

North Dallas Bank & Trust Co.

Financial Report
December 31, 2024

Contents

Independent Auditor's Report	1-2
Financial Statements:	
Balance sheets	3
Statements of income	4
Statements of comprehensive income	5
Statements of changes in stockholders' equity	6
Statements of cash flows	7
Notes to financial statements	8-32



RSM US LLP

Independent Auditor's Report

Board of Directors
North Dallas Bank & Trust Co.

Opinion

We have audited the financial statements of North Dallas Bank & Trust Co. (the Company) which comprise the balance sheets as of December 31, 2024 and 2023, the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 31, 2025 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

RSM US LLP

Dallas, Texas
March 31, 2025

North Dallas Bank & Trust Co.

Balance Sheets

December 31, 2024 and 2023

(In thousands, except par value and share amounts)

ASSETS	2024	2023
Cash and due from banks	\$ 7,270	\$ 9,789
Interest-bearing demand deposits	<u>250,273</u>	<u>88,559</u>
Cash and cash equivalents	257,543	98,348
Securities available for sale, at fair value	180,220	217,785
Securities held to maturity, at cost	155,732	208,555
Loans, net	1,238,105	1,172,737
Bank premises and equipment, net	33,143	33,560
Bank owned life insurance	21,745	21,018
Other assets	<u>23,225</u>	<u>19,141</u>
Total assets	<u>\$ 1,909,713</u>	<u>\$ 1,771,144</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 375,667	\$ 378,021
Interest-bearing	<u>1,255,716</u>	<u>1,102,029</u>
Total deposits	1,631,383	1,480,050
Securities sold under agreements to repurchase	910	1,148
Other borrowings	100,000	117,000
Other liabilities	<u>6,262</u>	<u>8,951</u>
Total liabilities	<u>1,738,555</u>	<u>1,607,149</u>
Off-balance sheet, financial instruments and commitments (Note 12)	-	-
Stockholders' equity:		
Capital stock, \$5 par value, 2,569,026 shares authorized, 2,569,026 shares issued and outstanding	12,845	12,845
Capital surplus	28,815	28,815
Undivided profits	135,675	133,248
Accumulated other comprehensive loss	<u>(6,177)</u>	<u>(10,913)</u>
Total stockholders' equity	<u>171,158</u>	<u>163,995</u>
Total liabilities and stockholders' equity	<u>\$ 1,909,713</u>	<u>\$ 1,771,144</u>

See Notes to Financial Statements.

North Dallas Bank & Trust Co.

Statements of Income
Years Ended December 31, 2024 and 2023
(In thousands, except per share amounts)

	2024	2023
Interest income:		
Interest and fees on loans	\$ 65,199	\$ 52,182
Interest and dividends on investments	13,315	10,340
Total interest income	<u>78,514</u>	<u>62,522</u>
Interest expense:		
Interest on deposit accounts	37,791	26,135
Interest on other borrowings	6,264	2,907
Total interest expense	<u>44,055</u>	<u>29,042</u>
Net interest income	34,459	33,480
Provision for credit losses	<u>440</u>	<u>450</u>
Net interest income after provision for credit losses	34,019	33,030
Noninterest income:		
Service charges on deposit accounts	607	602
Trust wealth management income	3,334	2,809
Gain on sale of loans	18	18
Other	1,978	2,831
Total noninterest income	<u>5,937</u>	<u>6,260</u>
Noninterest expense:		
Salaries and employee benefits	22,825	22,450
Occupancy	2,474	2,622
Deposit insurance assessments	983	781
Computer services	3,121	2,668
Other	6,608	6,316
Total noninterest expense	<u>36,011</u>	<u>34,837</u>
Income before income tax expense	3,945	4,453
Income tax expense	<u>490</u>	<u>676</u>
Net income	\$ 3,455	\$ 3,777
Net earnings per share	\$ 1.34	\$ 1.47

See Notes to Financial Statements.

North Dallas Bank & Trust Co.

Statements of Comprehensive Income
Years Ended December 31, 2024 and 2023
(In thousands)

	2024	2023
Net income	\$ 3,455	\$ 3,777
Other comprehensive income:		
Change in fair value of securities available for sale	5,996	8,032
Net tax effect	1,260	1,689
Unrealized gain of securities available for sale	4,736	6,343
Total other comprehensive income	4,736	6,343
Comprehensive income	\$ 8,191	\$ 10,120

See Notes to Financial Statements.

North Dallas Bank & Trust Co.

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2024 and 2023
(In thousands, except share and per share amounts)

	Capital Stock		Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance December 31, 2022	2,569,026	\$ 12,845	\$ 28,815	\$ 132,862	\$ (17,256)	\$ 157,266
Net income	-	-	-	3,777	-	3,777
Other comprehensive loss, net of tax	-	-	-	-	6,343	6,343
Cash dividends (\$1.32 per share)	-	-	-	(3,391)	-	(3,391)
Balance December 31, 2023	2,569,026	12,845	28,815	133,248	(10,913)	163,995
Net income	-	-	-	3,455	-	3,455
Other comprehensive income, net of tax	-	-	-	-	4,736	4,736
Cash dividends (\$0.40 per share)	-	-	-	(1,028)	-	(1,028)
Balance December 31, 2024	2,569,026	\$ 12,845	\$ 28,815	\$ 135,675	\$ (6,177)	\$ 171,158

See Notes to Financial Statements.

North Dallas Bank & Trust Co.

Statements of Cash Flows
Years Ended December 31, 2024 and 2023
(In thousands)

	2024	2023
Cash flows from operating activities:		
Net income	\$ 3,455	\$ 3,777
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	2,451	2,448
Provision for credit losses	440	450
Net accretion amortization of securities premium/discount	1,580	2,613
Loss on sale of securities available for sale	-	272
Loss on sale of bank premises and equipment	5	13
Gain on sale of loans	(18)	(18)
Change in cash surrender value of bank owned life insurance	(727)	(545)
Mortgage loans originated for sale	(1,054)	(853)
Proceeds from sale of mortgage loans	1,072	871
Deferred tax expense	464	446
Increase in other assets	(5,908)	(1,706)
(Decrease) increase in other liabilities	(2,689)	7,005
Net cash (used in) provided by operating activities	(929)	14,773
Cash flows from investments:		
Net redemption of investment in interest bearing time deposits in other financial institutions	-	1,749
Proceeds from maturities and pay downs of securities available for sale	94,263	7,988
Purchases of securities available for sale	(50,765)	(3,802)
Proceeds from sales of securities available for sale	-	26,741
Proceeds from maturities and pay downs of securities held to maturity	52,962	57,791
Purchases of securities held to maturity	(1,656)	-
Net increase in loans	(65,808)	(157,172)
Capital expenditures	(1,939)	(9,430)
Net cash provided by (used in) investing activities	27,057	(76,135)
Cash flows from financing activities:		
Net increase (decrease) in demand deposits and savings account	31,447	(166,134)
Net increase in time deposits	119,886	128,515
Net decrease in securities sold under agreements to repurchase	(238)	(2,323)
Repayments of other borrowings	(117,000)	-
Proceeds from other borrowings	100,000	117,000
Dividends paid	(1,028)	(3,391)
Net cash provided by financing activities	133,067	73,667
Net increase in cash and cash equivalents	159,195	12,305
Cash and cash equivalents at beginning of year	98,348	86,043
Cash and cash equivalents at end of year	\$ 257,543	\$ 98,348

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Nature of operations: North Dallas Bank & Trust Co. (the Company, NDBT) provides a variety of financial services to individuals and small businesses with operations primarily in the Dallas metroplex area. It provides retail banking, mortgage and commercial loans, deposit and wealth management services from its five branch locations in Dallas and Collin counties.

The accounting and reporting policies of NDBT conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The following are descriptions of the more significant of those policies.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relates to the determination of the allowance for credit losses and the fair value of securities available for sale.

Cash and cash equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing demand deposits in other financial institutions. NDBT normally considers all highly liquid investments with an initial maturity less than ninety days to be cash equivalents. NDBT has not experienced any losses in cash accounts and believes it is not exposed to any significant risk on cash and cash equivalents.

Securities: Debt securities which NDBT has the positive intent and ability to hold to maturity are reported at amortized cost and are classified as held to maturity. Debt securities not classified as held-to-maturity are classified as "available-for-sale".

Securities classified as available for sale are those debt securities that NDBT intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of NDBT's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are reported at fair value with unrealized gains or losses reported as a separate component of other comprehensive income, net of the related deferred tax effect.

Interest income on investment securities is recognized on an accrual basis and includes amortization and accretion of purchase premiums and discounts. Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities with the exception of certain callable debt securities held at a premium for which the amortization period is shortened to the earliest call date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method and included in the securities gains (losses) line item on the consolidated statements of income.

Securities available for sale are subject to Accounting Standard Codification (ASC) 326-20. Expected credit losses are recorded as an allowance for credit losses, a contra-asset valuation account, and is deducted from the amortized cost basis. An available-for-sale security is a credit risk if its fair value is less than amortized cost. For these securities, we assess whether (i) we intend to sell or (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If NDBT intends to sell an available-for-sale security in a credit loss position or more likely than not will be required to sell that security before recovering its amortized cost basis, the entire credit loss amount is written down and recognized in earnings with corresponding adjustment to the security's amortized cost basis. For available-for-sale securities in an unrealized loss position not subject to write-down, we evaluate to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which the fair value is less than amortized cost, the

Notes to Financial Statements

nature of the instrument, any changes to the rating of the security by a rating agency, and any other conditions or factors specifically related to the security. Credit losses are recognized as an allowance to securities available-for-sale on the consolidated balance sheets with a corresponding adjustment to provision for credit losses on the consolidated statements of income. Non-credit related losses are recognized as a component of other comprehensive income (OCI).

In accordance with ASC 326-30 securities held-to-maturity are subject to credit loss evaluation. Held-to-maturity securities are charged-off against the allowance when deemed uncollectible by management. Adjustments to the allowance for credit losses are reported in the consolidated statements of income as a component of provision for credit losses. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has made the accounting policy election to exclude accrued interest receivable on held-to-maturity securities from the estimate of credit losses as the write off of accrued interest receivable will occur on a timely basis through a reversal of interest income. Refer to *Note 4 – Investment Securities* below for further information regarding our methodology and evaluation of expected credit losses.

NDBT is a member of its regional Federal Home Loan Bank (FHLB) system. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors; and may invest in additional amounts. FHLB stock is carried at cost, restricted for sale, and periodically evaluated for impairment based on ultimate recovery of par value. Dividends are recorded in interest income under interest and dividends on investments. At December 31, 2024 and 2023, NDBT held \$5,013,600 and \$686,000 in FHLB stock, respectively. There were no losses in 2024 or 2023 relating to stock held at the FHLB.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal, reduced by unearned interest and fees and an allowance for credit losses on loans. Interest is accrued daily on the outstanding balances.

Allowance for credit losses – loans: In accordance with ASC 326, *Current Expected Credit Losses (CECL) Measurement of Credit Losses on Financial Instruments*, the allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present management's best estimate of the net amount expected to be collected. Loans, or portions thereof, are charged-off against the allowance for credit losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is increased (decreased) by provisions (or reversals of) reported in the income statement as a component of provision for credit losses on loans. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses. Interest on loans receivable is accrued based on the principal amount outstanding. Accrued interest receivable for loans is reported in other assets on the balance sheet and totaled \$4,764,000 and \$4,110,000 at December 31, 2024 and 2023, respectively. Interest accrued but not received is reversed against interest income.

Allowance for credit losses – investment securities: Held-to-maturity and available-for-sale investment securities are also captured in the scope of the CECL accounting standard and are potentially subject to reserves. NDBT maintains a diversified securities portfolio, which includes obligations of Treasury and U.S. government-sponsored agencies, as well as securities issued by states and political divisions. In addition, all securities are highly rated, backed by the government or insured by a third-party. Management does not believe any of the securities are in a credit loss position due to reasons of credit quality and therefore, believes no allowance is necessary at this time for securities carried at amortized cost.

Allowance for credit losses on off-balance sheet credit exposures: The allowance for credit losses on off-balance sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected losses over the contractual period for which NDBT is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if we have the unconditional right to

Notes to Financial Statements

cancel the obligation. The allowance is reported as a component of other liabilities in the balance sheets. Adjustments to the allowance are reported in the income statement of provision for credit losses on loans. Further information regarding NDBT policies and methodology used to estimate the allowance for credit losses on off-balance sheet credit exposures is presented in *Note 12 - Off-Balance Sheet Arrangements, Financial Instruments and Commitments*.

Transfers of financial assets: Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange the assets it received, or provides more than a modest benefit to the transferor, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Bank premises and equipment: Land is carried at cost. Buildings and improvements, furniture, equipment, and tenant improvements are carried at cost, less accumulated depreciation which is computed principally by the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter.

Bank owned life insurance: NDBT owns life insurance policies on key officers to partially offset the cost of employee benefits provided by NDBT. The policies are measured at the amount that could be realized under the insurance contract as of the balance sheet date, which is generally the cash surrender value of the policies.

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

NDBT files tax returns in all appropriate jurisdictions, which include a federal tax return and a Texas state tax return. Potential interest and penalty costs are accrued as incurred, with expenses recognized in selling, general and administrative expenses in the statements of income when and if applicable.

For the years ended December 31, 2024 and 2023, management has determined there are no uncertain tax positions.

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Gains and losses on available for sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities.

Revenue recognition: ASC 606, *Revenue from Contracts with Customers*, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of NDBT's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, investment securities, and mortgage

Notes to Financial Statements

banking activities, as these activities are subject to other accounting guidance. Descriptions of revenue-generating activities that are within the scope of ASC 606, and are presented in the accompanying statement of income as components of noninterest income, are as follows:

- Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity-or-transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.
- Gains/losses on the sale of other real estate owned - generally recognized when the performance obligation is complete which is typically at delivery of control over the property to the buyer at time of each real estate closing.
- Other noninterest income - includes the trust income, other deposit fees, and merchant interchange income. These fees are in the scope of ASC 606, and payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Trust assets: Assets of the trust and wealth management department, other than cash on deposit at NDBT, are not included in these financial statements because they are not assets of NDBT.

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

Note 2. Recent Accounting Standards

Adoption of new accounting standards

On January 1, 2023, NDBT adopted Accounting Standards Update 2016-13, *Financial Instrument – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as CECL. The measurement of expected losses under the CECL methodology is applicable to financial assets measured at amortized costs, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). The CECL model requires the measurement of all expected credit losses on applicable financial assets based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, ASU 2016-13 includes certain changes to the accounting for available for sale securities such as requiring credit-related impairments to be recognized as an allowance for credit losses rather than as a direct write-down of the securities amortized cost basis when management does not intend to sell or believes that is more likely than not they will be required to sell securities prior to recovery of the securities amortized cost basis.

Upon the adoption of CECL, NDBT recorded a net decrease of \$3.6 million to the allowance for credit losses on loans and an increase of \$3.6 million to the allowance for credit losses for unfunded commitments. In addition, NDBT did not have a cumulative effect on retained earnings upon the adoption. See discussion in *Note 1 - Summary of Significant Accounting Standards* and *Note 5 - Loans and Allowance for Credit Losses on Loans* for more detail on the impact of CECL.

ASU 2022-02, "*Financial Instruments - Credit Losses (Topic 326)*" ("ASU 2022-02") eliminates the guidance on troubled debt restructurings and requires entities to evaluate all loan modifications to determine if they result in a new loan or a continuation of the existing loan. ASU 2022-02 also requires that entities disclose current-period gross charge-offs by year of origination for loans and leases. This

North Dallas Bank & Trust Co.

Notes to Financial Statements

standard was adopted by NDBT on January 1, 2023 and did not have any material impact on our financial statements.

NDBT adopted ASU 2023-07 “*Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures*” on January 1, 2024. NDBT has determined that all of its banking divisions meet the aggregation criteria of ASC 280, Segment Reporting, as its current operating model is structured whereby banking divisions serve a similar customer base utilizing a company-wide offering of similar products and services managed through similar processes and platforms that are collectively reviewed by NDBT’s executive management team, who has been identified as the chief operating decision maker.

NDBT’s Chief Executive Officer (CEO) is primarily responsible for developing and casting the vision required to ensure sustainability of the bank. Executive Officers are responsible for the supporting strategic management under the direction of the CEO. Together, the executive management team regularly assesses performance of the aggregated single operating and reporting segment and decides how to allocate resources based on net income calculated on the same basis as is net income reported in NDBT’s statements of income and other comprehensive income. Executive management is regularly provided with expense information at a level consistent with that disclosed in NDBT’s statements of income and other comprehensive income.

Note 3. Statement of Cash Flows

NDBT has chosen to report on a net basis its cash receipts and cash payments for deposits accepted and repayments of those deposits, and loans made to customers and principal collections on those loans.

NDBT has chosen to report its cash flows by the indirect method. Supplemental information on cash flows and noncash transactions for the years ended December 31, 2024 and 2023 is as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Cash transactions:		
Income taxes paid	<u>\$ 1,000</u>	<u>\$ 728</u>
Interest expense paid	<u>\$ 45,920</u>	<u>\$ 24,658</u>

North Dallas Bank & Trust Co.

Notes to Financial Statements

Note 4. Securities

Securities have been classified in the balance sheet according to management's intent. The amortized cost of securities and their approximate fair values at December 31, 2024 and 2023 are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available for Sale</u>				
December 31, 2024:				
U.S. treasury securities & agencies	\$ 183,753	\$ 8	\$ (7,530)	\$ 176,231
State and local municipalities	1,216	-	(56)	1,160
Mortgage-backed securities issued by U.S. government sponsored enterprises	3,060	-	(231)	2,829
	<u>\$ 188,029</u>	<u>\$ 8</u>	<u>\$ (7,817)</u>	<u>\$ 180,220</u>
December 31, 2023:				
U.S. treasury securities & agencies	\$ 222,940	\$ -	\$ (13,436)	\$ 209,504
State and local municipalities	4,483	-	(130)	4,353
Mortgage-backed securities issued by U.S. government sponsored enterprises	4,167	-	(239)	3,928
	<u>\$ 231,590</u>	<u>\$ -</u>	<u>\$ (13,805)</u>	<u>\$ 217,785</u>
<u>Securities Held to Maturity</u>				
December 31, 2024:				
U.S. treasury securities & agencies	\$ 135,611	\$ -	\$ (4,709)	\$ 130,902
State and local municipalities	18,894	-	(528)	18,366
Mortgage-backed securities issued by U.S. government sponsored enterprises	1,227	-	(151)	1,076
	<u>\$ 155,732</u>	<u>\$ -</u>	<u>\$ (5,388)</u>	<u>\$ 150,344</u>
December 31, 2023:				
U.S. treasury securities & agencies	\$ 183,711	\$ -	\$ (9,585)	\$ 174,126
State and local municipalities	23,417	-	(1,139)	22,278
Mortgage-backed securities issued by U.S. government sponsored enterprises	1,427	-	(129)	1,298
	<u>\$ 208,555</u>	<u>\$ -</u>	<u>\$ (10,853)</u>	<u>\$ 197,702</u>

Sales of investment securities was \$0 for 2024 and \$26,741,000 for 2023. The loss on the sale of investment securities at December 31, 2023 was \$272,000.

Investment securities with carrying values of approximately \$68,769,000 and \$187,224,000 were pledged as collateral for purposes as required or permitted by law at December 31, 2024 and 2023, respectively.

North Dallas Bank & Trust Co.

Notes to Financial Statements

The amortized cost and fair value of securities as of December 31, 2024, by contractual maturity, are shown below (in thousands). Maturities will differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 53,816	\$ 52,641	\$ 65,929	\$ 64,482
Due after one year through 10 years	131,153	124,750	88,576	84,786
	184,969	177,391	154,505	149,268
Mortgage-backed securities issued by U.S. government sponsored enterprises	3,060	2,829	1,227	1,076
	<u>\$ 188,029</u>	<u>\$ 180,220</u>	<u>\$ 155,732</u>	<u>\$ 150,344</u>

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2024 and 2023, are summarized as follows (in thousands):

Description of Securities	Continuous Unrealized Losses Existing for Less than 12 Months		Continuous Unrealized Losses Existing for Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale						
December 31, 2024:						
U.S. treasury securities & agencies	\$ 19,184	\$ 312	\$ 147,171	\$ 7,218	\$ 166,355	\$ 7,530
State & Local Municipalities	-	-	1,160	56	1,160	56
Mortgage-backed securities issued by U.S. government sponsored entities	-	-	2,829	231	2,829	231
	<u>\$ 19,184</u>	<u>\$ 312</u>	<u>\$ 151,160</u>	<u>\$ 7,505</u>	<u>\$ 170,344</u>	<u>\$ 7,817</u>
December 31, 2023:						
U.S. treasury securities & agencies	\$ 1,853	\$ 21	\$ 207,651	\$ 13,415	\$ 209,504	\$ 13,436
State & Local Municipalities	-	-	4,353	130	4,353	130
Mortgage-backed securities issued by U.S. government sponsored entities	-	-	3,927	239	3,927	239
	<u>\$ 1,853</u>	<u>\$ 21</u>	<u>\$ 215,931</u>	<u>\$ 13,784</u>	<u>\$ 217,784</u>	<u>\$ 13,805</u>
Held to Maturity						
December 31, 2024:						
U.S. treasury securities & agencies	\$ -	\$ -	\$ 130,902	\$ 4,709	\$ 130,902	\$ 4,709
State & Local Municipalities	3,672	21	14,694	507	18,366	528
Mortgage-backed securities issued by U.S. government sponsored entities	-	-	1,076	151	1,076	151
	<u>\$ 3,672</u>	<u>\$ 21</u>	<u>\$ 146,672</u>	<u>\$ 5,367</u>	<u>\$ 150,344</u>	<u>\$ 5,388</u>
December 31, 2023:						
U.S. treasury securities & agencies	\$ -	\$ -	\$ 174,126	\$ 9,585	\$ 174,126	\$ 9,585
State & Local Municipalities	500	3	21,778	1,136	22,278	1,139
Mortgage-backed securities issued by U.S. government sponsored entities	-	-	1,298	129	1,298	129
	<u>\$ 500</u>	<u>\$ 3</u>	<u>\$ 197,202</u>	<u>\$ 10,850</u>	<u>\$ 197,702</u>	<u>\$ 10,853</u>

Unrealized losses for all of the above investment securities are due to changes in interest rates and as such, are not considered credit losses by NDBT. At December 31, 2024 and 2023, there were 103 and 123 individual securities in an unrealized loss position, respectively.

Note 5. Loans and Allowance for Credit Losses on Loans

Risk by loan category: To determine an appropriate allowance for credit losses on loans, management separates loans into separate categories based on similar risk characteristics. These categories and their risk characteristics are described below:

- *Commercial:* This category consists of all business loans and leases for business purposes that are not secured by commercial real estate. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Underwriting standards are designed to promote relationship banking rather than transactional banking. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. A significant portion of these loans are secured by equipment, accounts receivable and inventory. The primary risk involved with these loans is they are typically secured by depreciable assets that may not provide an adequate source of repayment if the loan goes into default. The loss history in this segment of the portfolio is very low due to conservative cash flow analysis and sufficient collateralization.
- *Commercial real estate:* This category consists of loans secured by both owner-occupied and non-owner occupied commercial real estate properties. The majority of loans in this category consist of non-owner occupied commercial real estate properties, which present higher credit risk given the reliance on third-party rental income. Management mitigates the credit risk with high equity requirements, experienced operators, good debt service coverage, and detailed monitoring. Commercial real estate loans may be more adversely affected by conditions in real estate markets or in the general economy. The properties securing NDBT's portfolio are diverse in terms of type and location.
- *Residential real estate:* This category consists of loans secured by both owner-occupied and non-owner occupied residential real estate. The category includes loans for home improvement, home equity lines of credit and closed-end financing for 1-4 family properties. Mortgage loans held for sale in the secondary market are excluded from this category. The overall credit risk in this segment of the loan portfolio is low given the nature of the collateral and NDBT's strict underwriting standards for this type of financing. NDBT does not originate sub-prime mortgage loans. The higher risk area of this category is the non-owner occupied portion of these loans which are often reliant on rental income as the primary source of repayment.
- *Interim construction:* This category consists of loans secured by real estate made to finance land development and construction of commercial, residential, or farm buildings as well as loans secured by vacant land. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.
- *Consumer loans:* This category of loans consists of all other forms of consumer debt, including automobiles, recreational vehicles, debt consolidation, household or personal use, education, taxes, mobile homes, personal lines of credit and overdrafts. The employment and financial status of the borrowers are key factors that may impact the collectability of these loans. Overdrafts are deposit accounts that become unsecured loans when overdrawn by the deposit customer. Overdrafts are monitored by account officers on a daily basis and are often cleared within a very short period of time. It is bank policy to charge off any overdrafts that remain outstanding for more than 60 days.
- *Other:* This category of loans includes loans to non-profit organizations, tax-exempt entities, loans secured by securities, and all other loans that do not fall under the categories above. Each type of loan in this category presents unique risks characteristics, are generally well secured, and are monitored accordingly.

North Dallas Bank & Trust Co.

Notes to Financial Statements

Loans at December 31, 2024 and 2023 consisted of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Commercial	\$ 68,449	\$ 77,869
Commercial real estate	717,962	669,743
Residential real estate	300,239	292,012
Interim construction	124,939	109,160
Consumer	9,532	9,420
Other	40,590	37,487
	<u>1,261,711</u>	<u>1,195,691</u>
Unearned income	(4,630)	(5,413)
Allowance for credit losses on loans	(18,976)	(17,541)
	<u>\$1,238,105</u>	<u>\$1,172,737</u>

Loan origination/risk management: NDBT has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Concentrations of credit: Most of NDBT's lending activity occurs within Dallas and Collin counties. The majority of NDBT's loan portfolio consists of commercial and real estate loans. As of December 31, 2024 and 2023, there were no material concentrations of loans related to any single industry. At December 31, 2024 and 2023, loans with collateral of retail/strip centers was at 137% and 129% of tier 1 capital and office was at 122% and 118% of tier 1 capital, respectively.

Credit quality indicators: As part of the on-going monitoring of the credit quality of NDBT's loan portfolio, management tracks certain quality indicators including trends in non-performing loans, classified loans, net charge-offs and the general economic conditions in the State of Texas.

NDBT's internal assigned grades are as follows:

- *Pass:* No derogatory change in credit rating of borrower and loan-to-value ratio of asset
- *Special mention:* Deterioration in either the credit rating of the borrower or loan-to-value ratios
- *Substandard:* Significant deterioration in credit rating of the borrower and loan-to-value ratios
- *Doubtful:* Full repayment of loan and interest is in jeopardy

North Dallas Bank & Trust Co.

Notes to Financial Statements

The following tables represent the amortized costs basis for within each credit quality indicator by year of origination as of December 31, 2024 and 2023. Year end balances by credit quality indicators are as follows (in thousands):

	2024	2023	2022	2021	2020	Prior	Total
As of December 31, 2024							
Commercial							
Pass	\$ 20,926	\$ 28,681	\$ 7,800	\$ 4,853	\$ 3,751	\$ 2,438	\$ 68,449
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total commercial	\$ 20,926	\$ 28,681	\$ 7,800	\$ 4,853	\$ 3,751	\$ 2,438	\$ 68,449
Commercial gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate							
Pass	\$ 54,511	\$ 53,584	\$ 177,683	\$ 273,961	\$ 67,798	\$ 90,314	\$ 717,851
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	82	-	29	111
Doubtful	-	-	-	-	-	-	-
Total commercial real estate	\$ 54,511	\$ 53,584	\$ 177,683	\$ 274,043	\$ 67,798	\$ 90,343	\$ 717,962
Commercial real estate gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate							
Pass	\$ 22,725	\$ 38,991	\$ 75,403	\$ 65,236	\$ 25,504	\$ 71,718	\$ 299,577
Special mention	-	-	-	-	-	-	-
Substandard	284	-	224	-	-	154	662
Doubtful	-	-	-	-	-	-	-
Total residential real estate	\$ 23,009	\$ 38,991	\$ 75,627	\$ 65,236	\$ 25,504	\$ 71,872	\$ 300,239
Residential real estate gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interim construction							
Pass	\$ 8,279	\$ 5,300	\$ 80,323	\$ 18,814	\$ 1,065	\$ 10,847	\$ 124,628
Special mention	-	-	-	-	-	-	-
Substandard	311	-	-	-	-	-	311
Doubtful	-	-	-	-	-	-	-
Total interim construction	\$ 8,590	\$ 5,300	\$ 80,323	\$ 18,814	\$ 1,065	\$ 10,847	\$ 124,939
Interim construction gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer							
Pass	\$ 2,665	\$ 2,885	\$ 1,315	\$ 2,406	\$ 92	\$ 169	\$ 9,532
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total consumer	\$ 2,665	\$ 2,885	\$ 1,315	\$ 2,406	\$ 92	\$ 169	\$ 9,532
Consumer gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other							
Pass	\$ 9,458	\$ 12,097	\$ 7,626	\$ 2,978	\$ 94	\$ 8,337	\$ 40,590
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total other	\$ 9,458	\$ 12,097	\$ 7,626	\$ 2,978	\$ 94	\$ 8,337	\$ 40,590
Other gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total pass	\$ 118,564	\$ 141,538	\$ 350,150	\$ 368,248	\$ 98,304	\$ 183,823	\$ 1,260,627
Total special mention	-	-	-	-	-	-	-
Total substandard	595	-	224	82	-	183	1,084
Total doubtful	-	-	-	-	-	-	-
Total	\$ 119,159	\$ 141,538	\$ 350,374	\$ 368,330	\$ 98,304	\$ 184,006	\$ 1,261,711
Total gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

North Dallas Bank & Trust Co.

Notes to Financial Statements

	2023	2022	2021	2020	2019	Prior	Total
As of December 31, 2023							
Commercial							
Pass	\$ 40,460	\$ 16,309	\$ 9,579	\$ 5,773	\$ 701	\$ 4,247	\$ 77,069
Special mention	-	-	800	-	-	-	800
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total commercial	\$ 40,460	\$ 16,309	\$ 10,379	\$ 5,773	\$ 701	\$ 4,247	\$ 77,869
Commercial gross charge-offs	\$ 73	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73
Commercial real estate							
Pass	\$ 45,922	\$ 181,701	\$ 264,535	\$ 53,348	\$ 15,879	\$ 102,842	\$ 664,227
Special mention	-	-	2,237	-	-	-	2,237
Substandard	-	-	185	3,094	-	-	3,279
Doubtful	-	-	-	-	-	-	-
Total commercial real estate	\$ 45,922	\$ 181,701	\$ 266,957	\$ 56,442	\$ 15,879	\$ 102,842	\$ 669,743
Commercial real estate gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate							
Pass	\$ 37,662	\$ 70,917	\$ 68,458	\$ 27,040	\$ 18,953	\$ 67,758	\$ 290,788
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	1,122	-	102	1,224
Doubtful	-	-	-	-	-	-	-
Total residential real estate	\$ 37,662	\$ 70,917	\$ 68,458	\$ 28,162	\$ 18,953	\$ 67,860	\$ 292,012
Residential real estate gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interim construction							
Pass	\$ 20,029	\$ 63,989	\$ 15,370	\$ 1,310	\$ 2,254	\$ 6,208	\$ 109,160
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total interim construction	\$ 20,029	\$ 63,989	\$ 15,370	\$ 1,310	\$ 2,254	\$ 6,208	\$ 109,160
Interim construction gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer							
Pass	\$ 3,729	\$ 2,177	\$ 2,617	\$ 187	\$ 298	\$ 412	\$ 9,420
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total consumer	\$ 3,729	\$ 2,177	\$ 2,617	\$ 187	\$ 298	\$ 412	\$ 9,420
Consumer gross charge-offs	\$ 39	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39
Other							
Pass	\$ 14,852	\$ 8,867	\$ 3,400	\$ 765	\$ 466	\$ 9,137	\$ 37,487
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total other	\$ 14,852	\$ 8,867	\$ 3,400	\$ 765	\$ 466	\$ 9,137	\$ 37,487
Other gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total pass	\$ 162,654	\$ 343,960	\$ 363,959	\$ 88,423	\$ 38,551	\$ 190,604	\$ 1,188,151
Total special mention	-	-	3,037	-	-	-	3,037
Total substandard	-	-	185	4,216	-	102	4,503
Total doubtful	-	-	-	-	-	-	-
Total	\$ 162,654	\$ 343,960	\$ 367,181	\$ 92,639	\$ 38,551	\$ 190,706	\$ 1,195,691
Total gross charge-offs	\$ 112	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112

Non-accrual and past due loans: Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to

North Dallas Bank & Trust Co.

Notes to Financial Statements

the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Year-end non-accrual loans, segregated by class of loans for December 31, 2024 and 2023, were as follows (in thousands):

	<u>Total non-accrual</u>	<u>Credit loss on non-accrual loans</u>
2024		
Commercial	\$ -	\$ -
Commercial real estate	-	-
Residential real estate	304	-
Interim construction	-	-
Consumer	-	-
Other	-	-
	<u>\$ 304</u>	<u>\$ -</u>
2023		
Commercial	\$ -	\$ -
Commercial real estate	-	-
Residential real estate	1,148	-
Interim construction	-	-
Consumer	-	-
Other	-	-
	<u>\$ 1,148</u>	<u>\$ -</u>

Loan Modifications to Borrowers Experiencing Financial Difficulty: Loan modifications made by NDBT are typically related to extending amortization periods, converting loans to interest only for a limited period of time, deferral of interest payments, consolidating notes and/or reducing collateral or interest rates. For the year ended December 31, 2024 and 2023, NDBT did not materially modify any loans to borrowers experiencing financial difficulty.

North Dallas Bank & Trust Co.

Notes to Financial Statements

An age analysis of past due loans, segregated by class of loans, as of December 31, 2024 and 2023 was as follows (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
2024							
Commercial	\$ 241	\$ -	\$ -	\$ 241	\$ 68,208	\$ 68,449	\$ -
Commercial real estate	-	-	-	-	717,962	717,962	-
Residential real estate	1,682	-	-	1,682	298,557	300,239	-
Interim construction	1,656	-	-	1,656	123,283	124,939	-
Consumer	15	-	-	15	9,517	9,532	-
Other	-	-	-	-	40,590	40,590	-
	\$ 3,594	\$ -	\$ -	\$ 3,594	\$ 1,258,117	\$ 1,261,711	\$ -
2023							
Commercial	\$ -	\$ -	\$ -	-	\$ 77,869	\$ 77,869	\$ -
Commercial real estate	838	-	-	838	668,905	669,743	-
Residential real estate	1,397	-	-	1,397	290,615	292,012	-
Interim construction	526	-	-	526	108,634	109,160	-
Consumer	-	-	-	-	9,420	9,420	-
Other	-	-	-	-	37,487	37,487	-
	\$ 2,761	\$ -	\$ -	\$ 2,761	\$ 1,192,930	\$ 1,195,691	\$ -

Individual evaluations: In some cases, NDBT may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within our loan pools. Loans that do not share risk characteristics are evaluated on an individual basis and excluded from the collective pool evaluation. Specific allocations of the allowance for credit losses for individually evaluated loans are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan, and economic conditions affecting the borrower's industry, among other factors. A loan is considered to be collateral dependent when, based upon NDBT's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. We reevaluate the fair value of collateral supporting collateral dependent loans on a quarterly basis. The fair value of real estate collateral supporting collateral dependent loans is evaluated by appraisal services using a methodology that is consistent with the Uniform Standards of Professional Appraisal Practice.

At December 31, 2024 and 2023 individually evaluated loans equaled \$304,000 and \$1,148,000, respectively. As of December 31, 2024 and 2023, individually evaluated loans were secured by single family real estate.

Allowance for credit losses on loans: The allowance for credit losses on loans is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The amount of the allowance represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in reasonable and supportable forecasts, such as changes in unemployment rates and other relevant factors.

Notes to Financial Statements

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by NDBT.

The allowance for credit losses on loans is measured on a collective (pool) basis when similar risk characteristics exist. Common characteristics and risk profiles include the type/purpose of the loan, underlying collateral, and historical/expected credit loss patterns. In developing these loan pools for purposes of modeling expected credit losses, management also analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions. For modeling purposes, our loan pools include (i) commercial and industrial, (ii) owner-occupied commercial real estate, (iii) non-owner occupied commercial real estate, (iv) 1-4 single family residential, (v) 1-4 single family residential construction, (vi) state and political divisions, (vii) construction and development, and (viii) consumer. We periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and determine whether changes to the segmentation are necessary.

For each collectively evaluated loan pool, we measure expected credit losses over the life of each loan utilizing an open pool model based on historical data. These pool-specific expected credit loss rates may be adjusted for current economic factors, as further discussed below, and other factors such as differences in lending policies and procedures, portfolio mix, or when historical asset trends do not reflect the current trends of the financial assets being evaluated as of the measurement date. Each time NDBT measures expected credit losses, management assesses the relevancy of historical loss information and relevant factors applied.

The open pool model used for all of the loan pools analyzes internally sourced data related to historical performance of each loan pool over a complete economic cycle based on a point of origin going forward for all loans originated within a specific period. The model is adjusted to reflect the current impact of certain economic factors as well as their expected changes over a reasonable and supportable forecast period. Management has determined that we are reasonably able to forecast the economic factors used in our modeling process with an acceptable degree of confidence for a total of two years with an immediate reversion rate applied thereafter. The economic factors utilized as inputs in our modeling were subjected to a variety of analysis procedures and were selected primarily based on statistical relevancy and correlation to our historical credit losses.

Management qualitatively adjusts model results for risk factors that are not considered within our modeling process but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factors (Q-factors) and other qualitative adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage based upon the estimated level of risk. The various risks that may be considered in making Q-factor adjustments include, among other things, the impact of (i) changes in the nature and volume of the loan segment, (ii) changes in the volume and severity of past-due loans, (iii) changes in the portfolio make up and migration (iv) collateral value trends, (v) changes in lending policies and procedures, (vi) changes in and experience of lending staff and management, (vii) quality of the loan review system, and (viii) changes in the local, state, and national regulatory environment.

North Dallas Bank & Trust Co.

Notes to Financial Statements

Loans identified as losses by management, loan review, and/or bank examiners are charged off. The following table details activity in the allowance (in thousands) for credit losses on loans by portfolio segments for the years ended December 31, 2024 and 2023. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial	Commercial Real Estate	Residential Real Estate	Interim Construction	Consumer	Other	Unallocated	Total
2024:								
Beginning balance	\$ 1,472	\$ 11,910	\$ 2,529	\$ 1,549	\$ 132	\$ (51)	\$ -	\$ 17,541
(Credit) provision for credit losses	(531)	803	(232)	289	(23)	315	812	1,433
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	1	-	-	-	1	-	-	2
Net charge-offs	1	-	-	-	1	-	-	2
Ending balance	\$ 942	\$ 12,713	\$ 2,297	\$ 1,838	\$ 110	\$ 264	\$ 812	\$ 18,976
2023:								
Beginning balance	\$ 1,973	\$ 11,954	\$ 4,014	\$ 1,822	\$ 82	\$ (253)	\$ -	\$ 19,592
Impact of Adopting ASC 326	(794)	(1,336)	(1,411)	(362)	2	253	-	(3,648)
(Credit) provision for credit losses	328	1,292	(74)	89	87	(51)	-	1,671
Charge-offs	(73)	-	-	-	(39)	-	-	(112)
Recoveries	38	-	-	-	-	-	-	38
Net charge-offs	(35)	-	-	-	(39)	-	-	(74)
Ending balance	\$ 1,472	\$ 11,910	\$ 2,529	\$ 1,549	\$ 132	\$ (51)	\$ -	\$ 17,541

Negative provisions for various portfolio segments are attributed to either, or both, a decline in outstanding balances or improvements in the credit quality factors related to those portfolio segments.

North Dallas Bank & Trust Co.

Notes to Financial Statements

The following table details the amount of the allowance for credit losses on loans and recorded investment in loans by portfolio segments as of December 31, 2024 and 2023.

	Commercial	Commercial Real Estate	Residential Real Estate	Interim Construction	Consumer	Other	Unallocated	Total
2024:								
Allowance for credit losses on loans:								
Individually evaluated	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated	942	12,713	2,297	1,838	110	264	812	18,976
Ending balance	\$ 942	\$ 12,713	\$ 2,297	\$ 1,838	\$ 110	\$ 264	\$ 812	\$ 18,976
Loans:								
Individually evaluated	\$ -	\$ -	\$ 304	\$ -	\$ -	\$ -	\$ -	\$ 304
Collectively evaluated	68,449	717,962	299,935	124,939	9,532	40,590	-	1,261,407
Ending balance	\$ 68,449	\$ 717,962	\$ 300,239	\$ 124,939	\$ 9,532	\$ 40,590	\$ -	\$ 1,261,711
2023:								
Allowance for credit losses on loans:								
Individually evaluated	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated	1,472	11,910	2,529	1,549	132	(51)	-	17,541
Ending balance	\$ 1,472	\$ 11,910	\$ 2,529	\$ 1,549	\$ 132	\$ (51)	\$ -	\$ 17,541
Loans:								
Individually evaluated	\$ -	\$ -	\$ 1,148	\$ -	\$ -	\$ -	\$ -	\$ 1,148
Collectively evaluated	77,869	669,743	290,864	109,160	9,420	37,487	-	1,194,543
Ending balance	\$ 77,869	\$ 669,743	\$ 292,012	\$ 109,160	\$ 9,420	\$ 37,487	\$ -	\$ 1,195,691

Note 6. Bank Premises and Equipment

Bank premises and equipment at December 31, 2024 and 2023 consisted of the following (in thousands):

	2024	2023
Land	\$ 14,973	\$ 14,973
Building and improvements	30,898	31,037
Leased equipment	95	135
Construction in progress	1,976	1,487
Furniture, equipment and tenant improvements	21,171	20,169
	69,113	67,801
Less accumulated depreciation	(35,970)	(34,241)
	\$ 33,143	\$ 33,560

North Dallas Bank & Trust Co.

Notes to Financial Statements

Net occupancy expense for 2024 and 2023 includes depreciation expense, occupancy expenses of NDBT and operating expenses of an office tower adjacent to the primary banking facility, less rental revenue received from tenants. The components of net occupancy expense consisted of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Occupancy expense	\$ 2,900	\$ 2,809
Depreciation expense	<u>2,351</u>	<u>2,377</u>
	<u>5,251</u>	5,186
Less tenant rental income	<u>(2,777)</u>	<u>(2,564)</u>
	<u>\$ 2,474</u>	<u>\$ 2,622</u>

NDBT owns substantially all of its bank premises and equipment and does not have any long-term leases.

Note 7. Deposits

Deposits at December 31, 2024 and 2023 consisted of the following (in thousands):

	<u>2024</u>		<u>2023</u>	
	Amount	Percent	Amount	Percent
Noninterest bearing demand accounts	\$ 375,667	23.0%	\$ 378,021	25.5%
Interest bearing demand accounts	252,854	15.5%	234,272	15.8%
Money market accounts	360,235	22.1%	322,705	21.8%
Savings accounts	206,695	12.7%	229,006	15.5%
Certificates of deposit, \$250,000 or less	225,278	13.8%	145,867	9.9%
Certificates of deposit, greater than \$250,000	<u>210,654</u>	<u>12.9%</u>	<u>170,179</u>	<u>11.5%</u>
	<u>\$ 1,631,383</u>	<u>100.0%</u>	<u>\$ 1,480,050</u>	<u>100.0%</u>

The aggregate total of reciprocal deposits at December 31, 2024 and 2023 was \$107,317,000 and \$60,477,000.

December 31, 2024 the scheduled maturities of certificates of deposit are as follows (in thousands):

2025	\$ 387,310
2026	39,356
2027	5,057
2028	936
2029	<u>3,273</u>
	<u>\$ 435,932</u>

Note 8. Repurchase Agreements

At December 31, 2024 and 2023, securities sold under agreements to repurchase had weighted average interest rates of 0.50% and 0.50%, respectively. Securities sold under agreements to repurchase averaged approximately \$1,138,000 and \$3,101,000 during 2024 and 2023, respectively. The maximum amount outstanding at any month-end during 2024 and 2023 was approximately \$2,327,000 and \$3,803,000 respectively. Repurchase agreements normally mature within one day and are secured with U.S. Treasury securities.

North Dallas Bank & Trust Co.

Notes to Financial Statements

Note 9. Other Borrowings

NDBT has federal funds lines of credit with three unaffiliated banks aggregating \$55,000,000. One line totaling \$10,000,000 will mature in 2026. The other two lines of credit have no stated maturity date; however, all lines may be canceled at the sole discretion of the lending banks. The lines are provided on an unsecured basis; however, the lending banks may require the lines to be fully secured after a stated number of days. There were no borrowings under this agreement at December 31, 2024 and 2023.

NDBT reinstated a line of credit with the Federal Reserve which was collateralized by investment securities totaling approximately \$20,000,000 at December 31, 2024 and 2023. The borrowing capacity under this line is limited to the current value of the investment securities held as collateral. This line of credit has no stated maturity date; however, there were no borrowings under this agreement at December 31, 2024 and 2023.

At December 31, 2023 NDBT had advances totaling \$117,000,000 from the Federal Reserve Bank Term Funding Program (BTFP). The weighted average interest rate of all notes was 4.71%. The BTFP advances were secured by pledged investment securities with a par value of \$117,000,000 (we advance 100% of what we pledged), with maturities of \$50,000,000 in April 2024, \$25,000,000 in May 2024, and \$42,000,000 December 2024. There were no borrowings under this agreement at December 31, 2024.

NDBT is a member of its regional FHLB system. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors. At December 31, 2024 NDBT's FHLB available line was \$347,901,099 and secured by loans with commercial and residential real estate as collateral. At December 31, 2024, NDBT had advances totaling \$100,000,000 from the FHLB with a weighted average interest rate of 4.60%. There were no advances made at the FHLB in 2023.

Note 10. Federal Income Taxes

Federal income tax expense (benefit) for the years ended December 31, 2024 and 2023 consisted of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Current	\$ (304)	\$ 230
Deferred	794	446
	<u>\$ 490</u>	<u>\$ 676</u>

The provision for federal income tax does not differ from the amount which would be provided by applying the statutory federal income tax rates to the amount recorded as federal income tax expense on the statement of income.

North Dallas Bank & Trust Co.

Notes to Financial Statements

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of NDBT's deferred tax assets and liabilities as of December 31, 2024 and 2023 are included in other assets on the balance sheets as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Allowance for credit losses on loans	\$ 4,296	\$ 4,203
Bank premises and equipment	314	198
Unrealized loss on securities available for sale	1,640	2,898
Employee benefit accrual	11	36
Net loan fees collected, not earned	857	1,028
Other	201	248
Total deferred tax assets	<u>7,319</u>	<u>8,611</u>
Deferred tax liabilities:		
Securities	381	899
Other	75	55
Total deferred tax liabilities	<u>456</u>	<u>954</u>
Net deferred tax asset	<u>\$ 6,863</u>	<u>\$ 7,657</u>

Note 11. Employee Benefit Plans

NDBT has a contributory thrift and savings plan (Plan) which covers all full-time employees of NDBT who have been employed for at least three months. Participating employees contribute eligible earnings on a voluntary basis. NDBT makes matching contributions up to a specified percentage of employee contributions. NDBT's matching percentage ranges from 50% to 200% of the participating employee's contribution up to 6% of eligible earnings, depending on the years of service by the employee. NDBT contributions to the Plan were approximately \$1,006,000 and \$957,000 in 2024 and 2023, respectively.

A limited amount of an employee's unused annual paid time off is accrued into extended leave benefits. Upon ending employment with NDBT, 50% of accrued extended leave benefits are paid to the employee. As of December 31, 2024 and December 31, 2023 accrued estimated payable accrued benefits total \$170,000 and \$170,000, respectively.

In 2022 and 2021, NDBT purchased \$10,000,000 and \$10,000,000, respectively, of cash value Bank Owned Life Insurance (BOLI) policies on key officers to partially offset the cost of employee benefits provided by NDBT. Any death benefit over the cash surrender value recorded received by NDBT will be shared with the officer's designated heirs' during and post-employment with NDBT. No additional life insurance was purchased in 2024 nor 2023.

At December 31, 2024 and 2023, NDBT had no obligation to provide current or former employees with post-retirement benefits other than those described above.

Note 12. Off-Balance Sheet Arrangements, Financial Instruments and Commitments

Financial Instruments and Commitments with Off-Balance Sheet Risk

NDBT is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

North Dallas Bank & Trust Co.

Notes to Financial Statements

NDBT'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 is represented by the contractual amount of these instruments. NDBT uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At December 31, 2024 and 2023, the approximate amounts of these financial instruments were as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 139,160	\$ 273,495
Standby letters of credit	589	395
	<u>\$ 139,749</u>	<u>\$ 273,890</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. NDBT evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by NDBT upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are written conditional commitments used by NDBT to guarantee the performance of a customer to a third party. NDBT's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, NDBT would be required to fund the commitment. The maximum potential amount of future payments NDBT could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, NDBT would be entitled to seek recovery from the customer. As of December 31, 2024, and 2023, no amounts have been recorded as liabilities for NDBT's potential obligations under these guarantees.

Allowance for Credit Losses on Off-Balance Sheet Exposure

The allowance for credit losses on off-balance sheet credit exposure is calculated under ASC 326, representing expected credit losses over the contractual period for which NDBT is exposed to credit risk resulting from a contractual obligation to extend credit. Off-balance sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit detailed in the table above. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur based on historical utilization rates. The allowance is included in other liabilities on NDBT's balance sheet.

The allowance for credit losses on off-balance sheet commitments was as follows:

	<u>2024</u>	<u>2023</u>
Balance at beginning of the period	\$ 2,472	\$ 45
Impact of CECL adoption	-	3,648
Provision for off-balance sheet credit exposure	(993)	(1,221)
	<u>\$ 1,479</u>	<u>\$ 2,472</u>

Notes to Financial Statements

Note 13. Contingencies

NDBT is periodically involved in certain legal actions arising from normal business activities. Management believes that the outcome of such proceedings will not materially affect the financial position or results of operations of NDBT.

Note 14. Related Party Transactions

In the ordinary course of business, NDBT has and expects to continue to have transactions including borrowings with its outside directors and their affiliates. In the opinion of management, such transactions are on the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons. The aggregate amount of such loans was approximately \$3,280,000 and \$3,167,000 at December 31, 2024 and 2023, respectively. During 2024, the approximate amount of principal payments received on these loans was \$112,000 and new principal funded totaled approximately \$225,000. Additionally, at December 31, 2024 and 2023, NDBT had unfunded commitments for such loans of approximately \$777,000 and \$806,000, respectively.

Note 15. Fair Value Measurements

The FASB guidance on fair value measurements defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Additional FASB guidance helps determine the fair value of a financial asset when the market for that asset is not active, clarifies the application of the fair value measurements for financial assets and financial liabilities in a market that is not active, and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact. The guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets

North Dallas Bank & Trust Co.

Notes to Financial Statements

that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. Valuation methodologies have been consistently applied during 2024 and 2023 and there have been no transfers between levels in either year.

The following table represents financial assets and financial liabilities reported on the balance sheets at their fair value as of December 31, 2024, and 2023, by level within the fair value measurement hierarchy:

	Fair Value Measurements at Reporting Date Using (Dollars in Thousands)			
	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2024:				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale	\$ 176,231	\$ -	\$ 176,231	\$ -
State and local municipalities	1,160	-	1,160	-
Mortgage-backed securities issued by U.S. government sponsored entities	2,829	-	2,829	-
December 31, 2023:				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale	\$ 209,504	\$ -	\$ 209,504	\$ -
State and local municipalities	4,353	-	4,353	-
Mortgage-backed securities issued by U.S. government sponsored entities	3,928	-	3,928	-

Securities classified as available for sale are classified within Level 2 of the valuation hierarchy. NDBT obtains fair value measurements for investment securities from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S Treasury yield curve, live trading levels, trade execution data, market consensus prepayment spreads, credit information and the bond's terms and conditions.

Loans are individually evaluated at fair value on a nonrecurring bases when primary sources of repayment may be impaired and supported by collateral or other sources of repayment. Loans may be assigned specific ACL allocations.

North Dallas Bank & Trust Co.

Notes to Financial Statements

The following table summarizes loans measured at fair value on a non-recurrent basis as of December 31, 2024 and 2023, respectively (in thousands):

	Number <u>Loans</u>	Fair Value Measured Using			Total <u>Fair</u>
		Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	Level 3 <u>Inputs</u>	
December 31, 2024:					
Loans individually measured	3	\$ -	\$ -	\$ 304	\$ 304
December 31, 2023:					
Loans individually measured	2	\$ -	\$ -	\$ 1,148	\$ 1,148

NDBT is required under current guidance to disclose the estimated fair value of its financial instrument assets and liabilities. For NDBT, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments, as defined in such guidance. Many of NDBT's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by NDBT to be valued by estimated discounted cash flows based on current market rates. Accordingly, the estimates are not necessarily indicative of the amounts NDBT could realize in current market exchange. Below is a summary of the carrying amounts and estimated fair values of financial instruments.

	Carrying Amount	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
December 31, 2024					
Financial Assets:					
Cash and cash equivalents	\$ 257,543	\$ 257,543	\$ 257,543	\$ -	\$ -
Securities held to maturity	155,732	150,344	-	150,344	-
Loans	1,238,105	1,197,789	-	1,197,789	-
Bank owned life insurance	21,745	21,745	-	21,745	-
Financial Liabilities					
Total deposits	1,631,383	1,632,312	375,809	1,256,503	-
Securities sold under agreements to repurchase	910	910	-	910	-
Other borrowings	100,000	100,000	-	100,000	-
December 31, 2023					
Financial Assets:					
Cash and cash equivalents	\$ 98,349	\$ 98,349	\$ 98,349	\$ -	\$ -
Securities held to maturity	208,555	197,702	-	197,702	-
Loans	1,172,737	1,108,105	-	1,108,105	-
Bank owned life insurance	21,018	21,018	-	21,018	-
Financial Liabilities					
Total deposits	1,480,050	1,479,594	378,021	1,101,573	-
Securities sold under agreements to repurchase	1,148	1,148	-	1,148	-
Other borrowings	117,000	116,953	-	116,953	-

Note 16. Concentrations of Credit Risk

Most of NDBT's business activity is with customers located within Texas. Such customers are normally also depositors of NDBT. An analysis of credit by type of loan is set forth in *Note 5 - Loans and Allowance for Credit Losses on Loans*. Generally, NDBT's loans are collateralized and are expected to be repaid from cash flow or proceeds from sale of selected assets of the borrowers.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Note 17. Regulatory Matters

Under banking law, there are legal restrictions limiting the amount of dividends NDBT can declare. Approval of the regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of NDBT to fall below specified minimum levels. For state banks, subject to regulatory capital requirements, payment of dividends is generally allowed to the extent of net profits.

NDBT is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on NDBT's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, NDBT must meet specific capital guidelines that involve quantitative measures of 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.

On January 1, 2021, the community bank leverage ratio (CBLR) framework, a simplified measure of capital adequacy for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act, went into effect. Qualifying depository institutions that have less than \$10 billion in total consolidated assets, a leverage ratio of greater than 9%, off balance sheet exposures of 25% or less of total consolidated assets, trading assets and trading liabilities of 5% or less of total consolidated assets, are deemed "qualifying community banking organizations" and are eligible to opt in into the 'community bank leverage ratio framework.'" A qualifying banking organization that opts for the CLBR and maintains all qualifying criteria is considered to have met the "well-capitalized" ratio requirements under the Prompt Corrective Action framework and the generally applicable capital rule's requirements. The CBLR allows a two-quarter grace period during which a banking organization that fails to meet any of the qualifying criteria remains considered "well capitalized" as long as a leverage capital ratio greater than 9% is maintained. If a banking organization fails to maintain a greater than 9% leverage capital ratio, the grace period is not permitted and the banking organization must comply with the Basel III Rule requirements and file appropriate regulatory reports.

Quantitative measures established by regulation to ensure capital adequacy require NDBT to maintain minimum amounts and leverage ratios (set forth in the table below) of Tier I capital (as defined in the regulations) to total consolidated assets (as defined). Management believes, as of December 31, 2024 and 2023, NDBT meets all capital adequacy requirements to which it is subject.

On January 1, 2021, NDBT met the requirements of the CBLR framework and opted to report the capital leverage ratio under these guidelines.

As of December 31, 2024 and 2023, NDBT's leverage ratio exceeded the level necessary to be categorized as "well capitalized" under the CBLR regulatory framework for prompt corrective action. To be categorized as "well capitalized," NDBT must maintain minimum leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed NDBT's category.

North Dallas Bank & Trust Co.

Notes to Financial Statements

NDBT's actual capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
December 31, 2024:				
Tier I capital to average total consolidated assets	\$177,335	9.3%	\$171,282	9.0%
December 31, 2023:				
Tier I capital to average total consolidated assets	\$174,908	9.9%	\$159,257	9.0%

Note 18. Subsequent Events

In preparing these financial statements, NDBT has evaluated subsequent events and transactions for potential recognition or disclosure through March 31, 2025 the date on which the financial statements were issued.