4,721,452	$ 100,000	$ 21,781	$ -	$ -	$ 4,843,233
Real Estate Loans	20,700,742	372,963	-	-	-	21,073,705
Other Loans	179,027	-	-	-	-	179,027
Total	$ 25,601,221	$ 472,963	$ 21,781	$ -	$ -	$ 26,095,965

Allowance for Loan Losses. The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables", and ASC Topic 450, "Contingencies". Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, changes in the composition and volume of the portfolio, and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs.

The provision for loan losses reflects management's periodic evaluation of individual loans and changes to the required allowance for specific loans, economic factors, past loan loss experience, loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans, and net charge-offs or recoveries, among other factors.

Note 6 Loans and Allowance for Loan Losses, Continued

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

The Company's allowance for loan losses consists of three elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things, (i) the borrower's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. The initial analysis is performed by the relationship manager, and the credit rating is reviewed and approved by the President.

Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan, and economic conditions affecting the borrower's industry, among other things. Historical valuation allowances are calculated based on the historical loss experience of specific types of loans and the internal risk grade of such loans at the time they were charged-off. The Company calculates historical loss ratios for classifications of similar loans based on the proportion of actual charge-offs experienced to the total population of loans in the category. The historical loss ratios are periodically updated based on actual charge-off experience.

The Company's categories of similar loans include similarly risk-graded groups of commercial, commercial real estate loans, consumer real estate loans, and consumer and other loans. General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Company.

In general, such valuation allowances are determined by evaluating, among other things, (i) the experience, ability, and effectiveness of the Company's lending management and staff; (ii) the effectiveness of the Company's loan policies, procedures, and internal controls; (iii) changes in asset quality; (iv) changes in nature and loan portfolio volume; (v) the composition and concentrations of credit; (vi) the effectiveness of the loan review function; (vii) the impact of national and local economic business conditions; and (viii) the impact of external factors, such as competition or legal and regulatory requirements. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, moderate, or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance. Loans identified as losses by management, external loan review, and/or bank examiners are charged-off. Furthermore, consumer loan accounts are charged-off automatically based on regulatory requirements.

Note 6 Loans and Allowance for Loan Losses, Continued

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

	2022 Allowance for Loan Losses				
	Commercial	Real Estate	Other	Unallocated	Total
Balance at Beginning of the Year	$ 49,041	$ 174,409	$ 1,142	$ 83,576	$ 308,168
(Reduction of Provision) Provision	(1,033)	27,701	432	(27,100)	-
Less Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Balance at the End of the Year	$ 48,008	$ 202,110	$ 1,574	$ 56,476	$ 308,168
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance allocated to loans collectively evaluated for impairment	48,008	202,110	1,574	56,476	308,168
Total Allowance for Loan Losses	$ 48,008	$ 202,110	$ 1,574	$ 56,476	$ 308,168

	2021 Allowance for Loan Losses				
	Commercial	Real Estate	Other	Unallocated	Total
Balance at Beginning of the Year	$ 61,552	$ 203,749	$ 1,082	$ 71,785	$ 338,168
(Reduction of Provision) Provision	(12,511)	(29,340)	60	11,791	(30,000)
Less Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Balance at the End of the Year	$ 49,041	$ 174,409	$ 1,142	$ 83,576	$ 308,168
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance allocated to loans collectively evaluated for impairment	49,041	174,409	1,142	83,576	308,168
Total Allowance for Loan Losses	$ 49,041	$ 174,409	$ 1,142	$ 83,576	$ 308,168

Note 6 Loans and Allowance for Loan Losses, Continued

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

	Commercial	Real Estate	Other	Total
December 31, 2022				
Ending balance of loans individually evaluated for impairment	$ 343,974	$ 355,110	$ -	$ 699,084
Ending balance of loans collectively evaluated for impairment	4,423,821	24,774,505	219,211	29,417,537
Total Loans	$ 4,767,795	$ 25,129,615	$ 219,211	$ 30,116,621

	Commercial	Real Estate	Other	Total
December 31, 2021				
Ending balance of loans individually evaluated for impairment	$ 121,781	$ 372,963	$ -	$ 494,744
Ending balance of loans collectively evaluated for impairment	4,721,452	20,700,742	179,027	25,601,221
Total Loans	$ 4,843,233	$ 21,073,705	$ 179,027	$ 26,095,965

Loan Maturities. Final loan maturities for fixed rate loans, interest rate repricing dates for variable rate loans, and rate sensitivity of the loan portfolio at December 31, 2022 are as follows:

	Within One Year	One - Five Years	After Five Years	Total
Loans at fixed interest rates	$ 8,534,793	$ 14,373,550	$ 3,881,759	$ 26,790,102
Loans at variable interest rates	2,149,744	1,176,775	-	3,326,519
Total	$ 10,684,537	$ 15,550,325	$ 3,881,759	$ 30,116,621

Note 7 Banking Premises and Equipment

A summary of banking premises and equipment as of December 31, 2022 and 2021 is as follows:

	Estimated Useful Lives In Years	2022	2021
Land	-	$ 61,440	$ 61,440
Buildings and improvements	10-40	814,742	814,742
Furniture and equipment	5-10	1,205,475	1,195,178
		2,081,657	2,071,360
Less accumulated depreciation		1,524,495	1,453,455
Banking Premises and Equipment, Net		$ 557,162	$ 617,905

Depreciation expense on banking premises and equipment was $71,040 and $73,167 for the years ended December 31, 2022 and 2021, respectively.

Note 8 Deposits

Deposit account balances at December 31, 2022 and 2021 consist of the following:

	2022	2021
Non-interest bearing		
Demand deposits	$ 19,114,925	$ 18,404,279
Interest Bearing		
NOW Accounts	9,994,598	9,566,481
Money Market	12,629,466	12,793,982
Savings accounts	9,688,093	8,924,604
Certificates of deposit	5,443,796	9,401,668
	37,755,953	40,686,735
Total Deposits	$ 56,870,878	$ 59,091,014

Note 8 Deposits, Continued

Certificates of deposit at December 31, 2022, mature as follows:

2023	$ 3,817,808
2024	1,360,633
2025	25,816
2026	239,539
Total Certificates of Deposit	$ 5,443,796

Note 9 Income Taxes

Income tax expense for 2022 and 2021 is summarized as follows:

	2022	2021
Federal income taxes current	$ 110,832	$ 24,190
State margin tax	5,770	1,409
Deferred taxes (credit) relating to		
Provision for loan losses	-	6,300
Fixed asset depreciation	(9,110)	(3,233)
Discount accretion on investments	239	237
Organization costs	739	739
OREO writedowns	-	37,695
FHLB stock dividends	546	21
Provision for Income Tax	$ 109,016	$ 67,358

Deferred tax expense results from temporary differences in the recognition of income and expense for tax and financial reporting purposes. The sources and tax effects of these temporary differences are shown above.

State income tax expense consists of the Texas franchise tax calculated based on net margin; basically, revenues less the greater of interest expense or compensation and benefits.

Note 9 Income Taxes, Continued

Total income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 21% to income before federal income taxes as a result of the following:

	2022	2021
Federal Income Tax at Statutory Rate (21%)	$ 106,416	$ 68,885
Increase (Decrease)		
State margin tax	5,770	1,409
Tax exempt interest	(4,155)	(4,511)
Interest expense exclusion	65	104
Nondeductible expenses	920	1,471
Provision for Income Tax	$ 109,016	$ 67,358

As of December 31, 2022 and 2021, the Company had deferred tax assets and liabilities as follows:

	2022	2021
Deferred Tax Asset		
Unrealized loss on available-for-sale securities	$ 706,545	$ 93,121
Provision for loan losses	24,655	24,655
Organization costs	307	1,046
Total gross deferred tax assets	$ 731,507	$ 118,822
Deferred Tax Liability		
Discount accretion on investments	$ (494)	$ (255)
Fixed asset depreciation	(99,156)	(108,266)
FHLB stock dividends	(4,410)	(3,864)
Total gross deferred tax liabilities	$ (104,060)	$ (112,385)
Total Net Deferred Tax Asset (Liability)	$ 627,447	$ 6,437

The Corporation, bank holding company, and bank file a consolidated federal income tax return on a calendar year basis.

Note 9 Income Taxes, Continued

Tax years that remain open and subject to examination by the IRS are the 2020-2022 consolidated federal income tax returns. Tax years that remain open and subject to examination by the Texas Comptroller are the 2021-2023 combined Texas franchise tax returns.

Note 10 Employment Agreement

The Company and the President of Commerce Bank Texas entered into an employment agreement, which entitles the President/Chief Lending Officer of Commerce Bank Texas to a base salary, participation in any executive incentive bonus plan adopted by the Board of Directors, and receipt of stock options. The employment agreement entitles the President/Chief Lending Officer of Commerce Bank Texas to participate in all incentive and deferred compensation plans, pension, profit-sharing, and other fringe benefit plans maintained by the Company. The term of the agreement extends until December 3, 2024. Either party may terminate the employment agreement at any given time by giving 30 days written notice. In the event the termination of the employment agreement by the Company is without cause, as defined in the agreement, the President/Chief Lending Officer of Commerce Bank Texas is entitled to receive a lump sum payment following the termination date of the unpaid base salary for the remaining contractual term of the agreement. The employment agreement provides for automatic extension of the agreement for a period of three years, unless either party gives written notice of non-renewal within 30 days of the renewal date.

The Company and the Chief Executive Officer ("CEO") of Commerce Bank Texas entered into an employment agreement, which entitles the Chairman of the Board/CEO of Commerce Bank Texas to a base salary, participation in any executive incentive bonus plan adopted by the Board of Directors, and receipt of stock options. The employment agreement entitles the Chairman of the Board/CEO of Commerce Bank Texas to participate in all incentive and deferred compensation plans, pension, profit-sharing, and other fringe benefit plans maintained by the Company. The term of the agreement extends until December 3, 2024. Either party may terminate the employment agreement at any time by giving 30 days written notice. In the event the termination of the employment agreement by the Company is without cause, as defined in the agreement, the Chief Executive Officer of Commerce Bank Texas is entitled to receive a lump sum payment following the termination date of the unpaid base salary for the remaining contractual term of the agreement. The employment agreement provides for automatic extension of the agreement for a period of three years, unless either party gives written notice of non-renewal within 30 days of the renewal date.

Note 11 Employee Benefit Plan

In January 2015, the Company adopted a defined contribution SIMPLE IRA plan ("IRA Plan") for the benefit of all of the Company's employees who elect to participate. The Company will match up to 3% of employee compensation. The Company made a total contribution to the IRA Plan of $17,013 and $17,339 for the years ending December 31, 2022 and 2021, respectively.

Note 12 Leases

Future minimum rental payments required under non-cancellable building and operating leases are due as follows:

2023	$	23,800
Total	$	23,800

Effective March 1, 2023, the lease term was extended an additional five years to expire February 28, 2028, with a monthly base rental of $13,700.

Total rent expense was $148,323 for the years ended December 31, 2022 and 2021.

Rent expense has been included in occupancy expense on the consolidated statements of income.

The Company sub-leases a portion of their facilities on a month to month basis. Total rental income was $13,500 and $10,500 for the years ended December 31, 2022 and 2021, respectively, and has been reflected as a reduction of occupancy expenses on the consolidated statements of income.

Note 13 Borrowings

The Company has the following lines of credit available for federal funds purchased:

	Amount	Expiration Date
Frost Bank	$ 2,000,000	June 2024

No balance was outstanding at Frost Bank as of December 31, 2022, and 2021.

Federal Home Loan Bank Borrowings. The Company has a line available with the Federal Home Loan Bank, which is secured by a blanket lien on the loan portfolio. Unfunded advances available to the Company amounted to approximately $13,092,298 and $12,375,465 at December 31, 2022 and 2021, respectively. Total outstanding advances were $-0- as of December 31, 2022 and 2021. Interest expense totaled $-0- for the years ended December 31, 2022 and 2021.

Note 14 Financial Instruments with Off-Balance-Sheet Risk

The bank's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk, and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. The bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments is represented by the contractual or notional amount of those instruments. The bank uses the same credit policies in making such commitments as it does for on-balance-sheet instruments. At December 31, 2022 and 2021, the notional amounts of the bank's commitments to extend credit were $9,196,924 and $9,347,277, respectively. The notional amounts of the standby letters of credit were $25,000 at December 31, 2022 and 2021.

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 drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

Standby letters of credit are conditional lending commitments issued by the bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The bank has not incurred any losses on its commitments in either 2022 or 2021.

Note 15 Commitments and Contingent Liabilities

The Corporation and bank are subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Corporation and bank in connection with such possible claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the financial position of the Corporation and bank.

Note 16 Concentrations of Credit

A majority of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the bank's market area, which is Wilson and Bexar Counties. The concentrations of credit by type are set forth in Note 6. Although the bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the local real estate market and the agribusiness economic sector.

The Bank maintains cash balances and sells federal funds to several financial institutions. During the year, the balances may at times exceed federally insured limits. At December 31, 2022 and 2021, the bank's uninsured cash and federal funds balances total approximately $4,395,000 and $13,595,000, respectively. The Bank has not experienced any losses in such accounts which were the result of balances in excess of federally insured limits. The Bank believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 17 Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the bank'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 the bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As of December 31, 2020, the Bank has elected the Community Bank Leverage Ratio (CBLR) framework, which simplifies the Bank's required regulatory capital ratios. In order to use this framework, the Bank must meet and maintain certain eligibility criteria. If the Bank fails to meet the criteria in any quarter, it may resume using the framework in the next quarter it becomes eligible. Under this framework, the Bank is only required to calculate the CBLR ratio and is no longer required to calculate risk-weighted assets and related ratios. Under the CBLR framework, the Bank is considered to have satisfied all capital requirements under the generally applicable rule and to be well capitalized under the Prompt Corrective Action rules. Management believes, as of December 31, 2022 and 2021, that the bank meets all capital adequacy requirements to which it is subject.

As of the December 31, 2022 Call Report filing date, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain a minimum CBLR as disclosed in the following table. Under the CBLR, the minimum capital requirement is 8.5% for 2021, and 9% for 2022. There are no conditions or events since the most recent Call Report date that management believes have changed the bank's category.

Note 17 Regulatory Matters, Continued

The Bank's actual and required capital amounts and ratios are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
CBLR Ratio:						
Tier I Capital (to Average Total Assets less tier 1 deductions)	$ 7,783,000	12.36%	$ 5,669,000	9.00%	$ 5,669,000	9.00%

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
CBLR Ratio:						
Tier I Capital (to Average Total Assets less tier 1 deductions)	$ 7,498,000	12.16%	$ 5,241,000	8.50%	$ 5,241,000	8.50%

Note 18 Subsequent Events

Management has evaluated subsequent events through December 8, 2023, the date the consolidated financial statements were available to be issued.

Note 19 Recent Accounting Pronouncements

Current Expected Credit Loss

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments-Credit Losses. The new standard requires financial institutions to use a forward-looking model for their allowance for loan losses methodology, instead of a model based on historical incurred losses. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2022. The Company implemented the Current Expected Credit Loss (CECL) methodology in its loan loss methodology using the Weighted Average Remaining Maturity (WARM) method effective January 1, 2023. There was no meaningful change in the Bank's allowance for loan losses upon adoption of the CECL methodology.

Note 20 Fair Value Measurements

The Company follows the provisions of ASC 820, Fair Value Measurements and Disclosures. The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 roll forward information; (3) use of class basis rather than a major category basis for assets and liabilities and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Note 20 Fair Value Measurements, Continued

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

Level 2 – Observable inputs, other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets or other observable inputs that can be corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned.

Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets and for disclosures of certain financial instruments.

There were no significant transfers among the three hierarchy levels of input.

A description of valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale- Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quote prices of securities with similar characteristics, or discounted cash flows. Level 2 securities generally include certain US government and agency securities, corporate debt securities and liquid mortgage products. In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified within Level 3 of the valuation hierarchy. In accordance with the fair value hierarchy established by ASC 820, the Bank's investments are classified as Level 2 investments, as the fair values are based on quoted prices for similar assets in less active markets.

Note 20 Fair Value Measurements, Continued

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Other Real Estate Owned- Upon initial recognition, OREO is measured and reported at fair value less estimated costs of disposal through a charge-off to the allowance for loan losses based upon the fair value of the other real estate acquired. The fair value of other real estate owned is estimated based on appraisals with further adjustments made to the appraised values due to various factors, including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and on the collateral. Because the assumptions used to estimate the fair value of other real estate owned are not observable in the marketplace, such valuations have been classified as Level 3.

Supplementary Information

COMMERCE FINANCIAL CORPORATION AND SUBSIDIARIES
SAN ANTONIO, TEXAS

Consolidating Balance Sheet
December 31, 2022

	Commerce Financial Corporation	Security State Bancshares, Inc.	Commerce Bank Texas	Eliminations	Consolidated
ASSETS					
Cash and due from banks	$ 5,565	$ 568	$ 5,096,811	$ (6,133)	$ 5,096,811
Restricted cash	100	-	-	(100)	-
Investment securities available-for-sale, at fair value	-	-	15,345,353	-	15,345,353
Investment securities held-to-maturity, at amortized cost	-	-	9,973,331	-	9,973,331
Loans, net	-	-	29,808,453	-	29,808,453
Premises and equipment, net	-	-	557,162	-	557,162
Accrued interest receivable	-	-	250,742	-	250,742
Investment in subsidiary	7,699,475	7,698,907	-	(15,398,382)	-
Goodwill	-	-	2,574,991	-	2,574,991
Prepaid FIT	739	-	-	(739)	-
Deferred tax asset	307	-	627,140	-	627,447
FHLB stock	-	-	300,900	-	300,900
Intercompany receivable	6,239	-	-	(6,239)	-
Other assets	12,207	-	96,014	-	108,221
Total Assets	$ 7,724,632	$ 7,699,475	$ 64,630,897	$ (15,411,593)	$ 64,643,411
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits					
Non-interest bearing	$ -	$ -	$ 19,121,158	$ (6,233)	$ 19,114,925
Interest bearing	-	-	37,755,953	-	37,755,953
Total Deposits	-	-	56,877,111	(6,233)	56,870,878
Accrued interest payable	-	-	12,146	-	12,146
Income tax payable (receivable)	-	-	17,289	(739)	16,550
Intercompany payable	-	-	6,239	(6,239)	-
Other liabilities	5,679	-	19,205	-	24,884
Total Liabilities	5,679	-	56,931,990	(13,211)	56,924,458
Stockholders' Equity					
Common stock	841,280	796,800	500,000	(1,296,800)	841,280
Preferred stock	1,055,000	-	-	-	1,055,000
Additional paid-in capital	6,881,361	7,057,444	7,336,204	(14,393,648)	6,881,361
Retained earnings	1,599,266	2,503,185	2,520,657	(5,023,842)	1,599,266
Accumulated other comprehensive loss	(2,657,954)	(2,657,954)	(2,657,954)	5,315,908	(2,657,954)
Total Stockholders' Equity	7,718,953	7,699,475	7,698,907	(15,398,382)	7,718,953
Total Liabilities and Stockholders' Equity	$ 7,724,632	$ 7,699,475	$ 64,630,897	$ (15,411,593)	$ 64,643,411

See accompanying notes to the consolidated financial statements.

COMMERCE FINANCIAL CORPORATION AND SUBSIDIARIES
SAN ANTONIO, TEXAS

Consolidating Statement of Income
Year Ended December 31, 2022

	Commerce Financial Corporation	Security State Bancshares, Inc.	Commerce Bank Texas	Eliminations	Consolidated
INTEREST INCOME					
Loans, including fees	$ -	$ -	$ 1,664,103	$ -	$ 1,664,103
Investment securities	-	-	496,086	-	496,086
Other Interest Income	-	-	107,573	-	107,573
Total Interest Income	-	-	2,267,762	-	2,267,762
INTEREST EXPENSE	-	-	105,093	-	105,093
NET INTEREST INCOME	-	-	2,162,669	-	2,162,669
PROVISION FOR LOAN LOSSES	-	-	-	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	-	-	2,162,669	-	2,162,669
NON-INTEREST INCOME					
Equity in undistributed earnings of subsidiaries	282,495	282,495	-	(564,990)	-
Service charges on deposit accounts	-	-	59,299	-	59,299
Other		-	22,463	-	22,463
Dividend Income	121,000	121,000	-	(242,000)	-
Total Non-Interest Income	403,495	403,495	81,762	(806,990)	81,762
NON-INTEREST EXPENSE					
Salaries, wages and benefits	-	-	800,891	-	800,891
Occupancy and equipment	-	-	395,516	-	395,516
Other	-	-	535,513	-	535,513
Total Non-Interest Expense	-	-	1,731,920	-	1,731,920
INCOME BEFORE INCOME TAXES	403,495	403,495	512,511	(806,990)	512,511
INCOME TAX EXPENSE (BENEFIT)	-	-	109,016	-	109,016
NET INCOME	$ 403,495	$ 403,495	$ 403,495	$ (806,990)	$ 403,495

See accompanying notes to the consolidated financial statements.