Lexicon Bancorp

Consolidated Financial Statements
December 31, 2023 and 2022

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RSM

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Independent Auditor's Report

Audit Committee
Lexicon Bancorp

Opinion
We have audited the consolidated financial statements of Lexicon Bancorp and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter
As discussed in Note 1 and 3 to the financial statements, the Company changed its method of accounting for credit losses on financial instruments in 2023 due to the adoption of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (Credit Losses).* Our opinion is not modified with respect to this matter.

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 Company'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.

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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 Company's internal control. Accordingly, no such opinion is expressed.

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

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

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

RSM US LLP

Las Vegas, Nevada
April 5, 2024

Lexicon Bancorp

Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
Assets		
Cash and due from banks	**$ 4,792,652**	$ 5,306,935
Interest-bearing deposits at other financial institutions	**62,547,137**	65,494,023
Total cash and cash equivalents	**67,339,789**	70,800,958
Certificates of deposit at other financial institutions	**1,740,000**	993,000
Securities available-for-sale	**25,514,012**	27,164,395
Securities held-to-maturity	**6,097,982**	9,098,606
Noncontrolling equity investment	**560,739**	-
Loans, net (including Paycheck Protection Program (PPP) loans, net 2023—$9,518,717; 2022—$14,266,937)	**166,466,909**	133,188,217
Premises and equipment, net	**1,216,336**	1,385,814
Deferred tax asset	**1,259,351**	1,260,288
Right-of-use asset	**1,816,496**	1,992,154
Accrued interest receivable and other assets	**2,172,426**	1,553,604
Total assets	**$ 274,184,040**	$ 247,437,036
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing demand	**$ 105,920,976**	$ 81,845,652
Interest-bearing demand	**86,949,225**	120,470,854
Time, $250,000 or more	**20,207,907**	13,211,498
Time, under $250,000	**23,750,806**	4,138,932
Total deposits	**236,828,914**	219,666,936
Borrowings	**8,000,000**	-
Lease liability	**2,376,820**	2,554,882
Accrued interest payable and other liabilities	**1,013,450**	796,727
Total liabilities	**248,219,184**	223,018,545
Commitments and contingencies (Notes 8 and 9)		
Stockholders' equity:		
Preferred stock, $0.01 par value: 10,000,000 shares authorized; no shares issued or outstanding	**-**	-
Common stock, $0.01 par value; 20,000,000 shares authorized; issued and outstanding: 2,552,231 at December 31, 2023 and 2022	**25,522**	25,522
Additional paid-in capital	**27,641,996**	27,507,151
Retained earnings (accumulated deficit)	**780,406**	(174,414)
Accumulated other comprehensive loss, net of income taxes	**(2,483,068)**	(2,939,768)
Total stockholders' equity	**25,964,856**	24,418,491
Total liabilities and stockholders' equity	**$ 274,184,040**	$ 247,437,036

See notes to consolidated financial statements.

Lexicon Bancorp

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

	2023	2022
Interest income on:		
Loans	**$ 8,088,471**	$ 5,230,595
PPP loans	**124,858**	952,911
Federal funds sold and other	**2,837,353**	1,205,115
Securities	**983,581**	567,487
Total interest income	**12,034,263**	7,956,108
Interest expense on:		
Deposits	**2,927,561**	665,415
Borrowings	**31,411**	17,985
Total interest expense	**2,958,972**	683,400
Net interest income	**9,075,291**	7,272,708
Provision for credit losses	**1,186,374**	934,766
Net income after provision for credit losses	**7,888,917**	6,337,942
Other income:		
Income from noncontrolling equity investment	**77,049**	-
Service charges and other	**645,159**	429,637
Total other income	**722,208**	429,637
Other expenses:		
Salaries and employee benefits	**4,086,347**	3,414,020
Technology	**889,985**	782,066
Legal, audit and professional fees	**559,271**	459,143
Occupancy	**528,283**	421,266
Depreciation	**212,960**	202,105
Marketing and charitable contributions	**251,023**	217,971
Regulatory Assessments	**227,814**	209,262
Dues and subscription	**95,669**	95,232
Insurance	**92,856**	85,276
Other	**431,842**	253,813
Total other expenses	**7,376,050**	6,140,154
Net income before income tax	**1,235,075**	627,425
Provision (benefit) for income taxes	**265,662**	(308,359)
Net income	**$ 969,413**	$ 935,784

See notes to consolidated financial statements.

Lexicon Bancorp

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

		2023		2022
Net income	**$**	**969,413**	$	935,784
Other comprehensive income (loss):				
Unrealized gain (loss) on securities, net of tax of $121,401 for 2023 and $(781,458) for 2022		**456,700**		(2,519,860)
Comprehensive income (loss)	**$**	**1,426,113**	$	(1,584,076)

See notes to consolidated financial statements.

Lexicon Bancorp

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

	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2021	$ 25,522	$ 27,384,360	$ (963,564)	$ (419,908)	$ 26,026,410
Cumulative effect of change in accounting for leases	-	-	(146,634)	-	(146,634)
Net loss	-	-	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
Cumulative effect of change in accounting for credit losses	-	-	(14,593)	-	(14,593)
Net income	-	-	969,413	-	969,413
Stock compensation expense	-	134,845	-	-	134,845
Unrealized gain on securities available-for-sale	-	-	-	456,700	456,700
Balance, December 31, 2023	**$ 25,522**	**$ 27,641,996**	**$ 780,406**	**$ (2,483,068)**	**$ 25,964,856**

See notes to consolidated financial statements.

Lexicon Bancorp

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

	2023	2022
Cash flows from operating activities:		
Net income	$ 969,413	$ 935,784
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,186,374	934,766
Depreciation	211,448	202,105
Income from noncontrolling equity investment	(77,049)	-
Net accretion on investments	74,390	84,486
Stock compensation expense	134,845	122,791
Increase in deferred tax assets	(120,465)	(478,830)
Amortization of operating lease right-of-use assets	175,658	170,312
Decrease in lease liability	(178,062)	(168,634)
Increase in accrued interest receivable and other assets	(618,822)	(409,616)
Increase (decrease) in accrued interest payable and other liabilities	216,723	(20,624)
Accretion of deferred loan fees, net	(294,551)	(168,788)
Accretion of deferred PPP loan fees, net	(8,151)	(692,950)
Net cash provided by operating activities	1,671,751	510,802
Cash flows from investing activities:		
Purchases of premises and equipment	(41,970)	(21,931)
Purchases of securities available-for-sale	-	(9,548,209)
Purchases of securities held to maturity	(1,000,000)	(9,104,635)
Proceeds on calls and sales of securities available-for-sale	1,000,000	320,000
Proceeds on calls and sales of securities held to maturity	3,000,000	-
Proceeds on principal paydowns of securities available-for-sale	1,154,719	1,538,467
Proceeds on principal paydowns of securities held to maturity	1,000,000	-
Purchases of certificates of deposit at other financial institutions	(747,000)	(1,000)
Purchase of noncontrolling equity investment	(513,560)	-
Proceeds from noncontrolling equity investment	29,870	-
Net increases in loans	(38,349,914)	(34,615,217)
Net decreases in PPP loans	4,172,957	39,974,850
Net cash used in investing activities	(30,294,898)	(11,457,675)
Cash flows from financing activities:		
Net increase in deposits	17,161,978	24,792,973
Proceeds from borrowings	8,000,000	-
Principal payments on Paycheck Protection Program Liquidity Facility	-	(24,995,735)
Net cash provided by (used in) financing activities	25,161,978	(202,762)
Net decrease in cash and cash equivalents	(3,461,169)	(11,149,635)
Cash and cash equivalents:		
Beginning	70,800,958	81,950,593
Ending	$ 67,339,789	$ 70,800,958
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 2,856,717	$ 815,682
Cash payments for taxes	$ 390,000	$ 251,023
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 consolidated financial statements.

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

Nature of business: Lexicon Bancorp (the Bancorp) is a holding company whose subsidiary, Lexicon Bank (the Bank) provides banking services to commercial and consumer customers. As a state-chartered bank, Lexicon Bancorp and its subsidiary (the Company) are subject to regulation by the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board of Governors (Federal Reserve), and the State of Nevada Financial Institutions Division (NFID). The Bancorp was organized on July 7, 2023. The Company'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 Company 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 Company follows:

Principles of consolidation and change in reporting entity: During the year ended December 31, 2023, stockholders of the Bank exchanged their common stock in the Bank for common stock of the newly formed holding company, the Bancorp. The transaction was accounted for at historical cost.

The consolidated financial statements as of and for the year ended December 31, 2023, include the amounts of the Bancorp and the Bank. All significant intercompany balances and transactions were eliminated in consolidation.

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 credit losses, the fair value and impairment of securities and the valuation allowances for the Company's deferred tax assets.

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

Cash and cash equivalents: For purposes of the statement of cash flows, the Company 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 Company and deposits are reported net.

As of December 31, 2023 and 2022, the Company does not have any significant restrictions on cash and due from banks.

The Company maintains amounts due from banks that, at times, may exceed federally insured limits. The Company 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 (HTM) are those debt securities that the Company has both the intent and the ability to hold to maturity, regardless of changes in market conditions, 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% of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

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

Securities classified as available-for-sale (AFS) are those debt securities that the Company 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 Company'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.

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

Noncontrolling equity investment: Effective August 1, 2023, the Bancorp exercised an option, previously received by the Bank and transferred to the Bancorp, to acquire an investment in nonvoting common stock of PartnersHoldings LLC (Partners) for $513,560, including expenses of $13,558. Partners has a preferred nonvoting member investment in IconTrust LLC, a trustee services provider based in Las Vegas, Nevada. Under the equity method, the investment was accounted for initially at cost, with earnings recognized when earned through the income statement and subsequent distributions reducing the investment. At December 31, 2023, the investment totaled $560,739. For the year ended December 31, 2023, the earnings from the investment were $77,049.

Allowance for credit losses - investment securities: The credit loss model under Accounting Standards Codification (ASC) 326-20, Financial Instruments—Credit Losses, Measured at Amortized Cost, applicable to HTM debt securities, requires recognition of lifetime expected credit losses through an allowance account at the time the security is purchased. The Company measures expected credit losses on its HTM debt securities on a collective basis by major security type. The Company's HTM securities portfolio consists of agency mortgaged backed securities (MBS) and private label residential MBS. The estimate of expected credit losses considers historical data adjusted for current conditions and the expected effects of reasonable and supportable forecasts over the expected lives of the. Accrued interest receivable on HTM securities, which is included in Accrued interest receivable and other assets on the Consolidated Balance Sheet, is excluded from the estimate of expected credit losses.

The credit loss model under ASC 326-30, Financial Instruments—Credit Losses, Available for Sale Debt Securities, applicable to AFS debt securities, requires recognition of credit losses through an allowance account with credit losses recognized once securities become impaired. For AFS debt securities, a decline in fair value due to credit loss results in recognition of an Allowance for Credit Losses (ACL). Impairment may result from credit deterioration of the issuer or collateral underlying the security. An assessment to determine whether a decline in fair value resulted from a credit loss is performed at the individual security level. Among other factors, the Company considers: (1) the extent to which the fair value is less than the amortized cost basis; (2) the financial condition and near term prospects of the issuer, including consideration of relevant financial metrics or ratios of the issuer; (3) any adverse conditions related to an industry or geographic area of an issuer; (4) any changes to the rating of the security by a rating agency; and (5) any past due principal or interest payments from the issuer. If an assessment of the above factors indicates that a credit loss exists, the Company records an ACL for the excess of the amortized cost basis over the present value of cash flows expected to be collected, limited to the amount that the security's fair value is less than its amortized cost basis. Subsequent changes in the ACL are recorded as a provision for (or recovery of) credit loss expense. Interest accruals and amortization and accretion of premiums and discounts are suspended when a credit loss is recognized in earnings. Any interest received after the security has been placed on nonaccrual status is recognized on a cash basis. Accrued interest receivable on AFS debt securities, which is included in Accrued interest receivable and other assets on the Consolidated Balance Sheet, is excluded from the estimate of expected credit losses.

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

For each AFS security in an unrealized loss position, the Company also considers: (1) its intent to retain the security until anticipated recovery of the security's fair value; and (2) whether it is more-likely-than not that the Company would be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the debt security is written down to its fair value and the write-down is charged against the ACL with any incremental impairment recorded in earnings.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the amount of unpaid principal, reduced by net deferred loan fees, and charge-offs.

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 Company 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.

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 Company 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.

Allowance for credit losses—loans: The ACL is an estimate of life-of-loan losses. The ACL is a valuation account that is deducted from the amortized cost basis of a loan to present the net amount expected to be collected on that loan. Accrued interest receivable on loans, which is included in Accrued interest receivable and other assets on the Consolidated Balance Sheet, is excluded from the estimate of expected credit losses. The ACL is established through a provision for credit losses charged to expense.

Loans are charged against the ACL when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the ACL.

Management estimates the ACL using relevant information, from internal and external sources, related to historical losses, current conditions and reasonable and supportable forecasts. 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 Company's ACL and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

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

In estimating the ACL related to loans that share similar risk characteristics, loans are segregated into loan segments with shared risk characteristics based on product types and other risk characteristics. The Company's portfolio segments align with the methodology applied in estimating the ACL under Current Expected Credit Losses (CECL). The ACL is based on peer bank historical losses adjusted for current factors and reasonable and supportable forecasts. 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. The Company generally uses a forecast period of one to two years depending on the pool and at the end of the forecast period immediately reverts back to historical losses.

The Company'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 Company'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.

- **Owner-occupied commercial real estate loans:** Owner-occupied real estate loans are primarily secured by office, industrial and retail properties. Repayment of these loans is based on the successful operation of the underlying operating company. Although terms may vary, these 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 as agreed upon at the outset of the loan based on a designated index and spread.

- **Non-owner-occupied commercial real estate loans:** Non-owner-occupied real estate loans are primarily secured by office, industrial and retail properties. Repayment of these loans is based on the lease income generated from tenants in the properties. Although terms may vary, these 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 as agreed upon at the outset of the loan based on a designated index and spread.

- **Multifamily real estate loans:** The Bank provides investment property multifamily real estate loans on a limited basis to experienced operators. The repayment of the loan typically comes from the successful operation of the property. Although terms may vary, these 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 as agreed upon at the outset of the loan based on a designated index and spread.

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

- **Residential real estate loans*:*** The Bank provides investment property residential real estate loans on a limited basis to experienced operators. The repayment of the loan typically comes from the successful operation of the property. Although terms may vary, these 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 as agreed upon at the outset of the loan based on a designated index and spread.

- **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—vehicle loans*:*** Consumer Loans consist of indirect loans for consumers originated by a third party for the purposes of diversifying the Company's lending portfolio. The Company'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 Company'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%.

Loans that do not share risk characteristics with other loans in the segment are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for credit losses—off-balance sheet credit exposures: The Company maintains a separate ACL on off-balance sheet credit exposures on unfunded loan commitments, which is included in Accrued interest payable and other liabilities on the Consolidated balance sheets, unless that obligation is unconditionally cancelable by the Company. The ACL on off-balance-sheet credit exposures is adjusted through increases or decreases to the provision for credit loss expense, which is included in Other expense in the Statement of Income. The estimate included consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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

Revenue recognition: The Company generally measures revenue based on the amount of consideration the Company expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as the Company 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 Company 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 Company'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 Company 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 Company 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 Company's interest income is derived from loans, securities and other short-term investments. The Company 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 Company'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 Company, (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 Company 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.

- 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.

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

- 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 Company 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 Company 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 Company's historical accounting treatment under ASC Topic 840, Leases.

The Company elected the package of practical expedients under the transition guidance within Topic 842, in which the Company 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 Company 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.

The Company 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 Company 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 Company also considers whether its service arrangements include the right to control the use of an asset.

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

The Company 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 Company 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 Company 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 nonlease components typically represent additional services transferred to the Company, 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 Company'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 and are included with marketing and charitable contributions on the consolidated income statement.

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 Company has elected. Share-based awards are further described in Note 13.

Off-balance-sheet instruments: In the ordinary course of business, the Company 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.

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

Adoption of new accounting standard: On January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326), as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting principles generally accepted in the United States of America (U.S. GAAP). The Company recorded a net decrease to retained earnings of $14,593 as of January 1, 2023, for the cumulative effect of adopting ASC 326.

Recent accounting pronouncements: In December 2023, the FASB issued Accounting Standards Update (ASU) 2023-9, *Income Taxes—Improvements to Income Tax Disclosures,* which enhances transparency and decision usefulness of income tax disclosures. Possible enhancements include; (1) understand an entity's exposure to potential changes in jurisdictional tax legislation, and ensuing risks and opportunities, (2) assess income tax information that affects cash flow forecasts and capital allocation decisions, and (3) identify potential opportunities to increase future cash flows. The following specific categories need be disclosed: (a) state and local income tax, net of federal income tax effect, (b) foreign tax effects, (c) effect of changes in tax laws or rates enacted in the current period, (d) effect of cross-border tax laws, (e) tax credits, (f) changes in valuation allowances, (g) nontaxable or nondeductible items, (h) changes in unrecognized tax benefits. ASU 2023-9 is effective for the Company beginning after December 15, 2025. The Company is currently evaluating the impact this guidance will have on its financial statements.

Subsequent events: Subsequent events have been evaluated for potential recognition and disclosure through April 5, 2024, the date the consolidated 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:

	2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 5,445,762	$ 7,849	(564,955)	$ 4,888,656
Municipal bonds	7,840,199	310	(777,743)	7,062,766
Residential mortgage-backed securities	1,925,271	-	(332,802)	1,592,469
U.S. government and agencies	10,414,550	-	(1,323,142)	9,091,408
Corporate bonds	3,031,358	-	(152,645)	2,878,713
Total available-for-sale securities	$ 28,657,140	$ 8,159	$ (3,151,287)	$ 25,514,012

	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

The Company has not recorded an allowance for credit losses on available for sale securities. Accrued interest receivable on available-for-sale securities was $105,137 as of December 31, 2023.

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

	2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial mortgage-backed securities	$ 1,600,028	$ -	$ (27,442)	$ 1,572,586
U.S. government and agencies	4,497,954	283	(14,881)	4,483,356
Total held-to-maturity securities	$ 6,097,982	$ 283	$ (42,323)	$ 6,055,942

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial mortgage-backed securities	$ 2,602,635	$ -	$ (63,393)	$ 2,539,242
U.S. government and agencies	6,495,971	-	(32,724)	6,463,247
Total held-to-maturity securities	$ 9,098,606	$ -	$ (96,117)	$ 9,002,489

Note 2. Securities (Continued)

The Company has not recorded an allowance for credit losses on held-to-maturity securities. Accrued interest receivable on held-to-maturity securities was $63,978 as of December 31, 2023.

Contractual maturities of available-for-sale and held-to-maturity securities at December 31, 2023, 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, 2023, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	$ -	$ -	$ 3,000,000	$ 2,996,836
Due from one to five years	12,895,819	11,926,250	1,497,954	1,486,520
Due from five to ten years	1,516,097	1,362,898	-	-
Due greater than ten years	-	-	-	-
Collateralized mortgage obligations, residential and commercial mortgage-backed securities and SBA fixed securities	14,245,224	12,224,864	1,600,028	1,572,586
Total	$ 28,657,140	$ 25,514,012	$ 6,097,982	$ 6,055,942

The following tables summarize the Company's AFS debt securities in an unrealized loss position at December 31, aggregated by major security type and length of time in an unrealized loss position:

	2023					
	Less Than 12 Months		More Than 12 Months		Total	
Available-for-Sale	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Municipal bonds	$ -	$ -	$ 6,062,457	$ (777,743)	$ 6,062,457	$ (777,743)
U.S. government and agencies	-	-	9,091,409	(1,323,142)	9,091,409	(1,323,142)
Collateralized mortgage obligations and residential mortgage-backed securities	-	-	5,634,801	(897,757)	5,634,801	(897,757)
Corporate	-	-	2,878,713	(152,645)	2,878,713	(152,645)
Total	$ -	$ -	$ 23,667,380	$ (3,151,287)	$ 23,667,380	$ (3,151,287)

	2022					
	Less Than 12 Months		More Than 12 Months		Total	
Available-for-Sale	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)

Note 2. Securities (Continued)

The total number of AFS debt securities in an unrealized loss position at December 31, 2023, is 39, compared to 43 at December 31, 2022.

The following tables summarize the Company's HTM debt securities in an unrealized loss position at December 31, aggregated by major security type and length of time in an unrealized loss position:

	2023					
	Less Than 12 Months		More Than 12 Months		Total	
Held-to-Maturity	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agencies	$ 1,998,819	$ (1,182)	$ 1,984,256	$ (13,699)	$ 3,983,075	$ (14,881)
Commercial mortgage-backed securities	-	-	1,572,586	(27,442)	1,572,586	(27,442)
Total	$ 1,998,819	$ (1,182)	$ 3,556,842	$ (41,141)	$ 5,555,661	$ (42,323)

	2022					
	Less Than 12 Months		More Than 12 Months		Total	
Held-to-Maturity	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agencies	$ 6,463,247	$ (32,724)	$ -	$ -	$ 6,463,247	$ (32,724)
Residential mortgage-backed securities	2,539,242	(63,393)	-	-	2,539,242	(63,393)
Total	$ 9,002,489	$ (96,117)	$ -	$ -	$ 9,002,489	$ (96,117)

The Company performs an impairment analysis on its AFS debt securities that are in an unrealized loss position at the end of the year to determine whether credit losses should be recognized on these securities. U.S. government and agencies, collateralized mortgage obligations and mortgage-backed securities are either explicitly or implicitly guaranteed by the U.S. government and are highly rated, with principal and interest payments being made timely. Corporate and municipal bonds are highly rated investment grade securities and these issuers continue to make timely principal and interest payments. The Company has concluded that the unrealized losses on these securities primarily relate to changes in interest rates and other market conditions that are not considered to be credit-related losses. The Company does not intend these securities and it is more likely than not that the Company will not be required to sell the securities prior to their anticipated recovery. Therefore, no credit losses have been recognized on these securities at December 31, 2023.

The credit loss model under ASC 326-20, applicable to HTM debt securities, requires recognition of lifetime expected credit losses through an allowance account at the time the security is purchased. No allowance has been recognized on the Company's HTM portfolio as losses are not expected due to U.S. government backing or the high quality of the private MBS.

Securities available-for-sale with an amortized cost of approximately $9,763,000 and fair value of approximately $8,102,000 at December 31, 2023, were pledged to secure credit advances from FHLB. Securities with an amortized cost of approximately $10,521,000 and fair value of approximately $9,955,000 at December 31, 2023, were pledge to secure credit advances from the Federal Reserve Bank (FRB), under the terms of the Bank Term Funding Program (BTFP) (see Note 6).

Note 3. Loans

On January 1, 2023, the Company adopted the amendments within ASU 2016-13, using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet exposures. Accordingly, the Company's financial results for 2023 are presented in accordance with ASC 326 while prior year amounts have not been adjusted and continue to be reported in accordance with legacy GAAP.

The Bank's primary portfolio segments were updated in 2023 to align with the methodology applied in estimating the allowance for credit losses under ASC 326.

Loans are summarized as follows at December 31:

	2023
Commercial and industrial	$ 24,013,028
Real estate:	
Owner-occupied commercial	58,466,300
Non-owner-occupied commercial	46,162,187
Multifamily	5,604,463
Residential	3,741,207
Construction and land development	8,086,930
Consumer—vehicle loans	13,167,937
PPP loans	9,535,874
	168,777,926
Less:	
Allowance for credit losses	2,389,085
Net deferred loan costs	(78,068)
	$ 166,466,909

	2022
Commercial and industrial	$ 22,328,709
Real estate:	
Commercial owner-occupied	49,238,840
Commercial non-owner-occupied	45,401,527
Construction and Land development	3,421,812
Consumer—vehicle loans	332,772
PPP loans	14,292,246
	135,015,906
Less:	
Allowance for loan losses	1,488,755
Net deferred loan fees	338,934
	$ 133,188,217

Note 3. Loans (Continued)

Beginning in April 2020, the Company 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 Company 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 Company (or notifies the Company 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.

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:

	2023					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due	Total
Commercial and industrial	$ -	$ -	$ -	$ -	$ 24,013,028	$ 24,013,028
Real estate:						
Commercial owner-occupied	-	-	-	-	58,466,300	$ 58,466,300
Commercial non-owner-occupied	-	-	-	-	46,162,187	$ 46,162,187
Multifamily	-	-	-	-	5,604,463	$ 5,604,463
Residential	-	-	-	-	3,741,207	$ 3,741,207
Construction and land development	-	-	-	-	8,086,930	$ 8,086,930
Consumer loans	-	-	-	-	13,167,937	$ 13,167,937
PPP loans	-	-	-	-	9,535,874	$ 9,535,874
Total	$ -	$ -	$ -	$ -	$ 168,777,926	$ 168,777,926

	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 non-owner-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

The Company 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.

Note 3. Loans (Continued)

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 Company'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.

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:

	2023					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial and industrial	$ 24,013,028	$ -	$ -	$ -	$ -	$ 24,013,028
Real estate:						
Commercial owner-occupied	56,553,923	1,912,377	-	-	-	58,466,300
Commercial non-owner-occupied	46,162,187	-	-	-	-	46,162,187
Multifamily	5,604,463	-	-	-	-	5,604,463
Residential	3,741,207	-	-	-	-	3,741,207
Construction and land development	8,086,930	-	-	-	-	8,086,930
Consumer Auto Loans	13,167,937	-	-	-	-	13,167,937
PPP Loans	9,306,520	-	-	-	229,354	9,535,874
Total	$ 166,636,195	$ 1,912,377	$ -	$ -	$ 229,354	$ 168,777,926

	2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial and industrial	$ 22,328,709	$ -	$ -	$ -	$ -	$ 22,328,709
Real estate:						
Commercial non-owner-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

Note 3. Loans (Continued)

In 2022, Consumer loans were assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment was completed at the end of the reporting period.

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

During 2023, the Company had no modifications to borrowers experiencing financial difficulty. In 2022, the Company had no troubled debt restructurings. As of December 31, 2023 and 2022, 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, 2023 or 2022.

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

	2023	2022
Balance, beginning prior to adoption of ASC 326	$ 1,488,755	$ 1,079,680
Impact of adopting ASC 326	11,327	-
Provision for credit losses	1,186,374	934,766
Charge-offs	(297,371)	(525,691)
Recoveries	-	-
Balance, ending	$ 2,389,085	$ 1,488,755

Note 3. Loans (Continued)

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

	2023								
		Real Estate							
	Commercial and Industrial	Commercial Owner-Occupied	Commercial Non-owner-Occupied	Multifamily	Residential	Construction and Land Development	Consumer Auto	PPP	Total
Beginning balance	$ 315,975	$ 610,351	$ 409,833	$ 68,683	$ 35,977	$ 41,746	$ 6,190	$ -	$ 1,488,755
Impact of adopting ASC 326	(37,828)	44,317	3,626	2,368	2,570	(4,957)	1,231	-	11,327
Provision	303,535	168,083	127,828	(1,875)	7,630	57,204	294,615	229,354	1,186,374
Charge-offs	(297,371)	-	-	-	-	-	-	-	(297,371)
Ending, balance	$ 284,311	$ 822,751	$ 541,287	$ 69,176	$ 46,177	$ 93,993	$ 302,036	$ 229,354	$ 2,389,085
Period ended amount allocated to:									
Collectively evaluated for impairment	$ 284,311	$ 822,751	$ 541,287	$ 69,176	$ 46,177	$ 93,993	$ 302,036	$ -	$ 2,159,731
Individually evaluated for impairment	-	-	-	-	-	-	-	229,354	229,354
Ending, balance	$ 284,311	$ 822,751	$ 541,287	$ 69,176	$ 46,177	$ 93,993	$ 302,036	$ 229,354	$ 2,389,085
Loans:									
Collectively evaluated for impairment	$ 24,013,028	$ 58,466,300	$ 46,162,187	$ 5,604,463	$ 3,741,207	$ 8,086,930	$ 13,167,937	$ 9,306,520	$ 168,548,572
Individually evaluated for impairment	-	-	-	-	-	-	-	229,354	229,354
Ending, balance	$ 24,013,028	$ 58,466,300	$ 46,162,187	$ 5,604,463	$ 3,741,207	$ 8,086,930	$ 13,167,937	$ 9,535,874	$ 168,777,926

	2022						
		Real Estate					
	Commercial and Industrial	Commercial Owner-Occupied	Commercial Non-owner-Occupied	Construction and Land Development	Consumer	PPP	Total
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

Note 4. Premises and Equipment

Premises and equipment are summarized at December 31 as follows:

	2023	2022
Furniture, fixtures and equipment	$ 530,188	$ 508,218
Leasehold improvements	1,449,043	1,429,043
	1,979,231	1,937,261
Accumulated depreciation and amortization	(762,895)	(551,447)
	$ 1,216,336	$ 1,385,814

Note 5. Deposits

The scheduled maturities of time deposits at December 31, 2023, are as follows:

Years ending December 31:	
2024	$ 40,705,076
2025	3,243,267
2026	-
2027	-
2028	10,370
	$ 43,958,713

At December 31, 2023, there were no major unrelated depositors that represented 5% or more of the Company's total deposits. At December 31, 2022, two unrelated depositors represented approximately $37,892,575 or 17% of the Company's total deposits. Brokered deposits totaled approximately $2,517,000 and $0 on December 31, 2023 and December 31, 2022, respectively.

Note 6. Borrowings and Available Lines of Credit

The Company has a borrowing agreement with the Federal Reserve Bank Discount Window pursuant to the Bank Term Funding Program (BTFP). The BTFP offers loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging any collateral eligible for purchase by the Federal Reserve Banks in open market operations, such as U.S. Treasuries, U.S. agency securities, and U.S. agency mortgage-backed securities. At December 31, 2023 and 2022, the Company had $7,500,000 and $0, respectively, in borrowings under the BTFP, which were collateralized by securities. All borrowings under the BTFP have maturities of December 2024.

In July 2023, the Company established an unsecured line of credit with another financial institution, with a variable interest rate of prime (8.5% at December 31, 2023) plus 1%. The business loan is interest only and has a maturity date of July 11, 2029. The business loan had a balance of $500,000 as of December 31, 2023.

As of December 31, 2023, the Company had borrowing capacity available with the FHLB of San Francisco equal to 25% of the Company's total assets with original maximum maturity of 120 months. As of December 31, 2023 and 2022, the Company had no advances outstanding.

The Company 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, 2023 or 2022. This line expires on June 30, 2024.

Note 6. Other Borrowings and Available Lines of Credit (Continued)

In addition, the Company 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, 2023. This line does not have a stated maturity and is made available to the Company at the discretion of TIB.

Note 7. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction. The Company identified its federal tax return as its major tax jurisdiction. The periods subject to examination for the Company's federal tax return are 2020 and thereafter. The Company 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 Company may be assessed interest or penalties by tax jurisdictions. The Company's policy is to include interest and penalties related to income taxes as a component of income tax expense.

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

	2023	2022
Deferred tax assets:		
Organization and start-up costs	211,247	230,896
Allowance for credit losses—loans	428,651	252,552
Allowance for credit losses—unfunded commitments	23,985	-
Unrealized loss on securities	660,057	781,458
ROU liability	499,132	536,525
Other	31,353	58,761
Total deferred tax assets	1,854,425	1,860,192
Deferred tax liabilities:		
Deferred loan costs	(141,952)	(43,265)
ROU asset	(381,464)	(505,371)
Other	(71,658)	(51,268)
Total deferred tax liabilities	(595,074)	(599,904)
Net deferred tax assets	$ 1,259,351	$ 1,260,288

At December 31, 2023 and 2022, the Company recorded no valuation allowance. 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, 2023, primarily due to cumulative positive taxable income over the past three fiscal years with continued positive projections for taxable income in future years.

Note 7. Income Taxes (Continued)

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

	2023	2022
Current tax expense	$ 386,126	$ 170,471
Deferred (benefit) tax expense	(120,464)	(478,830)
	$ 265,662	$ (308,359)

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, 2023, due to the following:

Computed expected tax expense	$ 259,365
Increase (decrease) in income taxes resulting from:	
Permanent items	6,297
	$ 265,662

Note 8. Leases

The Company 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 Company'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 Company, 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 Company will exercise that option. The Company'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 $210,300 and $249,948 for the years ended December 31, 2023 and 2022, respectively.

Short-term lease expense was approximately $54,500 and $31,600 for the years ended December 31, 2023 and 2022, respectively, 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
Operating cash outflows—payments on leases during year ended December 31, 2023	$ 252,352

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

	2023	2022
Operating leases:		
Right-of-use assets	$ 1,816,496	$ 1,992,154
Lease liabilities	2,376,820	2,554,882
Weighted-average remaining lease term (years)	10.17	11.05
Weighted-average discount rate	3.03%	3.04%

Note 8. Leases (Continued)

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the consolidated balance sheet are as follows as of December 31, 2023:

	Operating Leases
Years ending December 31:	
2024	$ 274,425
2025	264,526
2026	240,118
2027	244,320
2028	251,650
Thereafter	1,499,172
Total lease payments	2,774,211
Less imputed interest	(397,391)
Total present value of lease liabilities	$ 2,376,820

Note 9. Commitments and Contingencies

Financial instruments with off-balance-sheet risk: The Company 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 Company'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 Company 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 Company's exposure to off-balance-sheet risk as of December 31 is as follows:

	2023	2022
Commitments to extend credit, including unsecured commitments of $3,629,996 and $6,685,339, respectively	$ 21,133,088	$ 16,926,909

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company 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.

Note 9. Commitments and Contingencies (Continued)

Concentrations: The Company makes commercial and commercial real estate loans to customers primarily in Southern Nevada. The Company'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 72.3% and 70.3% of the total at December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, commercial real estate loans represent 67.51% and 67.9%, respectively, of total loans. Owner-occupied commercial real estate loans represent 51.30% and 52.0% of commercial real estate loans. The Company has not experienced significant declines in current valuation for real estate during the year. If real estate values decline in the future, the Company may have to increase its provision for loan losses.

The Company'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, 2023 and 2022, unsecured loans accounted for approximately 2.69% and 4.03%, respectively, of total loans.

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

Legal contingencies: The Company 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 Company.

Interest rate risk: The Company 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 Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. 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, liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits with terms that mitigate the Company's overall interest rate risk. Approximately 26% and 22% of the Company's loans as of December 31, 2023 and 2022, respectively, are fixed-rate loans.

Note 10. Related-Party Transactions

In the ordinary course of business, the Company may grant loans to officers, directors or their affiliates. At December 31, 2023 and 2022, there were no direct loans to such parties. There were no undisbursed loan commitments with related parties at December 31, 2023 or 2022.

Deposits from related parties in the normal course of business totaled approximately $2,773,051 and $3,100,141 at December 31, 2023 and 2022, respectively.

The Company has a related-party market rate sublease with a director of the Company. The lease is month-to-month and provides for an average minimum monthly payment of $4,921. The lease has no set maturity date, and a written six-month notice is required prior to termination of the lease.

Note 11. Regulatory Capital Requirements

The Company is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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 Company has elected to opt-in to the CBLR framework and began reporting as such starting with the March 31, 2020, Call Report.

As of December 31, 2023 and 2022, 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, 2023:				
Community Bank Leverage Ratio (CBLR)	$ 28,345,000	11.0%	$ 21,925,070	9.0%
As of December 31, 2022:				
Community Bank Leverage Ratio (CBLR)	$ 27,358,000	11.2%	$ 20,818,625	9.0%

The state of Nevada banking regulations restricts distribution of the net assets of the Bank because such regulations require the sum of the Bank 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, $13,793,137 and $12,926,798 of the Bank's stockholders' equity was restricted at December 31, 2023 and 2022, respectively.

Nevada law provides that no distribution (including dividends on, or redemption or repurchases of, shares of capital stock) may be made if, after giving effect to such distribution, the Company would not be able to pay its debts as they become due in the usual course of business, or, except as specifically permitted by the articles of incorporation, the Company's total assets would be less than the sum of its total liabilities plus the amount that would be needed at the time of a dissolution to satisfy the preferential rights of stockholders whose preferential rights are superior to those receiving the distribution.

Note 12. Fair Value Accounting

The Company 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 Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms 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:

	2023			
	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	$ 4,888,656	$ -	$ 4,888,656	$ -
Municipal bonds	7,062,766	-	7,062,766	-
Residential mortgage-backed securities	1,592,469	-	1,592,469	-
U.S. government and agencies	9,091,408	-	9,091,408	-
Corporate bonds	2,878,713		2,878,713	-
Total available-for-sale securities	$ 25,514,012	$ -	$ 25,514,012	$ -

Note 12. Fair Value Accounting (Continued)

	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	$ -

Securities available-for-sale consist mainly of investment grade 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 Company discloses securities available-for-sale at fair value on a recuring basis. The fair value of the Company'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 Company's stock to be issued under the Plan. Effective in 2023, the shareholders approved an amendment to the Plan to allow for a maximum of 382,830 shares to be issued under the Plan, representing approximately 15% of the Company's outstanding shares. 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 Company'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 Company 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 Company determined the volatility of its stock based on the volatility of relevant banks over the expected life of the award. For purposes of identifying otherwise similar entities, the Company considered characteristics such as industry, stage of life cycle and financial leverage. The Company 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.

Note 13. Stock Option Plan (Continued)

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

	2023	2022
Expected term (in years)	7.00 – 10.00	7.00 – 10.00
Expected volatility	13.93% – 19.59%	17.31% – 27.27%
Expected dividends	0.00%	0.00%
Risk-free rate	3.56% – 4.21%	1.65% – 3.42%
Fair value per optional share	$4.27 – $5.82	$4.17 – $6.31

A summary of stock option activity under the Plan for the year ended December 31, 2023, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (Years)
Outstanding at December 31, 2022	170,408	$ 12	8
Granted	44,467	14	9
Exercised	-	-	
Forfeited	(13,451)	14	8
Outstanding at December 31, 2023	201,424	12	8
Vested and expected to vest at December 31, 2023	201,424	12	8
Exercisable at December 31, 2023	89,000	11	7

For the years ended December 31, 2023 and 2022, the compensation cost recognized for stock option compensation was $134,845 and $122,791, respectively. As of December 31, 2023 and 2022, there was approximately $364,003 and $370,000, 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 to five 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 181,406 and 142,942 shares available to be granted under the Plan at December 31, 2023 and 2022, respectively.

Note 14. Common Stock Offering and Warrants

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

There were no warrants exercised during the years ended December 31, 2023 or 2022, and all warrants are outstanding at December 31, 2023. All warrants have an expiration date set at the end of business on August 12, 2029.