



Independent Bankers Financial Corporation dba TIB, Inc.
and Subsidiaries

Auditor's Report and Consolidated Financial Statements
December 31, 2022 and 2021



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Independent Auditor's Report

Board of Directors
Independent Bankers Financial Corporation
and Subsidiaries
Farmers Branch, Texas

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements of Independent Bankers Financial Corporation and Subsidiaries (Corporation), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income (loss), shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited the Corporation's internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on COSO.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting" section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management also is responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report – FDICIA Requirements.

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

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Corporation's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

FORVIS, LLP

**Dallas, Texas
March 22, 2023**



MANAGEMENT'S REPORT – FDICIA REQUIREMENTS

Management Report

In this management report, TIB, National Association, a subsidiary institution of Independent Bankers Financial Corporation (Corporation) that is subject to Part 363, is included in the statement of management's responsibilities; the report on management's assessment of compliance with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions; and the report on management's assessment of internal control over financial reporting:

Statement of Management's Responsibilities

The management of the Corporation is responsible for preparing the Corporation's annual financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions to the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP); and for complying with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

Management has assessed the Corporation's compliance with the federal laws and regulations pertaining to insider loans and the federal and state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022. Based upon its assessment, management has concluded that the Corporation complied with the federal laws and regulations pertaining to insider loans and the federal and state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022.

Management's Assessment of Internal Control Over Financial Reporting

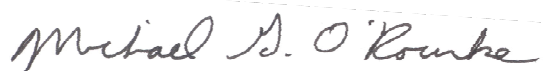
The Corporation's internal control over financial reporting is a process designed and effected by those charged with governance, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.*, Form FR Y-9C. The Corporation's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (c) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the

Consolidated Financial Statements for Holding Companies (Form FR Y-9C), as of December 31, 2022, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* (2013). Based upon its assessment, management has concluded that, as of December 31, 2022, the Corporation's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Consolidated Financial Statements for Holding Companies (Form FR Y-9C), is effective based on the criteria established in *Internal Control – Integrated Framework* (2013).

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Consolidated Financial Statements for Holding Companies (Form FR Y-9C), as of December 31, 2022, has been audited by FORVIS LLP, an independent public accounting firm, as stated in their report dated March 22, 2023.



Mr. Michael O'Rourke
President, Independent Bankers Financial Corporation
President and Chief Executive Officer, TIB, N.A.



Mr. Curtis Harvey
Vice President and Treasurer, Independent Bankers Financial Corporation
Executive Vice President and Chief Financial Officer, TIB, N.A.



Ms. Dawn Velekei
Senior Vice President and Director of Finance & Partner Relations, TIB, N.A.



Kyle R. Garner
Senior Vice President and Director of Risk Services, TIB, N.A.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Balance Sheets

December 31, 2022 and 2021

(Dollar amounts in thousands, except per share amounts)

	<u>2022</u>	<u>2021</u>
Assets		
Cash and due from banks	\$ 36,636	\$ 71,045
Interest-bearing deposits in banks	759,032	2,279,618
Federal funds sold and securities purchased under agreements to resell	<u>131,277</u>	<u>9,405</u>
Cash and cash equivalents	926,945	2,360,068
Available-for-sale securities	305,029	342,370
Loans held for sale	1,736	5,749
Loans, net of allowance for loan losses of \$29,720 and \$30,003 at 2022 and 2021, respectively	1,167,272	1,130,324
Premises and equipment, net of accumulated depreciation of \$17,149 and \$15,551 at 2022 and 2021, respectively	21,123	22,148
Federal Reserve and Federal Home Loan Bank stock	4,992	4,893
Foreclosed assets held for sale	95	150
Interest receivable	8,866	5,978
Deferred income taxes	17,981	8,363
Cash surrender value of life insurance	67,156	67,084
Goodwill	2,000	2,000
Core deposits and other intangibles	278	479
Other	<u>36,924</u>	<u>36,085</u>
Total Assets	<u><u>\$ 2,560,397</u></u>	<u><u>\$ 3,985,691</u></u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Balance Sheets (Continued)

December 31, 2022 and 2021

(Dollar amounts in thousands, except per share amounts)

	<u>2022</u>	<u>2021</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand	\$ 523,941	\$ 751,988
Interest-bearing	<u>1,512,381</u>	<u>2,732,851</u>
Total deposits	2,036,322	3,484,839
Short-term borrowings	160,432	111,493
Other borrowings	22,375	30,000
Derivatives	-	1,099
Interest payable and other liabilities	<u>33,351</u>	<u>34,621</u>
Total liabilities	<u>2,252,480</u>	<u>3,662,052</u>
Shareholders' Equity		
Common stock, \$10 par value; 5,000,000 shares authorized, 1,118,821 shares issued and outstanding in 2022 and 2021	11,188	11,188
Additional paid-in capital	32,842	32,842
Retained earnings	291,817	274,238
Accumulated other comprehensive income (loss)	<u>(27,930)</u>	<u>5,371</u>
Total shareholders' equity	<u>307,917</u>	<u>323,639</u>
Total Liabilities and Shareholders' Equity	<u><u>\$ 2,560,397</u></u>	<u><u>\$ 3,985,691</u></u>

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Income Years Ended December 31, 2022 and 2021 (Dollar amounts in thousands)

	2022	2021
Interest Income		
Loans, including fees, taxable	\$ 36,340	\$ 34,065
Loans, including fees, tax exempt	10,305	8,807
Securities, taxable	8,633	6,004
Securities, tax exempt	86	87
Federal funds sold and securities purchased under agreements to resell	2,309	180
Deposits with financial institutions	19,078	3,467
Other	219	172
Total interest income	76,970	52,782
Interest Expense		
Deposits	35,213	10,323
Short-term borrowings	723	96
Other borrowings	1,469	505
Total interest expense	37,405	10,924
Net Interest Income	39,565	41,858
Provision for Loan Losses	940	495
Net Interest Income After Provision for Loan Losses	38,625	41,363
Noninterest Income		
Credit card fees	44,257	40,940
Safekeeping fees	4,323	4,120
Customer security transaction fees	5,716	10,768
Audit and loan review fees	2,794	2,534
Gain on sale of loans	1,721	4,515
Loss on sale of available-for-sale securities	(2,822)	-
Other	18,804	15,794
Total noninterest income	74,793	78,671

The Notes to Consolidated Financial Statements are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Income (Continued) Years Ended December 31, 2022 and 2021 (Dollar amounts in thousands)

	<u>2022</u>	<u>2021</u>
Noninterest Expense		
Credit card	\$ 17,136	\$ 15,863
Salaries and employee benefits	43,604	42,786
Premises, furniture and equipment	4,096	4,096
Telephone	2,042	2,008
Software	5,850	5,326
Mortgage operations	653	1,206
Professional fees	1,916	1,269
Decrease in fair value of mortgage servicing rights	-	736
Other	<u>10,286</u>	<u>10,251</u>
Total noninterest expense	<u>85,583</u>	<u>83,541</u>
Income Before Income Taxes	27,835	36,493
Provision for Income Taxes	<u>3,543</u>	<u>5,616</u>
Net Income	<u><u>\$ 24,292</u></u>	<u><u>\$ 30,877</u></u>

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss) Years Ended December 31, 2022 and 2021 (Dollar amounts in thousands)

	<u>2022</u>	<u>2021</u>
Net Income	\$ 24,292	\$ 30,877
Other Comprehensive Income (Loss)		
Change in fair value of interest rate swap contracts	1,099	3,950
Net tax effect	<u>(231)</u>	<u>(829)</u>
Change in fair value of interest rate swap contracts, net	<u>868</u>	<u>3,121</u>
Change in unrealized losses on available-for-sale securities	(46,074)	(6,808)
Reclassification adjustment for realized losses on available-for-sale securities included in net income	<u>2,822</u>	<u>-</u>
Total change related to available-for-sale securities	<u>(43,252)</u>	<u>(6,808)</u>
Net tax effect	<u>9,083</u>	<u>1,430</u>
Unrealized losses on available-for-sale securities, net	<u>(34,169)</u>	<u>(5,378)</u>
Total other comprehensive loss	<u>(33,301)</u>	<u>(2,257)</u>
Comprehensive Income (Loss)	<u><u>\$ (9,009)</u></u>	<u><u>\$ 28,620</u></u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2022 and 2021

(Dollar amounts in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as of January 1, 2021	\$ 11,188	\$ 32,842	\$ 248,955	\$ 7,628	\$ 300,613
Net income	-	-	30,877	-	30,877
Other comprehensive loss	-	-	-	(2,257)	(2,257)
Purchase and retirement of common stock (5 shares)	-	(1)	-	-	(1)
Issuance of common stock (4 shares)	-	1	-	-	1
Common stock dividends declared and paid (\$5.00 per share)	-	-	(5,594)	-	(5,594)
Balance as of December 31, 2021	11,188	32,842	274,238	5,371	323,639
Net income	-	-	24,292	-	24,292
Other comprehensive loss	-	-	-	(33,301)	(33,301)
Common stock dividends declared and paid (\$6.00 per share)	-	-	(6,713)	-	(6,713)
Balance as of December 31, 2022	<u>\$ 11,188</u>	<u>\$ 32,842</u>	<u>\$ 291,817</u>	<u>\$ (27,930)</u>	<u>\$ 307,917</u>

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2022 and 2021 (Dollar amounts in thousands)

	<u>2022</u>	<u>2021</u>
Operating Activities		
Net income	\$ 24,292	\$ 30,877
Items not requiring (providing) cash:		
Depreciation and amortization	4,154	5,197
Provision for loan losses	940	495
Deferred income taxes	(766)	85
Deferred compensation and stock-based compensation expense	5,114	3,106
Change in fair value of mortgage servicing rights	-	736
Net gains on sale of loans	(1,721)	(4,515)
Net realized losses on available-for-sale securities	2,822	-
Loss on write-downs of other real estate owned	2	135
Net realized other gains	(969)	(47)
Originations and purchases of loans held for sale	(82,867)	(230,087)
Proceeds from sale of loans held for sale	88,601	244,317
Change in:		
Interest receivable	(2,888)	648
Other assets	(2,953)	(4,700)
Interest payable and other liabilities	(5,598)	1,474
Net cash provided by operating activities	<u>28,163</u>	<u>47,721</u>
Investing Activities		
Purchases of available-for-sale securities	(1,237,890)	(1,177,642)
Proceeds from maturities, calls and pay downs of available-for-sale securities	1,110,146	1,088,974
Proceeds from the sale of available-for-sale securities	117,069	-
Purchase of Federal Home Loan Bank stock	(8,217)	(1,312)
Proceeds from Federal Home Loan Bank stock redemption	8,118	-
Net change in loans	(37,988)	133,970
Purchase of cash surrender value of life insurance	-	(4,000)
Proceeds from cash surrender value of life insurance	1,311	-
Purchase of other investments	(1,416)	(6,659)
Proceeds from redemption other investments	2,000	-
Proceeds from the sale of other real estate owned	153	881
Proceeds from the sale of fixed assets	122	47
Purchase of premises and equipment	(778)	(1,195)
Net cash provided by (used in) investing activities	<u>(47,370)</u>	<u>33,064</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued) Years Ended December 31, 2022 and 2021 (Dollar amounts in thousands)

	2022	2021
Financing Activities		
Net change in deposits	\$ (1,448,517)	\$ 245,709
Proceeds from other borrowings	-	30,000
Payments on other borrowings	(7,625)	-
Net change in short term borrowings	48,939	(72,318)
Purchase and retirement of common stock	-	(1)
Proceeds from issuance of common stock	-	1
Dividends paid	(6,713)	(5,594)
Net cash provided by (used in) financing activities	<u>(1,413,916)</u>	<u>197,797</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(1,433,123)</u>	<u>278,582</u>
Cash and Cash Equivalents, Beginning of Year	<u>2,360,068</u>	<u>2,081,486</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 926,945</u></u>	<u><u>\$ 2,360,068</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 37,367	\$ 10,926
Income taxes paid	5,391	7,961

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollar amounts in thousands)

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Independent Bankers Financial Corporation and Subsidiaries (the Corporation) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, TIB, National Association (the Bank). The Bank is defined by statute as a "bankers' bank." The Bank provides services to financial institutions in the United States, many of which are shareholders of the Corporation. The Bank competes with other financial institutions and bank-service organizations. The statute requires shareholders to be depository institutions or holding companies for depository institutions. The Federal Reserve System and Office of the Comptroller of the Currency federally regulate the Corporation and Bank, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of Independent Bankers Financial Corporation (IBFC) and the Bank. The Corporation eliminated all significant intercompany accounts and transactions in consolidation.

Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications had no effect on net income or shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates susceptible to significant change include the allowance for loan losses, valuation of real estate acquired in foreclosures, mortgage servicing rights, deferred tax assets, other-than-temporary impairments and fair values of financial instruments.

Cash and Cash Equivalents

Cash equivalents consist primarily of cash items, amounts due from banks, interest-bearing deposits, federal funds sold and securities purchased under agreements to resell, all with original maturities within three months. Counterparties comply with credit risk parameters established by management.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollar amounts in thousands)

At December 31, 2022, the Corporation had bank accounts exceeding FDIC insured limits by approximately \$260,719.

Overnight federal funds sold are uncollateralized loans to other financial institutions.

Interest-bearing Deposits in Banks

Interest-bearing deposits in banks mature within 90 days and are carried at cost.

Securities

Management determines the classification of securities as available-for-sale, held-to-maturity, or trading when purchased based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The Corporation had only available-for-sale securities at the report date.

Securities available-for-sale are reported at fair value, with unrealized gains and losses reported as a separate component of shareholders' equity and other comprehensive income (loss), net of taxes. These securities can be sold in response to interest rate changes, changes in prepayment risk, and other similar reasons. Securities are designated as available-for-sale for earnings and liquidity purposes.

Interest on investment securities is recorded as income from securities as earned. Purchased premiums and discounts are amortized and accreted, respectively, to interest income from securities using a prospective method. Realized gains and losses are recorded as net security gains (losses). Gains and losses on the sale of securities are determined using the specific identification method.

For debt securities with fair values below amortized cost when the Corporation does not intend to sell a debt security, and it is more likely than not the Corporation will not have to sell the security before recovery of its cost basis, the credit component of an other-than-temporary impairment of a debt security is recognized in earnings and the remaining portion in other comprehensive income (loss).

Loans Held for Sale

Mortgage loans are purchased from respondent banks and resold in the secondary market in the normal course of the Corporation's business. The loans are classified as held-for-sale and carried at the lower of cost or fair value in the aggregate. Write-downs to fair value are recognized through a valuation allowance as a charge to noninterest expense at the time the decline in value occurs. Gains and losses arising from individual loan buying and selling activity are determined using the specific identification method and are recorded in noninterest income.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollar amounts in thousands)

Loans

Loans the Corporation has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal balances adjusted for charge-offs and the allowance for loan losses.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Interest accrual is discontinued when the loan is 90 days past due unless the credit is well-secured and in process of collection. When collection of principal or interest is doubtful, loans are put on nonaccrual or charged-off.

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

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Provisions to the allowance for loan losses are based on management's analysis and evaluation of the loan portfolio. Management considers identification of problem credits, internal and external factors affecting collectability, relevant credit exposure, inherent risks in sector lending and collateral values. In management's estimation, the allowance is adequate to absorb probable credit losses on existing loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. This estimate is highly subjective and subjected to several internal and external reviews.

The allowance consists of allocated and general components. The allocated component relates to loans classified as impaired. For those loans classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given the default rate derived from the Corporation's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality not fully reflected in the historical loss or risk rating data. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgement, should be charged off.

A loan is impaired when principal or interest probably cannot be collected according to the contractual terms of the loan agreement or through its collateral. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollar amounts in thousands)

Loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Loan losses are charged against the allowance when management believes a loan balance is partially or wholly uncollectable. Subsequent recoveries are credited to the allowance.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the respective lease terms or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods if exercising such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are:

Buildings	30 years
Building improvements	10 - 20 years
Leasehold improvements	5 - 10 years
Furniture and equipment	3 - 10 years

The Corporation leases certain office facilities and office equipment under operating leases. In 2019, the Corporation adopted certain accounting standard updates related to accounting for leases (ASC 842). The standard requires lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Corporation elected the package of practical expedients which includes an exemption from recording leases with a term of less than 12 months. The Corporation has adopted a capitalization threshold when evaluating the requirement to recognize leases on the balance sheet as permitted under the standard. As of December 31, 2022 and 2021, the present value of operating leases was below the Corporation's established capitalization threshold. Management reviews the threshold and the present value of operating leases annually to determine materiality and, until such time the aggregate of all leases exceeds the Corporation's capitalization threshold, leases are expensed as incurred.

Long-lived Asset Impairment

Management evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the

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asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2022 and 2021.

Federal Reserve Bank of Dallas and Federal Home Loan Bank of Dallas Stock

Federal Reserve Bank of Dallas and Federal Home Loan Bank of Dallas (FHLB) stock are required investments for membership. The required investment in the common stock is based on a predetermined formula. The stock is carried at cost and periodically evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, the Corporation periodically receives valuations on the assets and makes any adjustments to carry at the lower of carrying amount or fair value, less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Equity Investments

The Corporation measures equity investments, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in net income. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Gains and losses on the sale of equity investments are recorded on the trade date and are determined using the specific identification method.

The Corporation uses the equity method of accounting for investments in entities in which it has an ownership interest and does not exercise a controlling interest in the operating and financial policies of an investee and for variable interest entities for which it is not considered the primary beneficiary. Under this method, an investment is carried at the acquisition cost, plus the Corporation's equity in undistributed earnings or losses since acquisition. Losses due to impairment are recorded when it is determined that the investment no longer has the ability to recover its carrying amount.

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Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value of a reporting unit is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value of a reporting unit is less than the carrying value, then goodwill is tested further for impairment. The quantitative impairment test consists of calculating the fair value of a reporting unit and comparing it to the carrying amount, including goodwill. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of a reporting unit, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible Assets

Intangible assets with finite lives are amortized using the straight-line basis over periods ranging from three to ten years. Such assets are periodically evaluated for recoverability of their carrying values.

Revenue Recognition

The Company's credit card business generates significant fees from its activities. The business is organized into two segments: Merchant Acquirer and Issuer. The Merchant Acquirer unit provides card network access, payment processing, and related services to merchants. The Issuer unit serves financial institutions, and their referrals, with an assortment of credit card products and services commonly used in the marketplace.

Under ASC 606 Revenue from Contracts with Customers, the Company reports net revenues when appropriate. Net revenue is gross revenue less network processing fees, association fees, and others charged by the agent networks in fulfilling their electronic payment processing responsibilities. Other revenues and expenses are incurred as principal and those transactions are recorded gross. The adoption of ASC 606 did not impact the Company's net income but materially impacts the Company's noninterest income line item.

	Year ended December 31, 2022	Year ended December 31, 2021
Merchant and Issuer Units		
Gross revenues	\$ 76,944	\$ 71,685
Network and other expenses	<u>(32,687)</u>	<u>(30,745)</u>
Net revenues	<u>\$ 44,257</u>	<u>\$ 40,940</u>

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Derivatives

The Corporation's hedging policies permit the use of various derivative financial instruments to manage interest rate risk or to hedge specified assets and liabilities. Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange-traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the derivative contract. A hedge is considered to be highly effective when the change in fair value of the derivative hedging instrument is within 80 percent to 120 percent of the opposite change in the fair value of the hedged item. If certain criteria are met, cash flow hedges may be accounted for under the simplified approach. Under the simplified approach, perfect hedge effectiveness can be assumed. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedges and the hedged items are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income (loss). During the life of the hedge, the Corporation formally assesses whether derivatives designated as hedging instruments continue to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, the Corporation will discontinue hedge accounting prospectively and the derivative instrument is reclassified to a trading position recorded at fair value.

Mortgage Servicing Assets

Mortgage servicing assets are recognized separately when rights are acquired through the purchase or sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale of loans purchased by the Corporation are initially measured at fair value at the date of transfer. Subsequently, the Corporation measured each class of servicing asset using the fair value method. Under the fair value method, the servicing rights are carried in the consolidated balance sheets at fair value and the changes in fair value are reported in earnings in the period in which the changes occur.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may adversely impact the value of the mortgage servicing rights and may cause an increase in noninterest expense.

In 2018 the Corporation sold the majority of its servicing portfolio, with the exception of a small portfolio that the purchaser elected not to purchase. Due to the fact that the servicing portfolio

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remaining on the Corporation's balance sheet was related to this residual portfolio of loans, the Corporation decided to amortize the remaining servicing asset to \$0 during the year ended December 31, 2021.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned.

Transactions as Agent

The Corporation acts as an agent in facilitating overnight investment transactions between participating respondent banks and the Federal Reserve System. Transactions with the Federal Reserve System are facilitated via the Excess Balance Account (EBA) pursuant to Regulation D for correspondent banks and similarly purposed institutions. The Corporation acts as intermediary for these transactions but is not otherwise obligated by the transaction. The Corporation's consolidated financial statements do not reflect these transactions except for the fees earned. At December 31, 2022 and 2021, the Corporation was agent for participating respondent banks on EBA funds totaling \$3,640,908 and \$7,601,232, respectively.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the assets have been isolated from the Corporation and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership; and (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

Income taxes are accounted for in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period.

The Corporation determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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Tax positions are recognized if it is more likely than not, based on the technical merits, the tax position will be realized or sustained upon examination. The term "more likely than not" means a likelihood of over 50 percent; the terms examined and upon examination, also include resolution of the related appeals or litigation processes, if any. A tax position meeting the more-likely-than-not recognition threshold is initially and subsequently measured as the largest tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority with full knowledge of all relevant information. Determining whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Corporation is no longer subject to U.S. Federal, state and local tax examinations by tax authorities for years before 2020.

The Corporation recognizes interest and penalties on income taxes as a component of income tax expense.

The Corporation files consolidated income tax returns with its subsidiaries.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities and unrealized and realized gains and losses in derivative financial instruments that qualify for hedge accounting.

Accounting Standards Updates

ASU 2021-01, Reference Rate Reform (Topic 848). In January 2021, the FASB issued ASU No. 2021-01 to clarify the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. This update additionally clarified that a receive-variable-rate, pay-variable-rate cross-currency interest rate swap may be considered an eligible hedging instrument in a net investment hedge if both legs of the swap do not have the same repricing intervals and dates as a result of reference rate reform. This update was effective upon issuance and generally can be applied through December 31, 2022. See the discussion regarding the adoption of ASU 2020-04 below.

ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU 2020-04 provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the

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hedging relationship. ASU 2020-04 was effective upon issuance and generally can be applied through December 31, 2022. The adoption of the guidance is not expected to have a material effect on the Corporation's results of operations or financial position.

ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)": Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires earlier measurement of credit losses, expands the range of information considered in determining expected credit losses and enhances disclosures. The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2019-10 extended the effective date for ASU 2016-13 for non-SEC filers and small reporting companies. ASU 2016-13 will be effective for the Corporation on January 1, 2023. The Corporation expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. The impact of this adjustment is immaterial to retained earnings and results in a reclassification from the allowance for credit losses to the reserve for unfunded commitments of \$5,378.

NOTE 2. RESTRICTION ON CASH AND DUE FROM BANKS

In response to COVID-19, the Federal Reserve Bank reduced the reserve requirements to zero on March 15, 2020, where they have since remained. Thus, there were no reserves on deposits with the Federal Reserve Bank at December 31, 2022 or 2021.

NOTE 3. SECURITIES

The amortized cost and approximate fair values, with gross unrealized gains and losses, of available-for-sale securities are as follows:

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
Mortgage-backed U.S Government sponsored enterprises (GSEs) - residential	\$ 333,928	\$ 23	\$ 34,677	\$ 299,274
Mortgage-backed U.S Government sponsored enterprises (GSEs) - commercial	3,312	-	700	2,612
Municipal securities	3,143	-	-	3,143
	<u>\$ 340,383</u>	<u>\$ 23</u>	<u>\$ 35,377</u>	<u>\$ 305,029</u>
December 31, 2021				
Mortgage-backed U.S Government sponsored enterprises (GSEs) - residential	\$ 327,970	\$ 8,890	\$ 1,177	\$ 335,683
Mortgage-backed U.S Government sponsored enterprises (GSEs) - commercial	3,295	-	35	3,260
Municipal securities	3,207	220	-	3,427
	<u>\$ 334,472</u>	<u>\$ 9,110</u>	<u>\$ 1,212</u>	<u>\$ 342,370</u>

Mortgage-backed securities owned by the Corporation are backed by pools of residential mortgages insured or guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC), the Government National Mortgage Corporation (GNMA) or the Federal National Mortgage Corporation (FNMA). Mortgage-backed securities are not due at a single due date.

The contractual maturity of the one municipal security owned by the Corporation at December 31, 2022 was in 2030. Expected maturities may differ from contractual maturities because issuers may have the right to call or repay obligations.

At December 31, 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its government sponsored entities, in an amount greater than 10 percent of shareholders' equity.

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Securities with estimated fair values of \$235,920 and \$136,979 at December 31, 2022 and 2021, respectively, were pledged to secure securities sold under agreements to repurchase or lines of credit as permitted by law.

During 2022, \$119,891 in available-for-sale securities were sold for a gross loss of \$2,822 which is reflected in noninterest income on the income statement. There were no sales of securities in 2021.

This table shows available-for-sale securities with unrealized losses not deemed other-than-temporarily impaired, segregated by investment class and time in a continuous unrealized loss position at December 31, 2022 and 2021.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Mortgage-backed securities						
U.S. GSEs - residential	\$ 179,871	\$ 14,901	\$ 118,482	\$ 19,776	\$ 298,353	\$ 34,677
Mortgage-backed securities						
U.S. GSEs - commercial	\$ -	\$ -	\$ 2,612	\$ 700	\$ 2,612	\$ 700
December 31, 2021						
Mortgage-backed securities						
U.S. GSEs - residential	\$ 134,896	\$ 1,177	\$ -	\$ -	\$ 134,896	\$ 1,177
Mortgage-backed securities						
U.S. GSEs - commercial	\$ 3,260	\$ 35	\$ -	\$ -	\$ 3,260	\$ 35

The unrealized losses on the Corporation's investment in residential and commercial mortgage-backed securities were caused by changes in interest rates. These securities are all issued by U.S. government-sponsored enterprises. The Corporation expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Corporation does not intend to sell the investments and it is not more likely than not the Corporation will be required to sell the

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investments before recovery of their amortized cost bases, which may be maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

NOTE 4. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Management enters into purchases of securities under agreements to resell substantially identical securities in the normal course of business.

The amounts advanced under these agreements are recorded as assets in the consolidated balance sheets. The securities used in the transaction are taken into possession in book entry form under a custodial agreement. These agreements specify management's right to request additional collateral, based on its monitoring of the fair value of the underlying securities. There were no resell agreements outstanding at December 31, 2022 or December 31, 2021. The maximum and minimum amounts of outstanding resell agreements during 2022 were \$205,870 and \$0, respectively. The interest rate on these agreements is based on the federal funds rate and ranged from 0.50% to 5.20% in 2022.

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

Classes of loans at December 31, 2022 and 2021 include:

	2022	2021
Correspondent loans		
Bank stock	\$ 199,146	\$ 184,291
Real estate	221,826	204,365
Mortgage warehouse	87,414	154,418
Commercial and industrial	73,154	36,486
Consumer	92	202
Other	1,260	7,020
	<u>582,892</u>	<u>586,782</u>
Municipal	453,706	417,649
Credit card	154,728	150,942
Mortgage	5,666	4,954
Gross loans	<u>1,196,992</u>	<u>1,160,327</u>
Less allowance for loan losses	<u>(29,720)</u>	<u>(30,003)</u>
Net loans	<u>\$ 1,167,272</u>	<u>\$ 1,130,324</u>

Due to the uncertain economic impact of the COVID-19 global pandemic, the Bank established an unallocated reserve for potential credit losses associated with the pandemic. The reserve

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peaked at \$16.5MM. Although the Bank experienced minor credit deterioration from COVID-19, it has not incurred losses directly associated with the pandemic. The response to the pandemic caused unprecedented economic conditions. The government stimulus needed to aid the economy created excess liquidity for businesses and consumers. This, along with supply chain issues derived from shut downs and geopolitical conflict, created high levels of inflation. Inflation in 2022 peaked at 9.1% in June before lowering to 7.1% in November. In order to combat inflation, the Federal Reserve increased interest rates at record speed, raising rates 425 basis points in 2022. The sharp and swift increase in interest rates, combined with inflationary pressures, have created cash flow and liquidity issues across most industries. In analyzing the allowance for loan losses in 2022, the Corporation changed its unallocated reserve for COVID-19 and made qualitative factor adjustments to the individual portfolios to address the risks associated with these inflationary pressures.

The tables below present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2022 and 2021.

	2022							Total
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Unallocated	
Allowance for loan losses								
Balance, beginning of year	\$ 3,688	\$ 5,318	\$ 915	\$ 477	\$ 62	\$ 3,038	\$ 16,505	\$ 30,003
Provision charged to expense	3,225	3,351	1,741	2,276	64	6,788	(16,505)	940
Losses charged off	-	-	-	-	-	(1,511)	-	(1,511)
Recoveries	-	-	-	-	-	288	-	288
Balance, end of year	<u>\$ 6,913</u>	<u>\$ 8,669</u>	<u>\$ 2,656</u>	<u>\$ 2,753</u>	<u>\$ 126</u>	<u>\$ 8,603</u>	<u>\$ -</u>	<u>\$ 29,720</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33</u>
Ending balance collectively evaluated for impairment	<u>\$ 6,913</u>	<u>\$ 8,636</u>	<u>\$ 2,656</u>	<u>\$ 2,753</u>	<u>\$ 126</u>	<u>\$ 8,603</u>	<u>\$ -</u>	<u>\$ 29,687</u>
Loans								
Ending balance	<u>\$ 199,146</u>	<u>\$ 221,826</u>	<u>\$ 161,920</u>	<u>\$ 453,706</u>	<u>\$ 5,666</u>	<u>\$ 154,728</u>	<u>\$ -</u>	<u>\$ 1,196,992</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ 622</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 666</u>
Ending balance collectively evaluated for impairment	<u>\$ 199,146</u>	<u>\$ 221,204</u>	<u>\$ 161,920</u>	<u>\$ 453,706</u>	<u>\$ 5,622</u>	<u>\$ 154,728</u>	<u>\$ -</u>	<u>\$ 1,196,326</u>

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	2021							
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Unallocated	Total
Allowance for loan losses								
Balance, beginning of year	\$ 3,331	\$ 6,783	\$ 717	\$ 365	\$ 70	\$ 2,829	\$ 16,505	\$ 30,600
Provision charged								
to expense	357	(1,465)	198	112	(8)	1,301	-	495
Losses charged off	-	-	-	-	-	(1,514)	-	(1,514)
Recoveries	-	-	-	-	-	422	-	422
Balance, end of year	<u>\$ 3,688</u>	<u>\$ 5,318</u>	<u>\$ 915</u>	<u>\$ 477</u>	<u>\$ 62</u>	<u>\$ 3,038</u>	<u>\$ 16,505</u>	<u>\$ 30,003</u>
Ending balance								
individually evaluated								
for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance								
collectively evaluated								
for impairment	<u>\$ 3,688</u>	<u>\$ 5,318</u>	<u>\$ 915</u>	<u>\$ 477</u>	<u>\$ 62</u>	<u>\$ 3,038</u>	<u>\$ 16,505</u>	<u>\$ 30,003</u>
Loans								
Ending balance	<u>\$ 184,291</u>	<u>\$ 204,365</u>	<u>\$ 198,126</u>	<u>\$ 417,649</u>	<u>\$ 4,954</u>	<u>\$ 150,942</u>	<u>\$ -</u>	<u>\$ 1,160,327</u>
Ending balance								
individually evaluated								
for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149</u>
Ending balance								
collectively evaluated								
for impairment	<u>\$ 184,291</u>	<u>\$ 204,365</u>	<u>\$ 198,126</u>	<u>\$ 417,649</u>	<u>\$ 4,805</u>	<u>\$ 150,942</u>	<u>\$ -</u>	<u>\$ 1,160,178</u>

Internal Risk Categories

Loan grades are numbered 1 through 9. Grades 1 through 5 are satisfactory grades. The grade of 6, or Special Mention, represents loans of lower quality and is criticized. The grades of 7, or Substandard, and 8, or Doubtful, refer to classified assets. The grade of 9, or Loss, refers to loans considered uncollectible. The use and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

- **Grade 1** – A SUPERIOR graded asset is secured by highly liquid collateral. If a loan is secured by marketable securities, it should be adequately margined. This loan grade includes Municipal Loans with the guaranty of the Permanent School Fund. A Superior asset should have no documentation deficiencies and minimal servicing issues.
- **Grade 2** – A STRONG graded asset is a secured loan with some form of credit enhancement, other than liquid collateral, adequately margined. This grade will typically apply to loans made to municipalities backed by the local taxing authority where law requires taxes to be sufficient to cover the debt obligation (i.e. General Obligations or Certificates of Obligations). Loans could be secured by marketable securities, but have

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margins lower than those in the Superior category. Loans or revolving lines of credit made to finance mortgage warehouse banking activities secured by mortgage notes, further secured by deeds of trusts, having liquid collateral able to be sold in the secondary market may also be a Strong asset. A Strong asset should have no documentation deficiencies and minimal servicing issues.

- **Grade 3** – A GOOD graded asset is based on an individual's or a company's financial capacity and/or secured by collateral where there is no impairment to liquidation. A Good asset may have some vulnerability to changing economic or industry conditions but is a satisfactory risk. Loans to municipalities backed by project revenues could be in this loan grade. Leveraged loans may also fall into this category.
- **Grade 4** – A SATISFACTORY/ACCEPTABLE graded asset is based on an individual's or a company's financial capacity and/or secured by collateral where there is no impairment to liquidation. A Satisfactory asset may have some deficiency or vulnerability above the norm, based on adverse economic trends and/or industry conditions but is an acceptable risk with the vulnerability noted. Borrowers typically have acceptable, but minimum debt service coverage ratios.
- **Grade 5** – A PASS/NEEDS ATTENTION graded asset is used to identify loans which may have one or more of these characteristics: collateral documentation deficiencies, marginal collateral support, weak or unsupported collateral valuations, lack current or complete financial data and/or analysis, need additional monitoring, recent changes in management or operations, terms beyond policy guidelines, variations in balance sheet or cash flow/operating components or trends from prior periods or forecasts, past credit problems, high leverage, or untested performance under repayment terms, among others. This loan grade may include loan participations with a financially weak selling bank or a selling bank lacking the knowledge or expertise to lead the credit.
- **Grade 6** – A SPECIAL MENTION graded asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may cause deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.
- **Grade 7** – A SUBSTANDARD graded asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses jeopardizing the liquidation of the debt. They are characterized by the possibility that some loss will occur, if the deficiencies are not corrected.
- **Grade 8** – A DOUBTFUL graded asset has all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point where on the basis of current information and values, collection or liquidation in full is highly improbable. The length of time an asset may be classified Doubtful is a matter of judgment.

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- **Grade 9** – Assets classified LOSS are uncollectible and of such little value their continuance as active assets is not warranted. This classification does not necessarily indicate the asset has absolutely no recovery or salvage value, but rather its recovery may be prolonged or not expected. Assets classified Loss are promptly charged off.

Loan Origination Risk Management

Lending policies are designed to maximize loan income within an acceptable level of risk. A reporting system supplements the review process by providing management with frequent reports on credit production, credit quality, credit concentrations, credit delinquencies, and nonperforming and potential problem credits. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Loans are generally in four primary categories: correspondent, credit cards, mortgage origination and municipal.

Correspondent. Correspondent lending includes bank stock, real estate, commercial and industrial, mortgage warehouse lines, and other credit types. Correspondent loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral. Underwriting procedures are designed to evaluate past, current and projected cash flows to determine the ability of the borrower to repay obligations as agreed and assess the borrower's ethics and business acumen. Most correspondent loans are secured by the assets being financed or other business assets. However, some short-term loans may be unsecured.

Bank stock loans are generally made to bank holding companies, control groups or individuals. Loans to holding companies and control groups are generally for the bank capitalization, bank/branch purchases or liquidity. These loans are generally secured by a majority of the outstanding stock of the bank unless underwriting determines the borrower warrants unsecured debt. Loans are also made to individuals secured by minority interest bank stock. There is value in this underlying collateral, but emphasis is given to the overall creditworthiness of the borrower. Specific minimum guidelines are considered for both secured and unsecured obligations.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate depends largely on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Corporation's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity can help reduce the Corporation's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. Within the category of commercial real estate, the volume of construction and development loans is insignificant. As a general rule, the Corporation avoids financing single-purpose projects unless other underwriting factors are

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present to help mitigate risk. The level of commercial real estate is monitored consistent with regulatory guidelines with levels substantially below those guidelines. Changes in real property values may affect the collectability of these loans, and the condition of the collateral if foreclosed.

Mortgage warehouse borrowers generally have higher leverage and lower liquidity in relation to monthly operating expenses. Management underwrites these loans on the borrower's financial capacity to service debt requirements, quality of the collateral portfolio, and short-term nature of the participation interest in each of the residential mortgage loans secured by one-to-four family residences before they are sold into the secondary market. Fraud risk is mitigated by a fraud insurance policy. Management collaborates with experienced servicers in the mortgage warehouse lending industry to purchase participation interests in mortgages.

Credit Cards. The credit card portfolio comprises unsecured consumer and business receivables which are referrals from respondent banks. Management has marketing agreements with respondent banks to offer the Corporation's card products for a fee. The employment status of borrowers is a key risk factor affecting the collectability of these consumer receivables.

Mortgage Origination. The majority of the residential one-to-four family real estate mortgage loans are underwritten utilizing agency guidelines and booked to sell into the secondary market. Risks on these loans are limited to early payment default and breaches of representations and warranties. A few loans are held to maturity and are accommodations for Bank officers and directors. Repayment of these loans depends primarily on the personal income and credit rating of the borrowers. Economic conditions within certain market areas could affect property values or personal income.

Municipal Loans. Loans are made to tax-exempt municipal entities. These entities will primarily be governmental entities such as cities, counties, school districts and economic development authorities, but may also include hospital districts, utility districts, universities, colleges and private schools. These loans are General Obligations, Revenue Bonds, or Permanent School Fund (PSF) guaranteed loans. The taxing authority of the municipalities primarily protects these loans, although declines in property values or usage affect collectability.

Loan Review

TIB Consulting Solutions, a consulting division of the Bank, periodically assesses credit quality and the risk identification program established by management. Results are presented to management and the Board of Directors.

Concentrations of Credit

The Corporation lends nationwide and evaluates each credit on whether or not it meets the terms of the lending policy regardless of location.

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The following tables present the credit risk profile of the loan portfolio using the Corporation's internal rating system as of December 31, 2022 and 2021.

	2022						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Grade:							
Pass (1-6)	\$ 199,146	\$ 205,549	\$ 161,920	\$ 453,706	\$ 5,600	\$ 154,510	\$ 1,180,431
Special Mention	-	7,049	-	-	-	-	7,049
Substandard	-	9,228	-	-	66	218	9,512
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	<u>\$ 199,146</u>	<u>\$ 221,826</u>	<u>\$ 161,920</u>	<u>\$ 453,706</u>	<u>\$ 5,666</u>	<u>\$ 154,728</u>	<u>\$ 1,196,992</u>
	2021						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Grade:							
Pass (1-6)	\$ 184,291	\$ 187,406	\$ 198,126	\$ 417,649	\$ 4,784	\$ 150,838	\$ 1,143,094
Special Mention	-	6,802	-	-	-	-	6,802
Substandard	-	10,157	-	-	170	99	10,426
Doubtful	-	-	-	-	-	5	5
Loss	-	-	-	-	-	-	-
Total	<u>\$ 184,291</u>	<u>\$ 204,365</u>	<u>\$ 198,126</u>	<u>\$ 417,649</u>	<u>\$ 4,954</u>	<u>\$ 150,942</u>	<u>\$ 1,160,327</u>

The Corporation evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made during 2022 and 2021, with the exception of the COVID-19 unallocated reserve discussed earlier.

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The following tables present the Corporation's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2022 and 2021:

2022							
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Total Loans > 90 Days and Accruing
Correspondent loans:							
Bank stock	\$ 248	\$ -	\$ -	\$ 248	\$ 198,898	\$ 199,146	\$ -
Real estate	-	-	-	-	221,826	221,826	-
Mortgage							
warehouse	-	-	-	-	87,414	87,414	-
Commercial and							
industrial	-	-	-	-	73,154	73,154	-
Agriculture	-	-	-	-	-	-	-
Consumer	-	-	-	-	92	92	-
Other	-	-	-	-	1,260	1,260	-
Municipal	-	-	-	-	453,706	453,706	-
Credit card	261	147	71	479	154,249	154,728	71
Mortgage	670	-	-	670	4,996	5,666	-
Total	\$ 1,179	\$ 147	\$ 71	\$ 1,397	\$ 1,195,595	\$ 1,196,992	\$ 71
2021							
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Total Loans > 90 Days and Accruing
Correspondent loans:							
Bank stock	\$ -	\$ -	\$ -	\$ -	\$ 184,291	\$ 184,291	\$ -
Real estate	-	-	-	-	204,365	204,365	-
Mortgage							
warehouse	-	-	-	-	154,418	154,418	-
Commercial and							
industrial	-	-	-	-	36,486	36,486	-
Agriculture	-	-	-	-	-	-	-
Consumer	-	-	-	-	202	202	-
Other	-	-	-	-	7,020	7,020	-
Municipal	-	-	-	-	417,649	417,649	-
Credit card	207	99	5	311	150,631	150,942	5
Mortgage	119	-	100	219	4,735	4,954	-
Total	\$ 326	\$ 99	\$ 105	\$ 530	\$ 1,159,797	\$ 1,160,327	\$ 5

A loan is impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, the Corporation will probably be unable to collect all amounts due from the borrower under the contractual terms of the loan. Impaired loans include nonperforming correspondent and mortgage loans, but also include loans modified in troubled debt restructurings (TDRs).

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The following tables present impaired loans for the years ended December 31, 2022 and 2021:

2022					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance: Mortgage	\$ 44	\$ 47	\$ -	\$ 96	\$ 2
Loans with a specific valuation allowance: Real estate	622	622	33	380	23
Total impaired loans	<u>\$ 666</u>	<u>\$ 669</u>	<u>\$ 33</u>	<u>\$ 476</u>	<u>\$ 25</u>
2021					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance: Mortgage	\$ 149	\$ 189	\$ -	\$ 374	\$ 43
Loans with a specific valuation allowance:	-	-	-	-	-
Total impaired loans	<u>\$ 149</u>	<u>\$ 189</u>	<u>\$ -</u>	<u>\$ 374</u>	<u>\$ 43</u>

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The following table presents the Corporation's nonaccrual loans at December 31, 2022 and 2021. This table excludes performing troubled debt restructurings.

	<u>2022</u>	<u>2021</u>
Mortgage	-	100
Total	<u>\$ -</u>	<u>\$ 100</u>

At December 31, 2022 and 2021, the Corporation had loans modified in TDRs and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

There were no new TDR's for the years ended December 31, 2022 or 2021.

NOTE 6. FORECLOSED ASSETS HELD FOR SALE

Activity applicable to foreclosed assets during 2022 and 2021 includes the following:

	<u>2022</u>	<u>2021</u>
Net gain (loss) on foreclosed assets held for sale	\$ (5)	\$ (22)
Net operating income/(expense)	<u>-</u>	<u>22</u>
	<u>\$ (5)</u>	<u>\$ -</u>

NOTE 7. PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,480	\$ 2,480
Buildings and improvements	25,060	25,031
Furniture and equipment	10,437	9,893
Leasehold improvements	<u>295</u>	<u>295</u>
	38,272	37,699
Less accumulated depreciation	<u>17,149</u>	<u>15,551</u>
Net premises and equipment	<u>\$ 21,123</u>	<u>\$ 22,148</u>

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NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation uses various derivative financial instruments to manage its interest rate and market risks. These instruments have varying degrees of credit, interest rate and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the Corporation's accompanying consolidated financial statements and are measured at fair value.

Cash Flow Hedge

Interest rate swap contracts are used to mitigate interest rate risk in a rising rate environment. The "plain vanilla" interest rate swap contracts offset some variable funding cost during rising interest rate environments to stabilize the margin. The interest rate swap contracts are designated as highly effective cash flow hedges due to high correlation with their hedged item. No new swap contracts were executed in 2022 or 2021. In May 2022, the Corporation decided to terminate its remaining two swap contracts and the deposits they were hedging prior to their maturity and optional early termination dates. The swap contracts both had maturity dates of December 29, 2023 with optional early termination dates of December 29, 2022. The hedged deposit had a maturity date of December 29, 2022.

The swap contracts at December 31, 2022 and 2021, are summarized as follows:

Effective Date	Termination Date	Fixed Rate	Variable Rate	Notional Amount	Fair Value	
					2022	2021
December 29, 2014	December 29, 2022	2.310%	Month Libor Daily Rate	50,000	-	-
December 29, 2014	December 29, 2022	2.310%	Month Libor Daily Rate	50,000	-	-
December 30, 2015	December 29, 2023	2.050%	Month Libor Daily Rate	50,000	-	(759)
December 30, 2015	December 29, 2023	1.913%	Month Libor Daily Rate	25,000	-	(340)
					<u>\$ -</u>	<u>\$ (1,099)</u>

A liability of \$0 and \$1,099 is included in derivative liabilities at December 31, 2022 and 2021, respectively. An unrealized gain of \$868, net of deferred tax of \$231, is included in other comprehensive income (loss) for the year ending December 31, 2022. An unrealized gain of \$3,121, net of deferred tax of \$829, is included in other comprehensive income (loss) for the year ended December 31, 2021.

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Swap Collateral

There were no marketable government securities pledged as collateral related to swap contracts at December 31, 2022 and 2021, respectively.

The table below presents the fair value of derivative instruments as of December 31, 2022 and 2021.

	2022		2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate derivatives designated as cash flow hedges:				
Interest rate swaps on brokered deposits	\$ -	\$ -	\$ 75,000	\$ (1,099)
Total derivatives	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ (1,099)</u>
Derivative - assets (included in other assets)		\$ -		\$ -
Derivative - liabilities		-		(1,099)
		<u>\$ -</u>		<u>\$ (1,099)</u>

NOTE 9. EQUITY METHOD INVESTMENTS

The Corporation's investments in entities accounted for under the equity method of accounting and recorded in other assets on the consolidated balance sheets at December 31, 2022 and 2021 were as follows:

Entity	Percentage and Type of Interest	Amount of Investment	
		2022	2021
IBC Management, LLC	20% Member	\$ 78	\$ 128
Independent Bankers Capital Fund II, L.P.	21.85% Limited Partner	730	2,037
IBC II, LLC	28% Member	170	625
Independent Bankers Capital Fund III, L.P.	14.17% Limited Partner	4,484	4,368
IBC III, LLC	25% Member	233	235
The Bank CEO Network	50% Owner	2,500	2,500
Total equity method investments		<u>\$ 8,195</u>	<u>\$ 9,893</u>

For the investments in the entities above, summarized financial information for the combined group includes total assets of \$53,827 and \$67,424 and total liabilities of \$12,050 and \$21,415 as of December 31, 2022 and 2021, respectively. Net income for the combined group of entities was \$10,895 and \$2,791 for the years ended December 31, 2022 and 2021, respectively.

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NOTE 10. OTHER INTANGIBLE ASSETS

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2022 and 2021, were:

	2022		2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Purchased Credit Card Portfolio Premiums	\$ 734	\$ (456)	\$ 935	\$ (456)

Amortization expense for the years ended December 31, 2022 and 2021, was \$202 and \$302, respectively. Estimated amortization expense for each of the next five years is:

2023	\$ 130
2024	93
2025	47
2026	8
2027	-
	<u>\$ 278</u>

NOTE 11. LOAN SERVICING

Loans serviced for others are not included in the consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage and other loans serviced for others were \$123,687 and \$148,641 at December 31, 2022 and 2021, respectively.

The value of mortgage servicing rights was \$0 at December 31, 2022. The table below summarizes the activity in mortgage servicing rights measured using the fair value method for the year ended December 31, 2021.

	2021
Balance as of the beginning of the period	\$ 736
Additions	
Purchases	-
Disposals	
Sale of mortgage servicing rights	-
Amortization	(736)
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model*	-
Balance at the end of the period	<u>\$ -</u>

*Reflects changes in discount rates and prepayment speed assumptions.

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NOTE 12. TIME DEPOSITS

Time deposits in denominations of \$250 or more were \$430 and \$430 on December 31, 2022 and 2021. The scheduled maturities of time deposits are as follows:

2023	\$	457
------	----	-----

NOTE 13. BORROWINGS

Short-term borrowings included the following at December 31, 2022 and 2021:

	2022	2021
Federal funds purchased and agreements to repurchase	\$ 35,432	\$ 111,493
Federal Reserve Overnight Borrowing	\$ 125,000	\$ -

The Corporation sells certain securities under agreements to repurchase. The agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. There were no repurchase agreements executed during 2022. There were no repurchase agreements outstanding at December 31, 2022 and 2021.

At December 31, 2022 and 2021, the Bank had a primary credit line with the Federal Reserve Bank of Dallas for \$679,501 and \$578,612, respectively, secured by loans. There were \$125,000 and \$0 outstanding on this credit line at December 31, 2022 and 2021. At December 31, 2022 and 2021, the Bank also had a credit line with the FHLB for \$223,586 and \$126,327, respectively, secured by marketable securities. There were no balances outstanding on this credit line at December 31, 2022 and 2021. The maximum and minimum amounts of FHLB and FRB advances outstanding during 2022 were \$198,000 and \$0, respectively. The interest rate on these advances ranged from 3.40% to 4.50%. These advances all matured three days after funding. There were no balances outstanding on these credit lines during 2021.

In June 2021, the Corporation borrowed \$30,000 and secured a \$10,000 line of credit with a third-party financial institution of which a member of the Corporation's board of directors is the Vice Chairman and CEO. The loan and the line of credit accrue interest at the Wall Street Journal prime interest rate, adjustable daily, and are both secured by common stock of the Bank. At December 31, 2022 the interest rate on the loan and line of credit was 7.50%. Interest is due quarterly and principal payments of \$938 will begin in September 2023 and will be made quarterly with accrued interest until maturity, at which time all remaining principal and interest will be due. The maturity of the loan and the line of credit is June 30, 2031. During 2022, the Corporation made prepayments on the loan totaling \$5,625 which were applied to future quarterly payments through 12/30/2024. There was also a paydown of \$2,000 made on the loan during 2022. There was no balance on the line of credit at any time in 2022 or at December 31,

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2022. The schedule of maturity of borrowings for the next five years, after the application of prepayments made in 2022, is as follows:

2023	\$	-
2024		-
2025		3,750
2026		3,750
2027		3,750
		<u>3,750</u>
	\$	<u>11,250</u>

NOTE 14. INCOME TAXES

The Corporation or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction and various states' jurisdictions.

The provision for income taxes includes these components:

	2022	2021
Taxes currently payable	\$ 4,309	\$ 5,531
Deferred income taxes - current	(766)	85
Income tax expense	<u>\$ 3,543</u>	<u>\$ 5,616</u>

A reconciliation of income tax expense at the statutory rate to the Corporation's actual income tax expense is as follows:

	2022	2021
Computed at the statutory rate	\$ 5,845	\$ 7,664
Increase (decrease) resulting from		
Tax-exempt interest	(2,182)	(1,868)
Nondeductible expenses	332	120
Life insurance proceeds	(161)	-
Increase in cash value of life insurance	(291)	(300)
Actual tax expense	<u>\$ 3,543</u>	<u>\$ 5,616</u>

Deferred assets as of December 31, 2022 and 2021 are based on the enacted U.S. statutory federal income tax rate of 21%. The tax effects of temporary differences related to deferred taxes on the consolidated balance sheets are presented in the table below.

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	2022	2021
Deferred tax assets		
Allowance for loan losses	\$ 6,127	\$ 6,186
Unrealized losses on available-for-sale securities	7,425	-
Interest rate swap derivatives	-	231
Accrued expenses and other liabilities	4,940	4,104
Other	272	323
Total deferred tax assets	<u>18,764</u>	<u>10,844</u>
Deferred tax liabilities		
Credit card premiums and intangibles	617	536
Premises and equipment	166	287
Unrealized gains on available-for-sale securities	-	1,658
Total deferred tax liabilities	<u>783</u>	<u>2,481</u>
Net deferred tax assets	<u>\$ 17,981</u>	<u>\$ 8,363</u>

NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income, included in shareholders' equity are as follows:

	2022	2021
Net unrealized gains (losses) on available-for-sale securities	\$ (35,354)	\$ 7,898
Cash flow hedges	-	(1,099)
	(35,354)	6,799
Tax effect	7,424	(1,428)
Net-of-tax amount	<u>\$ (27,930)</u>	<u>\$ 5,371</u>

Amounts reclassified from accumulated other comprehensive income (AOCI) and the affected line items in the consolidated statements of income during the years ended December 31, 2022 and 2021, were as follows:

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	Amounts Reclassified from AOCI		Affected Line Item in the Statements of Income
	2022	2021	
Realized losses on sales			
of available-for-sale securities	\$ 2,822	\$ -	Loss on sale of available-for-sale securities
Tax Effect	592	-	Provision for income taxes
Net reclassification out of AOCI	<u>\$ 2,230</u>	<u>\$ -</u>	

NOTE 16. SHAREHOLDERS' EQUITY

The Corporation has 5,000,000 common, 2,000,000 convertible redeemable Class B common and 1,000,000 preferred shares authorized. Its capital stock is not quoted or traded on a recognized stock exchange and holders do not have preemptive rights. The Corporation has no convertible redeemable Class B common or preferred shares outstanding as of December 31, 2022 and 2021.

NOTE 17. REGULATORY MATTERS

As of March 31, 2022, both the Corporation and the Bank are subject to regulatory capital requirements administered by federal banking agencies. The Corporation was not subject to regulatory capital requirements in 2021 due to the CARES Act, as discussed further below. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve a quantitative measure of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. In June 2020, the Corporation's consolidated assets exceeded the \$3 billion threshold for determining applicability of the Federal Reserve's Small Bank Holding Company Policy Statement. In response to the COVID-19 and CARES Act, federal banking agencies issued an interim final rule (IFR) providing relief to financial institutions under \$10 billion in total assets as of December 31, 2019. The IFR allows financial institutions to calculate their asset size for applicable thresholds in certain rules during calendar years 2020 and 2021 based on the lower of total assets as of December 31, 2019 or as of the normal measurement date. In particular, the IFR adjusts the measurement dates for total asset thresholds that would trigger additional regulatory reporting requirements for the remainder of calendar years 2020 through the end of 2021. This temporary relief would allow the Corporation

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to continue to meet the asset size threshold to be considered a Small Bank Holding Company until January 1, 2022.

The Corporation and the Bank are subject to the minimum capital ratios in the Basel III capital framework effective January 1, 2015. Basel III mandates minimum capital ratios plus a phased in Capital Conservation Buffer of 2.5% to be achieved by January 1, 2019. The buffer serves as additional capital protection to weather periods of economic stress. Banking organizations with a buffer greater than 2.5% are not subject to limits on distributions or payments; however, an organization with a buffer of less than 2.5% is subject to increasingly stringent limitations as the buffer approaches zero. At December 31, 2022 and 2021, the capital buffer was 2.50%, which is included in the 2022 and 2021 minimum capital requirements relative to risk-weighted assets in the tables on the following page. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Management believes as of December 31, 2022, the Corporation and the Bank meet all capital adequacy requirements to which they are subject. At year-end 2022 and 2021, the most recent regulatory notifications categorized the Bank as “well capitalized” pursuant to prompt corrective action framework. There are no conditions or events since last notification to suggest the Bank’s category has changed.

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The Corporation's and the Bank's actual capital amounts and ratios are presented in the following tables:

	Actual		Minimum Capital Requirement Basel III Schedule		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Tier I capital to average assets						
Consolidated	\$ 333,569	12.26%	\$ 108,844	4.00%	N/A	N/A
Bank only	340,742	12.56%	108,478	4.00%	135,597	5.00%
Common Equity Tier I capital to risk-weighted assets						
Consolidated	333,569	18.22%	128,168	7.00%	N/A	N/A
Bank only	340,742	18.72%	127,439	7.00%	118,337	6.50%
Tier I capital to risk-weighted assets						
Consolidated	333,569	18.22%	155,633	8.50%	N/A	N/A
Bank only	340,742	18.72%	154,748	8.50%	145,645	8.00%
Total capital to risk-weighted assets						
Consolidated	356,544	19.47%	192,252	10.50%	N/A	N/A
Bank only	363,585	19.97%	191,159	10.50%	182,056	10.00%
	Actual		Minimum Capital Requirement Basel III Schedule		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Tier I capital to average assets						
Bank only	\$ 335,380	7.92%	\$ 169,312	4.00%	211,640	5.00%
Common Equity Tier I capital to risk-weighted assets						
Bank only	335,380	20.08%	116,889	7.00%	108,540	6.50%
Tier I capital to risk-weighted assets						
Bank only	335,380	20.08%	141,936	8.50%	133,587	8.00%
Total capital to risk-weighted assets						
Bank only	356,365	21.34%	175,333	10.50%	166,984	10.00%

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NOTE 18. RELATED-PARTY TRANSACTIONS

At December 31, 2022 and 2021, the Corporation had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) for \$3,153 and \$2,061, respectively.

Annual activity consisted of the following:

	2022	2021
Beginning balance	\$ 2,061	\$ 11,541
New loans	2,459	52
Repayments	(1,367)	(9,532)
Ending balance	<u>\$ 3,153</u>	<u>\$ 2,061</u>

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Bank at December 31, 2022 and 2021, totaled \$72,202 and \$94,921, respectively.

As discussed in Note 13, at December 31, 2022, the Corporation has an outstanding borrowing and unused secured line of credit from a third party financial institution of which a member of the Corporation's board of directors is the Vice Chairman and CEO.

NOTE 19. EMPLOYEE BENEFITS

The Corporation maintains a 401K savings plan for employees. Employees are eligible to participate immediately upon hire subject to the next enrollment date. The Corporation may contribute a maximum of 5 percent of the employee's annual compensation. Both employer and employee contributions to the savings plan vest immediately. The Corporation's contributions were \$1,189 and \$1,134 in 2022 and 2021, respectively.

Nonqualified deferred compensation plans provide death and retirement benefits to certain officers. Deferred compensation expense of \$2,914 and \$906 was recorded in 2022 and 2021, respectively. Deferred compensation payable totaled \$17,479 and \$15,168 at December 31, 2022 and 2021, respectively. The Corporation purchased life insurance policies to fund future plan obligations. These policies had an aggregate cash surrender value of \$67,156 and \$67,084 at December 31, 2022 and 2021, respectively.

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	<u>2022</u>	<u>2021</u>
SAR awards outstanding, beginning of year	96,670	99,350
Redeemed	(5,850)	(22,850)
Forfeited	(2,900)	(2,400)
Granted	<u>22,570</u>	<u>22,570</u>
SAR awards outstanding, end of year	<u><u>110,490</u></u>	<u><u>96,670</u></u>

The number of shares of SAR awards granted in both 2022 and 2021 was 22,570. The value of SAR awards vested totaled \$1,406 and \$1,429 in 2022 and 2021, respectively. The value of SAR awards redeemed totaled \$517 and \$2,257 in 2022 and 2021, respectively. The tax benefit recognized was \$109 and \$497, respectively, in 2022 and 2021.

Compensation expense for stock appreciation rights is accrued over the vesting period of the award. Accrued compensation payable under the plans totaled \$5,490 and \$3,807 at December 31, 2022 and 2021, respectively. Compensation expense recognized under the plans totaled \$2,200 in both 2022 and 2021, respectively.

NOTE 20. LEASES

The Corporation has non-cancelable operating leases for certain property with payment terms up to 42 months with some including extensions for an additional 36 months. The lease payments are charged to expense over the lease term as it becomes payable. Rental expense for these leases was \$731 and \$495 for the years ended December 31, 2022 and 2021, respectively. At December 31, 2022, the lease payments for operating leases with initial terms of greater than 12 months are as follows:

	<u>Operating Leases</u>
2023	\$ 199
2024	394
2025	<u>58</u>
Total minimum lease payments	<u><u>\$ 651</u></u>

NOTE 21. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price 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. A hierarchy of three levels of inputs may be used to measure fair value:

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Level 1: Quoted prices in active markets for identical assets or liabilities that the Corporation can access at the measurement date.

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 for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Recurring Measurements

The table below presents the fair value measurements of assets and liabilities recognized in the Corporation's consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022:				
Available-for-sale securities				
U.S. GSEs - residential	\$ 299,274	\$ -	\$ 299,274	\$ -
U.S. GSEs - commercial	2,612	-	2,612	-
Municipal securities	3,143	-	3,143	-
Funds measured at NAV				
Private equity funds	15,004	-	-	-
December 31, 2021:				
Available-for-sale securities				
U.S. GSEs - residential	\$ 335,683	\$ -	\$ 335,683	\$ -
U.S. GSEs - commercial	3,260	-	3,260	-
Municipal securities	3,427	-	3,427	-
Derivative liabilities	1,099	-	1,099	-
Funds measured at NAV				
Private equity funds	13,264	-	-	-

The Corporation's participation in private equity investment funds are characteristically initiated for one of two purposes: (1) for utilization of excess cash held at the Corporation for long term growth with opportunity to withdraw and (2) for long term growth with potential for gain from the liquidation of underlying assets. The private equity investment purchased to utilize excess cash involves an investee whose principal strategy is to identify and exploit inefficiencies in securities

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and other instruments while minimizing downside exposure and market risk through investment in other non-correlated investment strategies and risk mitigation techniques. This investment does not have any restrictions and may be withdrawn with written 30-day notice. The private equity investment purchased for long term growth involves an investee whose strategy is to negotiate equity and equity related investments in financial services technology companies and businesses, with particular focus on early and growth-stage financial services technology companies. The estimated period of time over which the underlying assets are expected to be liquidated by the investee is ten years from the date of their investment. This investment is not redeemable but the Corporation does have the option to sell its shares subject to approval by general partners.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the consolidated balance sheets, and the general classification of such assets and liabilities under the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2022 and 2021. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation's creditworthiness and unobservable parameters. Any such valuation adjustments are applied consistently. The Corporation's valuation methodologies may produce a fair value calculation that may not indicate net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, using different methodologies or assumptions to determine the fair value of certain financial instruments could cause a different estimate of fair value at the reporting date. The reported fair value amounts have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair value after the consolidated balance sheet dates may differ significantly from the amounts presented.

Available-for-sale Securities

Securities classified as "available for sale" are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation obtains fair value measurements from an independent pricing service. The fair value measurements observable data includes dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms.

Derivatives

Derivatives are reported at fair value utilizing Level 2 inputs. The Corporation performs an internal evaluation to estimate fair value of interest rate swap contracts through valuation models with observable market data inputs (Level 2).

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Nonrecurring Measurements

Certain financial assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a nonrecurring basis are as shown below.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of cost or fair value less estimated selling costs. Fair value is estimated through current appraisals, real estate brokers or listing prices.

The table below 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 December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022:				
Foreclosed assets held for sale	\$ 95	\$ -	\$ -	\$ 95
December 31, 2021:				
Foreclosed assets held for sale	\$ 150	\$ -	\$ -	\$ 150

Unobservable (Level 3) Inputs

The tables on the following page presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill at December 31, 2022 and 2021.

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	Fair Value at December 31, 2022	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Foreclosed assets held for sale	\$ 95	Market comparable properties	Comparability adjustments	Not available
	Fair Value at December 31, 2021	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Foreclosed assets held for sale	\$ 150	Market comparable properties	Comparability adjustments	Not available

The tables below present estimated fair values, and related carrying amounts, of the Corporation's financial instruments, not previously disclosed, at December 31, 2022 and 2021.

	December 31, 2022		
	Carrying Amount	Fair Value	Level
Financial assets:			
Cash and cash equivalents	\$ 926,945	\$ 926,945	1
Federal Reserve and FHLB stock	4,992	4,992	N/A
Interest receivable	8,866	8,866	1
Loans held for sale	1,736	1,736	3
Loans - net	1,167,272	1,116,924	3
Financial liabilities:			
Demand and non-interest bearing	523,941	523,941	1
Interest bearing transaction accounts	1,511,924	1,511,924	2
Time deposits	457	452	3
Interest payable	43	43	1
Short-term borrowings	160,432	160,432	1

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	December 31, 2021		
	Carrying Amount	Fair Value	Level
Financial assets:			
Cash and cash equivalents	\$ 2,360,068	\$ 2,360,068	1
Federal Reserve and FHLB stock	4,893	4,893	N/A
Interest receivable	5,978	5,978	1
Loans held for sale	5,749	5,749	3
Loans - net	1,130,324	1,115,370	3
Financial liabilities:			
Demand and non-interest bearing	751,988	751,988	1
Interest bearing transaction accounts	2,642,394	2,642,394	2
Time deposits	90,457	90,459	3
Interest payable	6	6	1
Short-term borrowings	111,493	111,493	1

NOTE 22. SIGNIFICANT ESTIMATES, CONCENTRATIONS, COMMITMENTS AND CREDIT RISK

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the note regarding loans.

General Litigation

The Corporation is subject to claims and lawsuits that arise primarily in the ordinary course of business. Management believes the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Corporation.

Standby Letters of Credit

Standby letters of credit are irrevocable, conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Corporation be obligated to perform under the standby letters of credit, the Corporation may seek recourse from the customer for reimbursement of amounts paid.

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The Corporation had total outstanding standby letters of credit amounting to \$3,580 and \$5,992 at December 31, 2022 and 2021, respectively, with terms ranging from 23 to 283 days.

Lines of Credit

Lines of credit are agreements to lend to customers if there is no violation of any condition established in the contract. Lines of credit have fixed expiration dates. Since a portion of the line of credit may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. Collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2022, the Corporation had unused lines of credit to borrowers aggregating approximately \$1,214,000 and \$415,000 for commercial lines and open-end consumer lines, respectively. At December 31, 2021, unused lines of credit to borrowers aggregated approximately \$993,000 and \$384,000 for commercial lines and open-end consumer lines, respectively.

Equity Investments

The corporation has committed to acquire the remaining 50% ownership of The Bank CEO Network for \$2,000 on January 1, 2024 and will obtain control of the entity at that time.

At December 31, 2022, the Corporation had outstanding commitments in the amount of \$9,029 for capital contributions in limited partnerships. The remaining commitments are expected to be called between two to three years.

Securities

The Corporation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated balance sheets.

NOTE 23. SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events for recognition and disclosure through March 22, 2023, which is the date the consolidated financial statements were issued. As discussed in Note 1, the Corporation adopted ASU 2016-13 as of January 1, 2023. In December 2022 the

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board of directors and executive management was presented with information about an opportunity to purchase a loan portfolio. In January 2023 the Bank purchased the portfolio of reverse mortgage loans with contractual principal balances of \$151,107 for \$150,714. The purchased loans have note rates between 7.75% and 11.51%. Lastly, the bank entered into three interest rate swap transactions in March 2023. The “plain vanilla” fixed-for-floating swaps have a combined notional amount of \$350,000 and will act as a hedge against rising funding costs in the face of fixed rate loans and securities with below market rates. All three swaps receive the Federal Funds effective floating rate and pay fixed rates between 3.907% and 4.50%.

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NOTE 25. CONDENSED FINANCIAL INFORMATION (PARENT CORPORATION ONLY)

Presented below is condensed financial information on financial position, results of operations and cash flows of the Corporation:

	Years Ended December 31,	
	2022	2021
Condensed Balance Sheets		
Assets		
Cash and cash equivalents	\$ 9,206	\$ 1,132
Investment in common stock of subsidiaries	315,090	343,230
Other assets	11,492	13,086
	<u>335,788</u>	<u>357,448</u>
Total assets	<u>\$ 335,788</u>	<u>\$ 357,448</u>
Liabilities		
Other borrowings	\$ 22,375	\$ 30,000
Other liabilities	5,496	3,809
	<u>27,871</u>	<u>33,809</u>
Total liabilities	27,871	33,809
Shareholders' Equity	<u>307,917</u>	<u>323,639</u>
Total liabilities and shareholders' equity	<u>\$ 335,788</u>	<u>\$ 357,448</u>

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	Years Ended December 31,	
	2022	2021
Condensed Statements of Income and Comprehensive Income		
Income		
Dividends from subsidiaries	\$ 22,000	\$ 6,000
Other income	66	606
Total income	22,066	6,606
Expenses		
Interest expense	1,382	505
Other expenses	2,317	2,257
Total expenses	3,699	2,762
Income before income tax and equity in undistributed net income of subsidiaries	18,367	3,844
Income tax benefit	763	453
Income before equity in undistributed net income of subsidiaries	19,130	4,297
Equity in undistributed net income of subsidiaries	5,162	26,580
Net income	\$ 24,292	\$ 30,877
Total other comprehensive income (loss)	(33,301)	(2,257)
Comprehensive income	\$ (9,009)	\$ 28,620

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	Years Ended December 31,	
	2022	2021
Condensed Statements of Cash Flows		
Operating activities		
Net income	\$ 24,292	\$ 30,877
Items not providing cash	(3,880)	(27,348)
Net cash provided by operating activities	20,412	3,529
Investing activities		
Payments to and investments in subsidiaries	-	(30,000)
Purchase of investment	-	(3,000)
Proceeds from redemption of investments	2,000	-
Net cash provided by (used in) investing activities	2,000	(33,000)
Financing activities		
Sale of common stock	-	1
Purchase and retirement of common stock	-	(1)
Proceeds from other borrowings	-	30,000
Repayment of other borrowings	(7,625)	-
Cash dividends paid on common stock	(6,713)	(5,594)
Net cash provided by (used in) financing activities	(14,338)	24,406
Net change in cash and cash equivalents	8,074	(5,065)
Cash and cash equivalents, beginning of year	1,132	6,197
Cash and cash equivalents, end of year	\$ 9,206	\$ 1,132