# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2024**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from____to____**

**Commission file number: 001-38656**

# BANK7 CORP.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Oklahoma** | **20-0764349** |
| ( State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **1039 N.W. 63rd Street, Oklahoma City, Oklahoma** | **73116** |
| (Address of principal executive offices) | (Zip Code) |

**Registrant's telephone number, including area code: (405) 810-8600**
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.01 par value | BSVN | The NASDAQ Global Select Market |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an "emerging growth company". See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

As of May 15, 2024, the registrant had 9,247,956 shares of common stock, par value $0.01, outstanding.

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**Forward-Looking Statements**

This Form 10-Q contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "intends" and similar words or phrases. Any or all of the forward-looking statements in (or conveyed orally regarding) this presentation may turn out to be inaccurate. The inclusion of or reference to forward-looking information in this presentation should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. We have based these forward-looking statements largely on its current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of risks, uncertainties and assumptions that are difficult to predict. Factors that could cause such differences are discussed in the section titled "Risk Factors" in our most recent Annual Report on Form 10-K, and may be discussed from time to time in our other SEC filings, including our Quarterly Reports. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. You are cautioned not to place undue reliance on forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as may be required by law. All forward-looking statements herein are qualified by these cautionary statements.

**Bank7 Corp.**
Unaudited Condensed Consolidated Balance Sheets
(Dollar amounts in thousands, except par value)

| **Assets** | **March 31, 2024 (unaudited)** | **December 31, 2023** |
|---|---|---|
| Cash and due from banks | $ 193,218 | $ 181,042 |
| Interest-bearing time deposits in other banks | 17,181 | 17,679 |
| Available-for-sale debt securities | 151,872 | 169,487 |
| Loans, net of allowance for credit losses of $ 19,696 and $19,691 at March 31, 2024 and December 31, 2023, respectively | 1,354,195 | 1,341,148 |
| Loans held for sale | - | 718 |
| Premises and equipment, net | 15,376 | 14,942 |
| Nonmarketable equity securities | 1,278 | 1,283 |
| Core deposit intangibles | 970 | 1,031 |
| Goodwill | 8,458 | 8,458 |
| Interest receivable and other assets | 32,435 | 35,878 |
| Total assets | $ 1,774,983 | $ 1,771,666 |
| **Liabilities and Shareholders' Equity** | | |
| Deposits | | |
| Noninterest-bearing | $ 452,326 | $ 482,349 |
| Interest-bearing | 1,127,846 | 1,109,042 |
| Total deposits | 1,580,172 | 1,591,391 |
| Income taxes payable | 3,946 | 302 |
| Interest payable and other liabilities | 10,483 | 9,647 |
| Total liabilities | 1,594,601 | 1,601,340 |
| Shareholders' equity | | |
| Common stock, $0.01 par value; 50,000,000 shares authorized; shares issued and outstanding: 9,238,206 and 9,197,696 at March 31, 2024 and December 31, 2023, respectively | 92 | 92 |
| Additional paid-in capital | 97,669 | 97,417 |
| Retained earnings | 88,310 | 78,962 |
| Accumulated other comprehensive loss | (5,689) | (6,145) |
| Total shareholders' equity | 180,382 | 170,326 |
| Total liabilities and shareholders' equity | $ 1,774,983 | $ 1,771,666 |

*See accompanying notes to Consolidated Financial Statements*

**Bank7 Corp.**
Unaudited Condensed Consolidated Statements of Comprehensive Income
(Dollar amounts in thousands, except per share data)

| | Three months ended March 31, 2024 | 2023 |
|---|---|---|
| **Interest Income** | | |
| Loans, including fees | $ 30,117 | $ 25,352 |
| Interest-bearing time deposits in other banks | 253 | 49 |
| Debt securities, taxable | 1,012 | 706 |
| Debt securities, tax-exempt | 73 | 87 |
| Other interest and dividend income | 1,832 | 1,186 |
| Total interest income | 33,287 | 27,380 |
| **Interest Expense** | | |
| Deposits | 11,277 | 7,374 |
| Total interest expense | 11,277 | 7,374 |
| **Net Interest Income** | 22,010 | 20,006 |
| **Provision for Credit Losses** | - | 475 |
| **Net Interest Income After Provision for Credit Losses** | 22,010 | 19,531 |
| **Noninterest Income** | | |
| Mortgage lending income | 51 | 54 |
| Loss on sales, prepayments, and calls of available-for-sale debt securities | - | (1) |
| Service charges on deposit accounts | 249 | 235 |
| Other | 1,708 | 384 |
| Total noninterest income | 2,008 | 672 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 5,289 | 4,680 |
| Furniture and equipment | 230 | 249 |
| Occupancy | 661 | 719 |
| Data and item processing | 458 | 386 |
| Accounting, marketing and legal fees | 99 | 298 |
| Regulatory assessments | 386 | 394 |
| Advertising and public relations | 145 | 148 |
| Travel, lodging and entertainment | 51 | 61 |
| Other | 1,816 | 714 |
| Total noninterest expense | 9,135 | 7,649 |
| **Income Before Taxes** | 14,883 | 12,554 |
| Income tax expense | 3,595 | 2,947 |
| **Net Income** | $ 11,288 | $ 9,607 |
| Earnings per common share - basic | $ 1.22 | $ 1.05 |
| Earnings per common share - diluted | 1.21 | 1.04 |
| Weighted average common shares outstanding - basic | 9,220,154 | 9,146,932 |
| Weighted average common shares outstanding - diluted | 9,317,813 | 9,264,247 |
| **Other Comprehensive Income** | | |
| Unrealized gains on securities, net of tax expense of $0 and $554 for the three months ended March 31, 2024 and 2023, respectively | $ 456 | $ 1,755 |
| Reclassification adjustment for realized losses included in net income net of tax of $ 0 and $0 for the three months ended March 31, 2024 and 2023, respectively | - | 1 |
| Other comprehensive income | $ 456 | $ 1,756 |
| **Comprehensive Income** | $ 11,744 | $ 11,363 |

*See accompanying notes to Consolidated Financial Statements*

**Bank7 Corp.**
Unaudited Condensed Consolidated Statements of Shareholders' Equity
(Dollar amounts in thousands, except per share data)

| | Three Months Ended March 31, 2024 | 2023 |
|---|---|---|
| **Common Stock (Shares)** | | |
| Balance at beginning of period | 9,197,696 | 9,131,973 |
| Exercise of employee stock options | 4,251 | 11,737 |
| Shares issued for restricted stock units | 51,511 | 13,234 |
| Shares acquired and canceled | (15,252) | (4,967) |
| Balance at end of period | 9,238,206 | 9,151,977 |
| **Common Stock (Amount)** | | |
| Balance at beginning of period | $ 92 | $ 91 |
| Shares issued for restricted stock units | - | 1 |
| Balance at end of period | $ 92 | $ 92 |
| **Additional Paid-in Capital** | | |
| Balance at beginning of period | $ 97,417 | $ 95,263 |
| Shares purchased and retired for restricted stock units | (417) | (136) |
| Exercise of stock options | 65 | 208 |
| Stock-based compensation expense | 604 | 506 |
| Balance at end of period | $ 97,669 | $ 95,841 |
| **Retained Earnings** | | |
| Balance at beginning of period | $ 78,962 | $ 58,049 |
| Net income | 11,288 | 9,607 |
| Cumulative effect of change in accounting principle, net of tax of $0 and $178 for March 31, 2024 and 2023, respectively | - | (572) |
| Cash dividends declared ($0.21 and $0.16 per share for March 31, 2024 and 2023, respectively) March 31, 2024 and 2023, respectively) | (1,940) | (1,464) |
| Balance at end of period | $ 88,310 | $ 65,620 |
| **Accumulated Other Comprehensive Loss** | | |
| Balance at beginning of period | $ (6,145) | $ (9,303) |
| Comprehensive income | 456 | 1,756 |
| Balance at end of period | $ (5,689) | $ (7,547) |
| **Total Shareholders' equity** | $ 180,382 | $ 154,006 |

*See accompanying notes to Consolidated Financial Statements*

**Bank7 Corp.**
Unaudited Condensed Consolidated Statements of Cash Flows
(Dollar Amounts in thousands)

| | Three Months Ended March 31, 2024 | Three Months Ended March 31, 2023 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 11,288 | $ 9,607 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 295 | 326 |
| Provision for credit losses | - | 475 |
| (Accretion)Amortization of premiums and discounts on securities | (374) | 92 |
| Gain on sales of loans | (51) | (54) |
| Net loss on sale of available-for-sale debt securities | - | 1 |
| Stock-based compensation expense | 604 | 506 |
| Cash receipts from the sale of loans originated for sale | 4,157 | 2,914 |
| Cash disbursements for loans originated for sale | (3,388) | (2,860) |
| Deferred income tax benefit | (125) | (245) |
| Changes in | | |
| Interest receivable and other assets | 3,568 | (1,012) |
| Interest payable and other liabilities | 4,472 | 3,823 |
| Net cash provided by operating activities | 20,446 | 13,573 |
| **Investing Activities** | | |
| Maturities of interest-bearing time deposits in other banks | 2,245 | 1,495 |
| Purchases of interest-bearing time deposits in other banks | (1,747) | (997) |
| Maturities, prepayments and calls of available-for-sale debt securities | 102,322 | 2,414 |
| Purchases of available-for-sale debt securities | (83,877) | - |
| Net change in loans | (13,047) | (8,855) |
| Purchases of premises and equipment | (668) | (219) |
| Change in nonmarketable equity securities | 5 | (6) |
| Net cash provided by (used in) investing activities | 5,233 | (6,168) |
| **Financing Activities** | | |
| Net change in deposits | (11,219) | 62,259 |
| Cash distributions | (1,932) | (1,463) |
| Shares purchased and retired for restricted stock units | (417) | (136) |
| Net settlement of stock options | 65 | 208 |
| Common stock issued for restricted stock units | - | 1 |
| Net cash provided by (used in) financing activities | (13,503) | 60,869 |
| **Net Increase in Cash and Due from Banks** | 12,176 | 68,274 |
| **Cash and Due from Banks, Beginning of Period** | 181,042 | 109,115 |
| **Cash and Due from Banks, End of Period** | $ 193,218 | $ 177,389 |
| **Supplemental Disclosure of Cash Flows Information** | | |
| Interest paid | $ 11,182 | $ 7,058 |
| Income taxes paid | $ 97 | $ 21 |
| Dividends declared and not paid | $ 1,940 | $ 1,464 |
| Measurement period goodwill adjustment | $ - | $ (146) |

*See accompanying notes to Consolidated Financial Statements*

**Bank7 Corp.**
Notes to Unaudited Condensed Consolidated Financial Statements

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Bank7 Corp. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Bank7 (the “Bank”). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers located in Oklahoma, Texas, and Kansas. The Bank is subject to competition from other financial institutions. The Company is subject to the regulation of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

***Basis of Presentation***

The accompanying unaudited interim condensed consolidated financial statements contained herein reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the financial position, results of operations, and cash flows of the Company for the interim periods presented. All such adjustments are of a normal and recurring nature. The have been no significant changes in the accounting policies of the Company since December 31, 2023, the date of the most recent annual report. The condensed consolidated balance sheet of the Company as of December 31, 2023 has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and notes normally included in the Company’s annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The information contained in the financial statements and footnotes included in Company’s annual report for the year ended December 31, 2023, should be referred to in connection with these unaudited interim consolidated financial statements. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company, the Bank and its two subsidiaries, 1039 NW 63rd, LLC, which holds real estate utilized by the Bank, and Giddings Production, LLC, which is engaged in the production of oil, natural gas and natural liquid (“NGL”) reserves in Texas.All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 relate to the determination of the allowance for credit losses, valuation of other real estate owned, income taxes, goodwill and intangibles and fair values of financial instruments.

***Recent Accounting Pronouncements***

Standards Not Yet Adopted:

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"), primarily focused on income tax disclosures regarding effective tax rates and cash income taxes paid. ASU 2023-09 requires public business entities, on an annual basis, to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income by the applicable statutory income tax rate). ASU 2023-09 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2024, with early adoption permitted. The Company will complete an evaluation of the impact this standard will have on its results of operations, financial position or disclosures.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which expands reportable segment disclosure requirements through enhanced disclosures about significant segment expenses. The amendments in this update introduce a new requirement to disclose significant segment expenses regularly provided to the chief operating decision maker, extend certain annual disclosures to interim periods, clarify that single reportable segment entities must apply Topic 280 in its entirety, permit more than one measure of segment profit or loss to be reported under certain conditions and require disclosure of the title and position of the chief operating decision maker. ASU 2023-07 is effective for public business entities for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The adoption of ASU 2023-07 is not expected to have a material impact on the Company's operations, financial position or disclosures.

**Note 2: Recent Events, Including Mergers and Acquisitions**

***Acquisition***

On October 31, 2023, the Company entered into an asset purchase and sale agreement, effective September 1, 2023, to acquire proven oil and natural gas properties from HB2 Origination, LLC, which consisted of nine wells in formations in four counties in Texas for $15.4 million in cash. On November 17, 2023, the transaction closed for a total purchase price of $15.1 million, after closing adjustments. As a part of the purchase, the Company assumed asset retirement obligations of $ 0.4 million that were included in "interest payable and other liabilities" on the consolidated balance sheets as of December 31, 2023. The acquisition was considered an asset acquisition and did not meet the definition of a business under ASC 805, Business Combinations. Additionally, transaction costs of $ 1.4 million were capitalized into oil and gas properties related to this acquisition. The purchase price and related asset retirement obligations were allocated based on the relative fair values of the assets acquired and $1.7 million was allocated to proved leasehold costs while the remaining $ 15.4 million was allocated to "interest receivable and other assets" on the consolidated balance sheets.

As of March 31, 2024, the Company had oil and gas assets and related receivables of $ 13.9 million included in "interest receivable and other assets" on the consolidated balance sheets, assets retirement obligations and oil and gas related liabilities of $850,000 included in "interest payable and other liabilities" on the consolidated balance sheets, oil and gas related revenues of $1.4 million included in "Other" noninterest income on the consolidated statements of comprehensive income, and oil and gas related expenses of $1.2 million included in "Other" noninterest expense on the consolidated statements of comprehensive income.

As of December 31, 2023, the Company had oil and gas assets and related receivables of $ 16.8 million included in "interest receivable and other assets" on the consolidated balance sheets, assets retirement obligations and oil and gas related liabilities of $1.3 million included in "interest payable and other liabilities" on the consolidated balance sheets, oil and gas related revenues of $6.0 million included in "Other" noninterest income on the consolidated statements of comprehensive income, and oil and gas related expenses of $4.8 million included in "Other" noninterest expense on the consolidated statements of comprehensive income.

**Note 3: Restriction on Cash and Due from Banks**

On March 26, 2020, the Federal Reserve Board reduced reserve requirement ratios to zero percent, effectively eliminating reserve requirements for all depository institutions. There was no reserve requirement as of March 31, 2024.

**Note 4: Earnings Per Share**

Basic earnings per common share represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period. Basic EPS is computed based upon net income divided by the weighted average number of common shares outstanding during the year.

Diluted EPS represents the amount of earnings for the period available to each share of common stock outstanding including common stock that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during each reporting period. Diluted EPS is computed based upon net income divided by the weighted average number of common shares outstanding during each period, adjusted for the effect of dilutive potential common shares, such as restricted stock awards and nonqualified stock options, calculated using the treasury stock method.

The following table shows the computation of basic and diluted earnings per share:

| | As of and for the three months ended March 31, | |
|---|---|---|
| | **2024** | **2023** |
| *(Dollars in thousands, except per share amounts)* | | |
| **Numerator** | | |
| Net income | $ 11,288 | $ 9,607 |
| | | |
| **Denominator** | | |
| Weighted-average shares outstanding for basic earnings per share | 9,220,154 | 9,146,932 |
| Dilutive effect of stock compensation (1) | 97,659 | 117,315 |
| Denominator for diluted earnings per share | 9,317,813 | 9,264,247 |
| | | |
| **Earnings per common share** | | |
| Basic | $ 1.22 | $ 1.05 |
| Diluted | $ 1.21 | $ 1.04 |

(1) The following have not been included in diluted earnings per share because to do so would have been antidilutive for the periods presented: Nonqualified stock options outstanding of 5,000 and 5,000 for the three month periods ended March 31, 2024 and 2023, respectively; Restricted stock units outstanding of 50,000 and 161,311 for the three month periods ended March 31, 2024 and 2023, respectively.

**Note 5: Debt Securities**

The following table summarizes the amortized cost and fair value of debt securities available-for-sale at March 31, 2024 and December 31, 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

| *(in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-sale as of March 31, 2024** | | | | |
| U.S. Federal agencies | $ 93 | $ - | $ (2) | $ 91 |
| Mortgage-backed securities(1)(2) | 37,220 | - | (4,138) | 33,082 |
| State and political subdivisions | 26,234 | - | (1,530) | 24,704 |
| U.S. Treasuries | 90,382 | 3 | (768) | 89,617 |
| Corporate debt securities | 5,500 | - | (1,122) | 4,378 |
| Total available-for-sale | 159,429 | 3 | (7,560) | 151,872 |
| Total debt securities | 159,429 | 3 | (7,560) | 151,872 |

| *(in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-sale as of December 31, 2023** | | | | |
| U.S. Federal agencies | $ 138 | $ - | $ (3) | $ 135 |
| Mortgage-backed securities(1)(2) | 38,465 | - | (3,963) | 34,502 |
| State and political subdivisions | 27,368 | - | (1,512) | 25,856 |
| U.S. Treasuries | 106,030 | - | (1,373) | 104,657 |
| Corporate debt securities | 5,500 | - | (1,163) | 4,337 |
| Total available-for-sale | 177,501 | - | (8,014) | 169,487 |
| Total debt securities | 177,501 | - | (8,014) | 169,487 |

(1) All of our mortgage-backed securities and collateralized mortgage obligations are issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored entities.

(2) Included in amortized cost of mortgage-backed securities is $ 24.09 million and $ 24.80 million of residential mortgage-backed securities and $13.13 million and $13.67 million of commercial mortgage-backed securities as of March 31, 2024 and December 31, 2023, respectively .

The amortized cost and estimated fair value of investment securities at March 31, 2024 and December 31, 2023, by contractual maturity, are shown below. The expected life of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay the underlying mortgage loans with or without call or prepayment penalties.

| *(in thousands)* | Amortized Cost | Fair Value |
|---|---|---|
| **Available-for-sale as of March 31, 2024** | | |
| Due in one year or less | $ 89,148 | $ 89,090 |
| Due after one year through five years | 17,052 | 15,956 |
| Due after five years through ten years | 15,847 | 13,603 |
| Due after ten years | 162 | 141 |
| Mortgage-backed securities | 37,220 | 33,082 |
| Total available-for-sale | 159,429 | 151,872 |

| *(in thousands)* | Amortized Cost | Fair Value |
|---|---|---|
| **Available-for-sale as of December 31, 2023** | | |
| Due in one year or less | $ 105,944 | $ 105,186 |
| Due after one year through five years | 15,654 | 14,675 |
| Due after five years through ten years | 17,276 | 14,980 |
| Due after ten years | 162 | 144 |
| Mortgage-backed securities | 38,465 | 34,502 |
| Total available-for-sale | 177,501 | 169,487 |

There was one holding of securities of issuers in an amount greater than 10% of stockholders equity at March 31, 2024, a U.S. Treasury note with a fair value of $84.36 million.

The following table presents a summary of realized gains and losses from the sale, prepayment and call of debt securities:

| *(in thousands)* | Three Months Ended March 31, 2024 | Three Months Ended March 31, 2023 |
|---|---|---|
| Proceeds from sales, maturities, prepayments and calls | $ 102,322 | $ 2,414 |
| Gross realized losses on sales, prepayments and calls | - | (1) |
| Total realized (losses), net | $ - | $ (1) |

The following table details book value of pledged securities as of March 31, 2024 and December 31, 2023:

| *(in thousands)* | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Book value of pledged securities | $ 107,535 | $ 121,283 |

The following table details gross unrealized losses and fair values of investment securities aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at March 31, 2024 and December 31, 2023. As of March 31, 2024, the Company had the ability and intent to hold the debt securities classified as available-for-sale for a period of time sufficient for a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying debt securities were purchased or acquired. The fair value of those debt securities having unrealized losses is expected to recover as the securities approach their maturity date or repricing date, or if market yields for such investments decline. Management has no intent or requirement to sell before the recovery of the unrealized loss; therefore, no impairment loss was realized in the Company's consolidated statements of comprehensive income.

| | Less than Twelve Months | | Twelve Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** |
| *(in thousands)* | | | | | | |
| **Available-for-sale as of March 31, 2024** | | | | | | |
| U.S. Federal agencies | $ - | $ - | $ 91 | $ (2) | $ 91 | $ (2) |
| Mortgage-backed securities | - | - | 33,082 | (4,138) | 33,082 | (4,138) |
| State and political subdivisions (1) | 172 | (3) | 24,532 | (1,527) | 24,704 | (1,530) |
| U.S. Treasuries | - | - | 5,258 | (768) | 5,258 | (768) |
| Corporate debt securities | - | - | 4,378 | (1,122) | 4,378 | (1,122) |
| Total available-for-sale | $ 172 | $ (3) | $ 67,341 | $ (7,557) | $ 67,513 | $ (7,560) |

| | Less than Twelve Months | | Twelve Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** |
| *(in thousands)* | | | | | | |
| **Available-for-sale as of December 31, 2023** | | | | | | |
| U.S. Federal agencies | $ - | $ - | $ 135 | $ (3) | $ 135 | $ (3) |
| Mortgage-backed securities | - | - | 34,502 | $ (3,963) | 34,502 | (3,963) |
| State and political subdivisions (1) | 1,160 | (5) | 24,696 | $ (1,507) | 25,856 | (1,512) |
| U.S. Treasuries | - | - | 104,657 | $ (1,373) | 104,657 | (1,373) |
| Corporate debt securities | - | (195) | 4,337 | $ (968) | 4,337 | (1,163) |
| Total available-for-sale | $ 1,160 | $ (200) | $ 168,327 | $ (7,814) | $ 169,487 | $ (8,014) |

(1) Of our state and political subdivision securities, $21.70 million and $22.84 million are rated BBB+ or better and $3.01 million and $3.02 million are not rated as of March 31, 2024 and December 31, 2023, respectively.

**Note 6: Loans and Allowance for Credit Losses**

A summary of loans at March 31, 2024 and December 31, 2023, are as follows (dollars in thousands):

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Construction & development | $ 143,721 | $ 137,206 |
| 1 - 4 family real estate | 116,092 | 100,576 |
| Commercial real estate - other | 513,513 | 518,622 |
| Total commercial real estate | $ 773,326 | $ 756,404 |
| | | |
| Commercial & industrial | 525,752 | 526,185 |
| Agricultural | 62,132 | 66,495 |
| Consumer | 15,069 | 14,517 |
| | | |
| Gross loans | 1,376,279 | 1,363,601 |
| | | |
| Less allowance for credit losses | (19,696) | (19,691) |
| Less deferred loan fees | (2,388) | (2,762) |
| | | |
| Net loans | $ 1,354,195 | $ 1,341,148 |

Included in the commercial & industrial loan balances are $2.0 million of loans that were originated under the SBA PPP program as of March 31, 2024 and December 31, 2023, respectively.

**Allowance for Credit Losses Methodology**

On January 1, 2023, the Company adopted ASU 2016-13, which replaces the incurred loss methodology for determining its provision for credit losses and allowance for credit losses with an expected loss methodology that is referred to as the CECL model. Upon adoption, the allowance for credit losses was increased by $250,000 and $500,000 for loans and unfunded commitments, respectively, with no impact to the consolidated statement of income.

The following table presents, by portfolio segment, the activity in the allowance for credit losses for the three months ended March 31, 2024 and 2023 (dollars in thousands):

| | Construction & Development | 1 - 4 Family Real Estate | Commercial Real Estate - Other | Commercial & Industrial | Agricultural | Consumer | Total |
|---|---|---|---|---|---|---|---|
| **March 31, 2024** | | | | | | | |
| Loans | | | | | | | |
| Balance, beginning of period | $ 1,417 | $ 1,271 | $ 6,889 | $ 9,237 | $ 628 | $ 249 | $ 19,691 |
| Charge-offs | - | - | - | - | - | - | - |
| Recoveries | - | - | - | 5 | - | - | 5 |
| Net (charge-offs) recoveries | - | - | - | 5 | - | - | 5 |
| Provision (credit) for credit losses | - | - | - | - | - | - | - |
| Balance, end of period | $ 1,417 | $ 1,271 | $ 6,889 | $ 9,242 | $ 628 | $ 249 | $ 19,696 |
| Unfunded Commitments | | | | | | | |
| Balance, beginning of period | $ 158 | $ 4 | $ 8 | $ 280 | $ 11 | $ 3 | $ 464 |
| Provision (credit) for credit losses | - | - | - | - | - | - | - |
| Balance, end of period | $ 158 | $ 4 | $ 8 | $ 280 | $ 11 | $ 3 | $ 464 |
| Total allowance for credit losses and reserve for unfunded commitments | $ 1,575 | $ 1,275 | $ 6,897 | $ 9,522 | $ 639 | $ 252 | $ 20,160 |
| Total Provision for Credit Losses | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

| | Construction & Development | 1 - 4 Family Real Estate | Commercial Real Estate - Other | Commercial & Industrial | Agricultural | Consumer | Total |
|---|---|---|---|---|---|---|---|
| **March 31, 2023** | | | | | | | |
| Loans | | | | | | | |
| Balance, beginning of period | $ 1,889 | $ 890 | $ 5,080 | $ 5,937 | $ 765 | $ 173 | $14,734 |
| Impact of CECL adoption | 44 | (138) | (168) | 716 | (149) | (55) | 250 |
| Charge-offs | - | - | - | - | - | (12) | (12) |
| Recoveries | - | - | - | - | 2 | 3 | 5 |
| Net (charge-offs) recoveries | - | - | - | - | 2 | (9) | (7) |
| Provision (credit) for credit losses | (194) | 286 | 792 | (598) | 116 | 73 | 475 |
| Balance, end of period | $ 1,739 | $ 1,038 | $ 5,704 | $ 6,055 | $ 734 | $ 182 | $15,452 |
| Unfunded Commitments | | | | | | | |
| Balance, beginning of period | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Impact of CECL adoption | 171 | 4 | 24 | 274 | 25 | 2 | 500 |
| Provision (credit) for credit losses | - | - | - | - | - | - | - |
| Balance, end of period | $ 171 | $ 4 | $ 24 | $ 274 | $ 25 | $ 2 | $ 500 |
| Total allowance for credit losses and reserve for unfunded commitments | $ 1,910 | $ 1,042 | $ 5,728 | $ 6,329 | $ 759 | $ 184 | $15,952 |
| Total Provision for Credit Losses | $ (194) | $ 286 | $ 792 | $ (598) | $ 116 | $ 73 | $ 475 |

**Internal Risk Categories**

Each loan segment is made up of loan categories possessing similar risk characteristics.

Risk characteristics applicable to each segment of the loan portfolio are described as follows:

**Real Estate** – The real estate portfolio consists of residential and commercial properties loans. Residential loans are generally secured by owner occupied 1–4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers. Commercial real estate loans in this category typically involve larger principal amounts and are repaid primarily from the cash flow of a borrower's principal business operation, the sale of the real estate or income independent of the loan purpose. Credit risk in these loans is driven by the creditworthiness of a borrower, property values, the local economy and other economic conditions impacting a borrower's business or personal income.

**Commercial & Industrial** – The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

**Agricultural** – Loans secured by agricultural assets are generally made for the purpose of acquiring land devoted to crop production, cattle or poultry or the operation of a similar type of business on the secured property. Sources of repayment for these loans generally include income generated from operations of a business on the property, rental income or sales of the property. Credit risk in these loans may be impacted by crop and commodity prices, the creditworthiness of a borrower, and changes in economic conditions which might affect underlying property values and the local economies in the Company's market areas.

**Consumer** – The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Residential loans in this category are generally secured by owner occupied 1–4 family residences. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors, such as unemployment and general economic conditions in the Company's market area and the creditworthiness of a borrower.

Loan grades are numbered 1 through 4. Grade 1 is considered satisfactory. The grades of 2 and 3, or Watch and Special Mention, respectively, represent loans of lower quality and are considered criticized. Grade of 4, or Substandard, refers to loans that are classified.

- **Grade 1 (Pass)** – These loans generally conform to Bank policies, and are characterized by policy conforming advance rates on collateral, and have well-defined repayment sources. In addition, these credits are extended to borrowers and/or guarantors with a strong balance sheet and either substantial liquidity or a reliable income history.

- **Grade 2 (Watch)** – These loans are still considered "Pass" credits; however, various factors such as industry stress, material changes in cash flow or financial conditions, or deficiencies in loan documentation, or other risk issues determined by the Lending Officer, Commercial Loan Committee (CLC), or Credit Quality Committee (CQC) warrant a heightened sense and frequency of monitoring.

- **Grade 3 (Special Mention)** – These loans must have observable weaknesses or evidence of imprudent handling or structural issues. The weaknesses require close attention and the remediation of those weaknesses is necessary. No risk of probable loss exists. Credits in this category are expected to quickly migrate to a "2" or a "4" as this is viewed as a transitory loan grade.

- **Grade 4 (Substandard)** – These loans are not adequately protected by the sound worth and debt service capacity of the borrower, but may be well secured. They have defined weaknesses relative to cash flow, collateral, financial condition, or other factors that might jeopardize repayment of all of the principal and interest on a timely basis. There is the possibility that a future loss will occur if weaknesses are not remediated.

The Company evaluates the definitions of loan grades and the allowance for credit losses methodology on an ongoing basis. No changes were made to either during the period ended March 31, 2024.

The following tables presents the amortized cost of the Company's loan portfolio with the gross charge-offs for the three months ended by year of origination based on internal rating category as of March 31, 2024, and for the twelve months ended by year of origination based on internal rating category as of December 31, 2023 (dollars in thousands):

| As of March 31, 2024 | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving Loans Amortized Cost Basis | Total |
|---|---|---|---|---|---|---|---|---|
| Construction & development | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | $ 20,553 | $ 13,801 | $ 2,212 | $ 3,053 | $ 188 | $ 139 | $ 102,899 | $ 142,845 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | 563 | - | - | - | - | - | - | 563 |
| 4 (Substandard) | - | - | - | - | - | - | 313 | 313 |
| Total construction & development | 21,116 | 13,801 | 2,212 | 3,053 | 188 | 139 | 103,212 | 143,721 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| 1 - 4 family real estate | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 23,789 | 45,192 | 20,928 | 12,841 | 3,884 | 2,266 | 7,192 | 116,092 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | - | - | - | - | - | - | - | - |
| 4 (Substandard) | - | - | - | - | - | - | - | - |
| Total 1 - 4 family real estate | 23,789 | 45,192 | 20,928 | 12,841 | 3,884 | 2,266 | 7,192 | 116,092 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| Commercial real estate - other | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 12,864 | 179,139 | 152,714 | 27,944 | 35,794 | 6,485 | 82,773 | 497,713 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | - | 14,612 | - | - | - | 1,066 | - | 15,678 |
| 4 (Substandard) | - | - | - | - | - | 122 | - | 122 |
| Total Commercial real estate - other | 12,864 | 193,751 | 152,714 | 27,944 | 35,794 | 7,673 | 82,773 | 513,513 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| Commercial and industrial | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 26,540 | 150,522 | 53,823 | 35,639 | 1,561 | 5,369 | 220,799 | 494,253 |
| 2 (Watch) | - | - | - | - | - | - | 3,934 | 3,934 |
| 3 (Special Mention) | - | - | - | - | - | - | 1,586 | 1,586 |
| 4 (Substandard) | 7,386 | 18,556 | - | 37 | - | - | - | 25,979 |
| Total Commercial and industrial | 33,926 | 169,078 | 53,823 | 35,676 | 1,561 | 5,369 | 226,319 | 525,752 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| Agricultural | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 3,352 | 8,453 | 5,069 | 20,495 | 4,203 | 1,814 | 18,746 | 62,132 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | - | - | - | - | - | - | - | - |
| 4 (Substandard) | - | - | - | - | - | - | - | - |
| Total agricultural | 3,352 | 8,453 | 5,069 | 20,495 | 4,203 | 1,814 | 18,746 | 62,132 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| Consumer | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 2,430 | 3,481 | 1,217 | 1,746 | 2,442 | 2,285 | 1,442 | 15,043 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | - | - | - | - | - | - | - | - |
| 4 (Substandard) | - | - | - | - | - | 26 | - | 26 |
| Total consumer | 2,430 | 3,481 | 1,217 | 1,746 | 2,442 | 2,311 | 1,442 | 15,069 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| Total loans held for investment | $ 97,477 | $ 433,756 | $ 235,963 | $ 101,755 | $ 48,072 | $ 19,572 | $ 439,684 | $ 1,376,279 |
| Total current-period gross charge-offs | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

| As of December 31, 2023 | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans Amortized Cost Basis | Total |
|---|---|---|---|---|---|---|---|---|
| Construction & development | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | $ 26,915 | $ 2,266 | $ 3,182 | $ 201 | $ 98 | $ 44 | $ 103,711 | $ 136,417 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | 563 | - | - | - | - | - | 226 | 789 |
| 4 (Substandard) | - | - | - | - | - | - | - | - |
| Total construction & development | 27,478 | 2,266 | 3,182 | 201 | 98 | 44 | 103,937 | 137,206 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| 1 - 4 family real estate | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 48,275 | 22,573 | 13,305 | 3,928 | 1,808 | 1,069 | 9,618 | 100,576 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | - | - | - | - | - | - | - | - |
| 4 (Substandard) | - | - | - | - | - | - | - | - |
| Total 1 - 4 family real estate | 48,275 | 22,573 | 13,305 | 3,928 | 1,808 | 1,069 | 9,618 | 100,576 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| Commercial real estate - other | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 187,086 | 153,764 | 32,641 | 36,278 | 2,613 | 4,043 | 86,370 | 502,795 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | 14,612 | - | - | - | - | 1,089 | - | 15,701 |
| 4 (Substandard) | - | - | - | - | - | 126 | - | 126 |
| Total Commercial real estate - other | 201,698 | 153,764 | 32,641 | 36,278 | 2,613 | 5,258 | 86,370 | 518,622 |
| Current-period gross charge-offs | - | - | - | - | - | - | - | - |
| Commercial and industrial | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 162,156 | 59,265 | 38,093 | 2,777 | 1,706 | 4,059 | 217,377 | 485,433 |
| 2 (Watch) | - | - | - | - | - | - | 4,094 | 4,094 |
| 3 (Special Mention) | 4,151 | - | - | - | - | - | 1,616 | 5,767 |
| 4 (Substandard) | 20,660 | 7,937 | 98 | 8 | - | - | 2,188 | 30,891 |
| Total Commercial and industrial | 186,967 | 67,202 | 38,191 | 2,785 | 1,706 | 4,059 | 225,275 | 526,185 |
| Current-period gross charge-offs | 16,500 | - | - | - | - | - | - | 16,500 |
| Agriculural | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 9,283 | 5,789 | 23,205 | 4,283 | 927 | 1,104 | 21,904 | 66,495 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | - | - | - | - | - | - | - | - |
| 4 (Substandard) | - | - | - | - | - | - | - | - |
| Total agricultural | 9,283 | 5,789 | 23,205 | 4,283 | 927 | 1,104 | 21,904 | 66,495 |
| Current-period gross charge-offs | - | 7 | - | - | - | - | - | 7 |
| Consumer | | | | | | | | |
| Grade | | | | | | | | |
| 1 (Pass) | 4,415 | 1,545 | 2,171 | 2,554 | 663 | 1,819 | 1,270 | 14,437 |
| 2 (Watch) | - | - | - | - | - | - | - | - |
| 3 (Special Mention) | - | - | - | - | - | - | - | - |
| 4 (Substandard) | - | - | - | - | - | 80 | - | 80 |
| Total consumer | 4,415 | 1,545 | 2,171 | 2,554 | 663 | 1,899 | 1,270 | 14,517 |
| Current-period gross charge-offs | 17 | - | - | - | - | - | - | 17 |
| Total loans held for investment | $ 478,116 | $ 253,139 | $ 112,695 | $ 50,029 | $ 7,815 | $ 13,433 | $ 448,374 | $ 1,363,601 |
| Total current-period gross charge-offs | $ 16,517 | $ 7 | $ - | $ - | $ - | $ - | $ - | $ 16,524 |

**Aged Analysis of Past Due Loans Receivable**

The following table presents the Company's loan portfolio aging analysis of the recorded investment in loans as of March 31, 2024 and December 31, 2023 (dollars in thousands):

| | Past Due | | | | | | |
|---|---|---|---|---|---|---|---|
| | **30–59 Days** | **60–89 Days** | **Greater than 90 Days** | **Total** | **Current** | **Total Loans** | **Total Loans > 90 Days & Accruing** |
| **March 31, 2024** | | | | | | | |
| Construction & development | $ - | $ - | $ 313 | $ 313 | $ 143,408 | $ 143,721 | $ - |
| 1 - 4 family real estate | - | - | - | - | 116,092 | 116,092 | - |
| Commercial real estate - other | 1,670 | - | - | 1,670 | 511,843 | 513,513 | - |
| Commercial & industrial | 8,272 | - | 10,160 | 18,432 | 507,320 | 525,752 | - |
| Agricultural | 234 | - | - | 234 | 61,898 | 62,132 | - |
| Consumer | 281 | - | - | 281 | 14,788 | 15,069 | - |
| Total | $ 10,457 | $ - | $ 10,473 | $ 20,930 | $ 1,355,349 | $ 1,376,279 | $ - |
| **December 31, 2023** | | | | | | | |
| Construction & development | $ - | $ - | $ - | $ - | $ 137,206 | $ 137,206 | $ - |
| 1 - 4 family real estate | - | - | - | - | 100,576 | 100,576 | - |
| Commercial real estate - other | - | - | - | - | 518,622 | 518,622 | - |
| Commercial & industrial(1) | 472 | 10,969 | 9,946 | 21,387 | 504,798 | 526,185 | 9,946 |
| Agricultural | - | - | - | - | 66,495 | 66,495 | - |
| Consumer(2) | - | 27 | 80 | 107 | 14,410 | 14,517 | 80 |
| Total | $ 472 | $ 10,996 | $ 10,026 | $ 21,494 | $ 1,342,107 | $ 1,363,601 | $ 10,026 |

(1) The $9.95 million that is greater than 90 days past due as of December 31, 2023, primarily consists of a single borrower that is well collateralized and for which collection is being diligently pursued.

(2) The $80,000 that is greater than 90 days past due as of December 31, 2023, consists of a single borrower that is well secured and for which collection is being diligently pursued.

### Nonaccrual Loans

The following table presents information regarding nonaccrual loans as of March 31, 2024 and December 31, 2023 (dollars in thousands):

| | With an Allowance | No Allowance | Total Non-Accrual Loans | Related Allowance |
|---|---|---|---|---|
| **March 31, 2024** | | | | |
| Construction & development | $ - | $ 313 | $ 313 | $ - |
| 1 - 4 Family Real Estate | - | - | - | - |
| Commercial Real Estate - other | - | 122 | 122 | - |
| Commercial & industrial | 10,244 | 13,666 | 23,910 | 2,135 |
| Agricultural | - | - | - | - |
| Consumer | - | - | - | - |
| Total | $ 10,244 | $ 14,101 | $ 24,345 | $ 2,135 |

| | With an Allowance | No Allowance | Total Non-Accrual Loans | Related Allowance |
|---|---|---|---|---|
| **December 31, 2023** | | | | |
| Construction & development | $ - | $ - | $ - | $ - |
| 1 - 4 Family Real Estate | - | - | - | - |
| Commercial Real Estate - other | - | 126 | 126 | - |
| Commercial & industrial | 10,255 | 8,560 | 18,815 | 2,147 |
| Agricultural | - | - | - | - |
| Consumer | - | - | - | - |
| Total | $ 10,255 | $ 8,686 | $ 18,941 | $ 2,147 |

**Collateral Dependent Loans**

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. During the three months ended March 31, 2024 and 2023, no material amount of interest income was recognized on collateral-dependent loans subsequent to their classification as collateral-dependent. At a minimum, the estimated value of the collateral for loan equals the current book value.

The following table summarizes collateral-dependent gross loans held for investment by collateral type and the related specific allocation as follows (dollars in thousands):

| | Collateral Type | | | | |
|---|---|---|---|---|---|
| | Real Estate | Business Assets | Other Assets | Total | Specific Allocation |
| **March 31, 2024** | | | | | |
| Construction & development | $ 313 | $ - | $ - | $ 313 | $ - |
| 1 - 4 Family Real Estate | - | - | - | - | - |
| Commercial Real Estate - other | 122 | - | - | 122 | - |
| Commercial & industrial | - | 25,875 | - | 25,875 | 2,032 |
| Agricultural | - | - | - | - | - |
| Consumer | 26 | - | - | 26 | - |
| Total | $ 461 | $ 25,875 | $ - | $ 26,336 | $ 2,032 |

| | Collateral Type | | | | |
|---|---|---|---|---|---|
| | Real Estate | Business Assets | Other Assets | Total | Specific Allocation |
| **December 31, 2023** | | | | | |
| Construction & development | $ - | $ - | $ - | $ - | $ - |
| 1 - 4 Family Real Estate | - | - | - | - | - |
| Commercial Real Estate - other | 126 | - | - | 126 | - |
| Commercial & industrial | - | 20,848 | 9,932 | 30,780 | 2,038 |
| Agricultural | - | - | - | - | - |
| Consumer | 27 | - | 80 | 107 | - |
| Total | $ 153 | $ 20,848 | $ 10,012 | $ 31,013 | $ 2,038 |

**Loan Modifications to Troubled Borrowers**

As part of the Company's ongoing risk management practices, the Company attempts to work with borrowers when necessary to extend or modify loan terms to better align with their current ability to repay. Modifications could include extension of the maturity date, reductions of the interest rate, reduction or forgiveness of accrued interest, or principal forgiveness. Combinations of these modifications may also be made for individual loans. Extensions and modifications to loans are made in accordance with internal policies and guidelines which conform to regulatory guidance. Principal reductions may be made in limited circumstances, typically for specific commercial loan workouts, and in the event of borrower bankruptcy. Each occurrence is unique to the borrower and is evaluated separately.

Troubled loans are considered those in which the borrower is experiencing financial difficulty. The assessment of whether a borrower is experiencing financial difficulty can be subjective in nature and management's judgment may be required in making this determination. The Company may determine that a borrower is experiencing financial difficulty if the borrower is currently in default on any of its debt, or if it is probable that a borrower may default in the foreseeable future absent a modification. Many aspects of a borrower's financial situation are assessed when determining whether they are experiencing financial difficulty.

**Modifications to Borrowers Experiencing Financial Difficulty**

The following tables present the amortized cost basis at the end of the reporting period of loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of modification made, as well as the financial effect of the modifications made as of March 31, 2024. There were no loans modified to borrowers experiencing financial difficulty as of March 31, 2023.

| | Term Extension and Payment Deferral | | |
|---|---|---|---|
| | **Amortized Cost Basis** | **% of Total Class** | **Financial Effect** |
| **March 31, 2024** | | | **(Dollars in thousands)** |
| Construction & development | $ - | -% | |
| 1 - 4 Family Real Estate | - | - | |
| Commercial Real Estate - other | - | - | |
| Commercial & industrial | 10,108 | 1.9 | Extended the maturity of loan by four months, and payment of principal and interest deferred until the sale of collateral |
| Agricultural | - | - | |
| Consumer | - | - | |
| Total | $ 10,108 | 1.9% | |

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts.

The following table depicts the performance of loans that have been modified in the last 12 months (dollars in thousands):

| | Current | 30-89 Days Past Due | 90+ Days Past Due | Non-Accruing |
|---|---|---|---|---|
| **March 31, 2024** | | | | |
| Construction & development | $ - | $ - | $ - | $ - |
| 1 - 4 Family Real Estate | - | - | - | - |
| Commercial Real Estate - other | - | - | - | - |
| Commercial & industrial | - | - | - | 10,108 |
| Agricultural | - | - | - | - |
| Consumer | - | - | - | - |
| Total | $ - | $ - | $ - | $ 10,108 |

**Note 7: Shareholders' Equity**

On October 28, 2021, the Company adopted a Repurchase Plan (the "RP") that authorizes the repurchase of up to 750,000 shares of the Company's stock. Stock repurchases under the RP take place pursuant to a Rule 10b5-1 Plan with pricing and purchasing parameters established by management. The RP expired on October 28, 2023. There were no share repurchases under this plan. On October 30, 2023, the Company adopted a new Repurchase Plan (the "New RP") that authorizes the repurchase of up to 750,000 shares of the Company's stock. Stock repurchases under the New RP will take place pursuant to a Rule 10b5-1 Plan with pricing and purchasing parameters established by management. There were no repurchases as of March 31, 2024.

A summary of the activity under the RP is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2024** | **2023** |
| Number of shares repurchased | - | - |
| Average price of shares repurchased | $ - | $ - |
| Shares remaining to be repurchased | 750,000 | 750,000 |

The Company and Bank are subject to risk-based capital guidelines issued by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under GAAP, regulatory reporting requirements and regulatory capital standards. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's and the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier I, and Common Equity capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of March 31, 2024, that the Company and Bank meet all capital adequacy requirements to which it is subject and maintains capital conservation buffers that allow the Company and Bank to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to certain executive officers.

As of March 31, 2024, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain capital ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and Bank's actual capital amounts and ratios are presented in the following table as of March 31, 2024 and December 31, 2023 (dollars in thousands):

| | Actual | | Minimum Capital Requirements | | With Capital Conservation Buffer | | Minimum To Be Well Capitalized Under Prompt Corrective Action | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **As of March 31, 2024** | | | | | | | | |
| Total capital to risk-weighted assets | | | | | | | | |
| Company | $ 194,904 | 13.36% | $ 116,718 | 8.00% | $ 153,192 | 10.50% | N/A | N/A |
| Bank | 194,851 | 13.36% | 116,636 | 8.00% | 153,085 | 10.50% | $ 145,795 | 10.00% |
| Tier I capital to risk-weighted assets | | | | | | | | |
| Company | 176,643 | 12.11% | 87,538 | 6.00% | 124,013 | 8.50% | N/A | N/A |
| Bank | 176,603 | 12.11% | 87,477 | 6.00% | 123,926 | 8.50% | 116,636 | 8.00% |
| CET I capital to risk-weighted assets | | | | | | | | |
| Company | 176,643 | 12.11% | 65,654 | 4.50% | 102,128 | 7.00% | N/A | N/A |
| Bank | 176,603 | 12.11% | 65,608 | 4.50% | 102,056 | 7.00% | 94,767 | 6.50% |
| Tier I capital to average assets | | | | | | | | |
| Company | 176,643 | 10.10% | 69,923 | 4.00% | N/A | N/A | N/A | N/A |
| Bank | 176,603 | 10.10% | 69,923 | 4.00% | N/A | N/A | 87,404 | 5.00% |
| **As of December 31, 2023** | | | | | | | | |
| Total capital to risk-weighted assets | | | | | | | | |
| Company | $ 185,171 | 12.74% | $ 116,251 | 8.00% | $ 152,579 | 10.50% | N/A | N/A |
| Bank | 185,118 | 12.75% | 116,169 | 8.00% | 152,472 | 10.50% | $ 145,211 | 10.00% |
| Tier I capital to risk-weighted assets | | | | | | | | |
| Company | 166,982 | 11.49% | 87,188 | 6.00% | 123,516 | 8.50% | N/A | N/A |
| Bank | 166,942 | 11.50% | 87,127 | 6.00% | 123,429 | 8.50% | 116,169 | 8.00% |
| CET I capital to risk-weighted assets | | | | | | | | |
| Company | 166,982 | 11.49% | 65,391 | 4.50% | 101,719 | 7.00% | N/A | N/A |
| Bank | 166,942 | 11.50% | 65,345 | 4.50% | 101,648 | 7.00% | 94,387 | 6.50% |
| Tier I capital to average assets | | | | | | | | |
| Company | 166,982 | 9.50% | 70,318 | 4.00% | N/A | N/A | N/A | N/A |
| Bank | 166,942 | 9.50% | 70,318 | 4.00% | N/A | N/A | 87,897 | 5.00% |

The federal banking agencies require that banking organizations meet several risk-based capital adequacy requirements. The current risk-based capital standards applicable to the Company and the Bank are based on the Basel III Capital Rules established by the Basel Committee on Banking Supervision (the “Basel Committee”). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country’s supervisors in determining the supervisory policies they apply. The requirements are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments.

The Basel III Capital Rules require the Bank and the Company to comply with four minimum capital standards: a Tier 1 leverage ratio of at least 4.0%; a CET1 to risk-weighted assets of 4.5%; a Tier 1 capital to risk-weighted assets of at least 6.0%; and a total capital to risk-weighted assets of at least 8.0%. The calculation of all types of regulatory capital is subject to definitions, deductions and adjustments specified in the regulations.

The Basel III Capital Rules also require a “capital conservation buffer” of 2.5% above the regulatory minimum risk-based capital requirements. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer) are subject to limitations on certain activities, including payment of dividends, share repurchases and discretionary bonuses to executive officers based on the amount of the shortfall.

As of March 31, 2024, the Company’s and the Bank’s capital ratios exceeded the minimum capital adequacy guideline percentage requirements under the Basel III Capital Rules on a fully phased-in basis.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At March 31, 2024, approximately $55.7 million of retained earnings was available for dividend declaration from the Bank without prior regulatory approval.

**Note 8: Related-Party Transactions**

At March 31, 2024 and December 31, 2023, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) approximating $195,000 and $203,000, respectively.

The Bank leases office and retail banking space in Oklahoma City and Woodward, Oklahoma from Central Park on Lincoln, LLC and Haines Realty Investments Company, LLC, respectively, both related parties of the Company. Lease payments totaled $65,000 and $56,000 for the three months ended March 31, 2024 and 2023, respectively. In addition, payroll and office sharing arrangements were in place between the Company and certain of its affiliates.

**Note 9: Employee Benefits**

***401(k) Savings Plan***

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to the maximum legal limit with the Company matching up to 5% of the employee's salary. Employer contributions charged to expense for the three months ended March 31, 2024 and 2023 totaled $109,000 and $97,000, respectively.

***Stock-Based Compensation***

The Company adopted an equity incentive plan (the "Incentive Plan") in September 2018. The Incentive Plan permits the grant of restricted stock units and nonqualified incentive stock options. The Incentive Plan will terminate in September 2028, if not extended. Compensation expense related to the Incentive Plan for the three months ended March 31, 2024 and 2023 totaled $604,000 and $506,000, respectively. There were 628,742 shares available for future grants as of March 31, 2024.

The Company grants to employees and directors restricted stock units (RSUs) which vest ratably over one, three, four, five, or eight years and stock options which vest ratably over four years. All RSUs and stock options are granted at the fair value of the common stock at the time of the award. The RSUs are considered fixed awards as the number of shares and fair value are known at the date of grant and the fair value at the grant date is amortized over the vesting and/or service period.

The Company uses newly issued shares for granting RSUs and stock options.

The following table is a summary of the stock option activity under the Incentive Plan (dollar amounts in thousands, except per share data):

| | Options | Wgtd. Avg. Exercise Price | Wgtd. Avg. Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| **Three Months Ended March 31, 2024** | | | | |
| Outstanding at December 31, 2023 | 220,939 | $ 17.52 | | |
| Options Granted | - | - | | |
| Options Exercised | (4,251) | 15.48 | | |
| Options Forfeited | - | - | | |
| Outstanding at March 31, 2024 | 216,688 | 17.56 | 5.37 | $ 2,305,791 |
| Exercisable at March 31, 2024 | 194,124 | 17.75 | 5.18 | $ 2,028,212 |

| | Options | Wgtd. Avg. Exercise Price | Wgtd. Avg. Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| **Three Months Ended March 31, 2023** | | | | |
| Outstanding at December 31, 2022 | 251,550 | $ 17.52 | | |
| Options Granted | - | - | | |
| Options Exercised | (11,737) | 17.73 | | |
| Options Forfeited | - | - | | |
| Outstanding at March 31, 2023 | 239,813 | 17.51 | 6.39 | $ 1,689,247 |
| Exercisable at March 31, 2023 | 188,495 | 17.98 | 6.02 | $ 1,239,140 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and is based on certain assumptions including risk-free rate of return, dividend yield, stock price volatility and the expected term. The fair value of each option is expensed over its vesting period.

There were no new grants for the three months ended March 31, 2024 and 2023.

The following table summarizes share information about RSUs for the three months ended March 31, 2024 and 2023:

| | Number of Shares | Wgtd. Avg. Grant Date Fair Value |
|---|---|---|
| **Three Months Ended March 31, 2024** | | |
| Outstanding at December 31, 2023 | 211,461 | $ 26.98 |
| Shares granted | 100,606 | 27.34 |
| Shares vested | (51,511) | 27.07 |
| Shares forfeited | - | - |
| End of the period balance | 260,556 | $ 27.11 |

| | Number of Shares | Wgtd. Avg. Grant Date Fair Value |
|---|---|---|
| **Three Months Ended March 31, 2023** | | |
| Outstanding at December 31, 2022 | 112,591 | $ 18.66 |
| Shares granted | 163,311 | 29.76 |
| Shares vested | (13,234) | 18.13 |
| Shares forfeited | - | - |
| End of the period balance | 262,668 | $ 25.59 |

As of March 31, 2024, there was approximately $6.7 million of unrecognized compensation expense related to 260,556 unvested RSUs and $121,000 of unrecognized compensation expense related to 216,668 unvested and/or unexercised stock options. The stock option expense is expected to be recognized over a weighted average period of 1.09 years, and the RSU expense is expected to be recognized over a weighted average period of 3.59 years.

As of March 31, 2023, there was approximately $6.1 million of unrecognized compensation expense related to 262,668 unvested RSUs and $302,000 of unrecognized compensation expense related to 239,813 unvested and/or unexercised stock options. The stock option expense is expected to be recognized over a weighted average period of 1.84 years, and the RSU expense is expected to be recognized over a weighted average period of 4.17 years.

**Note 10: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

***Recurring Measurements***

Assets and liabilities measured at fair value on a recurring basis include the following:

**Available-for-sale debt securities:** Debt securities classified as available-for-sale, as discussed in Note 5, are reported at fair value utilizing Level 2 inputs. For those debt securities classified as Level 2, 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 for similar securities, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

***Nonrecurring Measurements***

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2024 and December 31, 2023 (dollars in thousands):

| | Fair Value | (Level 1) | (Level 2) | (Level 3) |
|---|---|---|---|---|
| **March 31, 2024** | | | | |
| Collateral-dependent loans | $ 16,370 | $ - | $ - | $ 16,370 |
| Asset retirement obligations | 369 | - | - | 369 |
| | | | | |
| **December 31, 2023** | | | | |
| Collateral-dependent loans | $ 16,370 | $ - | $ - | $ 16,370 |
| Asset retirement obligations | 361 | - | - | 361 |

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

***Collateral-Dependent Loans, Net of Allowance for Credit Losses***

The estimated fair value of collateral-dependent loans is based on fair value, less estimated cost to sell. Collateral-dependent loans are classified within Level 3 of the fair value hierarchy.

The Company considers engineering reports or appraisals as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Values of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by executive management and loan administration. Values are reviewed for accuracy and consistency by executive management and loan administration. The ultimate collateral values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral.

***Asset retirement obligations***

Asset retirement obligations related to the plugging and abandonment of oil and natural gas properties and are classified within the Level 3 of the fair value hierarchy.

The fair value of the asset retirement obligations is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate. Fair value, to the extent possible, includes a market risk premium for unforeseeable circumstances. Inherent in the fair value calculation of the asset retirement obligations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental, and political environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligations liability, a corresponding adjustment is made to the oil and gas property balance.

***Unobservable (Level 3) Inputs***

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements(dollars in thousands):

| | Fair Value | Valuation Technique | Unobservable Inputs |
|---|---|---|---|
| **March 31, 2024** | | | |
| Collateral-dependent loans | $ 16,370 | Estimated cash to be received pending resolution of bankruptcy proceedings | Estimated cost to sell |
| Asset retirement obligations | 369 | Expected present value | Plugging and abandonment expense |
| **December 31, 2023** | | | |
| Collateral-dependent loans | $ 16,370 | Estimated cash to be received pending resolution of bankruptcy proceedings | Estimated cost to sell |
| Asset retirement obligations | 361 | Expected present value | Plugging and abandonment expense |

The following table presents estimated fair values of the Company's financial instruments not recorded at fair value at March 31, 2024 and December 31, 2023 (dollars in thousands):

| | Carrying Amount | Fair Value Measurements | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| **March 31, 2024** | | | | | |
| **Financial Assets** | | | | | |
| Cash and due from banks | $ 193,218 | $ 193,218 | $ - | $ - | $ 193,218 |
| Interest-bearing time deposits in other banks | 17,181 | - | 17,181 | - | 17,181 |
| Loans, net of allowance | 1,354,195 | - | 1,333,573 | 16,370 | 1,349,943 |
| Nonmarketable equity securities | 1,278 | - | 1,278 | - | 1,278 |
| Interest receivable and other assets | 32,435 | - | 18,582 | 13,853 | 32,435 |
| **Financial Liabilities** | | | | | |
| Deposits | $ 1,580,172 | $ - | $ 1,578,820 | $ - | $ 1,578,820 |
| Interest payable and other liabilities | 10,483 | - | 9,633 | 850 | 10,483 |
| **December 31, 2023** | | | | | |
| **Financial Assets** | | | | | |
| Cash and due from banks | $ 181,042 | $ 181,042 | $ - | $ - | $ 181,042 |
| Interest-bearing time deposits in other banks | 17,679 | - | 17,679 | - | 17,679 |
| Loans, net of allowance | 1,341,148 | - | 1,321,413 | 16,370 | 1,337,783 |
| Loans held for sale | 718 | - | 718 | - | 718 |
| Nonmarketable equity securities | 1,283 | - | 1,283 | - | 1,283 |
| Interest receivable and other assets | 35,878 | - | 19,211 | 16,667 | 35,878 |
| **Financial Liabilities** | | | | | |
| Deposits | $ 1,591,391 | $ - | $ 1,590,295 | $ - | $ 1,590,295 |
| Interest payable and other liabilities | 9,647 | - | 8,335 | 1,312 | 9,647 |

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value:

***Cash and Due from Banks, Interest-Bearing Time Deposits in Other Banks, Nonmarketable Equity Securities, Interest Receivable and Interest Payable***

The carrying amount approximates fair value.

***Loans and Mortgage Loans Held for Sale***

The Company determines fair value of loans by using exit market assumptions including factors such as liquidity, credit quality and risk of nonperformance. The fair value is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations.

***Deposits***

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

***Commitments to Extend Credit, Lines of Credit and Standby Letters of Credit***

The fair values of unfunded commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The fair values of standby letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The estimated fair values of the Company’s commitments to extend credit, lines of credit and standby letters of credit were not material at March 31, 2024 and December 31, 2023.

***Interest Receivable and Other Assets***

Interest receivable and other assets include prepaid expenses, right-of-use lease assets, interest receivable on loans, deferred tax assets, and oil and gas related assets. For prepaid expense, right-of-use lease assets, deferred tax assets, and interest receivable on loans the carrying amount approximates fair value. For the determination of fair value of oil and gas assets, see discussion in the December 31, 2023 Form 10-K, Note 1, Summary of Significant Accounting Policies--Specific to Production of Oil and Natural Gas Reserves Operations.

***Interest Payable and Other Liabilities***

Interest payable and other liabilities include unfunded commitment liabilities, lease liabilities, interest payable on deposits, dividends payable, other accrued liabilities, and oil and gas related liabilities. For unfunded commitment liabilities, lease liabilities, interest payable on deposits, dividends payable, and other accrued liabilities carrying amount approximates fair value. For the determination of fair value of oil and gas liabilities, see discussion in the December 31, 2023 Form 10-K, Note 1, Summary of Significant Accounting Policies--Specific to Production of Oil and Natural Gas Reserves Operations.

**Note 11: Financial Instruments with Off-Balance Sheet Risk**

The Company is a 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 include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the accompanying consolidated balance sheets. The following summarizes those financial instruments with contract amounts representing credit risk as of March 31, 2024 and December 31, 2023 (dollars in thousands):

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Commitments to extend credit | $ 304,676 | $ 256,888 |
| Financial and performance standby letters of credit | 1,560 | 4,247 |
| | $ 306,236 | $ 261,135 |

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. Each instrument generally has fixed expiration dates or other termination clauses. Since many of the instruments are expected to expire without being drawn upon, total commitments to extend credit 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 on management's credit evaluation of the customer. Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

On January 1, 2023, the Company adopted ASU 2016-13, see Note (6). Upon adoption, the Company estimated an allowance for credit losses on off-balance sheet credit exposures, which resulted in recording a reserve for unfunded loan commitments of $500,000. The reserve for unfunded loan commitments totaled $464,000 at March 31, 2024 and December 31, 2023.

**Note 12: Significant Estimates and Concentrations**

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for credit losses are reflected in *Note 6* regarding loans. Current vulnerabilities due to off-balance sheet credit risk are discussed in *Note 11*.

As of March 31, 2024, hospitality loans were 21% of gross total loans with outstanding balances of $ 292.2 million and unfunded commitments of $4.5 million; energy loans were 14% of gross total loans with outstanding balances of $ 187.6 million and unfunded commitments of $64.3 million.

The Company evaluates goodwill for potential goodwill impairment on an annual basis or more often based on consideration if any impairment indicators have occurred. A prolonged strain on the U.S. economy impacting the Company could result in goodwill being partially or fully impaired. At March 31, 2024, goodwill of $8.5 million was recorded on the consolidated balance sheet.

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report and in our Annual Report on Form 10-K for the year ended December 31, 2023.*

*Unless the context indicates otherwise, references in this management's discussion and analysis to "we", "our", and "us," refer to Bank7 Corp. and its consolidated subsidiaries. All references to "the Bank" refer to Bank7, our wholly owned subsidiary.*

**General**

We are Bank7 Corp., a bank holding company headquartered in Oklahoma City, Oklahoma. Through our wholly-owned subsidiary, Bank7, we operate twelve locations in Oklahoma, the Dallas/Fort Worth, Texas metropolitan area and Kansas. We are focused on serving business owners and entrepreneurs by delivering fast, consistent and well-designed loan and deposit products to meet their financing needs. We intend to grow organically by selectively opening additional branches in our target markets and pursuing strategic acquisitions.

As a bank holding company, we generate most of our revenue from interest income on loans and from short-term investments. The primary source of funding for our loans and short-term investments are deposits held by our subsidiary, Bank7. We measure our performance by our return on average equity, earnings per share, capital ratios, efficiency ratio (calculated by dividing noninterest expense by the sum of net interest income on a tax equivalent basis) and noninterest income.

Q1 2024 Overview

We reported total loans of $1.37 billion as of March 31, 2024, an increase of $94.5 million, or 7.4%, from March 31, 2023. Total deposits were $1.58 billion as of March 31, 2024, an increase of $88.6 million, or 5.9%, as compared to March 31, 2023.

Pre-tax net income was $14.9 million, an increase of $2.3 million, or 18.6%, for the three months ended March 31, 2024 as compared to pre-tax net income of $12.6 million for the same period in 2023.

Pre-tax return on average assets and return on average equity was 3.40% and 33.97%, respectively for the three months ended March 31, 2024, as compared to 3.18% and 34.17%, respectively, for the same period in 2023. Tax-adjusted return on average assets and return on average equity was 2.58% and 25.77%, respectively for the three months ended March 31, 2024, as compared to 2.43% and 26.15%, respectively, for the same period in 2023. Our efficiency ratio for the three months ended March 31, 2024 was 38.29% as compared to 36.62% for the same period in 2023.

The provision for credit losses for the three months ended March 31, 2024 decreased $475,000, or 100.0%, as compared to the same period in 2023.

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**Results of Operations**

***Three Months Ended March 31, 2024 and March 31, 2023***

*Net Interest Income and Net Interest Margin.* The following table presents, for the periods indicated, information about: (i) weighted average balances, the total dollar amount of interest income from interest-earning assets, and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities, and the resultant average rates; (iii) net interest income; and (iv) the net interest margin.

| | Net Interest Margin | | | | | |
|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31, | | | | | |
| | 2024 | | | 2023 | | |
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate |
| | (Dollars in thousands) | | | | | |
| Interest-Earning Assets: | | | | | | |
| Short-term investments | $ 176,072 | $ 2,085 | 4.75% | $ 134,650 | $ 1,235 | 3.72% |
| Debt securities, taxable | 153,468 | 1,012 | 2.64 | 153,533 | 706 | 1.86 |
| Debt securities, tax exempt(1) | 18,269 | 73 | 1.60 | 20,318 | 87 | 1.74 |
| Loans held for sale | 238 | - | - | 43 | - | - |
| Total loans(2) | 1,369,692 | 30,117 | 8.82 | 1,271,081 | 25,352 | 8.09 |
| Total interest-earning assets | 1,717,739 | 33,287 | 7.77 | 1,579,625 | 27,380 | 7.03 |
| Noninterest-earning assets | 39,769 | | | 23,542 | | |
| Total assets | $ 1,757,508 | | | $ 1,603,167 | | |
| | | | | | | |
| Funding sources: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Transaction accounts | $ 845,129 | 8,196 | 3.89% | $ 803,618 | 5,753 | 2.90% |
| Time deposits | 264,973 | 3,081 | 4.66 | 213,760 | 1,621 | 3.08 |
| Total interest-bearing deposits | 1,110,102 | 11,277 | 4.07 | 1,017,378 | 7,374 | 2.94 |
| Total interest-bearing liabilities | $ 1,110,102 | 11,277 | 4.07 | $ 1,017,378 | 7,374 | 2.94 |
| | | | | | | |
| Noninterest-bearing liabilities: | | | | | | |
| Noninterest-bearing deposits | $ 460,028 | | | $ 425,640 | | |
| Other noninterest-bearing liabilities | 11,657 | | | 11,131 | | |
| Total noninterest-bearing liabilities | 471,685 | | | 436,771 | | |
| Shareholders' equity | 175,721 | | | 149,018 | | |
| Total liabilities and shareholders' equity | $ 1,757,508 | | | $ 1,603,167 | | |
| | | | | | | |
| Net interest income | | $ 22,010 | | | $ 20,006 | |
| Net interest spread | | | 3.70% | | | 4.10% |
| Net interest margin | | | 5.14% | | | 5.14% |

(1) Taxable-equivalent yield of 2.11% as of March 31, 2024, applying a 24.2% effective tax rate
(2) Average loan balances include monthly average nonaccrual loans of $22.5 million and $7.8 million as of March 31, 2024 and March 31, 2023, respectively, are included in loans.

For the first quarter of 2024 compared to the first quarter of 2023:
- Interest income on total loans totaled $30.1 million, an increase of $4.8 million or 18.8%, due to an increase in average loans of $98.6 million, or 7.8%, and increased loan yields as discussed below;
- Yields on our interest-earning assets totaled 7.77%, an increase of 74 basis points which was attributable to higher loan rates of 73 basis points, an increase in yield on short term investments of 103 basis points, and an increase in yield on taxable debt securities of 78 basis points; and
- Net interest margin remained consistent at 5.14%.

Increases and decreases in interest income and interest expense result from changes in average balances, or volume, of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following tables set forth the effects of changing rates and volumes on our net interest income during the period shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (change in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume).

| | Analysis of Changes in Interest Income and Expenses For the Three Months Ended March 31, 2024 vs 2023 | | |
|---|---|---|---|
| | Change due to: | | |
| | Volume(1) | Rate(1) | Interest Variance |
| | (Dollars in thousands) | | |
| Increase (decrease) in interest income: | | | |
| Short-term investments | $ 384 | $ 466 | $ 850 |
| Debt securities | (9) | 301 | 292 |
| Total loans | 1,989 | 2,776 | 4,765 |
| Total increase (decrease) in interest income | 2,364 | 3,543 | 5,907 |
| | | | |
| Increase (decrease) in interest expense: | | | |
| Deposits: | | | |
| Transaction accounts | 300 | 2,143 | 2,443 |
| Time deposits | 393 | 1,067 | 1,460 |
| Total interest-bearing deposits | 693 | 3,210 | 3,903 |
| Total increase (decrease) in interest expense | 693 | 3,210 | 3,903 |
| | | | |
| Increase (Decrease) in net interest income | $ 1,671 | $ 333 | $ 2,004 |

(1) Variances attributable to both volume and rate are allocated on a consistent basis between rate and volume based on the absolute value of the variances in each category.

Securities

Our investment portfolio consists entirely of securities classified as available for sale. As a result, the carrying values of our investment securities are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity.

We evaluate our available for sale securities portfolio on a quarterly basis for potential credit-related losses. We assess potential credit losses by comparing the fair value of a debt security to its amortized cost basis. If the fair value of a debt security is greater than the amortized cost basis, no allowance for credit losses is recognized. If the fair value is less than the amortized cost basis, we review the factors to determine if the impairment is credit-related or noncredit-related. For debt securities we intend to sell or are more likely than not required to sell, before the recovery of their amortized cost basis, the difference between fair value and amortized cost is impaired and is recognized through earnings. For debt securities we do not intend to sell or are more likely than not required to sell, prior to expected recovery of amortized cost basis, the credit portion of the impairment is recognized through earnings, with a corresponding entry to an allowance for credit losses, and the noncredit portion is recognized through accumulated other comprehensive income.

The following table summarizes the maturity distribution schedule with corresponding weighted average taxable equivalent yields of the debt securities portfolio at March 31, 2024. The following table presents securities at their expected maturities, which may differ from contractual maturities. The Company manages its debt securities portfolio for liquidity, as a tool to execute its asset/liability management strategy, and for pledging requirements for public funds:

| | As of March 31, 2024 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Within One Year | | After One Year But Within Five Years | | After Five Years But Within Ten Years | | After Ten Years | | Total | |
| | Amount | Yield * | Amount | Yield * | Amount | Yield * | Amount | Yield * | Amount | Yield * |
| **Available-for-sale** | (Dollars in thousands) | | | | | | | | | |
| U.S. Federal agencies | $ - | 0.00% | $ 91 | 3.18% | $ - | 0.00% | $ - | 0.00% | $ 91 | 3.18% |
| Mortgage-backed securities | 482 | 1.08 | 9,205 | 1.32 | 2,434 | 1.56 | 20,961 | 1.67 | 33,082 | 1.56 |
| State and political subdivisions | 4,731 | 0.97 | 13,110 | 1.34 | 6,722 | 1.57 | 141 | 1.62 | 24,704 | 1.34 |
| U.S. Treasuries | 84,359 | 4.20 | 2,755 | 1.05 | 2,503 | 1.12 | - | - | 89,617 | 4.00 |
| Corporate debt securities | - | - | - | - | 4,378 | 3.30 | - | - | 4,378 | 3.30 |
| Total | $ 89,572 | 4.01% | $ 25,161 | 1.31% | $ 16,037 | 2.01% | $ 21,102 | 1.67% | $ 151,872 | 2.97% |
| Percentage of total | 58.98% | | 16.57% | | 10.56% | | 13.89% | | 100.00% | |

*Yield is on a taxable-equivalent basis using 21% tax rate

Provision for Credit Losses

Credit risk is inherent in the business of making loans. We establish an Allowance for credit losses ("Allowance") through charges to earnings, which are shown in the statements of comprehensive income as the provision for credit losses. The provision for credit losses and level of Allowance for each period are dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, and the valuation of problems and the general economic conditions in our market areas.

For the three months ended March 31, 2024 compared to the three months ended March 31, 2023:

- The provision for credit losses decreased from $475,000 to $0; and
- The allowance as a percentage of gross loans increased by 22 basis points to 1.43%.

Noninterest Income

The following table sets forth the major components of our noninterest income for the three months ended March 31, 2024 and 2023:

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2024 | 2023 | $ Increase (Decrease) | % Increase (Decrease) |
| | (Dollars in thousands) | | | |
| **Noninterest income:** | | | | |
| Mortgage lending income | $ 51 | $ 54 | $ (3) | -5.56% |
| Loss on sales of available-for-sale debt securities | - | (1) | 1 | -100.00% |
| Service charges on deposit accounts | 249 | 235 | 14 | 5.96% |
| Other income and fees | 1,708 | 384 | 1,324 | 344.79% |
| **Total noninterest income** | $ 2,008 | $ 672 | $ 1,336 | 198.81% |

Noninterest income for the three months ended March 31, 2024 was $2.0 million compared to $672,000 for the same period in 2023, an increase of $1.3 million, or 198.81%. The increase was primarily attributable to income related to the operation of oil and gas assets acquired during the fourth quarter of 2023, see Note 2 of the financial statements.

Noninterest Expense

The following table sets forth the major components of our noninterest expense for the three months ended March 31, 2024 and 2023:

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2024 | 2023 | $ Increase (Decrease) | % Increase (Decrease) |
| | (Dollars in thousands) | | | |
| **Noninterest expense:** | | | | |
| Salaries and employee benefits | $ 5,289 | $ 4,680 | $ 609 | 13.01% |
| Furniture and equipment | 230 | 249 | (19) | -7.63% |
| Occupancy | 661 | 719 | (58) | -8.07% |
| Data and item processing | 458 | 386 | 72 | 18.65% |
| Accounting, marketing, and legal fees | 99 | 298 | (199) | -66.78% |
| Regulatory assessments | 386 | 394 | (8) | -2.03% |
| Advertising and public relations | 145 | 148 | (3) | -2.03% |
| Travel, lodging and entertainment | 51 | 61 | (10) | -16.39% |
| Other expense | 1,816 | 714 | 1,102 | 154.34% |
| **Total noninterest expense** | $ 9,135 | $ 7,649 | $ 1,486 | 19.43% |

Noninterest expense for the three months ended March 31, 2024 was $9.1 million compared to $7.6 million for the same period in 2023, an increase of $1.5 million, or 19.4%. The increase was primarily attributable to expense related to the operation of oil and gas assets acquired during the fourth quarter of 2023, see Note 2 of the financial statements.

## Financial Condition

The following discussion of our financial condition compares March 31, 2024 and December 31, 2023.

### *Total Assets*

Total assets increased $3.3 million, or 0.2%, to $1.77 billion as of March 31, 2024, compared to $1.77 billion as of December 31, 2023.

Loan Portfolio

The following table presents the balance and associated percentage of each major category in our loan portfolio as of March 31, 2024 and December 31, 2023:

| | As of March 31, 2024 | | As of December 31, 2023 | |
|---|---|---|---|---|
| | Amount | % of Total | Amount | % of Total |
| | (Dollars in thousands) | | | |
| Construction & development | $ 143,721 | 10.4% | $ 137,206 | 10.1% |
| 1-4 family real estate | 116,092 | 8.4% | 100,576 | 7.4% |
| Commercial real estate - other | 513,513 | 37.3% | 518,622 | 38.0% |
| Total commercial real estate | 773,326 | 56.1% | 756,404 | 55.5% |
| | | | | |
| Commercial & industrial | 525,752 | 38.3% | 526,185 | 38.5% |
| Agricultural | 62,132 | 4.5% | 66,495 | 4.9% |
| Consumer | 15,069 | 1.1% | 14,517 | 1.1% |
| Gross loans | 1,376,279 | 100.0% | 1,363,601 | 100.0% |
| Less: unearned income, net | (2,388) | | (2,762) | |
| Total Loans, net of unearned income | 1,373,891 | | 1,360,839 | |
| Less: Allowance for credit losses | (19,696) | | (19,691) | |
| Net loans | $ 1,354,195 | | $ 1,341,148 | |

Our loans represent the largest portion of our earning assets. The quality and diversification of the loan portfolio is an important consideration when reviewing our financial condition. As of March 31, 2024 and December 31, 2023, our gross loans were $1.38 billion and $1.36 billion, respectively. Included in the commercial & industrial loan balances at March 31, 2024 and December 31, 2023, respectively, are $2.0 million and $2.0 million of loans that were originated under the SBA PPP program.

We have established internal concentration limits in the loan portfolio for Commercial Real Estate (CRE) loans, hospitality loans, energy loans, and construction loans, among others. All loan types are within our established limits. We use underwriting guidelines to assess each borrower’s historical cash flow to determine debt service capabilities, and we further stress test the customer’s debt service capability under higher interest rate scenarios as well as other underlying macro-economic factors. Financial and performance covenants are used in commercial lending to allow us to react to a borrower’s deteriorating financial condition, should that occur.

The following tables show the contractual maturities of our gross loans as of the periods below:

| | As of March 31, 2024 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Due in One Year or Less | | Due after One Year Through Five Years | | Due after Five Years Through Fifteen Years | | Due after Fifteen Years | | |
| | Fixed Rate | Adjustable Rate | Fixed Rate | Adjustable Rate | Fixed Rate | Adjustable Rate | Fixed Rate | Adjustable Rate | Total |
| | (Dollars in thousands) | | | | | | | | |
| Construction & development | $ 10,359 | $ 71,884 | $ 8,040 | $ 52,398 | $ - | $ 650 | $ 390 | $ - | $ 143,721 |
| 1-4 family real estate | 13,876 | 17,049 | 48,888 | 24,241 | - | 6,969 | 5,069 | - | 116,092 |
| Commercial real estate - other | 51,168 | 72,866 | 149,526 | 208,540 | 64 | 21,450 | 9,899 | - | 513,513 |
| Total commercial real estate | 75,403 | 161,799 | 206,454 | 285,179 | 64 | 29,069 | 15,358 | - | 773,326 |
| | | | | | | | | | |
| Commercial & industrial | 18,832 | 271,446 | 24,977 | 197,605 | 3,028 | 9,253 | 611 | - | 525,752 |
| Agricultural | 16,854 | 17,363 | 12,731 | 11,180 | - | 1,164 | 2,840 | - | 62,132 |
| Consumer | 2,145 | 1 | 5,726 | 144 | 625 | 3,538 | 2,890 | - | 15,069 |
| Gross loans | $ 113,234 | $ 450,609 | $ 249,888 | $ 494,108 | $ 3,717 | $ 43,024 | $ 21,699 | $ - | $ 1,376,279 |

| | As of December 31, 2023 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Due in One Year or Less | | Due after One Year Through Five Years | | Due after Five Years Through Fifteen Years | | Due after Fifteen Years | | |
| | Fixed Rate | Adjustable Rate | Fixed Rate | Adjustable Rate | Fixed Rate | Adjustable Rate | Fixed Rate | Adjustable Rate | Total |
| | (Dollars in thousands) | | | | | | | | |
| Construction & development | $ 11,431 | $ 70,040 | $ 8,970 | $ 44,935 | $ - | $ 1,438 | $ 392 | $ - | $ 137,206 |
| 1-4 family real estate | 13,628 | 13,015 | 41,602 | 21,451 | 26 | 5,443 | 5,411 | - | 100,576 |
| Commercial real estate - other | 50,251 | 65,120 | 152,250 | 219,260 | 129 | 21,283 | 10,329 | - | 518,622 |
| Total commerical real estate | 75,310 | 148,175 | 202,822 | 285,646 | 155 | 28,164 | 16,132 | - | 756,404 |
| | | | | | | | | | |
| Commercial & industrial | 20,389 | 263,564 | 41,520 | 186,776 | 3,276 | 10,041 | 619 | - | 526,185 |
| Agricultural | 13,250 | 22,615 | 13,935 | 13,032 | - | 810 | 2,853 | - | 66,495 |
| Consumer | 2,170 | 14 | 5,490 | 121 | 595 | 3,604 | 2,523 | - | 14,517 |
| Gross loans | $ 111,119 | $ 434,368 | $ 263,767 | $ 485,575 | $ 4,026 | $ 42,619 | $ 22,127 | $ - | $ 1,363,601 |

Allowance for Credit and Lease Losses

The allowance is based on management's estimate of potential losses inherent in the loan portfolio. In the opinion of management, the allowance is adequate to absorb estimated losses in the portfolio as of each balance sheet date. While management uses available information to analyze losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. In analyzing the adequacy of the allowance, a comprehensive loan grading system to determine risk potential in loans is utilized together with the results of internal credit reviews.

To determine the adequacy of the allowance, the loan portfolio is broken into segments based on loan type. Historical loss experience factors by segment, adjusted for changes in trends and conditions, are used to determine an indicated allowance for each portfolio segment. These factors are evaluated and updated based on the composition of the specific loan segment. Other considerations include volumes and trends of delinquencies, nonaccrual loans, levels of bankruptcies, criticized and classified loan trends, expected losses on real estate secured loans, new credit products and policies, economic conditions, concentrations of credit risk and the experience and abilities of our lending personnel.

The allowance was $19.7 million at March 31, 2024 and December 31, 2023.

The following table provides an analysis of the activity in our allowance for the periods indicated:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2024 | 2023 |
| | (Dollars in thousands) | |
| Balance at beginning of the period | $ 19,691 | $ 14,734 |
| Impact of CECL adoption | - | 250 |
| **Provision for credit losses for loans** | - | 475 |
| **Charge-offs:** | | |
| Construction & development | - | - |
| 1-4 family real estate | - | - |
| Commercial real estate - other | - | - |
| Commercial & industrial | - | - |
| Agricultural | - | - |
| Consumer | - | (12) |
| **Total charge-offs** | - | (12) |
| **Recoveries:** | | |
| Construction & development | - | - |
| 1-4 family real estate | - | - |
| Commercial real estate - other | - | - |
| Commercial & industrial | 5 | - |
| Agricultural | - | 2 |
| Consumer | - | 3 |
| **Total recoveries** | 5 | 5 |
| Net recoveries (charge-offs) | 5 | (7) |
| **Balance at end of the period** | $ 19,696 | $ 15,452 |
| Net recoveries (charge-offs) to average loans | 0.00% | 0.00% |

While the entire allowance is available to absorb losses from any and all loans, the following table represents management's allocation of the allowance by loan category, and the percentage of allowance in each category, for the periods indicated:

| | As of March 31, 2024 | | As of December 31, 2023 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | |
| Construction & development | $ 1,417 | 7.2% | $ 1,417 | 7.2% |
| 1-4 family real estate | 1,271 | 6.5% | 1,271 | 6.5% |
| Commercial real estate - Other | 6,889 | 35.0% | 6,889 | 35.0% |
| Commercial & industrial | 9,242 | 46.8% | 9,237 | 46.8% |
| Agricultural | 628 | 3.2% | 628 | 3.2% |
| Consumer | 249 | 1.3% | 249 | 1.3% |
| Total | $ 19,696 | 100.0% | $ 19,691 | 100.0% |

Nonperforming Assets

Loans are considered delinquent when principal or interest payments are past due 30 days or more. Delinquent loans may remain on accrual status between 30 days and 90 days past due. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Typically, the accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability of the obligation. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on a nonaccrual loan is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable.

Real estate we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned, or OREO, until sold, and is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis.

The following table presents information regarding nonperforming assets as of the dates indicated.

| | As of March 31, 2024 | As of December 31, 2023 |
|---|---|---|
| | (Dollars in thousands) | |
| Nonaccrual loans[1] | $ 24,345 | $ 18,941 |
| Accruing loans 90 or more days past due | - | 10,026 |
| Total nonperforming assets | $ 24,345 | $ 28,967 |
| Ratio of nonperforming loans to total loans | 1.77% | 2.13% |
| Ratio of nonaccrual loans to total loans | 1.77% | 1.39% |
| Ratio of allowance for credit losses to total loans | 1.43% | 1.45% |
| Ratio of allowance for credit losses to nonaccrual loans | 80.90% | 103.96% |
| Ratio of nonperforming assets to total assets | 1.37% | 1.64% |

[1] Includes $10.11 million of loans modified to borrowers experiencing financial difficulty, see Note 6 of the financial statements.

The following tables present an aging analysis of loans as of the dates indicated.

| | As of March 31, 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans 30-59 days past due | Loans 60-89 days past due | Loans 90+ days past due | Loans 90+ days past due and accruing | Total past due loans | Current | Total loans |
| | (Dollars in thousands) | | | | | | |
| Construction & development | $ - | $ - | $ 313 | $ - | $ 313 | $ 143,408 | $ 143,721 |
| 1-4 family real estate | - | - | - | - | - | 116,092 | 116,092 |
| Commercial real estate | 1,670 | - | - | - | 1,670 | 511,843 | 513,513 |
| Commercial & industrial | 8,272 | - | 10,160 | - | 18,432 | 507,320 | 525,752 |
| Agricultural | 234 | - | - | - | 234 | 61,898 | 62,132 |
| Consumer | 281 | - | - | - | 281 | 14,788 | 15,069 |
| Total | $ 10,457 | $ - | $ 10,473 | $ - | $ 20,930 | $ 1,355,349 | $ 1,376,279 |

| | As of December 31, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans 30-59 days past due | Loans 60-89 days past due | Loans 90+ days past due | Loans 90+ days past due and accruing | Total Past Due Loans | Current | Total loans |
| | (Dollars in thousands) | | | | | | |
| Construction & development | $ - | $ - | $ - | $ - | $ - | $ 137,206 | $ 137,206 |
| 1-4 family real estate | - | - | - | - | - | 100,576 | 100,576 |
| Commercial real estate | - | - | - | - | - | 518,622 | 518,622 |
| Commercial & industrial | 472 | 10,969 | 9,946 | 9,946 | 21,387 | 504,798 | 526,185 |
| Agricultural | - | - | - | - | - | 66,495 | 66,495 |
| Consumer | - | 27 | 80 | 80 | 107 | 14,410 | 14,517 |
| Total | $ 472 | $ 10,996 | $ 10,026 | $ 10,026 | $ 21,494 | $ 1,342,107 | $ 1,363,601 |

In addition to the past due and nonaccrual criteria, we also evaluate loans according to our internal risk grading system. Loans are segregated between pass, watch, special mention, and substandard categories. The definitions of those categories are as follows:

*Pass*: These loans generally conform to Bank policies, are characterized by policy-conforming advance rates on collateral, and have well-defined repayment sources. In addition, these credits are extended to borrowers and guarantors with a strong balance sheet and either substantial liquidity or a reliable income history.

*Watch*: These loans are still considered “Pass” credits; however, various factors such as industry stress, material changes in cash flow or financial conditions, or deficiencies in loan documentation, or other risk issues determined by the lending officer, Commercial Loan Committee or Credit Quality Committee warrant a heightened sense and frequency of monitoring.

*Special mention*: These loans have observable weaknesses or evidence of imprudent handling or structural issues. The weaknesses require close attention, and the remediation of those weaknesses is necessary. No risk of probable loss exists. Credits in this category are expected to quickly migrate to “Watch” or “Substandard” as this is viewed as a transitory loan grade.

*Substandard*: These loans are not adequately protected by the sound worth and debt service capacity of the borrower, but may be well-secured. The loans have defined weaknesses relative to cash flow, collateral, financial condition or other factors that might jeopardize repayment of all of the principal and interest on a timely basis. There is the possibility that a future loss will occur if weaknesses are not remediated.

Outstanding loan balances categorized by internal risk grades as of the periods indicated are summarized as follows:

| | As of March 31, 2024 | | | | |
|---|---|---|---|---|---|
| | **Pass** | **Watch** | **Special mention** | **Substandard** | **Total** |
| | (Dollars in thousands) | | | | |
| Construction & development | $ 142,845 | $ - | $ 563 | $ 313 | $ 143,721 |
| 1-4 family real estate | 116,092 | - | - | - | 116,092 |
| Commercial real estate - Other | 497,713 | - | 15,678 | 122 | 513,513 |
| Commercial & industrial | 494,253 | 3,934 | 1,586 | 25,979 | 525,752 |
| Agricultural | 62,132 | - | - | - | 62,132 |
| Consumer | 15,043 | - | - | 26 | 15,069 |
| Total | $ 1,328,078 | $ 3,934 | $ 17,827 | $ 26,440 | $ 1,376,279 |

| | As of December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | **Pass** | **Watch** | **Special mention** | **Substandard** | **Total** |
| | (Dollars in thousands) | | | | |
| Construction & development | $ 136,417 | $ - | $ 789 | $ - | $ 137,206 |
| 1-4 family real estate | 100,576 | - | - | - | 100,576 |
| Commercial real estate - Other | 502,795 | - | 15,701 | 126 | 518,622 |
| Commercial & industrial | 485,433 | 4,094 | 5,767 | 30,891 | 526,185 |
| Agricultural | 66,495 | - | - | - | 66,495 |
| Consumer | 14,437 | - | - | 80 | 14,517 |
| Total | $ 1,306,153 | $ 4,094 | $ 22,257 | $ 31,097 | $ 1,363,601 |

Deposits

We gather deposits primarily through our twelve branch locations and online through our website. We offer a variety of deposit products including demand deposit accounts and interest-bearing products, such as savings accounts and certificates of deposit. We put continued effort into gathering noninterest-bearing demand deposit accounts through loan production cross-selling, customer referrals, marketing efforts and various involvement with community networks. Some of our interest-bearing deposits are obtained through brokered transactions. We participate in the CDARS and ICS programs, where customer funds are placed into multiple deposit accounts, each in an amount under the standard FDIC insurance maximum of $250,000, and placed at a network of banks across the United States.

Total deposits as of March 30, 2024 and December 31, 2023 were $1.58 billion and $1.59 billion, respectively. The following table sets forth deposit balances by certain categories as of the dates indicated and the percentage of each deposit category to total deposits.

| | As of March 31, 2024 | | As of December 31, 2023 | |
|---|---|---|---|---|
| | Amount | Percentage of Total | Amount | Percentage of Total |
| | (Dollars in thousands) | | | |
| Noninterest-bearing demand | $ 452,326 | 28.7% | $ 482,349 | 30.4% |
| Interest-bearing transaction deposits | 755,505 | 47.8% | 702,150 | 44.1% |
| Savings deposits | 125,541 | 7.9% | 150,116 | 9.4% |
| Time deposits (less than $250,000) | 163,419 | 10.3% | 168,690 | 10.6% |
| Time deposits ($250,000 or more) | 83,381 | 5.3% | 88,086 | 5.5% |
| Total interest-bearing deposits | 1,127,846 | 71.3% | 1,109,042 | 69.6% |
| Total deposits | $ 1,580,172 | 100.0% | $ 1,591,391 | 100.0% |

The following tables set forth the maturity of time deposits as of the dates indicated below:

| | As of March 31, 2024 Maturity Within: | | | | |
|---|---|---|---|---|---|
| | Three Months | Three to Six Months | Six to 12 Months | After 12 Months | Total |
| | (Dollars in thousands) | | | | |
| Time deposits (less than $250,000) | $ 56,026 | $ 42,889 | $ 57,168 | $ 7,336 | $ 163,419 |
| Time deposits ($250,000 or more) | 18,666 | 11,298 | 52,147 | 1,270 | 83,381 |
| Total time deposits | $ 74,692 | $ 54,187 | $ 109,315 | $ 8,606 | $ 246,800 |

| | As of December 31, 2023 Maturity Within: | | | | |
|---|---|---|---|---|---|
| | Three Months | Three to Six Months | Six to 12 Months | After 12 Months | Total |
| | (Dollars in thousands) | | | | |
| Time deposits (less than $250,000) | $ 52,423 | $ 55,570 | $ 50,047 | $ 10,650 | $ 168,690 |
| Time deposits ($250,000 or more) | 30,807 | 18,472 | 17,492 | 21,315 | 88,086 |
| Total time deposits | $ 83,230 | $ 74,042 | $ 67,539 | $ 31,965 | $ 256,776 |

***Liquidity***

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Our liquidity position is supported by the management of liquid assets and access to alternative sources of funds. Our liquid assets include cash, interest-bearing deposits in correspondent banks and fed funds sold. Other available sources of liquidity include wholesale deposits and borrowings from correspondent banks and FHLB advances.

Our short-term and long-term liquidity requirements are primarily met through cash flow from operations, redeployment of prepaying and maturing balances in our loan portfolios, and increases in customer deposits. Other alternative sources of funds will supplement these primary sources to the extent necessary to meet additional liquidity requirements on either a short-term or long-term basis.

As of March 31, 2024, we had no unsecured fed funds lines with correspondent depository institutions, with no corresponding amounts advanced. In addition, based on the values of loans pledged as collateral, we had borrowing availability with the FHLB of $166.2 million as of March 31, 2024 and $159.2 million as of December 31, 2023.

***Capital Requirements***

The Bank is subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for “prompt corrective action” (described below), We must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies. The capital amounts and classifications are subject to qualitative judgments by the federal banking regulators about components, risk weightings and other factors. Qualitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios of Common Equity Tier 1 (“CET1”) capital, Tier 1 capital, total capital to risk-weighted assets, and Tier 1 capital to average consolidated assets, referred to as the “leverage ratio.”

As of March 31, 2024, the Bank was in compliance with all applicable regulatory requirements and categorized as “well-capitalized” under the prompt corrective action frame work.  There have been no conditions or events since March 31, 2024 that management believes would change this classification. The table below presents our applicable capital requirements, as well as our capital ratios as of March 31, 2024 and December 31, 2023. The Company exceeded all regulatory capital requirements and the Bank was considered to be “well-capitalized” as of the dates reflected in the tables below.

***Basel III Capital Rules***

Under the Basel III Capital Rules, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. As of March 31, 2024, the Company and the Bank met all capital adequacy requirements under the Basel III Capital Rules.

| | Actual | | With Capital Conservation Buffer | | Minimum to be "Well-Capitalized" Under Prompt Corrective Action | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | | | |
| **As of March 31, 2024** | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | |
| Company | $ 194,904 | 13.36% | $ 153,192 | 10.50% | N/A | N/A |
| Bank | 194,851 | 13.36% | 153,085 | 10.50% | $ 145,795 | 10.00% |
| Tier 1 capital (to risk-weighted assets) | | | | | | |
| Company | 176,643 | 12.11% | 124,013 | 8.50% | N/A | N/A |
| Bank | 176,603 | 12.11% | 123,926 | 8.50% | 116,636 | 8.00% |
| CET 1 capital (to risk-weighted assets) | | | | | | |
| Company | 176,643 | 12.11% | 102,128 | 7.00% | N/A | N/A |
| Bank | 176,603 | 12.11% | 102,056 | 7.00% | 94,767 | 6.50% |
| Tier 1 capital (to average assets) | | | | | | |
| Company | 176,643 | 10.10% | N/A | N/A | N/A | N/A |
| Bank | 176,603 | 10.10% | N/A | N/A | 87,404 | 5.00% |

| | Actual | | With Capital Conservation Buffer | | Minimum to be "Well-Capitalized" Under Prompt Corrective Action | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | | | |
| **As of December 31, 2023** | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | |
| Company | $ 185,171 | 12.74% | $ 152,579 | 10.50% | N/A | N/A |
| Bank | 185,118 | 12.75% | 152,472 | 10.50% | $ 145,211 | 10.00% |
| Tier 1 capital (to risk-weighted assets) | | | | | | |
| Company | 166,982 | 11.49% | 123,516 | 8.50% | N/A | N/A |
| Bank | 166,942 | 11.50% | 123,429 | 8.50% | 116,169 | 8.00% |
| CET 1 capital (to risk-weighted assets) | | | | | | |
| Company | 166,982 | 11.49% | 101,719 | 7.00% | N/A | N/A |
| Bank | 166,942 | 11.50% | 101,648 | 7.00% | 94,387 | 6.50% |
| Tier 1 capital (to average assets) | | | | | | |
| Company | 166,982 | 9.50% | N/A | N/A | N/A | N/A |
| Bank | 166,942 | 9.50% | N/A | N/A | 87,897 | 5.00% |

Shareholders' equity provides a source of permanent funding, allows for future growth and provides a cushion to withstand unforeseen adverse developments. Total shareholders' equity increased $10.1 million as of March 31, 2024 to $180.4 million, compared to $170.3 million as of December 31, 2023.

**Contractual Obligations**

The following tables contain supplemental information regarding our total contractual obligations as of March 31, 2024, and December 31, 2023:

| | Payments Due as of March 31, 2024 | | | | |
|---|---|---|---|---|---|
| | Within One Year | One to Three Years | Three to Five Years | After Five Years | Total |
| | (Dollars in thousands) | | | | |
| Deposits without a stated maturity | $ 1,333,372 | $ - | $ - | $ - | $ 1,333,372 |
| Time deposits | 238,195 | 7,996 | 609 | - | 246,800 |
| Operating lease commitments | 553 | 627 | 308 | 850 | 2,338 |
| Total contractual obligations | $ 1,572,120 | $ 8,623 | $ 917 | $ 850 | $ 1,582,510 |

| | Payments Due as of December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Within One Year | One to Three Years | Three to Five Years | After Five Years | Total |
| | (Dollars in thousands) | | | | |
| Deposits without a stated maturity | $ 1,334,615 | $ - | $ - | $ - | $ 1,334,615 |
| Time deposits | 224,811 | 31,345 | 620 | - | 256,776 |
| Operating lease commitments | 553 | 627 | 308 | 850 | 2,338 |
| Total contractual obligations | $ 1,559,979 | $ 31,972 | $ 928 | $ 850 | $ 1,593,729 |

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan repayment and maturity activity and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

**Off-Balance Sheet Arrangements**

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contractual or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

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 amount does not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if we deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. The Company also estimates a reserve for potential losses associated with off-balance sheet commitments and letters of credit. It is included in other liabilities in the Company's consolidated statements of condition, with any related provisions to the reserve included in non-interest expense in the consolidated statement of income.

In determining the reserve for unfunded lending commitments, a process similar to the one used for the allowance is employed. Based on historical experience, loss factors, adjusted for expected funding, are applied to the Company's off-balance sheet commitments and letters of credit to estimate the potential for losses.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of the customer to a third party. They are intended to be disbursed, subject to certain conditions, upon request of the borrower.

The following table summarizes commitments as of the dates presented.

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| | (Dollars in thousands) | |
| Commitments to extend credit | $ 304,676 | $ 256,888 |
| Standby letters of credit | 1,560 | 4,247 |
| Total | $ 306,236 | $ 261,135 |

**Critical Accounting Policies and Estimates**

Our accounting and reporting policies conform to GAAP and conform to general practices within the industry in which we operate. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions and judgments based on available information. These estimates, assumptions and judgments affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the financial statement. In particular, management has identified several accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical in understanding our financial statements.

The following is a discussion of the critical accounting policies and significant estimates that we believe require us to make the most complex or subjective decisions or assessments.

***Allowance for Credit Losses***

The allowance is based on management's estimate of probable losses inherent in the loan portfolio. In the opinion of management, the allowance is adequate to absorb estimated losses in the portfolio as of each balance sheet date. While management uses available information to analyze losses on loans, future additions to the allowance may be necessary based on changes in economic conditions and changes in the composition of the loan portfolio. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance. In analyzing the adequacy of the allowance, a comprehensive loan grading system to determine risk potential in loans is utilized together with the results of internal credit reviews.

To determine the adequacy of the allowance, the loan portfolio is broken into pools based on loan type and risk characteristics. Historical loss experience factors by pool, adjusted for changes in trends and conditions, are used to determine an indicated allowance for each portfolio pool. These factors are evaluated and updated based on the composition of the specific loan pool. Other considerations include volumes and trends of delinquencies, nonaccrual loans, levels of bankruptcies, criticized and classified loan trends, expected losses on real estate secured loans, new credit products and policies, economic conditions, concentrations of credit risk and the experience and abilities of our lending personnel. In addition to the pool evaluations, classified loans with a balance of $250,000 or more are individually evaluated based on facts and circumstances of the loan to determine if a specific allowance amount may be necessary. Specific allowances may also be established for loans whose outstanding balances are below the $250,000 threshold when it is determined that the risk associated with the loan differs significantly from the risk factor amounts established for its loan pool.

***Goodwill and Intangibles***

Intangible assets totaled $1.0 million and goodwill, net of accumulated amortization, totaled $8.5 million for the three months ended March 31, 2024, compared to intangible assets of $1.0 million and goodwill of $8.5 million for the year ended December 31, 2023.

Goodwill resulting from a business combination represents the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is tested annually for impairment or more frequently if other impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the accompanying consolidated financial statements.

Other intangible assets consist of core deposit intangible assets and are amortized on a straight-line basis based on an estimated useful life of 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

***Income Taxes***

We file a consolidated income tax return. Deferred taxes are recognized under the balance sheet method based upon the future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities, using the tax rates expected to apply to taxable income in the periods when the related temporary differences are expected to be realized.

The amount of accrued current and deferred income taxes is based on estimates of taxes due or receivable from taxing authorities either currently or in the future. Changes in these accruals are reported as tax expense, and involve estimates of the various components included in determining taxable income, tax credits, other taxes and temporary differences. Changes periodically occur in the estimates due to changes in tax rates, tax laws and regulations and implementation of new tax planning strategies. The process of determining the accruals for income taxes necessarily involves the exercise of considerable judgment and consideration of numerous subjective factors.

Management performs an analysis of our tax positions annually and believes it is more likely than not that all of its tax positions will be utilized in future years.

***Fair Value of Financial Instruments***

ASC Topic 820, Fair Value Measurement, defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The degree of management judgment involved in determining the fair value of assets and liabilities is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not available, management judgment is necessary to estimate fair value. In addition, changes in market conditions may reduce the availability of quoted prices or the observable date. Debt securities that are being held for indefinite periods of time and are not intended to sell, are classified as available for sale and are stated at estimated fair value. Unrealized gains or losses on debt securities available for sale are reported as a component of stockholders' equity and comprehensive income, net of income tax.

The Company reviews its portfolio of debt securities in an unrealized loss position at least quarterly. The Company first assesses whether it intends to sell, or it is more-likely-than-not that it will be required to sell, the securities before recovery of the amortized cost basis. If either of these criteria is met, the securities amortized cost basis is written down to fair value as a current period expense. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making this assessment, the Company considers, among other things, the period of time the security has been in an unrealized loss position, and performance of any underlying collateral and adverse conditions specifically related to the security.

The estimates of fair values of debt securities and other financial instruments are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of year-end or that will be realized in the future.

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

**Interest Rate Sensitivity and Market Risk**

As a financial institution, our primary component of market risk is interest rate volatility. Our financial management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, financial options or financial future contracts to mitigate interest rate risk from specific transactions. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset/Liability Committee, or the ALCO Committee, in accordance with policies approved by the our board of directors. The ALCO Committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the ALCO Committee considers the impact on earnings and capital on the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The ALCO Committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the ALCO Committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk, which include an analysis of relationships between interest-earning assets and interest-bearing liabilities and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analyses to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model. The average lives of non-maturity deposit accounts are based on decay assumptions and are incorporated into the model. We utilize third-party experts to periodically evaluate the performance of our non-maturity deposit accounts to develop the decay assumptions. All of the assumptions used in our analyses are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a quarterly basis, we run various simulation models including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static model and dynamic growth models, rates are shocked instantaneously and ramped rates change over a 12-month and 24-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Our internal policy regarding internal rate risk simulations currently specifies that for gradual parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 10% for a -100 basis point shift, 5% for a 100 basis point shift, 10% for a 200 basis point shift, 15% for a 300 basis point shift, and 20% for a 400 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated:

| | March 31, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| **Change in Interest Rates (Basis Points)** | **Percent Change in Net Interest Income** | **Percent Change in Fair Value of Equity** | **Percent Change in Net Interest Income** | **Percent Change in Fair Value of Equity** |
| +400 | 19.08% | 20.32% | 23.35% | 17.72% |
| +300 | 15.25% | 19.25% | 19.04% | 16.63% |
| +200 | 11.44% | 18.06% | 14.74% | 15.45% |
| +100 | 7.61% | 16.76% | 10.42% | 14.20% |
| Base | 3.40% | 15.35% | 5.76% | 12.72% |
| -100 | -1.44% | 13.80% | 0.73% | 11.22% |

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and fed funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

***Impact of Inflation***

Our consolidated financial statements and related notes included elsewhere in this Form 10-Q have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

## ITEM 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of March 31, 2024 of our disclosure controls and procedures, as defined Rules 13a-15(e) and 15d-15(e) under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Form 10-Q.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended March 31, 2024 that has materially affected, or is reasonably likely to materially affect, such controls.

**PART II**

## ITEM 1. Legal Proceedings

From time to time, we are a party to legal actions that are routine and incidental to our business. Given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business, including laws and regulations governing consumer protections, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws, we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risk. However, based upon available information and in consultation with legal counsel, management is of the opinion that no proceedings exist, either individually or in the aggregate, which, if determined adversely, would have a material adverse effect on our financial statements.

## ITEM 1A. Risk Factors

In addition to the other information set forth in this Report, we refer you to Item 1A. “Risk Factors” of our Annual Report on Form 10-K for December 31, 2023, filed with the SEC. Other than the risk factors set forth below, there have been no material changes in the risk factors disclosed in our Annual Report on Form 10-K for December 31, 2023.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 28, 2021, the Company adopted a Repurchase Plan (the “RP”) that authorizes the repurchase of up to 750,000 shares of the Company’s stock. Stock repurchases under the RP take place pursuant to a Rule 10b5-1 Plan with pricing and purchasing parameters established by management. The RP expired on October 28, 2023. There were no share repurchases under this plan. On October 30, 2023, the Company adopted a new Repurchase Plan (the “New RP”) that authorizes the repurchase of up to 750,000 shares of the Company’s stock. Stock repurchases under the New RP will take place pursuant to a Rule 10b5-1 Plan with pricing and purchasing parameters established by management. The Company may repurchase shares of common stock on the open market or through privately negotiated transactions at times and prices considered appropriate, at the discretion of the Company, and subject to its assessment of alternative uses of capital, stock trading price, general market conditions and regulatory factors. The stock repurchase plans do not obligate the Company to acquire any specific number of shares and will continue in effect until terminated by the Board of Directors of the Company. Shares of common stock repurchased under these plans will be retired subsequent to acquisition. During the three months ended March 31, 2024, there were no shares purchased under the Company’s repurchase plan.

## ITEM 3. Defaults Upon Senior Securities

None

## ITEM 4. Mine Safety Disclosures

None

## ITEM 5. Other Information

During the three months ended March 31, 2024, none of our officers or directors adopted or terminated a Rule 10b5-1 trading arrangement or a Non-Rule 10b5-1 trading arrangement, as each term is defined under Item 408(a) of Regulation S-K.

**ITEM 6. Exhibits**

| | |
|---|---|
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1* | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

* This exhibit is furnished herewith and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | BANK7 CORP. |
| DATED: May 15, 2024 | By: /s/ Thomas L. Travis<br>Thomas L. Travis<br>Vice Chairman and Chief Executive Officer |
| DATED: May 15, 2024 | By: /s/ Kelly J. Harris<br>Kelly J. Harris<br>Executive Vice President and Chief Financial Officer |

**Exhibit 31.1**

## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER UNDER SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, Thomas L. Travis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank7 Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2024

/s/ Thomas L. Travis

Thomas L. Travis
Vice Chairman and Chief Executive Officer (Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**
**UNDER SECURITIES EXCHANGE ACT RULE 13a-14(a)**

I, Kelly J. Harris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank7 Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | |
|---|---|
| Date: May 15, 2024 | /s/ Kelly J. Harris<br>Kelly J. Harris<br>Executive Vice President and Chief Financial Officer (Principal Financial Officer) |

**Exhibit 32.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER UNDER 18 U.S.C. § 1350 FURNISHED PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(b)**

In connection with the Quarterly Report of Bank7 Corp. (the “Company”) on Form 10-Q for the period ended on March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned, in his respective capacities indicated below, hereby certifies, pursuant to 18 U.S.C. § 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge and belief, (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2024

/s/ Thomas L. Travis

Thomas L. Travis
Vice Chairman and Chief Executive Officer (Principal Executive Officer)

/s/ Kelly J. Harris

Kelly J. Harris
Executive Vice President and Chief Financial Officer (Principal Financial Officer)