Lexicon Bank

Financial Report
December 31, 2022

Contents

Independent Auditor's Report

Audit Committee
Lexicon Bank

Opinion
We have audited the financial statements of Lexicon Bank (the Bank), which comprise the balance sheets as of December 31, 2022 and 2021, the related statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

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

RSM US LLP

Las Vegas, Nevada
March 14, 2023

Lexicon Bank

Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and due from banks	$ 5,306,935	$ 17,145,625
Interest-bearing deposits at other financial institutions	65,494,023	64,804,968
Total cash and cash equivalents	70,800,958	81,950,593
Certificates of deposit at other financial institutions	993,000	992,000
Securities available-for-sale	27,164,395	22,854,428
Securities held to maturity	9,098,606	-
Loans, net (including Paycheck Protection Program (PPP) loans, net 2022 $14,266,938; 2021 $53,548,838)	133,188,217	138,620,878
Premises and equipment, net	1,385,814	1,565,988
Deferred tax asset	1,260,288	-
Right of use asset	1,992,154	-
Accrued interest receivable and other assets	1,553,604	1,143,988
Total assets	$ 247,437,036	$ 247,127,875
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 81,845,652	$ 86,989,403
Interest-bearing demand	120,470,854	69,482,948
Time, $250,000 or more	13,211,498	2,423,728
Time, under $250,000	4,138,932	35,977,884
Total deposits	219,666,936	194,873,963
Paycheck Protection Program Liquidity Facility (PPPLF)	-	24,995,735
Lease liability	2,554,882	-
Accrued interest payable and other liabilities	796,727	1,231,767
Total liabilities	223,018,545	221,101,465
Commitments and contingencies (Notes 8 and 9)		
Stockholders' equity:		
Common stock, $0.01 par value; 20,000,000 shares authorized; issued and outstanding: 2,552,231 at December 31, 2022 and 2021.	25,522	25,522
Additional paid-in capital	27,507,151	27,384,360
Accumulated deficit	(174,414)	(963,564)
Accumulated other comprehensive (loss)	(2,939,768)	(419,908)
Total stockholders' equity	24,418,491	26,026,410
Total liabilities and stockholders' equity	$ 247,437,036	$ 247,127,875

See notes to financial statements.

Lexicon Bank

Statements of Income
Years Ended December 31, 2022 and 2021

	2022	2021
Interest income on:		
Loans	**$ 5,230,595**	$ 3,574,607
PPP loans	**952,911**	5,453,329
Federal funds sold and other	**1,205,115**	105,504
Securities	**567,487**	309,689
Total interest income	**7,956,108**	9,443,129
Interest expense on:		
Deposits	**665,415**	211,687
PPPLF and other	**17,985**	337,919
Total interest expense	**683,400**	549,606
Net interest income	**7,272,708**	8,893,523
Provision for loan losses	**934,766**	356,655
Net income after provision for loan losses	**6,337,942**	8,536,868
Other income:		
Service charges and other	**429,637**	267,911
Other expenses:		
Salaries and employee benefits	**3,414,020**	3,014,375
Data processing	**777,942**	976,209
Legal, audit and professional fees	**459,143**	467,380
Occupancy	**421,266**	398,262
Depreciation	**202,105**	192,697
Marketing	**176,235**	176,502
Other	**689,443**	619,496
Total other expenses	**6,140,154**	5,844,921
Net income before income tax	627,425	2,959,858
(Benefit) provision for income taxes	**(308,359)**	322,000
Net income	**$ 935,784**	$ 2,637,858

See notes to financial statements.

Lexicon Bank

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

		2022		2021
Net income	**$**	**935,784**	$	2,637,858
Other comprehensive loss:				
Unrealized loss on securities, net of tax benefit of $781,458 for 2022 and $0 for 2021		**(2,519,860)**		(610,431)
Comprehensive (loss) income	**$**	**(1,584,076)**	$	2,027,427

See notes to financial statements.

Lexicon Bank

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

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2020	$ 21,090	$ 21,158,278	$ (3,601,422)	$ 190,523	$ 17,768,469
Net income	-	-	2,637,858	-	2,637,858
Issuance of common stock, net of costs	4,432	6,156,027	-	-	6,160,459
Stock compensation expense	-	70,055	-	-	70,055
Unrealized loss on securities available-for-sale	-	-	-	(610,431)	(610,431)
Balance, December 31, 2021	25,522	27,384,360	(963,564)	(419,908)	26,026,410
Cumulative effect of adoption of ASC 842	-	-	(146,634)	-	(146,634)
Net income	-	-	935,784	-	935,784
Stock compensation expense	-	122,791	-	-	122,791
Unrealized loss on securities available-for-sale	-	-	-	(2,519,860)	(2,519,860)
Balance, December 31, 2022	**$ 25,522**	**$ 27,507,151**	**$ (174,414)**	**$ (2,939,768)**	**$ 24,418,491**

See notes to financial statements.

Lexicon Bank

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

	2022	2021
Cash flows from operating activities:		
Net income	$ 935,784	$ 2,637,858
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	934,766	356,655
Depreciation	202,105	192,697
Gain on sale of security available-for-sale	-	(17,026)
Net accretion on investments	84,486	137,441
Stock compensation expense	122,791	70,055
Increase in deferred tax assets	(478,830)	-
Amortization of operating lease right of use assets	170,312	-
(Decrease) in lease liability	(168,634)	-
(Increase) decrease in accrued interest receivable and other assets	(409,616)	248,843
(Decrease) increase in accrued interest payable and other liabilities	(20,624)	273,261
Accretion of deferred loan fees, net	(168,788)	(242,630)
Accretion of deferred PPP loan fees, net	(692,950)	(4,460,135)
Net cash provided by (used in) operating activities	510,802	(802,981)
Cash flows from investing activities:		
Purchases of premises and equipment	(21,931)	(75,701)
Purchases of securities available-for-sale	(9,548,209)	(13,141,101)
Purchases of securities held to maturity	(9,104,635)	-
Proceeds on calls and sales of securities available-for-sale	320,000	1,940,750
Proceeds on principal paydowns of securities available-for-sale	1,538,467	2,823,898
Purchases of certificates of deposit at other financial institutions	(1,000)	(496,000)
Net changes in loans	(34,615,217)	(27,318,504)
Net changes in PPP loans	39,974,850	47,364,021
Net cash (used in) provided by investing activities	(11,457,675)	11,097,363
Cash flows from financing activities:		
Net increase in deposits	24,792,973	59,067,355
Proceeds from issuance of common stock, net	-	6,160,459
Principal payments on PPPLF	(24,995,735)	(72,227,852)
Net cash used in financing activities	(202,762)	(7,000,038)
Net (decrease) increase in cash and cash equivalents	(11,149,635)	3,294,344
Cash and cash equivalents:		
Beginning	81,950,593	78,656,249
Ending	$ 70,800,958	$ 81,950,593
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 815,682	$ 627,933
Cash payments for taxes	$ 251,023	$ 250,000
Supplemental schedule of noncash investing and financing activities:		
Right of use assets obtained in exchange for new operating lease liabilities	$ 2,162,466	$ -

See notes to financial statements.

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

Nature of business: Lexicon Bank (the Bank) provides banking services to commercial and consumer customers. As a state-chartered bank, the Bank is subject to regulation by the Federal Deposit Insurance Corporation (FDIC) and the Nevada State Division of Financial Institutions (NFID). The Bank was organized on August 24, 2018, and commenced operations on August 12, 2019. The Bank's business is concentrated in the Las Vegas, Nevada, area and is subject to the general economic conditions of that area. The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and general industry practices.

A summary of the significant accounting policies of the Bank follows:

Use of estimates in the preparation of financial statements: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the fair value of available-for-sale securities and the valuation allowances for the Bank's deferred tax assets.

Concentration of credit risk: A majority of the Bank's activities are with customers located within Southern Nevada. Note 3 discusses the types of loans in which the Bank invests.

Cash and cash equivalents: For purposes of the statement of cash flows, the Bank considers cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits at other financial institutions that have original maturities of three months or less to be cash and cash equivalents. Cash flows from loans originated by the Bank and deposits are reported net.

As of December 31, 2022 and 2021, the Bank does not have any significant restrictions on cash and due from banks.

The Bank maintains amounts due from banks that, at times, may exceed federally insured limits. The Bank has not experienced losses in such accounts.

Certificates of deposit with other financial institutions: Certificates of deposit with other financial institutions generally mature within two years and are carried at cost. None of these deposits exceeded the FDIC-insured limit at any one institution.

Securities: Securities classified as held to maturity are those debt securities that the Bank has both the intent and the ability to hold to maturity, regardless of changes in market condition, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method over their contractual lives. The sale of a security within three months of its maturity date or after at least 85 percent of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities classified as available-for-sale are those debt securities that the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses are reported as a separate component of other comprehensive loss. The amortization of premiums and accretion of discounts are recognized in interest income over their contractual lives.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions 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, including an evaluation of credit ratings, (3) the impact of changes in market interest rates, (4) the intent of the Bank to sell a security and (5) whether it is more likely than not that the Bank will have to sell the security before the recovery of its cost basis.

If the Bank intends to sell an impaired security, the Bank records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired, but the Bank does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

Loans: Loans are stated at the amount of unpaid principal, reduced by net deferred loan fees, and an allowance for loan losses.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on an evaluation of the collectability of loans and peer bank historical loan losses. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are classified as impaired and determined to have a measurable impairment. The general component relates to all other loans.

The general component covers nonimpaired loans and is based on peer bank historical losses adjusted for current factors. The historical loss experience is based on the actual loss history of peer banks over the most recent 10 years. This loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

The Bank's loan portfolio segments are as follows:

Commercial and industrial loans: Commercial and industrial loans are loans for commercial, corporate and business purposes. Repayment of these loans are generally largely dependent on the successful operations of the business. The Bank's commercial and industrial business loan portfolio comprises loans for a variety of purposes and generally are secured by equipment, machinery and other business assets. Commercial business loans generally have terms of five years or less and interest rates that float in accordance with a designated published index. Substantially all such loans are secured and backed by the personal guarantees of the owners of the business.

Commercial real estate loans: Commercial real estate loans, which include owner-occupied and nonowner-occupied (including multi-family), are primarily secured by office and industrial buildings, warehouses, small retail shopping centers and various special-purpose properties including restaurants. Repayment of these loans are generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Although terms vary, commercial real estate loans generally have an amortization of 25 years, as well as balloon payments of five to 10 years, and terms which provide that the interest rates thereon may be adjusted periodically at the Bank's discretion, based on a designated index.

Construction and land development loans: Construction and land development loans consist of vacant land and property that are in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs. Construction real estate loans generally have terms of one year to 18 months during the construction period and interest rates based on a designated index.

Consumer loans: Consumer Loans consist of indirect loans for consumers originated by a third party for the purposes of diversifying the Bank's lending portfolio and augmenting the loan yield. The Bank's indirect consumer loans are collateralized by classic autos to prime borrowers with high credit scores and annual income. Repayments of these loans are made by consumers and dependent upon the financial well-being of each individual borrower. The loans have an average life of 40 months and interest rates are fixed for the term.

Paycheck Protection Program loans: Paycheck Protection Program (PPP) loans are loans for corporate and business entities that meet the standards set forth by the Small Business Administration (SBA). The Bank's PPP loan portfolio comprises loans originated in accordance with SBA13 CFR Part 120 (Docket No. SBA-2020-0015), Business Loan Program Temporary Changes, Paycheck Protection Program and SBA13 CFR Parts 120 and 121 (Docket No. SBA-2021-0002), Business Loan Program Temporary Changes, Paycheck Protection Program Second Draw Loans. The PPP and loan forgiveness are intended to provide economic relief to small businesses nationwide adversely impacted under the Coronavirus Disease 2019 (COVID-19) Emergency Declaration (COVID-19 Emergency Declaration) issued on March 13, 2020. Loans originated under the PPP may be forgiven as long as loans were originated within the guidance set forth by the SBA. PPP loans generally have terms of two or five years and interest rates of 1% and include loan origination fees of 1% to 5%.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

In addition to the general component, the allowance also consists of a specific component. The specific component relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Troubled debt restructurings: A loan is classified as a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Bank grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. A loan that is modified at a market rate of interest may no longer be classified as a troubled debt restructuring in the year subsequent to the restructuring if it is in compliance with the modified terms. Performance prior to the restructuring is considered when assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of the restructuring or after a shorter performance period.

Interest and fees on loans: Interest on loans is recognized over the terms of the loans and is generally calculated using the effective interest method. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Cash collections on impaired loans are generally credited to the loan receivable balance, and no interest income is recognized on these loans until the principal balance has been collected.

The Bank determines a loan to be delinquent when payments have not been made according to the contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of collection. Consumer loans are typically charged off no later than 180 days delinquent.

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

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized as an adjustment of the related loan's yield. The Bank is generally amortizing these amounts over the contractual life of the loan. Commitment fees based upon a percentage of a customer's unused line of credit and fees related to standby letters of credit are generally recognized over the commitment period.

Revenue recognition: The Bank generally measures revenue based on the amount of consideration the Bank expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as the Bank satisfies its performance obligations under the contract, except in transactions where U.S. GAAP provides other applicable guidance. When the amount of consideration is variable, the Bank will only recognize revenue to the extent that it is probable that the cumulative amount recognized will not be subject to a significant reversal in the future. Substantially all of the Bank's contracts with customers have expected durations of one year or less and payments are typically due when or as the services are rendered or shortly thereafter. When third parties are involved in providing goods or services to customers, the Bank recognizes revenue on a gross basis when it has control over those goods or services prior to transfer to the customer; otherwise, revenue is recognized for the net amount of any fee or commission. The Bank excludes sales taxes from the recognition of revenue and recognizes the incremental costs of obtaining contracts as an expense if the period of amortization for those costs would be one year or less.

The Bank's interest income is derived from loans, securities and other short-term investments. The Bank recognizes interest income in accordance with the applicable guidance in U.S. GAAP for these assets. Refer to the interest and fees on loans section of this footnote for further information. The following provides additional information about the components of noninterest income:

- Service charges on deposits consist primarily of monthly service charges on consumer deposit accounts, transaction-based fees (such as overdraft fees and wire transfer fees), and other deposit account-related charges. The Bank's performance obligations for service charges on customer deposit accounts are typically satisfied over time while performance obligations for transaction-based fees are typically satisfied at a point in time. Revenue is recognized on an accrual basis when or as the services are provided to the customer, net of applicable discounts, waivers and reversals. Payments are typically collected from customers directly from the related deposit account at the time the transaction is processed and/or at the end of the customer's statement cycle (typically monthly).

- Other noninterest income includes income from certain fees derived from loans, gains and losses on other assets, and other miscellaneous revenues and gains.

Transfers of financial assets: Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loans receivable), the transfer must meet the definition of a participating interest in order to account for the transfer as a sale. Following are the characteristics of a participating interest:

- Pro rata ownership in an entire financial asset.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

- From the date of the transfer, all cash flows received from entire financial assets are divided proportionately among the participating interest holders in an amount equal to their share of ownership.

- The rights of each participating interest holder have the same priority, and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.

- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

Premises and equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives: furniture, fixtures and equipment, five years; and leasehold improvements, shorter of the lease term or useful lives of the improvements.

Income taxes: Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Leases: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Bank adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Bank has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Bank's historical accounting treatment under ASC Topic 840, Leases.

The Bank elected the package of practical expedients under the transition guidance within Topic 842, in which the Bank does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Bank has not elected to adopt the hindsight practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

The Bank determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Bank obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Bank also considers whether its service arrangements include the right to control the use of an asset.

The Bank made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Bank made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Bank has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate and equipment asset classes. The non-lease components typically represent additional services transferred to the Bank, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to the Bank’s operating leases of approximately $1,992,000 and $2,555,000, respectively, at January 1, 2022. The adoption of the new lease standard did not materially impact net income or cash flows and resulted in a cumulative-effect adjustment to the opening balance of Stockholders equity of ($146,634).

Advertising costs: Advertising costs are expensed as incurred.

Stock compensation plan: Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the grant-date fair value of the equity instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements, including stock options.

The stock compensation accounting guidance requires that compensation cost for all share-based awards be calculated and recognized over the employee’s requisite service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Black-Scholes option-pricing model is used to estimate the fair value of the stock options. The guidance also allows an entity-wide accounting policy to account for forfeitures as they occur, which the Bank has elected. Share-based awards are further described in Note 12.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

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

Recent accounting pronouncements: In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. ASU 2016-13 is effective for the Bank as of January 1, 2023. The Bank is currently evaluating the impact of adopting this new guidance on its financial statements and does not expect the impact to be significant.

Subsequent events: Subsequent events have been evaluated for potential recognition and disclosure through March 14, 2023, the date the financial statements were available to be issued.

Note 2. Securities

Amortized cost and estimated fair values of securities available-for-sale as of December 31, are summarized as follows:

Available-for-Sale

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 6,156,502	$ -	(572,841)	$ 5,583,661
Municipal bonds	7,895,819	1,110	(1,086,550)	6,810,379
Residential mortgage-backed securities	2,124,031	366	(391,151)	1,733,246
U.S. government and agencies	11,662,978	-	(1,427,921)	10,235,057
Corporate bonds	3,046,293	-	(244,241)	2,802,052
Total available-for-sale securities	$ 30,885,623	$ 1,476	$ (3,722,704)	$ 27,164,395

	2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 3,584,392	$ 4,857	$ (66,122)	$ 3,523,127
Municipal bonds	8,272,670	11,950	(78,548)	8,206,072
Residential mortgage-backed securities	2,441,902	-	(50,575)	2,391,327
U.S. government and agencies	8,975,374	-	(241,472)	8,733,902
Total available-for-sale securities	$ 23,274,338	$ 16,807	$ (436,717)	$ 22,854,428

Note 2. Securities (Continued)

Carrying amounts and estimated fair values of securities held to maturity as of December 31 are summarized as follows:

Held-to-Maturity

	2022							
		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value
Commercial mortgage-backed securities	$	2,602,638	$	-	$	(63,393)	$	2,539,245
U.S. government and agencies		6,495,971		-		(32,724)		6,463,247
Total available-for-sale securities	$	9,098,609	$	-	$	(96,117)	$	9,002,492

Contractual maturities of available for sale and held to maturity securities at December 31, 2022, are shown below. Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Because collateralized mortgage obligations, residential and commercial mortgage-backed securities and SBA fixed securities, which are included in U.S. government and agencies, are not due at a single maturity date; maturity schedules are not presented for these securities.

Contractual maturities of securities at December 31, 2022, are as follows:

	Available-for-Sale				Held-to-Maturity			
		Amortized Cost		Fair Value		Amortized Cost		Fair Value
Due less than one year	$	990,943	$	986,114	$	2,500,000	$	2,488,106
Due from one to five years		8,554,700		7,807,316		3,995,971		3,975,143
Due from five to ten years		10,227,257		8,979,234		-		-
Due greater than ten years		8,080,603		6,938,379		1,600,079		1,550,015
Collateralized mortgage obligations, residential and commercial mortgage-backed securities and SBA fixed securities		3,032,119		2,453,352		1,002,556		989,228
Total	$	30,885,622	$	27,164,395	$	9,098,606	$	9,002,492

Note 2. Securities (Continued)

The length of time individual securities have been in a continuous unrealized loss position at December 31 is summarized as follows:

Available-for-Sale

	2022					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Municipal bonds	$ -	$ -	$ 5,809,270	$ (1,086,550)	$ 5,809,270	$ (1,086,550)
U.S. government and agencies	2,903,442	(87,501)	7,331,614	(1,340,420)	10,235,056	(1,427,921)
Collateralized mortgage obligations and residential mortgage-backed securities	4,985,287	(89,050)	3,893,945	(874,942)	8,879,232	(963,992)
Corporate	2,802,052	(244,241)	-	-	2,802,052	(244,241)
Total	$10,690,781	$ (420,792)	$17,034,829	$ (3,301,912)	$27,725,610	$ (3,722,704)

	2021					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Municipal bonds	$ 4,098,438	$ (74,390)	$ 506,575	$ (4,158)	$ 4,605,013	$ (78,548)
U.S. government and agencies	4,840,370	(79,725)	3,893,531	(161,747)	8,733,901	(241,472)
Collateralized mortgage obligations and residential mortgage-backed securities	5,261,657	(116,697)	-	-	5,261,657	(116,697)
Total	$14,200,465	$ (270,812)	$ 4,400,106	$ (165,905)	$18,600,571	$ (436,717)

Held-to-Maturity

	2022					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agencies	$ 6,463,250	$ (32,724)	$ -	$ -	$ 6,463,250	$ (32,724)
Commercial mortgage-backed securities	2,539,242	(63,393)	-	-	2,539,242	(63,393)
Total	$ 9,002,492	$ (96,117)	$ -	$ -	$ 9,002,492	$ (96,117)

The Bank has evaluated these securities and determined that the decline in their value is not related to any bank, industry or specific event. Unrealized losses are generally due to increases in the market interest rate environment. The fair value of the securities is expected to recover as the securities approach their maturity date and as market interest rates change. The Bank has the ability and intent to hold the investments until the market value recovers.

Securities available for sale with an amortized cost of approximately $18,603,290 and fair value of $16,358,807 at December 31, 2022, were pledged to secure credit advances from FHLB. See Note 6.

Note 3. Loans

Loans are summarized as follows at December 31:

	2022	2021
Commercial and industrial	$ 22,328,709	$ 15,336,615
Real estate:		
Commercial owner-occupied	49,238,840	39,389,635
Commercial nonowner-occupied	45,401,527	25,039,333
Construction and land development	3,421,812	6,684,050
Consumer loans	332,772	-
PPP loans	14,292,246	54,267,097
	135,015,906	140,716,730
Less:		
Allowance for loan losses	1,488,755	1,079,680
Net deferred loan fees	338,934	1,016,172
	$ 133,188,217	$ 138,620,878

Beginning in April 2020, the Bank participated in the PPP, administrated by the SBA, in assisting borrowers with additional liquidity. PPP loans are 100% guaranteed by the SBA and carry a fixed rate of 1% with a two or five-year contractual maturity based on origination date, if not forgiven. The Bank also receives loan origination fees of 1% to 5% under the PPP. PPP borrowers are not required to make any payments of principal or interest on their PPP loan before the date on which SBA remits the loan forgiveness amount to the Bank (or notifies the Bank that no loan forgiveness is allowed) and, although PPP borrowers may submit an application for loan forgiveness at any time prior to the maturity date, if PPP borrowers do not submit a loan forgiveness application within 10 months after the end of their covered period, such borrowers will be required to begin paying principal and interest after that period.

No allowance for loan losses has been allocated to PPP loans due to the guarantee by the SBA.

The following tables present the contractual aging of the recorded investment in past due and still accruing loans, as well as nonaccrual loans, by class of loans as of December 31:

	2022					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total
Commercial and industrial	$ 22,328,709	$ -	$ -	$ -	$ -	$ 22,328,709
Real estate:						
Commercial nonowner-occupied	45,401,527	-	-	-	-	45,401,527
Commercial owner-occupied	49,238,840	-	-	-	-	49,238,840
Construction and land development	3,421,812	-	-	-	-	3,421,812
Consumer loans	332,772	-	-	-	-	332,772
PPP loans	14,180,092	112,154	-	-	-	14,292,246
Total	$ 134,903,752	$ 112,154	$ -	$ -	$ -	$ 135,015,906

Note 3. Loans (Continued)

	2021					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total
Commercial and industrial	$ 15,336,615	$ -	$ -	$ -	$ -	$ 15,336,615
Real estate:						
Commercial nonowner-occupied	25,039,333	-	-	-	-	25,039,333
Commercial owner-occupied	39,389,635	-	-	-	-	39,389,635
Construction and land development	6,684,050	-	-	-	-	6,684,050
PPP loans	54,267,097	-	-	-	-	54,267,097
Total	$ 140,716,730	$ -	$ -	$ -	$ -	$ 140,716,730

The Bank categorizes loans into the following risk categories based on relevant information about the ability of borrowers to service their debt:

Pass: A Pass asset is well protected by the current worth and paying capacity of the obligator (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner. Pass assets also include certain assets considered Watch that are still protected by the worth and paying capacity of the borrower, but deserve closer attention and a higher level of credit monitoring.

Special Mention: A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deteriorating prospects for the asset or in the institution's credit position at some future date. These assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard: A Substandard asset is inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged. Loss potential, while existing in the aggregate amount of Substandard loans, does not have to exist in individual assets.

Doubtful: A Doubtful asset has all the weaknesses inherent in the Substandard classification, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. These are poor-quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time.

Loss: An asset, or portion thereof, classified as Loss is considered uncollectible and of such little value that its continuance on the Bank's books as an asset is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value, but rather, there is much doubt about whether, how much or when the recovery would occur. As such, it is not practical or desirable to defer the write-off.

Consumer loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each reporting period.

Note 3. Loans (Continued)

The following tables present the risk category of loans evaluated by internal asset classification based on the most recent analysis performed and the contractual aging as of December 31:

	2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial and industrial	$ 22,328,709	$ -	$ -	$ -	$ -	$ 22,328,709
Real estate:						
Commercial nonowner-occupied	45,401,527	-	-	-	-	45,401,527
Commercial owner-occupied	49,238,840	-	-	-	-	49,238,840
Construction and land development	3,421,812	-	-	-	-	3,421,812
PPP Loans	14,180,092					14,180,092
Total	$ 134,570,980	$ -	$ -	$ -	$ -	$ 134,570,980

	2022		
	Performing	Non-Performing	Total
Consumer	$ 332,772	$ -	$ 332,772

	2021					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial and industrial	$ 15,336,615	$ -	$ -	$ -	$ -	$ 15,336,615
Real estate:						
Commercial nonowner-occupied	25,039,333	-	-	-	-	25,039,333
Commercial owner-occupied	39,389,635	-	-	-	-	39,389,635
Construction and land development	6,684,050	-	-	-	-	6,684,050
PPP loans	54,267,097	-	-	-	-	54,267,097
Total	$ 140,716,730	$ -	$ -	$ -	$ -	$ 140,716,730

There were no impaired loans as of December 31, 2022 or 2021, and therefore, the Bank was not committed to lend additional funds on any impaired loans.

During 2022 and 2021, the Bank had no troubled debt restructurings. As of December 31, 2022 and 2021, there were no loans on nonaccrual status. All loans were on accrual status and performing as agreed. No interest income was recognized on a cash basis relating to nonaccrual loans during the years ended December 31, 2022 or 2021.

Changes in the allowance for loan losses are as follows for the years ended December 31:

	2022	2021
Balance, beginning	$ 1,079,680	$ 723,025
Provision for loan losses	934,766	356,655
Charge-offs	(525,691)	-
Balance, ending	$ 1,488,755	$ 1,079,680

Note 3. Loans (Continued)

The following tables provide additional detail of the activity in the allowance for loan losses, by portfolio segment, for the years ended December 31:

2022							
		Real Estate					
	Commercial and Industrial	Commercial Owner-Occupied	Commercial Nonowner-Occupied	Construction and Land Development	Consumer	PPP	Total
Allowance for loan losses:							
Beginning, balance	$ 225,825	$ 449,556	$ 277,302	$ 126,997	$ -	$ -	$ 1,079,680
Provision	615,841	160,795	237,191	(85,251)	6,190	-	934,766
Charge-offs	(525,691)	-	-	-	-	-	(525,691)
Ending, balance	$ 315,975	$ 610,351	$ 514,493	$ 41,746	$ 6,190	$ -	$ 1,488,755
Period ended amount allocated to:							
Collectively evaluated for impairment	$ 315,975	$ 610,351	$ 514,493	$ 41,746	$ 6,190	$ -	$ 1,488,755
Individually evaluated for impairment	-	-	-	-	-	-	-
Ending, balance	$ 315,975	$ 610,351	$ 514,493	$ 41,746	$ 6,190	$ -	$ 1,488,755
Loans:							
Collectively evaluated for impairment	$ 22,328,709	$ 49,238,840	$ 45,401,527	$ 3,421,812	$ 332,772	$ 14,292,246	$ 135,015,906
Individually evaluated for impairment	-	-	-	-	-	-	-
Ending, balance	$ 22,328,709	$ 49,238,840	$ 45,401,527	$ 3,421,812	$ 332,772	$ 14,292,246	$ 135,015,906

2021							
		Real Estate					
	Commercial and Industrial	Commercial Owner-Occupied	Commercial Nonowner-Occupied	Construction and Land Development	Consumer	PPP	Total
Allowance for loan losses:							
Beginning, balance	$ 184,312	$ 150,722	$ 325,753	$ 62,238	$ -	$ -	$ 723,025
Provision	41,513	298,834	(48,451)	64,759	-	-	356,655
Ending, balance	$ 225,825	$ 449,556	$ 277,302	$ 126,997	$ -	$ -	$ 1,079,680
Period ended amount allocated to:							
Collectively evaluated for impairment	$ 225,825	$ 449,556	$ 277,302	$ 126,997	$ -	$ -	$ 1,079,680
Individually evaluated for impairment	-	-	-	-	-	-	-
Ending, balance	$ 225,825	$ 449,556	$ 277,302	$ 126,997	$ -	$ -	$ 1,079,680
Loans:							
Collectively evaluated for impairment	$ 15,336,615	$ 39,389,635	$ 25,039,333	$ 6,684,050	$ -	$ 54,267,097	$ 140,716,730
Individually evaluated for impairment	-	-	-	-	-	-	-
Ending, balance	$ 15,336,615	$ 39,389,635	$ 25,039,333	$ 6,684,050	$ -	$ 54,267,097	$ 140,716,730

Note 4. Premises and Equipment

Premises and equipment are summarized at December 31, as follows:

	2022	2021
Furniture, fixtures and equipment	$ 508,218	$ 487,327
Leasehold improvements	1,429,043	1,429,043
	1,937,261	1,916,370
Accumulated depreciation and amortization	(551,447)	(350,382)
	$ 1,385,814	$ 1,565,988

Note 5. Deposits

The scheduled maturities of time deposits at December 31, 2022, are as follows:

Years ending December 31:	
2023	$ 15,111,430
2024	-
2025	1,990,000
2026	249,000
	$ 17,350,430

At December 31, 2022, two unrelated depositors represented approximately $37,892,575 or 17%, of the Bank's total deposits. At December 31, 2021, two unrelated depositors represented approximately $21,855,000 or 11%, of the Bank's total deposits.

Note 6. PPPLF, FHLB Advances and Available Lines of Credit

The Bank has a borrowing agreement with the Federal Reserve Bank Discount Window pursuant to the Paycheck Protection Program Liquidity Facility (PPPLF). The PPPLF enables the Bank to fund PPP loans without taking on additional liquidity or funding risks by providing nonrecourse loans collateralized by the PPP loans. Borrowings under the PPPLF have a fixed rate of 0.35% with a term that matches the underlying loans pledged. At December 31, 2022 and 2021, the Bank had $0 and $24,995,735, respectively, in borrowings under the PPPLF, which were collateralized by PPP loans. All borrowings under the PPPLF have maturities between April of 2022 and April of 2023.

As of December 31, 2022, the Bank had borrowing capacity available with the FHLB of San Francisco equal to 25 percent of the Bank's total assets with original maximum maturity of 120 months. As of December 31, 2022, and 2021, the Bank had no advances outstanding.

The Bank has an unsecured Federal Funds line of credit with the Pacific Coast Bankers' Bank in the amount of $10,000,000. There were no amounts outstanding as of December 31, 2022 or 2021. This line expires on June 30, 2023.

In addition, the Bank has an unsecured Federal Funds line of credit with TIB, National Association in the amount of $6,600,000. There were no amounts outstanding as of December 31, 2022. This line does not have a stated maturity and is made available to the Bank at the discretion of TIB.

The Bank also closed an unsecured Federal Funds line of credit with Bankers' Bank of the West on November 16, 2022.

Note 7. Income Taxes

The Bank files income tax returns in the U.S. federal jurisdiction. The Bank identified its federal tax return as its major tax jurisdiction. The periods subject to examination for the Bank's federal tax return are 2019 and thereafter. The Bank believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to applicable guidance.

From time to time, the Bank may be assessed interest or penalties by tax jurisdictions. The Bank's policy is to include interest and penalties related to income taxes as a component of income tax expense.

Note 7. Income Taxes (Continued)

The net cumulative effects of the primary temporary differences as of December 31, are as follows:

	2022	2021
Deferred tax assets:		
Organization and start-up costs	230,896	250,830
Allowance for loan losses	252,552	164,735
Unrealized loss on securities	781,458	88,181
ROU Asset	536,525	-
Other	58,761	66,258
Total deferred tax assets	1,860,192	570,004
Deferred tax liabilities:		
Deferred loan costs	(43,265)	(16,065)
ROU Liability	(505,371)	-
Other	(51,268)	(29,339)
Total deferred tax liabilities	(599,904)	(45,404)
Net deferred tax assets	1,260,288	524,600
Less valuation allowance	-	(524,600)
	$ 1,260,288	$ -

At December 31, 2022 and 2021, the Bank recorded a valuation allowance of $0 and $524,600, respectively, to reduce deferred tax assets to an amount that management believes will ultimately be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income. In the opinion of management, the total deferred tax asset is more likely than not to be realized at December 31, 2022, primarily due to cumulative positive taxable income over the past three fiscal years with continued positive projections for taxable income in future years. Therefore, the Bank determined that a valuation allowance to reduce deferred tax assets was no longer needed at December 31, 2022.

The provision for income taxes for the years ended December 31, consists of the following:

	2022	2021
Current tax expense	$ 170,471	$ 322,000
Deferred (benefit) tax expense	(478,830)	-
	$ (308,359)	$ 322,000

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the year ended December 31, 2022, due to the following:

Computed expected tax expense	$ 131,759
Increase (decrease) in income taxes resulting from:	
Nondeductible expenses	(3,699)
Valuation allowance	(436,419)
	$ (308,359)

Note 8. Leases

The Bank leases real estate, including one branch location, and equipment under operating lease agreements that have initial terms ranging from three to eight years. Some leases include one or more options to renew, generally at the Bank's sole discretion, with renewal terms that can extend the lease term up to 15 years. In addition, certain leases contain termination options, where the rights to terminate are held by either the Bank, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Bank will exercise that option. The Bank's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term and was approximately $249,948 for the year ended December 31, 2022.

Short-term lease expense was approximately $31,600 for the year ended December 31, 2022, in relation to a month-to-month related party lease as described at Note 10.

Supplemental cash flow information relate to leases as follows:

Operating cash outflows—payments on leases during year ended December 31, 2022:	$	168,634
Right of use assets obtained in exchange for new lease obligations as of January 1, 2022:		2,162,466

Supplemental balance sheet information related to leases is as follows as of December 31, 2022:

Operating leases:		
Right-of-use assets	$	1,992,154
Lease liabilities		2,554,882
Weighted-average remaining lease term (Years)		11.05
Weighted-average discount rate		3.04%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2022:

		Operating Leases
Years ending December 31:		
2023	$	252,352
2024		274,425
2025		264,526
2026		240,118
2027		244,320
Thereafter		1,750,821
Total lease payments		3,026,562
Less imputed interest		(471,680)
Total present value of lease liabilities	$	2,554,882

Note 9. Commitments and Contingencies

Financial instruments with off-balance-sheet risk: The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit. They involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for these commitments is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contractual amounts of the Bank's exposure to off-balance-sheet risk as of December 31, is as follows:

	2022	2021
Commitments to extend credit, including unsecured commitments of $6,685,339 and $6,456,000, respectively	$ 16,926,909	$ 19,776,135

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 upon management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; income-producing commercial properties; and land loans.

Concentrations: The Bank makes commercial and commercial real estate loans to customers primarily in Southern Nevada. The Bank's loan portfolio includes a significant credit exposure to the real estate market of this area and upon the economic viability of this area. Substantially all of these loans are secured by first liens with an initial loan-to-value ratio of generally not more than 75%. Real estate loans accounted for approximately 70.3% and 45.8% of the total at December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, commercial real estate loans represent 67.9% and 42.6%, respectively, of total loans. Owner-occupied commercial real estate loans represent 52.0% and 65.7% of commercial real estate loans. The Bank has not experienced significant declines in current valuation for real estate during the year. If real estate values decline in the future, the Bank may have to increase its provision for loan losses

The Bank's loans are expected to be repaid from cash flow or from proceeds from the sale of selected assets of the borrowers. Additionally, at December 31, 2022 and 2021, unsecured loans accounted for approximately 4.03% and 0.52%, respectively, of total loans.

Executive agreements: The Bank has entered into agreements with its key employees, which state that in the event the Bank terminates the employment of these officers without cause, or upon change in control of the Bank, the Bank may be liable for the employees' salaries and benefits for a period of time as outlined in the agreements.

Legal contingencies: The Bank is subject to legal actions and complaints that arise in the ordinary course of business. However, management believes that the result from any legal actions and complaints will not materially affect the financial position of the Bank.

Note 9. Commitments and Contingencies (Continued)

Interest rate risk: The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed-rate obligations are less likely to prepay in the rising rate environment and more likely to prepay in a falling rate environment. Also, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits with terms that mitigate the Bank's overall interest rate risk. Approximately 22% and 45% of the Bank's loans as of December 31, 2022 and 2021, respectively, are fixed-rate loans. accordingly.

Note 10. Related-Party Transactions

In the course of ordinary business, the Bank has granted loans to officers, directors or their affiliates. At December 31, 2022 and 2021, there were no direct loans to such parties. Total borrowings were $0 for the years ended December 31, 2022 and 2021, and total repayments were $0 and $2,956,723 for the years ended December 31, 2022 and 2021, respectively.

There were no undisbursed loan commitments with related parties at December 31, 2022 or 2021.

None of these loans are past due, on nonaccrual status or restructured to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. There were no loans to a related party that the Bank considered adversely classified at December 31, 2022 or 2021.

Deposits from related parties in the normal course of business totaled approximately $3,100,141 and $4,889,163, at December 31, 2022 and 2021, respectively.

The Bank has a related-party market rate sublease with a director related to the Bank. The lease is month-to-month and provides for an average minimum monthly payment of $2,785. The lease has no set maturity date, and a written 6-month notice is required prior to termination of the lease.

Note 11. 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 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 classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Note 11. Regulatory Capital Requirements (Continued)

Effective January 1, 2020, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy for qualifying community banking organizations and generally exempts an institution from the risk-based capital and capital conservation buffer requirements. The Community Bank Leverage Ratio (CBLR) final rule will allow qualifying banks that opt-in to the CBLR framework to calculate and report a leverage ratio to measure capital adequacy replacing the risk-based capital reporting requirements. A qualifying community banking organization is defined as having less than $10 billion in total assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total assets, trading assets and liabilities of 5% or less of total assets and is not an advanced approaches institution. Meeting these qualifications, the Bank has elected to opt-in to the CBLR framework and began reporting as such starting with the March 31, 2020, Call Report.

On April 6, 2020, the federal banking regulators, implementing the applicable provisions of the CARES Act, issued interim rules which modified the CBLR framework so that: (i) beginning in the second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework; and (ii) community banking organizations will have until January 1, 2022, before the CBLR requirement is reestablished at greater than 9%. Under the interim rules, the minimum CBLR is 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The interim rules also maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1% below the applicable community bank leverage ratio. Assets originated under the PPP that are also pledged under the PPPLF are deducted from average total assets for purposes of the CBLR; however, such assets are included in total assets for purposes of determining the eligibility to elect the CBLR framework.

For the years ended December 31, 2022 and 2021, the Bank was required to maintain leverage ratios as follows:

	Actual		To Be Well-Capitalized Under CBLR Framework	
	Amount	Ratio	Amount	Ratio
As of December 31, 2022:				
Community Bank Leverage Ratio (CBLR)	$ 27,358,000	11.2%	$ 20,818,625	9.0%
As of December 31, 2021:				
Community Bank Leverage Ratio (CBLR)	$ 26,447,000	12.3%	$ 18,321,155	8.5%

The state of Nevada banking regulations restrict distribution of the net assets of the Bank because such regulations require the sum of the Bank’s stockholders’ equity and allowance for loan losses to be at least 6% of the average of the Bank’s total daily deposit liabilities for the preceding 60 days. As a result of these regulations, $12,926,798 and $11,599,164 of the Bank’s stockholders’ equity was restricted at December 31, 2022 and 2021, respectively.

Note 12. Fair Value Accounting

The Bank uses a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option-pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

Fair value on a recurring basis: Financial assets measured at fair value on a recurring basis include the following:

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

The table below presents the balance of securities available-for-sale at December 31, which is measured at fair value on a recurring basis:

	2022			
	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateralized mortgage obligations	$ 5,583,661	$ -	$ 5,583,661	$ -
Municipal bonds	6,810,379	-	6,810,379	-
Residential mortgage-backed securities	1,733,246	-	1,733,246	-
U.S. government and agencies	10,235,057	-	10,235,057	-
Corporate bonds	2,802,052		2,802,052	-
Total available-for-sale securities	$ 27,164,395	$ -	$ 27,164,395	$ -

Note 12. Fair Value Accounting (Continued)

	2021							
	Fair Value Measurements Using							
		Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Collateralized mortgage obligations	$	3,523,127	$	-	$	3,523,127	$	-
Municipal bonds		8,206,072		-		8,206,072		-
Residential mortgage-backed securities		2,391,327		-		2,391,327		-
U.S. government and agencies		8,733,902		-		8,733,902		-
Total available-for-sale securities	$	22,854,428	$	-	$	22,854,428	$	-

Securities available-for-sale consist mainly of AAA-rated U.S. government agency securities, mortgage-backed securities, collateralized mortgage obligations, corporate debt of U.S. based issuers and municipal bonds of U.S. based issuers. The Bank discloses securities available-for-sale at fair value on a recuring basis. The fair value of the Bank's securities available-for-sale is determined using Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments.

Note 13. Stock Option Plan

During 2019, the shareholders approved the 2018 Stock Option and Restricted Stock Award Plan (the Plan), which provided for a maximum of 316,350 shares of the Bank's stock to be issued under the Plan. The options to purchase shares may be issued to employees, officers and directors as either incentive stock options or nonqualified stock options. The Plan required that the exercise price be at least equal to the fair market value of the Bank's common stock at the date of the grant. Certain option awards provide for accelerated vesting if there is a change in control as described in the Plan agreement.

The fair value of each option award is estimated at the date of grant using Black-Scholes option-pricing valuation model, which utilizes the assumptions included in the table below. The expected term assumption reflects the period for which the Bank believes the options will remain outstanding. The assumption for the options is based on the average of the vesting period and the contractual term of the grant.

The Bank determined the volatility of its stock based on the volatility of a peer public bank over the expected life of the award. For purposes of identifying otherwise similar entities, the Bank considered characteristics such as industry, stage of life cycle and financial leverage. The Bank does not expect to pay any dividends over the estimated life of the options. The risk-free rate reflects the U.S. Department of the Treasury yield curve for a similar expected life instrument in effect at the time of the grant.

The following table provides information related to stock options granted during the year ended December 31:

	2022		2021
Expected term (in years)	7.00 - 10.00		6.50
Expected volatility	17.31 - 27.27%		25.70%
Expected dividends	0.00%		0.00%
Risk-free rate	1.65 - 3.42%		1.46%
Fair value per optional share	$4.17 - $6.31	$	3.49

Note 13. Stock Option Plan (Continued)

A summary of stock option activity under the Plan for the year ended December 31, 2022, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (Years)
Outstanding at December 31, 2021	98,000	$ 10	8
Granted	75,408	14	9
Exercised	-	-	
Forfeited	(3,000)	10	7
Outstanding at December 31, 2022	170,408	12	8
Vested and expected to vest at December 31, 2022	170,408	12	8
Exercisable at December 31, 2022	71,000	10	7

For the years ended December 31, 2022 and 2021, the compensation cost recognized for stock option compensation was $122,791 and $70,055, respectively. As of December 31, 2022 and 2021, there was approximately $370,000 and $82,000, respectively, of total unrecognized compensation cost associated with nonvested share-based compensation arrangements granted under the Plan. The remaining cost is expected to be recognized over a vesting period of three years. Option awards generally vest based on three years of continuous service and have 10-year contractual terms. Shares forfeited during the year become available to grant again. There were 142,942 and 218,350 shares available to be granted under the Plan at December 31, 2022 and 2021, respectively.

Note 14. Common Stock Offering and Warrants

In connection with the Bank's initial stock offering in 2019, organizers who contributed funds towards pre-opening expenses of the Bank received, for each $100 contributed, a 10-year warrant to acquire two shares of common stock of the Bank. Each unit was priced at $10 and the warrant exercise price was $10 per share. Under this offering, the Bank granted warrants to purchase 21,800 common stock shares. The fair value of the warrants was de minimis and there was no associated expense.

During 2021, the Bank commenced a private placement offering to investors that included a sale up to a maximum of 571,429 shares of common stock. Each share was priced at $14. Under this offering the Bank issued 443,231 shares and received proceeds of approximately $6,160,000, net of issuance costs of approximately $45,000.

There were no warrants exercised during the years ended December 31, 2022 or 2021, and all warrants are outstanding at December 31, 2022. All warrants have an expiration date set at the end of business on August 12, 2029.