

**CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**LAKESIDE BANCSHARES AND SUBSIDIARY, LAKESIDE BANK**

**December 31, 2021 and 2020**



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
Lakeside Bancshares, Inc. and Subsidiary  
Lake Charles, Louisiana

### Opinion

We have audited the accompanying financial statements of Lakeside Bancshares, Inc. and Subsidiary (corporation), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeside Bancshares, Inc. and Subsidiary as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Consolidated Financial Statements

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

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

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,

as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

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

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

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The separate bank information starting on page 42 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Lake Charles, Louisiana  
April 18, 2022

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

December 31, 2021 and 2020

ASSETS	2021	Restated 2020
Cash and due from banks	\$ 4,150,058	\$ 3,653,460
Interest-bearing bank deposits	32,061,440	113,227,338
Federal funds sold	5,250,000	6,250,000
Cash and cash equivalents	41,461,498	123,130,798
Investment securities available-for-sale	689,706	52,170,041
Investment securities held-to-maturity	89,077,692	707,782
Restricted stock	327,400	327,000
Loan, net of allowance for loan losses	186,024,214	153,333,978
Prepaid income taxes	168,468	-
Bank premises and equipment, net of accumulated depreciation	8,120,016	5,631,066
Accrued interest receivable	939,518	1,034,558
Deferred tax asset	15,047	409,370
Foreclosed properties	60,500	-
Bank owned life insurance	2,011,266	-
Intangible asset	156,017	206,617
Other assets	599,012	285,048
TOTAL ASSETS	\$ 329,650,354	\$ 337,236,258

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

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS - CONTINUEE

December 31, 2021 and 2020

	2021	Restated 2020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 76,767,948	\$ 61,148,844
Interest-bearing	221,872,153	246,935,056
Total deposits	<u>298,640,101</u>	<u>308,083,900</u>
Federal Home Loan Bank Advances	2,365,106	1,392,595
Other liabilities:		
Accrued interest payable	190,460	327,161
Accrued expenses	149,761	288,225
Income taxes payable	-	27,828
Deferred compensation	151,800	202,400
Other liabilities	173,659	108,269
Total other liabilities	<u>665,680</u>	<u>953,883</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock; \$1 par value; 10,000,000 shares authorized; 2,098,133 shares issued and outstanding for 2021 and 2020	2,098,133	2,098,133
Additional paid-in-capital	20,756,053	20,756,053
Retained earnings	5,179,669	3,876,403
Accumulated other comprehensive (loss) income	(54,388)	75,291
Total stockholders' equity	<u>27,979,467</u>	<u>26,805,880</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$ 329,650,354</u>	 <u>\$ 337,236,258</u>

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

LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2021 and 2020

	2021	Restated 2020
Interest income:		
Interest and fees on loans	\$ 8,433,472	\$ 8,739,784
Interest on investment securities	286,988	262,558
Interest on federal funds sold	5,856	13,191
Other interest income	156,237	231,063
<b>Total interest income</b>	<b>8,882,553</b>	<b>9,246,596</b>
Interest expense:		
Interest on deposits	1,140,197	1,664,543
Interest on borrowed funds	26,089	891
Total interest expense	1,166,286	1,665,434
<b>Net interest income</b>	<b>7,716,267</b>	<b>7,581,162</b>
Provision for loan losses	180,000	537,000
<b>Net interest income after provision for loan losses</b>	<b>7,536,267</b>	<b>7,044,162</b>
Non-interest income	1,228,855	842,687
Non-interest expenses	(7,229,756)	(6,671,297)
<b>Net income before income tax expense</b>	<b>1,535,366</b>	<b>1,215,552</b>
Income tax expense	232,100	276,443
<b>Net income</b>	<b>1,303,266</b>	<b>939,109</b>
Other comprehensive income:		
Change in unrealized holding (losses) income on available-for-sale securities arising during the period, net of income tax expense of \$34,471 in 2021 and \$24,944 in 2020	(129,679)	93,838
<b>Comprehensive income</b>	<b>\$ 1,173,587</b>	<b>\$ 1,032,947</b>
Per common share data:		
Basic income per share	\$ 0.62	\$ 0.45
Weighted average number of shares outstanding	2,098,113	2,097,654

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

LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at January 1, 2020	\$ 2,095,633	\$ 20,727,678	\$ 2,937,294	\$ (18,547)	\$ 25,742,058
Net income for the year ended, restated	-	-	939,109	-	939,109
Issuance of common stock	2,500	28,375	-	-	30,875
Changes in net unrealized holding gain, net of income taxes	-	-	-	93,838	93,838
Balance at December 31, 2020, restated	\$ 2,098,133	\$ 20,756,053	\$ 3,876,403	\$ 75,291	\$ 26,805,880
Net income for the year ended	-	-	1,303,266	-	1,303,266
Changes in net unrealized holding loss net of income taxes	-	-	-	(129,679)	(129,679)
Balance at December 31, 2021	<u>\$ 2,098,133</u>	<u>20,756,053</u>	<u>\$ 5,179,669</u>	<u>\$ (54,388)</u>	<u>\$ 27,979,467</u>

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

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	2021	Restated 2020
	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 1,303,266	\$ 939,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Bank owned life insurance income	(11,580)	-
Depreciation and amortization	293,682	338,430
Loss on sale of fixed assets	44,115	274
Provision for loan losses	180,000	537,000
Amortization of investment securities, net	741,881	139,085
Provision for deferred taxes	428,794	(102,012)
Net change in operating assets and liabilities:		
Accrued income and other assets	(202,491)	(317,340)
Accrued expenses and other liabilities	(260,061)	(160,817)
Prepaid income taxes and income tax payable	(196,296)	(3,852)
	<u>2,321,310</u>	<u>1,369,877</u>
Net cash provided by operating activities	2,321,310	1,369,877
Cash flows from investing activities:		
Maturities/calls of securities	50,650,856	30,803,134
Purchases of securities	(88,446,464)	(51,965,461)
Purchases of other equity securities	(400)	(2,800)
Net increase in loans	(32,930,736)	(8,321,988)
Purchase of bank owned life insurance	(2,000,000)	-
Purchases of premises, equipment and software	(2,792,580)	(33,807)
	<u>(75,519,324)</u>	<u>(29,520,922)</u>
Net cash used by investing activities	(75,519,324)	(29,520,922)
Cash flows from financing activities:		
Net (decrease) increase in customer deposits	(9,443,799)	118,607,346
Proceeds from FHLB Advances	972,511	1,392,595
Proceeds from issuance of stock	-	30,875
	<u>(8,471,288)</u>	<u>120,030,816</u>
Net cash (used) provided by financing activities	(8,471,288)	120,030,816

The accompanying notes are an integral part of these financial statements.

LAKESIDE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>Restated 2020</u>
Net (decrease) increase in cash and cash equivalents	\$ (81,669,302)	\$ 91,879,771
Cash and cash equivalents - beginning of year	<u>123,130,798</u>	<u>31,251,027</u>
Cash and cash equivalents - end of year	<u><u>\$ 41,461,496</u></u>	<u><u>\$ 123,130,798</u></u>
 Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 1,302,987</u>	<u>\$ 1,844,929</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 382,305</u>
 Noncash transactions:		
Loans charged off	<u>\$ 86,486</u>	<u>\$ 41,513</u>
Unrealized holding (losses) gains, net of taxes	<u>\$ (129,679)</u>	<u>\$ 93,838</u>
Severance pay commitment	<u>\$ -</u>	<u>\$ 253,000</u>
Transfer of foreclosed properties from loans	<u>\$ 60,500</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Description of Business and Nature of Operations

Lakeside Bancshares, Inc. and Subsidiary Lakeside Bank (the "Bank" and together with Bancshares, the "Company") operates under a state bank charter and provides full banking service, excluding trust services. The Bank began operations on July 10, 2010. The Bank offers a broad range of traditional and online banking services to commercial, small business and retail customers, providing a variety of transaction and savings deposit products, secured and unsecured loan products (including revolving credit facilities), and letters of credit and similar financial guarantees. The Bank's primary deposit products are demand deposits, savings deposits, and certificates of deposits, and its primary lending products are commercial, business, real estate, and consumer loans. The primary area served by the Bank is Southwest Louisiana. In February 2018, Lakeside Bancshares, Inc. was formed for the purpose of becoming the holding company of Lakeside Bank by a stock exchange. The accounting and reporting policies of the Bank conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the banking industry. A summary of significant accounting policies is as follows:

##### Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the U.S. ("U.S. GAAP") and those generally practiced within the banking industry. These consolidated statements include the accounts of Lakeside Bancshares, Inc., the parent company, and its subsidiary, Lakeside Bank. All significant intercompany transactions and balances are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

##### Use of estimates

U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions and the real estate industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Other estimates that are susceptible to significant change in the near term relate to the determination of the valuation of deferred tax assets, other-than-temporary impairments of securities, and the fair value of financial instruments.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

##### Presentation of Cash Flows

For purposes of reporting cash flows, cash equivalents consist of cash on hand, funds due from banks and interest-bearing bank deposits. For purposes of the statements of cash flows, the Bank considers all highly liquid debt instruments that are readily convertible into cash to be cash equivalents.

##### Investment Securities

Securities are being accounted for in accordance with applicable guidance contained in the Accounting Standards Codification (ASC) which requires the classification of securities into one of three categories: trading, available-for-sale, or held-to-maturity. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates this classification periodically.

Trading account securities are held for resale in anticipation of short-term market movements. The Bank had no trading account securities during the years ended December 31, 2021 and 2020.

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third-party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders' equity, net of the related deferred tax effect.

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of operations and comprehensive income.

Amortization, accretion, and accrued interest are included in interest income on securities. Gains and losses on the sale of securities available-for-sale are recorded on the trade date and are determined using the specific-identification method.

The accounting guidance related to the recognition and presentation of other-than-temporary impairment specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporary impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

##### Loans and allowance for loan loss

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Bank evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, Contingencies, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, Receivables, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Bank's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

##### Loans and allowance for loan loss - (Continued)

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (1-4 family residential & multifamily, commercial and industrial, construction and development, nonfarm, nonresidential, or other). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e., competition and regulatory requirements). The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

It is the Bank's policy to discontinue the accrual of interest when circumstances indicate that collection is doubtful. Management considers loans impaired when, based on current information, it is probable that the Bank will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Bank's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

The Bank's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Bank's established allowance for loan losses.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

##### Troubled Debt Restructurings

Troubled debt restructurings (TDRs) occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near-term and a modification in loan terms is granted that would otherwise not have been considered.

Troubled debt restructurings can result in loans remaining on nonaccrual, moving to nonaccrual, or continuing to accrue, depending on the individual facts and circumstances of the borrower. When establishing credit reserves on a loan modified in a TDR, the loan's value is determined by either the present value of expected cash flows calculated using the loan's effective interest rate before the restructuring, or the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If the value as determined is less than the recorded investment in the loan, the difference is charged off through the allowance for loan and lease losses.

Section 4013 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided relief through December 31, 2020 from the accounting and disclosure requirements of ASC 310-40 for loan modifications that are made by financial institutions in response to the COVID-19 pandemic if (1) the borrower was not more than 30 days past due as of December 31, 2019, and (2) the modifications are related to arrangements that defer or delay the payment of principal or interest, or change the interest rate on the loan. The Consolidated Appropriations Act, 2021, extended this relief to January 1, 2022.

##### Bank premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. The provision for depreciation is computed using straight-line method based on the estimated useful lives of the assets, which range from 3-15 years for bank equipment and 39 years for bank buildings. Leasehold improvements are amortized over the lesser of the terms of the leases or their estimated useful lives. Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over the asset's remaining useful life. Gains or losses realized on the disposition of properties and equipment are reflected in the statement of operations. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

##### Foreclosed properties

Foreclosed properties include properties that have been acquired in complete or partial satisfaction of a debt. These properties are initially recorded at fair value on the date of acquisition. Any write-downs at the time of acquisition are charged to the allowance for loan losses. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of (a) fair value minus estimated costs to sell or (b) cost. Gains and losses realized on the sale, and any adjustments resulting from periodic re-evaluation of the property are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred.

##### Bank owned life insurance

The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified as noninterest income. These insurance policies can be surrendered subject to certain surrender penalties applied by the insurance carriers, as well as potential income taxes to be paid.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

##### Income taxes

The Bank follows the asset and liability method of accounting for income taxes, under which deferred income tax assets and liabilities are determined based on the difference between the financial reporting and income tax bases of assets and liabilities using the enacted marginal tax rates and laws expected to be in effect when the differences are expected to reverse. Temporary differences result primarily from allowance for loan loss and unrealized loss on available-for-sale securities. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. The deferred tax assets and liabilities represent the future return consequences of those differences that will either be taxable or deductible when the assets and liabilities are recovered or settled. The effect of a change in tax rates is recognized in the period that includes the enactment date.

In assessing the realization of deferred tax assets, management considers whether it is more-likely-than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation for future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

The Bank evaluates and measures all uncertain tax positions taken or to be taken on tax returns, and records liabilities for the amount of such positions that are not more-likely-than-not to be sustained, or may only partially be sustained, upon examination by relevant taxing authorities. It is management's opinion that there are no significant unsustainable tax positions taken by the Bank for the periods subject to examination. The Bank does not anticipate a significant increase in unrecognized tax benefits over the next 12 months. The Bank's income tax returns are no longer subject to examination for a period beyond three years from the filing of those returns by tax authorities. The Bank's policy is to recognize interest and penalties, if any, related to income taxes as a component of income tax expense.

##### Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB), the Company is required to purchase and hold shares of capital stock in the FHLB in an amount equal to a membership investment plus an activity-based investment determined according to the level of outstanding FHLB advances. The stock is reported as Restricted Stock in the consolidated balance sheet, which is restricted as to its marketability. Because no ready market exists for this investment and it has no quoted market value, the Bank's investment in this stock is carried at cost.

##### Derivative instruments

The Bank recognizes all derivatives as either assets or liabilities in the Bank's consolidated balance sheet and measures those instruments at fair value. If certain conditions are met, a derivative may be specially designated as a hedge. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Bank is not currently engaged in any activities with derivatives.

##### Earnings per share

Basic earnings per share represent income available to common shareholders divided by the number of common shares outstanding during the period. The weighted-average number of shares outstanding were 2,098,113 and 2,097,654 in 2021 and 2020, respectively.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

##### Comprehensive income

Comprehensive income includes net income and other comprehensive income which, in the case of the Bank, includes only unrealized gains and losses on securities available-for-sale, net of income tax effect.

##### Credit related financial information

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

##### Reclassification

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements.

##### Revenue Recognition

In the ordinary course of business, the Company recognizes income from various revenue generating activities. Certain revenues are generated from contracts with customers where such revenues are recognized when, or as, services or products are transferred to customers for amounts to which the Company expects to be entitled. Certain specific policies related to revenue recognition from contracts with customers include:

**Interest Income** - Interest income is recognized on an accrual basis driven by written contracts, such as loan agreements or securities contracts. Loan origination fees and costs are recognized over the life of the loan as an adjustment to yield.

**Service Charges on Deposit Accounts** - Service charges on deposit accounts include transaction-based fees for non-sufficient funds, account analysis fees, and other service charges on deposits, including monthly account service fees. Non-sufficient funds fees are recognized at the time when the account overdraft occurs in accordance with regulatory guidelines. Account analysis fees consist of fees charged on certain business deposit accounts based upon account activity as well as other monthly account fees, and are recorded under the accrual method of accounting as services are performed. Other service charges are earned by providing depositors safeguard and remittance of funds as well as by providing other elective services for depositors that are performed upon the depositor's request. Charges for deposit services for the safeguard and remittance of funds are recognized at the end of the statement cycle, after services are provided, as the customer retains funds in the account. Revenue for other elective services is earned at the point in time the customer uses the service.

**Bank Card and Automated Teller Machine ("ATM") Fees** - Bank card and ATM fees include credit card, debit card and ATM transaction revenue. The majority of this revenue is card interchange fees earned through a third-party network. Performance obligations are satisfied for each transaction when the card is used and the funds are remitted. The network establishes interchange fees that the merchant remits for each transaction, and costs are incurred from the network for facilitating the interchange with the merchant. Card fees also include merchant services fees earned for providing merchants with card processing capabilities. ATM income is generated from allowing customers to withdraw funds from other banks' machines and from allowing a non-customer cardholder to withdraw funds from the Company's machines. The Company satisfies its performance obligations for each transaction at the point in time that the withdrawal is processed. Bank card and ATM fee income is recorded on accrual basis as services are provided with the related expense reflected in data processing expense.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

##### Revenue Recognition – (Continued)

Secondary Mortgage Market Operations - Secondary mortgage market operations revenue is primarily comprised of service release premiums earned on the sale of closed-end mortgage loans to other financial institutions or government agencies that are recognized in revenue as each sales transaction occurs.

Other Miscellaneous Income - Other miscellaneous income represents a variety of revenue streams, including safe deposit box income, wire transfer fees, and any other income not reflected above. Income is recorded once the performance obligation is satisfied, generally on the accrual basis or on a cash basis if not material and/or considered constrained.

##### Recently issued accounting standards

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”), July 2018 issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, and 2018-11 clarifying the standards, *Leases (Topic 842): Targeted Improvements*, December 2018 narrow-scope improvement ASU 2018-20 and in March 2019 a codification improvement ASU 2019-01. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02, 2018-10, 2018-11, 2018-20 and 2019-01 are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is evaluating the impact that ASU 2016-02, 2018-10, 2018-11, 2018-20 and 2019-01 will have on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Loss (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The new guidance is intended to provide financial statements 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. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current 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 2016-13 is effective for fiscal years beginning after December 15, 2022, and interim periods within fiscal year beginning after December 15, 2022. Entities may adopt the amendment earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is evaluating the impact that ASU 2016-13 will have on the consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes (Topic 740)* (“ASU 2019-12”). The amendments in this update are meant to simplify the accounting for income taxes by removing certain exceptions to GAAP. The amendments also improve consistent application of and simplify GAAP by modifying and/or revising the accounting for certain income tax transactions and by clarifying certain existing codification. The amendments in the update are effective for non-public business entities for fiscal years and interim periods within those fiscal years beginning after December 15, 2021. Management is currently assessing the impact of adoption of this guidance, but does not expect the update to have a material impact upon its financial position and results of operations.

##### Advertising

The Bank expenses all advertising cost when incurred. Advertising expense for the years ended December 31, 2021 and 2020 was \$266,196 and \$254,379, respectively.

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE B – CASH**

The Bank is required to maintain certain cash balances relating to its deposit liabilities. This requirement is ordinarily satisfied by cash on hand.

**NOTE C – INVESTMENT SECURITIES**

*Available-for-sale*

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost and estimated fair value of securities classified as available-for-sale at December 31, 2021 and 2020, consisted of the following:

	December 31, 2021			
	Gross Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Treasuries	\$ -	\$ -	\$ -	\$ -
US Government Agencies	-	-	-	-
Municipals	-	-	-	-
Mortgage-backed securities	654,957	34,749	-	689,706
	\$ 654,957	\$ 34,749	\$ -	\$ 689,706
	December 31, 2020			
	Gross Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Treasuries	\$ 1,998,654	\$ 378	\$ -	\$ 1,999,032
US Government Agencies	48,867,005	-	32,232	48,899,237
Municipals	175,000	522	-	175,522
Mortgage-backed securities	1,034,077	62,173	-	1,096,250
	\$ 52,074,736	\$ 63,073	\$ 32,232	\$ 52,170,041

At December 31, 2021 and 2020, the Bank held no securities of any single issuer (excluding the U.S. government and federal agencies) with a book value that exceeded 10% of stockholders' equity.

The amortized costs and estimated market values of debt and equity securities, classified as available-for-sale, at December 31, 2021, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties

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**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE C – INVESTMENT SECURITIES – (Continued)**

*Available-for-sale - continued*

	Amortized Cost	Fair Value
Less than one year	\$ -	\$ -
One to five years	654,957	689,706
Five to ten years	-	-
	\$ 654,957	\$ 689,706

Information pertaining to available-for-sale securities with gross unrealized losses and fair value at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

As of December 31, 2021:

	Less Than 12 Months			12 Months or Greater		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
US Treasuries	-	\$ -	\$ -	-	\$ -	\$ -
US Gov Agencies	-	-	-	-	-	-
Municipals	-	-	-	-	-	-
Mortg Back Securities	-	-	-	-	-	-
		\$ -	\$ -		\$ -	\$ -

As of December 31, 2020:

	Less Than 12 Months			12 Months or Greater		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
US Gov Agencies	8	\$ (1,073)	\$ 11,191,190	2	\$ (1,327)	\$ 2,018,181
Municipals	-	-	-	-	-	-
Mortg Back Securities	-	-	-	-	-	-
		\$ (1,073)	\$ 11,191,190		\$ (1,327)	\$ 2,018,181

Most of these unrealized losses result from securities which were purchased at a premium in anticipation of a more stable interest rate environment. Management and the Asset/Liability Committee are continually monitoring the securities' portfolios. Accordingly, management is able to effectively measure and monitor the unrealized loss position on these securities and because the Bank does not intend to sell the securities and it is not more-likely-than-not that the Bank will be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2021. Additionally, the Bank believes that its premium amortization policies are appropriate and will result in a reasonable return on these investments being recorded in the statements of income.

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE C – INVESTMENT SECURITIES – (Continued)**

*Available-for-sale - continued*

There were no realized gains or losses from maturities, calls or sales of investment securities available-for-sale with proceeds of \$50,578,337 and \$28,007,353 in 2021 and 2020, respectively.

*Held-to-maturity*

Debt and equity securities have been classified in the balance sheets according to management's intent. The amortized cost and estimated fair value of securities classified as held-to-maturity at December 31, 2021 and 2020, consisted of the following:

	December 31, 2021			
	Gross Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Government Agencies	\$ 86,555,514	\$ -	\$ (646,751)	\$ 85,908,763
Taxable municipal bonds	533,280	-	(6,866)	526,414
Municipals	1,806,535	3,034	-	1,809,569
Mortgage-backed securities	182,363	-	-	182,363
	\$ 89,077,692	\$ 3,034	\$ (653,617)	\$ 88,427,109
	December 31, 2020			
	Gross Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Government Agencies	\$ -	\$ -	\$ -	\$ -
Municipals	425,071	5,807	-	430,878
Mortgage-backed securities	282,711	14,710	-	297,421
	\$ 707,782	\$ 20,517	\$ -	\$ 728,299

The amortized costs and estimated market values of debt securities, classified as held-to-maturity, at December 31, 2021, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

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LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C – INVESTMENT SECURITIES – (Continued)

*Held-to-maturity - continued*

	Amortized Cost	Fair Value
	<u>                    </u>	<u>                    </u>
Less than one year	\$ 22,885,568	\$ 22,883,205
One to five years	35,911,638	35,535,778
Greater than ten years	<u>30,280,486</u>	<u>30,008,126</u>
	<u>\$ 89,077,692</u>	<u>\$ 88,427,109</u>

Information pertaining to held-to-maturity securities with gross unrealized losses and fair value at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

As of December 31, 2021:

	<u>Less Than 12 Months</u>			<u>12 Months or Greater</u>		
	Number of Securities	Gross Losses	Fair Value	Number of Securities	Gross Losses	Fair Value
US Gov Agencies	6	\$ (4,471)	\$ -	39	\$ (642,278)	\$ -
Taxable municipal bonds	-	-	-	2	(6,866)	-
Municipals	-	-	-	-	-	-
Mortg Back Securities	-	-	-	-	-	-
		<u>\$ (4,471)</u>	<u>\$ -</u>		<u>\$ (649,144)</u>	<u>\$ -</u>

As of December 31, 2020:

	<u>Less Than 12 Months</u>			<u>12 Months or Greater</u>		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
US Gov Agencies	-	\$ -	\$ -	-	\$ -	\$ -
Municipals	-	-	-	-	-	-
Mortg Back Securities	-	-	-	-	-	-
		<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>

Investment securities with carrying values of approximately \$14,282,038 and \$49,534,587 for the years ended December 31, 2021 and 2020, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

*Restricted Stock*

As of December 31, 2021 and 2020 there was \$327,400 and \$327,000, respectively, of restricted stock holdings in the Federal Home Loan Bank. This stock is considered restricted stock as only banks, which are members of the organization, may acquire or redeem them. The stock is redeemable at its face value; therefore, there are no gross unrealized gains or losses associated with this investment.

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES**

The components of loans in the consolidated balance sheets as of December 31, 2021 and 2020 were as follows:

	2021	2020
1-4 family residential and multifamily	\$ 49,746,927	\$ 42,312,221
Commercial and industrial loans	20,273,278	31,471,909
Nonfarm, nonresidential	77,670,164	46,880,464
Construction and development	34,026,801	29,907,240
Other loans	7,102,508	5,464,095
	188,819,678	156,035,929
Less: Allowance for loan losses	(2,795,464)	(2,701,951)
Loans receivable, net	<u>\$ 186,024,214</u>	<u>\$ 153,333,978</u>

The loan categories in the table above include net deferred fees and costs of \$208,560 and \$349,993 as of December 31, 2021 and 2020, respectively.

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years, but may be underwritten with terms up to 30 years. This category represents about 26.35% and 27.12% of the loan portfolio as of December 31, 2021 and 2020, respectively.

Commercial and industrial loans are originated for a variety of purposes which include working capital, equipment and accounts receivable financing. This category represents about 10.74% and 20.17% of the loan portfolio at December 31, 2021 and 2020, respectively. Loans in this category generally carry a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.25 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years. This category represents about 41.13% and 30.04% of the loan portfolio at December 31, 2021 and 2020, respectively.

The Bank's construction and land development loans are secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner-occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months. This category represents about 18.02% and 19.17% of the loan portfolio as of December 31, 2021 and 2020, respectively.

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES – (Continued)**

The total allowance reflects management’s estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of \$2,795,464 adequate to cover loan losses inherent in the loan portfolio at December 31, 2021. The following table presents by Call Report code the changes in the allowance for loan losses and the recorded investment in loans.

	1-4 Family Residential & Multifamily	Commercial and Industrial	Construction and Development	Nonfarm, Nonresidential	Other Loans	Year ended December 31, 2021 Total	Year ended December 31, 2020 Total
Beginning balance	\$ 637,350	\$ 609,277	\$ 704,486	\$ 618,834	\$ 132,004	\$ 2,701,951	\$ 2,190,417
Charge off's	-	(69,500)	-	(11,381)	(23,395)	(104,276)	(41,513)
Recoveries	-	6,109	-	-	11,680	17,789	16,047
Provisions	168,619	-	-	11,381	-	180,000	537,000
Ending balance	\$ 805,968	\$ 545,886	\$ 704,486	\$ 618,834	\$ 120,289	\$ 2,795,464	\$ 2,701,951
Ending allowance balances							
Individually evaluated	\$ 108,803	\$ -	\$ -	\$ -	\$ 13,861	\$ 122,664	\$ -
Collectively evaluated	697,165	545,886	704,486	618,834	106,428	2,672,800	2,701,951
Total allowance for loan losses	\$ 805,968	\$ 545,886	\$ 704,486	\$ 618,834	\$ 120,289	\$ 2,795,464	\$ 2,701,951
Loans:							
Individually evaluated for impairment	\$ 2,993,557	\$ 3,251,071	\$ 1,938,535	\$ -	\$ 40,340	\$ 8,223,503	\$ 11,558,500
Collectively evaluated for impairment	46,753,370	17,022,207	32,088,266	77,670,164	7,062,168	180,596,175	144,477,429
	\$ 49,746,927	\$ 20,273,278	\$ 34,026,801	\$ 77,670,164	\$ 7,102,508	\$ 188,819,678	\$ 156,035,929

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES – (Continued)**

The Bank's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

Credit quality indicators as of December 31, 2021 and 2020 are as follows:

Internally assigned grade:

Pass — Loans not meeting the pass watch, special mention, substandard, doubtful, or loss ratings are considered to be pass rated loans. Usually, loans in this category have above average to average credit quality characteristics along with exceeding policy requirements and collateral coverage exceeds regulatory requirements. Customer has a good credit history and is in compliance with all loan covenants and agreements. This category also included loans secured by the Bank's certificates of deposits and savings accounts or loans with a FMHA or SBA guarantee.

Pass Watch — Loans that display negative factors with some short-term risk. These credits may have deteriorating financial trends, collateral margins, and/or credit issues that require closer monitoring. The credits have adequate collateral protection, but the loan to collateral value is greater than policy limits but less than 100%.

Special Mention — Loans which do not presently expose the bank to a sufficient degree of risk to warrant adverse classification but do possess credit deficiencies deserving of management's close attention. They constitute an undue and unwarranted credit risk. Economic or market conditions may affect the borrower in the future. Adverse trends or an unbalanced financial position have not reached a point where liquidation of the debt is jeopardized, but that point could be reached in the future if trends continue. These loans include those that display negative factors with some short-term risk that are currently protected but are potentially weak.

Substandard — loans that are inadequately protected by the current sound worth and paying capacity of an obligor or of the collateral pledged, if any. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. These loans are adequately reserved for in the allowance for loan losses.

Doubtful — loans that have all the weaknesses inherent in one classified as substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES – (Continued)**

Loss — loans that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The information for each of the quality indicators is updated on a quarterly basis in conjunction with the determination of the adequacy of the allowance for loan losses.

Credit risk profile by internally assigned grade:

<u>December 31, 2021</u>	<u>First Mortgage Loans</u>	<u>Commercial and Industrial Loans</u>	<u>Consumer and Other Loans</u>
Pass	\$ 152,216,924	\$ 18,854,196	\$ 7,015,063
Pass watch	4,931,006	1,043,277	68,419
Special mention	2,236,619	-	-
Substandard	2,059,343	375,805	19,026
Total	<u>\$ 161,443,892</u>	<u>\$ 20,273,278</u>	<u>\$ 7,102,508</u>
<u>December 31, 2020</u>	<u>First Mortgage Loans</u>	<u>Commercial and Industrial Loans</u>	<u>Consumer and Other Loans</u>
Pass	\$ 104,274,524	\$ 28,065,858	\$ 4,941,140
Pass watch	5,844,229	1,075,813	275,865
Special Mention	6,795,138	1,685,449	186,247
Substandard	2,186,034	644,789	60,843
Total	<u>\$ 119,099,925</u>	<u>\$ 31,471,909</u>	<u>\$ 5,464,095</u>

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES – (Continued)**

Loans tested for impairment with outstanding balances totaling \$745,945 and \$1,208,940 as of December 31, 2021 and 2020, respectively, resulted in specific allowances of \$31,148 and \$187,407 for the years ended December 31, 2021 and 2020.

There was no troubled debt restructuring made during 2021.

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LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – AGE AND INTEREST ACCRUAL STATUS OF FINANCING RECEIVABLES

The following tables present informative data by class of financing receivables regarding their age and interest accrual status at December 31, 2021:

December 31, 2021	Past Due					Total Past Due	Total Financing Receivables	Status of Interest Accruals	
	Current	30-59 Days	60-89 Days	≥ 90 Days	Total Financing Receivables on Nonaccrual Status			Financing Receivables on Past Due > 90 Days and Still Accruing Interest	
First mortgage loans (principally conventional):									
Secured by one-to-four family residential and multifamily	\$ 49,108,316	\$ -	\$ -	\$ 638,611	\$ 638,611	\$ 49,746,927	\$ 638,611	\$ -	
Nonfarm, nonresidential	77,670,164	-	-	-	-	77,670,164	-	-	
Construction loans	32,877,315	989,747	-	159,739	1,149,486	34,026,801	159,739	-	
Commercial loans	19,367,300	346,041	409,579	150,358	905,978	20,273,278	150,358	-	
Other loans	6,947,256	45,597	24,730	84,925	155,252	7,102,508	84,925	-	
Total	<u>\$ 185,970,351</u>	<u>\$ 1,381,385</u>	<u>\$ 434,309</u>	<u>\$ 1,033,633</u>	<u>\$ 2,849,327</u>	<u>\$ 188,819,678</u>	<u>\$ 1,033,633</u>	<u>\$ -</u>	

December 31, 2020

First mortgage loans (principally conventional):								
Secured by one-to-four family residential and multifamily	\$ 42,254,932	\$ -	\$ -	\$ 57,289	\$ 57,289	\$ 42,312,221	\$ 23,466	\$ 33,823
Nonfarm, nonresidential	46,419,363	107,447	232,026	121,628	461,101	46,880,464	121,628	-
Construction loans	29,907,240	-	-	-	-	29,907,240	-	-
Commercial loans	30,693,717	151,874	289,683	336,635	778,192	31,471,909	-	336,635
Other loans	5,463,804	-	-	291	291	5,464,095	291	-
Total	<u>\$ 154,739,056</u>	<u>\$ 259,321</u>	<u>\$ 521,709</u>	<u>\$ 515,843</u>	<u>\$ 1,296,873</u>	<u>\$ 156,035,929</u>	<u>\$ 145,385</u>	<u>\$ 370,458</u>

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE F – TRANSACTIONS WITH DIRECTORS, OFFICERS AND EMPLOYEES**

In the ordinary course of business, the Bank makes loans to executive officers, principal stockholders, directors, employees and to companies in which these borrowers are principal owners. In the opinion of management, such loans were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectability or present other unfavorable features to the Bank. Loans to such borrowers are summarized as follows:

	2021	2020
Balance at beginning of year	\$ 5,358,941	\$ 5,033,551
Prior year reclassification for new officers, directors & employees	-	2,476,265
Loan originations	6,433,853	6,796,111
Payments	(1,197,146)	(8,946,986)
Balance at end of year	\$ 10,595,648	\$ 5,358,941

On May 1, 2015, the Bank entered into an office building lease from a limited liability company, which was owned by one of the Bank’s directors. The lease is classified as an operating lease and the accompanying financial statements include rent expense of \$70,589 for 2020. The original term of the lease was 36 months, beginning on May 1, 2015. In August 2017, the Bank amended this lease to include additional space, this increased the rate for year three to \$3,357. In June 2018, the Bank amended the lease to include additional space, this increased the monthly rate for years for the extended 36 months to \$5,882. The lease with the director ended in January 2020 since the office building was sold to an unrelated third party.

On July 21, 2014, the Bank purchased the Westlake Branch land and building in the amount of \$423,337 from a limited liability company, which was owned by directors and stockholders owning 20% of the Bank’s outstanding common stock.

On October 3, 2013, the Bank purchased the Oak Park Branch land and building in the amount of \$385,000 from a limited liability company, which was owned by directors and stockholders owning 28% of the Bank’s outstanding common stock.

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**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE G – BANK PREMISES AND EQUIPMENT**

Components of Bank premises and equipment included in the balance sheet at December 31, 2021 and 2020 were as follows:

	2021	2020
Building and improvements	\$ 7,147,048	\$ 4,719,159
Furniture, fixtures and equipment	1,393,315	1,276,095
Land	1,676,237	1,578,437
Construction in process	10,151	-
	10,226,751	7,573,691
Less: accumulated depreciation	(2,106,735)	(1,942,625)
	\$ 8,120,016	\$ 5,631,066

Included in other assets is the cost of software, which is amortized over three years, with costs of \$197,807 and \$286,657 as of December 31, 2021 and 2020, respectively, and accumulated amortization of \$(170,692) and \$(233,345) as of December 31 2021 and 2020, respectively. Depreciation and amortization expenses amounted to \$293,682 and \$338,430 during the years ended December 31, 2021 and 2020, respectively.

**NOTE H – BANK OWNED LIFE INSURANCE**

During the year ended December 31, 2021, the Bank purchased a \$2,000,000 life insurance policy on key employees. The bank recognized \$11,580 in noninterest income for the year ending December 31, 2021.

**NOTE I – DEPOSITS**

Deposits at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Non-interest bearing demand deposits	\$ 76,767,948	\$ 61,148,844
Interest bearing deposit accounts	80,401,440	74,366,549
Money market deposit accounts	77,086,773	69,575,113
Savings accounts	20,840,317	13,924,636
	255,096,478	219,015,142
Certificates of deposits	40,218,832	85,495,675
Individual retirement accounts	3,324,791	3,573,083
	43,543,623	89,068,758
	\$ 298,640,101	\$ 308,083,900

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE I – DEPOSITS – (Continued)**

At December 31, 2021, the scheduled maturities of all outstanding time deposits were as follows:

Year ending December	Amount
2022	\$ 34,194,797
2023	7,981,302
2024	1,367,524
	\$ 43,543,623

Included in deposits are \$6,775,048 and \$41,419,104 of certificates of deposit and other time deposits in denominations that meet or exceed FDIC insurance limits of \$250,000 at December 31, 2021 and 2020, respectively.

Included in deposits are deposits from directors, officers, their immediate families, and related companies. These accounts totaled approximately \$21,488,797 and \$17,778,858 at December 31, 2021 and 2020, respectively.

**NOTE J – OTHER BORROWED FUNDS AND LINES OF CREDIT**

The Bank has established a federal funds line-of-credit with FNBB in the amount of \$9,300,000, a line-of-credit with The Independent Bankers’ Bank in the amount of \$3,000,000 to provide additional sources of operating funds, and a line-of-credit with the Federal Home Loan Bank of Dallas in the amount of \$59,392,343. There were no funds drawn on these credit facilities as of December 31, 2021 and 2020.

**NOTE K – INCOME TAXES**

The components of income tax expense during the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Current income taxes	\$ (196,694)	\$ 378,455
Deferred income taxes	428,794	(102,012)
	\$ 232,100	\$ 276,443

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**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE K – INCOME TAXES – (Continued)**

The Bank records deferred income taxes on the tax effect of changes in temporary differences. Deferred tax assets are subject to a valuation allowance if their realization is less than 50% probable. The net deferred tax assets were comprised of the following at December 31, 2021 and 2020:

	2021	2020
Allowance for loan loss	\$ 564,161	\$ 503,259
Start up cost	63,218	74,600
Unrealized loss on available for sale securities	14,457	(20,014)
Deferred tax asset	641,836	557,845
Fixed assets	(626,789)	(148,475)
Deferred tax liability	(626,789)	(148,475)
Net deferred tax assets	\$ 15,047	\$ 409,370

The source and tax effect of items reconciling income tax expense to the amount computed by applying the federal income tax rates in effect to net income before income tax expense for the years ended December 31, 2021 and 2020 are as follows:

	2021		2020	
	Amount	%	Amount	%
Income before income tax expense	\$ 1,535,366	100.0%	\$ 1,215,552	100.0%
Income tax benefit at statutory rate	\$ 322,427	21.0%	\$ 255,266	21.0%
Nondeductible expenses	23,677	1.5%	18,822	1.5%
Tax-exempt interest	(46,756)	-3.0%	(6,541)	-0.5%
Provision to return adjustments	(67,248)	-4.4%	8,896	0.7%
	\$ 232,100	15.1%	\$ 276,443	22.7%

**NOTE L – EMPLOYEE BENEFITS**

In January 2013 the Bank began a 401K plan for employees. The Bank will match up to 3.5% of employee contributions of 6%. Employees with 30 hours per week and one year of service are eligible for participation in the plan. As a result of this change, the Bank terminated its SIMPLE IRA Salary Savings Plan ("Plan") which was for all full-time employees who have completed six months of service and who have attained age 20. Employees hired before or within nine months of opening qualify for immediate participation. Contributions to the Plan were at the discretion of the Board of Directors and were determined in September of each year for the following year. The Bank's contributions to the 401K plan were \$77,606 and \$60,635 for the years ended December 31, 2021 and 2020, respectively.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE M – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

To meet the financing needs of its customers the Bank is a party to various financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statement of financial condition. The contract or notional amounts of those instruments reflect the extent of the involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments.

The following is a summary as of the years ended December 31, 2021 and 2020, of the various financial instruments entered into by the Bank:

	<u>2021</u>	<u>2020</u>
Commitments to extend credit	\$ 54,198,808	\$ 59,613,102
Commercial letter of credit	\$ -	\$ -

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Certain commitments have fixed expiration dates, or other termination clauses, and may require payment of a fee. Many of the commitments are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include deposits held in financial institutions; U.S. Treasury securities; other marketable securities; accounts receivable; inventory; property and equipment; personal residences; income-producing commercial properties and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to guarantee the installation of real property improvements and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral and obtains personal guarantees supporting those commitments for which collateral or other security is deemed necessary.

#### NOTE N – MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE N – MINIMUM REGULATORY CAPITAL REQUIREMENTS – (Continued)**

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), of Tier I capital (as defined) to average assets (as defined), and Common Equity Tier 1 capital (as defined) to risk-weighted assets (as defined). Management believes, as of the years ended December 31, 2021 and 2020, the Bank meets all capital adequacy requirements to which it is subject.

A regulatory examination was performed by the Louisiana Office of Financial Institutions (the “OFI”) utilizing financial information as of September 30, 2019 and an asset review date of November 30, 2019. Per the OFI, capital levels remain strong relative to the Bank’s overall risk profile. As of September 30, 2019, the date of the last regulatory examination, capital levels continue to exceed regulatory standards for well-capitalized institutions. To be categorized as well capitalized the Bank must maintain minimum common equity risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The Bank’s actual capital amounts and ratios at December 31, 2021 and 2020 are presented in the following tables:

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2021</u>						
Total Regulatory Capital to risk weighted assets	\$ 30,501,000	17.97%	\$ 13,578,631	8.00%	\$ 16,973,289	10.00%
Tier I Capital to risk weighted assets	\$ 27,750,000	16.72%	\$ 9,958,134	6.00%	\$ 13,277,512	8.00%
Tier I Leverage Capital	\$ 27,750,000	11.94%	\$ 9,296,482	4.00%	\$ 11,620,603	5.00%
Common Equity Tier 1	\$ 27,750,000	16.72%	\$ 7,468,600	4.50%	\$ 10,787,978	6.50%
<u>As of December 31, 2020</u>						
Total Regulatory Capital to risk weighted assets	\$ 27,985,000	17.89%	\$ 12,514,254	8.00%	\$ 15,642,817	10.00%
Tier I Capital to risk weighted assets	\$ 26,019,000	16.63%	\$ 9,387,492	6.00%	\$ 12,516,657	8.00%
Tier I Leverage Capital	\$ 26,019,000	8.78%	\$ 11,853,759	4.00%	\$ 14,817,198	5.00%
Common Equity Tier 1	\$ 26,019,000	16.63%	\$ 7,040,619	4.50%	\$ 10,169,784	6.50%

The institution specific capital conservation buffer necessary to avoid limitations on distributions and discretionary bonus payments was 5.8706% as of December 31, 2021.

**NOTE O – REVENUE FROM CONTRACT WITH CUSTOMERS**

All of the Bank’s revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. Items outside the scope of ASC 606, which are included in non-interest income consists of service charges on deposit accounts, bank card and ATM fees, secondary market fees and other miscellaneous income.

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE O – REVENUE FROM CONTRACT WITH CUSTOMERS – (Continued)**

The following table presents the Bank’s sources of non-interest income for the years ending December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Service charges on accounts	\$ 277,763	\$ 154,871
Other customer fees	2,232	2,785
ATM/POS settlement income	304,833	210,170
Secondary market fee income	211,629	364,947
Bank owned life insurance income	11,580	-
Other income	<u>420,818</u>	<u>109,914</u>
Total non-interest income	<u>\$ 1,228,855</u>	<u>\$ 842,687</u>

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

**NOTE P – NON-INTEREST EXPENSE**

Non-interest expense amounts are summarized as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Advertising and business development	\$ 379,395	\$ 360,659
Building expenses	627,186	419,047
Data processing	154,875	149,012
Furniture, fixture and equipment expenses	157,651	189,772
Occupancy expenses	198,963	188,809
FDIC assessment expense	216,134	47,321
Advalorem tax capital	123,404	96,280
Other expenses	613,931	519,055
Professional fees	332,798	341,637
Salaries and employee benefits	3,990,688	4,013,946
Technology and telephone expenses	390,615	345,485
Other, net	<u>44,116</u>	<u>274</u>
Total non-interest expenses	<u>\$ 7,229,756</u>	<u>\$ 6,671,297</u>

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE Q – FAIR VALUE MEASUREMENTS

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Bank commitment. Subsequent changes must be recorded in earnings.

FASB ASC 820, *Fair Value Measurement*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

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

Level 2 inputs are valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active 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 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Bank does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value (disclosures required by the Fair Value Measurements Topic of the FASB Accounting Standards Codification).

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE Q – FAIR VALUE MEASUREMENTS - (Continued)**

Impaired loans are evaluated and valued at the time the loan is identified as impaired, using the present value of expected cash flows, the loan's observable market price or the fair value of the collateral (less cost to sell) if the loans are collateral dependent. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Bank. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis.

Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed properties. Subsequently, foreclosed properties are carried at the lower of carrying value or fair value. The estimated fair value for foreclosed properties included in Level 3 is determined by independent market based appraisals and other available market information. Discounts applied to appraisals have predominantly been in the range of 0% to 50%; however, in certain cases the discounts have ranged up to 75%, which include estimated costs to sell or other reductions based on market expectations or an executed sales contract. If fair value of the collateral deteriorates subsequent to initial recognition, the Company records the foreclosed properties as a nonrecurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Assets and Liabilities Measured and Recognized at Fair Value on a Recurring Basis

The table below presents the amounts of assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020:

	Level 1	Level 2	Level 3	Total Fair Value
<u>December 31, 2021</u>				
Securities available for sale				
US government agency	\$ -	\$ -	\$ -	\$ -
US government agency	-	-	-	-
Mortgage back securities	-	689,706	-	689,706
Municipal bonds	-	-	-	-
	<u>\$ -</u>	<u>\$ 689,706</u>	<u>\$ -</u>	<u>\$ 689,706</u>
<u>December 31, 2020</u>				
Securities available for sale				
US government agency	\$ -	\$ 1,999,032	\$ -	\$ 1,999,032
US government agency	-	48,899,237	-	48,899,237
Mortgage back securities	-	1,096,250	-	1,096,250
Municipal bonds	-	175,522	-	175,522
	<u>\$ -</u>	<u>\$ 52,170,041</u>	<u>\$ -</u>	<u>\$ 52,170,041</u>

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE Q – FAIR VALUE MEASUREMENTS - (Continued)**

All assets and liabilities have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

**NOTE R – FAIR VALUE OF FINANCIAL INSTRUMENTS**

In accordance with the disclosure requirements of FASB ASC 825, *Financial Instruments*, the estimated fair values of the Bank's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
<u>December 31, 2021</u>					
FINANCIAL ASSETS					
Cash and cash equivalents	\$ 41,461,498	\$ 41,461,498	\$ -	\$ -	\$ 41,461,498
Investment securities -					
available for sale	689,706	-	689,706	-	689,706
Restricted stock	327,400	-	327,400	-	327,400
Net loans	186,024,214	-	-	188,819,678	188,819,678
Foreclosed properties	60,500	-	-	60,500	60,500
FINANCIAL LIABILITIES					
Deposits	\$ 298,640,101	\$ -	\$ -	\$ 307,599,304	\$ 307,599,304
<u>December 31, 2020</u>					
FINANCIAL ASSETS					
Cash and cash equivalents	\$ 123,130,798	\$ 123,130,798	\$ -	\$ -	\$ 123,130,798
Investment securities -					
available for sale	52,170,041	-	52,170,041	-	52,170,041
Restricted stock	327,000	-	327,000	-	327,000
Net loans	153,333,978	-	-	156,035,929	156,035,929
FINANCIAL LIABILITIES					
Deposits	\$ 308,083,900	\$ -	\$ -	\$ 317,326,417	\$ 317,326,417

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments as of December 31, 2021 and 2020:

Cash and cash equivalents:

The fair value of cash and cash equivalents is estimated to approximate the carrying amounts.

Investment securities and restricted stock:

Fair values are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restrictions.

Loans:

Fair values are estimated for portfolios of loans with similar financial characteristics. Each portfolio is further segmented into fixed and adjustable-rate interest terms by performing and non-performing categories.

## LAKESIDE BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE R – FAIR VALUE OF FINANCIAL INSTRUMENTS – (Continued)

The fair value of performing loans is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

##### Deposits:

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

#### NOTE S – LEASES

As more fully discussed in Note F, On May 1, 2015, the Bank entered into an office building lease from a limited liability company, which was owned by one of the Bank's directors. In June 2018, the Bank amended the lease to include additional space, this increased the monthly rate for years for the extended 36 months to \$5,882. The lease with the director ended in January 2020 since the office building was sold to an unrelated third party, but the lease continues under the new owner. The lease was classified as an operating lease and the accompanying financial statements include rent expense of \$73,055 and \$71,849 for 2021 and 2020, respectively.

The Bank maintains an operating lease on some equipment as part of the contract with a third-party service provider which expired during 2021. Expense for the equipment was approximately \$11,226 and \$16,677 for the years ended December 31, 2021 and 2020, respectively.

Total lease commitment under these leases is approximately \$41,174 for the year ending December 31, 2021.

#### NOTE T – CREDIT CONCENTRATION

The Bank maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. Management believes that the credit risk associated with these deposits is minimal.

#### NOTE U – COMMITMENTS AND CONTINGENCIES

During 2019, the board of directors had an oral agreement with the president of the Bank for a salary continuation arrangement that would become effective on the date of the president's death. The terms provide the president's surviving spouse the current salary rate of \$253,000 payable at the beginning of each year for five years in annual equal amounts of \$50,600. On January 30, 2020, the president passed away.

During August and October of 2020, Hurricanes Laura and Delta made landfall in the local area serviced by the Bank. Many businesses and individuals have suffered damages to their property and, in some cases, they have experienced business interruptions for some time. Most of those businesses and individuals have insurance policies covering damages to property and interruptions caused by these natural disasters. These two events have adversely impacted the local community, and presents material uncertainty and risk with respect to the Bank, its performance and its financial results.

**LAKESIDE BANCSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE V – RESTATEMENT**

The accompany financial statements for 2020 have been restated to correct an error related to income tax expense adjustment made in 2020. The effect of the restatement was to decrease net income for 2020 by \$10,068.

**NOTE W – SUBSEQUENT EVENTS**

Management of the Bank has evaluated subsequent events through the date of the auditors' report, the date which the financial statements were available to be issued. The Bank is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

*SUPPLEMENTAL INFORMATION*

## LAKESIDE BANK

## BALANCE SHEETS

December 31, 2021 and 2020

ASSETS	2021	Restated 2020
Cash and due from banks - non interest bearing	\$ 4,118,202	\$ 3,653,460
Cash and due from banks - interest bearing	32,061,440	113,227,338
Federal funds sold	5,250,000	6,250,000
Cash and cash equivalents	41,429,642	123,130,798
Investment securities available-for-sale	689,706	52,170,041
Investment securities held-to-maturity	89,077,692	707,782
Restricted stock	327,400	327,000
Loans, net of allowance for loan losses	186,024,214	153,333,978
Prepaid income taxes	168,468	-
Bank premises and equipment, net accumulated depreciation	8,120,016	5,631,066
Accrued interest receivable	939,518	1,034,558
Deferred tax asset	15,047	409,370
Foreclosed properties	60,500	-
Bank owned life insurance	2,011,266	-
Intangible asset	156,017	206,617
Other assets	599,012	285,048
TOTAL ASSETS	\$ 329,618,498	\$ 337,236,258

LAKESIDE BANK

BALANCE SHEETS - CONTINUED

December 31, 2021 and 2020

	2021	Restated 2020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 76,767,948	\$ 61,244,899
Interest bearing	221,872,153	246,935,056
Total deposits	298,640,101	308,179,955
FHLB Advances	2,365,106	1,392,595
Other liabilities:		
Accrued interest payable	190,460	327,161
Accrued expenses	149,761	288,225
Income taxes payable	-	27,828
Deferred compensation	151,800	202,400
Other liabilities	173,662	108,270
Total other liabilities	665,683	953,884
Stockholders' equity:		
Common stock; \$1 par value; 10,000,000 shares authorized; 2,092,633 shares issued and outstanding for 2021 and 2020	2,092,633	2,092,633
Additional paid-in-capital	20,693,178	20,693,178
Retained earnings	5,216,185	3,848,722
Accumulated other comprehensive loss	(54,388)	75,291
Total stockholders' equity	27,947,608	26,709,824
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 329,618,498	\$ 337,236,258

LAKESIDE BANK

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years Ended December 31, 2021 and 2020

	2021	2020
Interest income:		
Interest and fees on loans	\$ 8,433,472	\$ 8,739,784
Interest on investment securities	286,988	262,558
Interest on federal funds sold	5,856	13,191
Other interest income	156,237	231,063
<b>Total interest income</b>	<b>8,882,553</b>	<b>9,246,596</b>
Interest expense:		
Interest on deposits	1,140,197	1,664,543
Interest on borrowed funds	26,089	891
Total interest expense	1,166,286	1,665,434
<b>Net interest income</b>	<b>7,716,267</b>	<b>7,581,162</b>
Provision for loan losses	180,000	537,000
<b>Net interest income after provision for loan losses</b>	<b>7,536,267</b>	<b>7,044,162</b>
Non-interest income	1,228,855	842,687
Non-interest expenses	(7,165,557)	(6,617,269)
<b>Net income before income tax expense</b>	<b>1,599,565</b>	<b>1,269,580</b>
Income tax expense	232,100	276,443
<b>Net income</b>	<b>1,367,465</b>	<b>993,137</b>
Other comprehensive income:		
Change in unrealized holding (loss) income on available-for-sale securities arising during the period, net of income tax expense of \$34,471 in 2021 and \$24,944 in 2020	(129,679)	93,838
Comprehensive income	\$ 1,237,786	\$ 1,086,975
Per common share data:		
Basic income per share	\$ 0.65	\$ 0.47
Weighted average number of shares outstanding	2,092,633	2,092,633

LAKESIDE BANK

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 1,367,465	\$ 993,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Bank owned life insurance income	(11,580)	-
Depreciation and amortization	293,682	338,430
Loss on sale of fixed assets	44,115	274
Provision for loan losses	180,000	537,000
Amortization of investment securities, net	741,881	139,085
Provision for deferred taxes	428,794	(102,012)
Net change in operating assets and liabilities:		
Accrued income and other assets	(202,491)	(317,340)
Accrued expenses and other liabilities	(260,061)	(160,817)
Income tax payable	(196,296)	(3,852)
Net cash provided by operating activities	<u>2,385,509</u>	<u>1,423,905</u>
Cash flows from investing activities:		
Maturities/calls of securities	50,650,856	30,803,134
Purchases of securities	(88,446,464)	(51,965,461)
Purchases of other equity securities	(400)	(2,800)
Net increase in loans	(32,930,736)	(8,321,988)
Purchase of bank owned life insurance	(2,000,000)	-
Purchases of premises and equipment	(2,792,580)	(33,807)
Net cash used by investing activities	<u>(75,519,324)</u>	<u>(29,520,922)</u>
Cash flows from financing activities:		
Net (decrease) increase in customer deposits	(9,539,852)	118,584,193
Proceeds from FHLB Advance	972,511	1,392,595
Net cash (used) provided by financing activities	<u>(8,567,341)</u>	<u>119,976,788</u>

LAKESIDE BANK

STATEMENTS OF CASH FLOWS - CONTINUED

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net (decrease) increase in cash and cash equivalents	\$ (81,701,156)	\$ 91,879,771
Cash and cash equivalents - beginning of year	<u>123,130,798</u>	<u>31,251,027</u>
Cash and cash equivalents - end of year	<u>\$ 41,429,642</u>	<u>\$ 123,130,798</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 1,302,987</u>	<u>\$ 1,844,929</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 382,305</u>
Noncash transactions:		
Loans charged off	<u>\$ 2,263</u>	<u>\$ 41,513</u>
Unrealized holding (losses) gains, net of taxes	<u>\$ (129,679)</u>	<u>\$ 93,838</u>
Severance pay commitment	<u>\$ -</u>	<u>\$ 253,000</u>
Transfer of foreclosed properties from loans	<u>\$ 60,500</u>	<u>\$ -</u>