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

FORM 10-Q

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from _________ to ________

Commission File Number 001-38910

TECTONIC FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Texas	**82-0764846**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

16200 Dallas Parkway, Suite 190
Dallas, Texas 75248
(Address of principal executive offices)

(972) 720 - 9000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Series B preferred stock, $0.01 par value per share	TECTP	The Nasdaq Stock Market, LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The number of shares outstanding of the registrant's Common Stock as of August 12, 2022 was 7,062,319 shares.

TECTONIC FINANCIAL, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TECTONIC FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	June 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Cash and due from banks	$ 9,259	$ 10,203
Interest-bearing deposits	31,626	35,311
Federal funds sold	628	478
Total cash and cash equivalents	41,513	45,992
Securities available for sale	20,174	17,156
Securities held to maturity	26,227	19,673
Securities, restricted at cost	3,485	2,432
Securities, not readily marketable	100	100
Loans held for sale	31,950	33,762
Loans, net of allowance for loan losses of $4,235 and $4,152, respectively	424,711	424,595
Bank premises and equipment, net	4,668	4,729
Other real estate	1,079	1,079
Core deposit intangible, net	674	777
Goodwill	21,440	21,440
Deferred tax asset	695	405
Other assets	12,108	12,871
Total assets	$ 588,824	$ 585,011
LIABILITIES		
Demand deposits:		
Non-interest-bearing	$ 100,977	$ 88,876
Interest-bearing	144,849	147,909
Time deposits	228,801	207,384
Total deposits	474,627	444,169
Borrowed funds	-	34,521
Subordinated notes	12,000	12,000
Other liabilities	11,376	9,534
Total liabilities	498,003	500,224
Commitments and contingencies (see Note 11)		
SHAREHOLDERS' EQUITY		
Preferred stock, 9.00% fixed to floating rate Series B non-cumulative, perpetual ($0.01 par value; 1,725,000 shares authorized, issued and outstanding at June 30, 2022 and December 31, 2021)	17	17
Common stock, $0.01 par value; 40,000,000 shares authorized; 7,071,953 and 7,061,953 shares issued at June 30, 2022 and December 31, 2021, respectively, and 7,062,319 and 7,061,953 shares outstanding at June 30, 2022 and December 31, 2021, respectively	71	71
Additional paid-in capital	50,446	50,176
Treasury stock, at cost; 9,634 shares as of June 30, 2022, and no shares as of December 31, 2021	(181)	-
Retained earnings	42,218	34,851
Accumulated other comprehensive loss	(1,750)	(328)
Total shareholders' equity	90,821	84,787
Total liabilities and shareholders' equity	$ 588,824	$ 585,011

See accompanying notes to consolidated financial statements.

TECTONIC FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share data and share amounts)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Interest Income				
Loan, including fees	$ 7,014	$ 5,993	$ 14,206	$ 12,156
Securities	417	207	752	353
Federal funds sold	1	-	1	-
Interest-bearing deposits	72	16	93	21
Total interest income	7,504	6,216	15,052	12,530
Interest Expense				
Deposits	686	587	1,336	1,248
Borrowed funds	230	301	471	590
Total interest expense	916	888	1,807	1,838
Net interest income	6,588	5,328	13,245	10,692
Provision for loan losses	-	141	327	569
Net interest income after provision for loan losses	6,588	5,187	12,918	10,123
Non-interest Income				
Trust income	1,557	1,532	3,154	2,972
Gain on sale of loans	-	101	-	101
Advisory income	3,358	3,276	6,932	6,293
Brokerage income	3,712	2,028	6,183	4,591
Service fees and other income	1,889	1,408	4,105	3,714
Rental income	88	88	189	176
Total non-interest income	10,604	8,433	20,563	17,847
Non-interest Expense				
Salaries and employee benefits	7,879	5,923	15,335	11,789
Occupancy and equipment	422	392	873	819
Trust expenses	560	595	1,158	1,159
Brokerage and advisory direct costs	498	491	1,026	997
Professional fees	353	332	753	782
Data processing	221	266	390	470
Other	1,346	834	2,703	1,609
Total non-interest expense	11,279	8,833	22,238	17,625
Income before Income Taxes	5,913	4,787	11,243	10,345
Income tax expense	1,172	1,070	2,217	2,330
Net Income	4,741	3,717	9,026	8,015
Preferred stock dividends	388	388	776	776
Net income available to common stockholders	$ 4,353	$ 3,329	$ 8,250	$ 7,239
Earnings per common share:				
Basic	$ 0.62	$ 0.51	$ 1.17	$ 1.10
Diluted	0.59	0.50	1.13	1.09
Weighted average common shares outstanding	7,062,319	6,568,750	7,060,669	6,568,750
Weighted average diluted shares outstanding	7,317,084	6,630,976	7,315,434	6,630,976

See accompanying notes to consolidated financial statements.

TECTONIC FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2022**	**2021**	**2022**	**2021**
Net Income	$ 4,741	$ 3,717	$ 9,026	$ 8,015
Other comprehensive (loss) income:				
Change in unrealized (loss) gain on investment securities available for sale	(701)	30	(1,800)	(260)
Tax effect	(147)	5	(378)	(56)
Other comprehensive (loss) income	(554)	25	(1,422)	(204)
Comprehensive Income	$ 4,187	$ 3,742	$ 7,604	$ 7,811

See accompanying notes to consolidated financial statements.

TECTONIC FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands)	Series B Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2021	$ 17	$ 66	$ 39,201	$ -	$ 20,661	$ 68	$ 60,013
Dividends paid on Series B preferred stock	-	-	-	-	(388)	-	(388)
Net income	-	-	-	-	4,298	-	4,298
Other comprehensive loss	-	-	-	-	-	(229)	(229)
Stock based compensation	-	-	85		-	-	85
Balance at March 31, 2021	$ 17	$ 66	$ 39,286	$ -	$ 24,571	$ (161)	$ 63,779
Dividends paid on Series B preferred stock	-	-	-	-	(388)	-	(388)
Dividends paid on common stock	-	-	-	-	(411)	-	(411)
Net income	-	-	-	-	3,717	-	3,717
Other comprehensive income	-	-	-	-	-	25	25
Stock based compensation	-	-	78	-	-	-	78
Balance at June 30, 2021	$ 17	$ 66	$ 39,364	$ -	$ 27,489	$ (136)	$ 66,800
Balance at January 1, 2022	$ 17	$ 71	$ 50,176	$ -	$ 34,851	$ (328)	$ 84,787
Exercise of stock options	-	-	43	-	-	-	43
Purchase of treasury stock at cost	-	-	-	(181)	-	-	(181)
Dividends paid on Series B preferred stock	-	-	-	-	(388)	-	(388)
Dividends paid on common stock	-	-	-	-	(441)	-	(441)
Net income	-	-	-	-	4,285	-	4,285
Other comprehensive loss	-	-	-	-	-	(868)	(868)
Stock based compensation	-	-	87		-	-	87
Balance at March 31, 2022	$ 17	$ 71	$ 50,306	$ (181)	$ 38,307	$ (1,196)	$ 87,324
Recognition of stock issued related to reduction of note receivable utilized to exercise options	-	-	50	-	-	-	50
Dividends paid on common stock	-	-	-	-	(442)	-	(442)
Dividends paid on Series B preferred stock	-	-	-	-	(388)	-	(388)
Net income	-	-	-	-	4,741	-	4,741
Other comprehensive loss	-	-	-	-	-	(554)	(554)
Stock based compensation	-	-	90	-	-	-	90
Balance at June 30, 2022	$ 17	$ 71	$ 50,446	$ (181)	$ 42,218	$ (1,750)	$ 90,821

See accompanying notes to consolidated financial statements.

TECTONIC FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six months Ended June 30, 2022	2021
Cash Flows from Operating Activities		
Net income	$ 9,026	$ 8,015
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	327	569
Depreciation and amortization	115	163
Accretion of discount on loans	(12)	(40)
Core deposit intangible amortization	103	101
Securities premium amortization, net	6	103
Origination of loans held for sale	(34,721)	(22,682)
Proceeds from payments and sales of loans held for sale	224	1,415
Gain on sale of loans	-	(101)
Stock based compensation	177	163
Deferred income taxes	88	(153)
Servicing assets, net	138	-
Net change in:		
Other assets	624	2,697
Other liabilities	1,842	(2,626)
Net cash used in operating activities	(22,063)	(12,376)
Cash Flows from Investing Activities		
Purchase of securities held to maturity	(7,408)	-
Purchase of securities available for sale	(180,015)	(153,000)
Principal payments, calls and maturities of securities available for sale	175,169	152,161
Principal payments of securities held to maturity	877	2,932
Purchase of securities, restricted	(6,381)	(4,157)
Proceeds from sale of securities, restricted	5,328	4,157
Net change in loans	35,878	4,635
Purchases of premises and equipment	(54)	-
Net cash provided by investing activities	23,394	6,728
Cash Flows from Financing Activities		
Net change in demand deposits	9,041	33,370
Net change in time deposits	21,417	2,611
Proceeds from borrowed funds	180,800	220,461
Repayment of borrowed funds	(215,321)	(216,607)
Dividends paid on Series B preferred stock	(776)	(776)
Dividends paid on common stock	(883)	(411)
Exercise of stock options	43	-
Repayments on note receivable utilized to exercise stock options	50	-
Purchase of treasury stock at cost	(181)	-
Net cash (used in) provided by financing activities	(5,810)	38,648
Net change in cash and cash equivalents	(4,479)	33,000
Cash and cash equivalents at beginning of period	45,992	46,868
Cash and cash equivalents at end of period	$ 41,513	$ 79,868
Non Cash Transactions		
Transfers from loans held for sale to loans held for investment	$ 36,309	$ 15,067
Lease liabilities incurred in exchange for right-of-use assets	$ 74	$ 56
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 1,852	$ 1,835
Income taxes	$ 2,120	$ 1,833

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

Note 1. Organization and Significant Accounting Policies

Tectonic Financial, Inc. (the "Company," "we," "us," or "our") is a financial holding company that offers, through its subsidiaries, banking and other financial services including trust, investment advisory, securities brokerage, factoring, third-party administration, recordkeeping and insurance services to individuals, small businesses and institutions across the United States.

We operate through four main direct and indirect subsidiaries: (i) T Bancshares, Inc. ("TBI"), which was incorporated under the laws of the State of Texas on December 23, 2002 to serve as the bank holding company for T Bank, N.A., a national banking association (the "Bank"), (ii) Sanders Morris Harris LLC ("Sanders Morris"), a registered broker-dealer with the Financial Industry Regulatory Authority ("FINRA") and registered investment advisor with the Securities and Exchange Commission, ("SEC"), (iii) Tectonic Advisors, LLC ("Tectonic Advisors"), a registered investment advisor registered with the SEC focused generally on managing money for relatively large, affiliated institutions, and (iv) HWG Insurance Agency LLC ("HWG"), an insurance agency registered with the Texas Department of Insurance ("TDI").

We are headquartered in Dallas, Texas. The Bank operates through its main office located at 16200 Dallas Parkway, Dallas, Texas. Our other subsidiaries operate from offices in Houston, Dallas and Plano, Texas. Our Houston, Texas office is located at 600 Travis Street, 59th Floor, Houston, Texas, and includes the home offices of Sanders Morris and HWG, as well as Tectonic Advisors' family office services team. Our other Dallas office, which is a branch office of Sanders Morris, is at 5950 Sherry Lane, Suite 470, Dallas, Texas. Our main office for Tectonic Advisors is in Plano, Texas at 6900 Dallas Parkway, Suite 625, Plano, Texas, and also includes a branch office of HWG.

The Bank offers a broad range of commercial and consumer banking and trust services primarily to small- to medium-sized businesses and their employees, and other institutions. The Nolan Company ("Nolan"), operating as a division within the Bank, offers third party administration ("TPA") services, and Integra Funding Solutions ("Integra"), also operating as a division within the Bank, offers factoring services. The Bank's technological capabilities, including worldwide free ATM withdrawals, sophisticated on-line banking capabilities, electronic funds transfer capabilities, and economical remote deposit solutions, allow most customers to be served regardless of their geographic location. The Bank serves its local geographic market which includes Dallas, Tarrant, Denton, Collin and Rockwall counties which encompass an area commonly referred to as the Dallas/Fort Worth Metroplex. The Bank also serves the dental and other health professional industries through a centralized loan and deposit platform that operates out of its main office in Dallas, Texas. In addition, the Bank serves the small business community by offering loans guaranteed by the U.S. Small Business Administration ("SBA") and the U.S. Department of Agriculture ("USDA").

The Bank offers a wide range of deposit services including demand deposits, regular savings accounts, money market accounts, individual retirement accounts, and certificates of deposit with fixed rates and a range of maturity options. Lending services include commercial loans to small- to medium-sized businesses and professional concerns as well as consumers. The Bank also offers trust services. The Bank's traditional fiduciary services clients primarily consist of clients of Cain, Watters & Associates, LLC ("Cain Watters"). The Bank, Cain Watters and Tectonic Advisors entered into an advisory services agreement related to the trust operations in April 2006, which has been amended from time to time, most recently in July 2016. See Note 12, *Related Parties*, to these consolidated financial statements for more information. In addition, the Nolan division of the Bank offers TPA services and provides clients with retirement plan design and administrative services, specializing in ministerial recordkeeping, administration, actuarial and design services for retirement plans of small businesses and professional practices. We believe offering TPA services allows us to serve our clients more fully and to attract new clients to our trust platform.

Basis of Presentation. The consolidated financial statements in this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2022 (this "Form 10-Q") include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q adopted by the SEC. Accordingly, the consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2021 in the audited financial statements included within our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 31, 2022.

In the opinion of management, all adjustments that were normal and recurring in nature, and considered necessary, have been included for the fair presentation of the Company's consolidated financial position and results of operations. Operating results for the three and six months ended June 30, 2022 are not necessarily indicative of results that may be expected for the full year ending December 31, 2022.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period, as well as the disclosures provided. Actual results could be significantly different from those estimates. Changes in assumptions or in market conditions could significantly affect the estimates. The determination of the allowance for loan losses, the fair value of stock options, the fair values of financial instruments and other real estate owned, and the status of contingencies are particularly susceptible to significant change in recorded amounts.

Accounting Changes, Reclassifications and Restatements. Certain items in prior financial statements have been reclassified to conform to the current presentation.

Earnings per Share. Basic earnings per share ("EPS") is computed based on the weighted-average number of shares outstanding during each year. Diluted EPS is computed using the weighted-average shares and all potential dilutive shares outstanding during the period. The following table sets forth the computation of basic and diluted EPS for the following periods:

	Three months ended June 30,		Six months ended June 30,	
(In thousands, except per share data)	**2022**	**2021**	**2022**	**2021**
Net income available to common shareholders	$ 4,353	$ 3,329	$ 8,250	$ 7,239
Average shares outstanding	7,062	6,569	7,061	6,569
Effect of dilutive shares	255	62	254	62
Average diluted shares outstanding	7,317	6,631	7,315	6,631
Basic earnings per share	$ 0.62	$ 0.51	$ 1.17	$ 1.10
Diluted earnings per share	$ 0.59	$ 0.50	$ 1.13	$ 1.09

As of June 30, 2022, options to purchase 180,000 shares of common stock, with a weighted average exercise price of $5.43, were included in the computation of diluted net earnings per share. In addition, as of June 30, 2022, 210,000 shares of restricted stock grants with a grant date fair value of $4.81 per share which vest from 2023 through 2025 were included in the diluted earnings per share calculation.

Note 2. Securities

A summary of amortized cost and fair value of securities is presented below as of the dates indicated.

	June 30, 2022			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities available for sale:				
U.S. Treasuries	$ 1,980	$ -	$ 15	$ 1,965
U.S government agencies	15,768	-	2,078	13,690
Mortgage-backed securities	4,641	-	122	4,519
Total securities available for sale	$ 22,389	$ -	$ 2,215	$ 20,174
Securities held to maturity:				
Property assessed clean energy	$ 2,593	$ -	$ -	$ 2,593
Public improvement district/tax increment reinvestment zone	23,634	-	-	23,634
Total securities held to maturity	$ 26,227	$ -	$ -	$ 26,227
Securities, restricted:				
Other	$ 3,485	$ -	$ -	$ 3,485
Securities not readily marketable	$ 100	$ -	$ -	$ 100

(In thousands)	December 31, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
U.S. government agencies	$ 15,847	$ 4	$ 449	$ 15,402
Mortgage-backed securities	1,724	30	-	1,754
Total securities available for sale	$ 17,571	$ 34	$ 449	$ 17,156
Securities held to maturity:				
Property assessed clean energy	$ 2,731	$ -	$ -	$ 2,731
Public improvement district/tax increment reinvestment zone	16,942	-	-	16,942
Total securities held to maturity	$ 19,673	$ -	$ -	$ 19,673
Securities, restricted:				
Other	$ 2,432	$ -	$ -	$ 2,432
Securities not readily marketable	$ 100	$ -	$ -	$ 100

Securities available for sale consist of U.S. government agency securities and mortgage-backed securities guaranteed by U.S. government agencies. Securities held to maturity consist of Property Assessed Clean Energy ("PACE") and Public Improvement District/Tax Increment Reinvestment Zone ("PID/TIRZ") investments. These investment contracts or bonds located in Texas, California and Florida, originate under a contractual obligation between the property owners, the local county or city administration, and a third-party administrator and sponsor. PACE assessments are created to fund the purchase and installation of energy saving improvements to the property such as solar panels. PID/TIRZ assessments are used to pay for the development costs of a residential subdivision. Generally, as a property assessment, the total assessment is repaid in installments over a period of 5 to 32 years by the then current property owner(s). Each installment is collected by the County or City Tax Collector where the property is located. The assessments are an obligation of the property. Securities, restricted consist of Federal Reserve Bank of Dallas ("FRB") and Federal Home Loan Bank of Dallas ("FHLB") stock, which are carried at cost.

As of June 30, 2022 and December 31, 2021, securities available for sale with a fair value of $113,000 and $163,000, respectively, were pledged against trust deposit balances held at the Bank.

As of June 30, 2022 and December 31, 2021, the Bank held FRB stock in the amount of $2.2 million and $1.2 million, respectively. The Bank held FHLB stock in the amount of $1.3 million at each of June 30, 2022 and December 31, 2021. The FRB stock and FHLB stock were classified as restricted securities.

As of June 30, 2022 and December 31, 2021, the Company held an income interest in a private investment, which is not readily marketable, accounted for under the cost method in the amount of $100,000.

The table below indicates the length of time individual investment securities have been in a continuous loss position as of June 30, 2022:

(In thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or longer Fair Value	12 months or longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasuries	$ 1,965	$ 15	$ -	$ -	$ 1,965	$ 15
U.S. government agencies	3,217	423	10,473	$ 1,655	13,690	2,078
Mortgage-backed securities	4,519	122	-	-	4,519	122
Total	$ 9,701	$ 560	$ 10,473	$ 1,655	$ 20,174	$ 2,215

The number of investment positions in this unrealized loss position totaled twenty-four as of June 30, 2022. The Company does not believe these unrealized losses are "other than temporary" as (i) it does not have the intent to sell the securities prior to recovery and/or maturity and, (ii) it is more likely than not that the Company will not have to sell the securities prior to recovery and/or maturity. Accordingly, as of June 30, 2022, no impairment loss has been realized in the Company's consolidated statements of income.

The amortized cost and estimated fair value of securities available for sale as of June 30, 2022 are presented in the table below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Residential mortgage-backed securities are shown separately since they are not due at a single maturity date.

	Available for Sale	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 988	$ 981
Due after one year through five years	5,994	5,446
Due after five years through ten years	7,120	6,288
Due after ten years	3,646	2,940
Mortgage-backed securities	4,641	4,519
Total	$ 22,389	$ 20,174

Note 3. Loans and Allowance for Loan Losses

Major classifications of loans held for investment are as follows as of the dates indicated:

(In thousands)	**June 30, 2022**	**December 31, 2021**
Commercial and industrial	$ 90,660	$ 83,348
Consumer installment	1,171	1,099
Real estate – residential	4,491	5,452
Real estate – commercial	57,992	62,966
Real estate – construction and land	3,539	2,585
SBA:		
SBA 7(a) guaranteed	143,488	145,983
SBA 7(a) unguaranteed	58,231	52,524
SBA 504	35,016	35,348
USDA	813	806
Factored Receivables	33,545	38,636
Gross Loans	428,946	428,747
Less:		
Allowance for loan losses	4,235	4,152
Net loans	$ 424,711	$ 424,595

Beginning in the second quarter of 2020 and until funding expired on May 31, 2021, the Company participated in the Paycheck Protection Program (“PPP”) which was established by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) in response to the COVID-19 pandemic and administered by the SBA. PPP loans may be forgiven by the SBA and are 100 percent guaranteed by the SBA. Therefore, no allowance for loan losses is allocated to PPP loans. Included in SBA 7(a) guaranteed loans at June 30, 2022 and December 31, 2021, were $363,000 and $34.1 million of PPP loans originated, respectively.

As of June 30, 2022, our loan portfolio included $81.0 million of loans, approximately 18.9% of our total funded loans, to the dental industry, as compared to $67.3 million of loans, or 15.7% of total funded loans (17.1% of total funded loans, net of PPP loans), as of December 31, 2021. The Bank believes that these loans are to credit worthy borrowers and are diversified geographically.

The Company serves the small business community by offering loans promulgated under the SBA’s 7(a) and 504 loan programs, and loans guaranteed by the USDA. SBA 7(a) and USDA loans are typically guaranteed by each agency in amounts ranging from 75% to 80% of the principal balance. For SBA construction loans, the Company records the guaranteed funded portion of the loans as held for sale. When the SBA loans are fully funded, the Company may sell the guaranteed portion into the secondary market, on a servicing-retained basis, or reclassify from loans held for sale to loans held for investment if the Company determines that holding these loans provide better long-term risk adjusted returns than selling the loans. In calculating gain on the sale of loans, the Company performs an allocation based on the relative fair values of the sold portion and retained portion of the loan. The Company’s assumptions are validated by reference to external market information.

The Company had $32.0 million and $33.8 million of non-PPP SBA loans held for sale as of June 30, 2022 and December 31, 2021, respectively. There were no loans sold for the three and six months ended June 30, 2022. During the three and six months ended June 30, 2021, the Company sold $1.1 million of non-PPP SBA loans, resulting in a gain on sale of loans of $101,000. For the three and six months ended June 30, 2022, the Company elected to reclassify $13.0 million and $36.3 million, respectively, of the SBA 7(a) loans held for sale to loans held for investment.

Loan Origination/Risk Management.

The Company maintains written loan origination policies, procedures, and processes which address credit quality at several levels including individual loan level, loan type, and loan portfolio levels.

Commercial and industrial loans, which are predominantly loans to dentists, are underwritten based on historical and projected income of the business and individual borrowers and guarantors. The Company utilizes a comprehensive global debt service coverage analysis to determine debt service coverage ratios. This analysis compares global cash flow of the borrowers and guarantors on an individual credit to existing and proposed debt after consideration of personal and business-related other expenses. Collateral is generally a lien on all available assets of the business borrower including intangible assets. Credit worthiness of individual borrowers and guarantors is established through the use of credit reports and credit scores.

Consumer loans are evaluated on the basis of credit worthiness as established through the use of credit reports and credit scores. Additional credit quality indicators include borrower debt to income ratios based on verifiable income sources.

Real estate mortgage loans are evaluated based on collateral value as well as global debt service coverage ratios based on historical and projected income from all related sources including the collateral property, the borrower, and all guarantors where applicable.

The Company originates SBA loans which are sometimes sold into the secondary market. The Company continues to service these loans after sale and is required under the SBA programs to retain specified amounts. The two primary SBA loan programs that the Company offers are the basic SBA 7(a) loan guaranty program and the SBA 504 loan program in conjunction with junior lien financing from a Certified Development Company ("CDC"). The SBA has designated the Bank as a "Preferred Lender." As an SBA Preferred Lender, the Bank has been delegated loan approval, closing and most servicing and liquidation authority from the SBA.

The SBA 7(a) program serves as the SBA's primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. Loan proceeds under this program can be used for most business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements and debt refinancing. Loan maturity is generally up to 10 years for non-real estate collateral and up to 25 years for real estate collateral. The SBA 7(a) loan is approved and funded by a qualified lender, partially guaranteed by the SBA and subject to applicable regulations. In general, the SBA guarantees up to 75% (100% for PPP loans) of the loan amount depending on loan size. The Company is required by the SBA to service the loan and retain a contractual minimum of 5% on all SBA 7(a) loans, but generally retains 25% (the unguaranteed portion). The servicing spread is 1% of the guaranteed portion of the loan that is sold in the secondary market. Included in the SBA 7(a) loans reflected in this Form 10-Q are the PPP loans originated by the Company. PPP loans totaling $363,000 were outstanding as of June 30, 2022.

The SBA 504 program is an economic development-financing program providing long-term, low down payment loans to businesses. Typically, a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100% SBA-guaranteed debenture) with a junior lien covering up to 40% of the total cost, and a contribution of at least 10% equity from the borrower. Debenture limits are $5.0 million for regular 504 loans and $5.5 million for those 504 loans that meet a public policy goal.

The Company also offers Business & Industry ("B&I") program loans through the USDA. These loans are similar to the SBA product, except they are guaranteed by the USDA. The guaranteed amount is generally 80%. B&I loans are made to businesses in designated rural areas and are generally larger loans to larger businesses than the SBA 7(a) loans. Similar to the SBA 7(a) product, they can be sold into the secondary market. These loans can be utilized for rural commercial real estate and equipment. The loans can have maturities up to 30 years and the rates can be fixed or variable.

Construction and land development loans are evaluated based on the borrower's and guarantor's credit worthiness, past experience in the industry, track record and experience with the type of project being considered, and other factors. Collateral value is determined generally by independent appraisal utilizing multiple approaches to determine value based on property type.

The Bank engages in third-party factoring of certain business's accounts receivable invoices. The Bank's factoring clients are primarily in the transportation industry. Each account debtor is credit qualified, confirming credit worthiness and stability, because the underlying debtor represents the substantive underlying credit risk. Some factored receivables are full recourse to and personally guaranteed by the factoring client. In such cases, the client is credit qualified under specific policy guidelines. Concentration limits are set and monitored for aggregate factored receivables, account debtors, and individual factoring clients. In addition, we consider the overall state of each specific industry, currently over-the-road trucking, in our evaluation of the credit worthiness of the factoring client and the underlying debtor.

For all loan types, the Company establishes guidelines for its underwriting criteria including collateral coverage ratios, global debt service coverage ratios, and maximum amortization or loan maturity terms.

At the portfolio level, the Company monitors concentrations of loans based on several criteria including loan type, collateral type, industry, geography, and other factors. The Company also performs periodic market research and economic analysis at a local geographic and national level. Based on this research, the Company may from time to time change the minimum or benchmark underwriting criteria applied to the above loan types.

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. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period of repayment performance by the borrower.

Non-accrual loans, segregated by class of loans, were as follows as of the dates indicated:

(In thousands)	**June 30, 2022**	**December 31, 2021**
Non-accrual loans:		
Real estate – commercial	$ 144	$ 149
SBA guaranteed	2,347	2,039
SBA unguaranteed	56	-
Total	$ 2,547	$ 2,188

The restructuring of a loan is considered a "troubled debt restructuring" ("TDR") if, due to the borrower's financial difficulties, the Company has granted a concession that the Company would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modification of loan terms may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules, reductions in collateral and other actions intended to minimize potential losses.

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 310-40 *Receivables – Troubled Debt Restructurings by Creditors,* and Interagency Statements issued by the federal banking regulators, in consultation with the FASB, certain short-term loan modifications and additional accommodations made on a good faith basis in response to COVID-19 (as defined by the guidance) to borrowers who were current prior to any relief are not considered TDRs. Additionally, under Section 4013 of the CARES Act, as amended by the Consolidated Appropriations Act, 2021, banks may elect to suspend the requirement for certain loan modifications to be categorized as a TDR. In response to the COVID-19 pandemic, the Company has implemented prudent modifications allowing for primarily short-term payment deferrals or other payment relief to borrowers with pandemic-related economic hardships, where appropriate, that complies with the above guidance. As such, the Company's TDR loans noted above do not include loans with modifications to borrowers impacted by COVID-19. As of June 30, 2022, there were no loans on deferment due to the COVID-19 pandemic.

As of June 30, 2022 and December 31, 2021, there were no loans identified as TDRs. There were no new TDRs during the three and six months ended June 30, 2022 or the year ended December 31, 2021.

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The Company's impaired loans and related allowance is summarized in the following table as of the dates indicated:

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2022						Six Months Ended	
SBA	$ 2,759	$ 2,126	$ -	$ 2,126	$ -	$ 2,449	$ -
Total	$ 2,759	$ 2,126	$ -	$ 2,126	$ -	$ 2,449	$ -
December 31, 2021						Year Ended	
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ 73	$ 4
SBA	3,658	3,071	-	3,071	-	6,333	21
Total	$ 3,658	$ 3,071	$ -	$ 3,071	$ -	$ 6,406	$ 25

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The Company's past due loans are as follows as of the dates indicated:

(In thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
June 30, 2022						
Commercial and industrial	$ -	$ -	$ -	$ 90,660	$ 90,660	$ -
Consumer installment	-	-	-	1,171	1,171	-
Real estate – residential	-	210	210	4,281	4,491	210
Real estate – commercial	-	-	-	57,992	57,992	-
Real estate – construction and land	-	-	-	3,539	3,539	-
SBA	-	2,403	2,403	234,332	236,735	-
USDA	-	-	-	813	813	-
Factored Receivables	1,105	170	1,275	32,270	33,545	170
Total	$ 1,105	$ 2,783	$ 3,888	$ 425,058	$ 428,946	$ 380
December 31, 2021						
Commercial and industrial	$ 4	$ -	$ 4	$ 83,344	$ 83,348	$ -
Consumer installment	-	-	-	1,099	1,099	-
Real estate – residential	-	-	-	5,452	5,452	-
Real estate – commercial	219	-	219	62,747	62,966	-
Real estate – construction and land	-	-	-	2,585	2,585	-
SBA	1,762	-	1,762	232,093	233,855	-
USDA	-	-	-	806	806	-
Factored receivables	1,743	400	2,143	36,493	38,636	400
Total	$ 3,728	$ 400	$ 4,128	$ 424,619	$ 428,747	$ 400

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including internal credit risk based on past experiences as well as external statistics and factors. Loans are graded in one of six categories: (i) pass, (ii) pass-watch, (iii) special mention, (iv) substandard, (v) doubtful, or (vi) loss. Loans graded as loss are charged-off.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits quarterly. No significant changes were made to the loan risk grading system definitions and allowance for loan loss methodology during the past year. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit. The Company's methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated pass are acceptable loans, appropriately underwritten, bearing an ordinary risk of loss to the Company. Loans in this category are loans to highly credit worthy borrowers with financial statements presenting a good primary source as well as an adequate secondary source of repayment.

Credits rated pass-watch loans have been determined to require enhanced monitoring for potential weaknesses which require further investigation. They have no significant delinquency in the past twelve months. This rating causes the loan to be actively monitored with greater frequency than pass loans and allows appropriate downgrade transition if verifiable adverse events are confirmed. This category may also include loans that have improved in credit quality from special mention but are not yet considered pass loans.

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness; however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed. Guaranteed portions of SBA loans graded substandard are generally on non-accrual due to the limited amount of interest covered by the guarantee, usually 60 days maximum. However, there typically will be no exposure to loss on the principal amount of these guaranteed portions of the loan.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss.

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

The following table summarizes the Company's internal ratings of its loans as of the dates indicated:

(In thousands)	**Pass**	**Pass-Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
June 30, 2022						
Commercial and industrial	$ 89,913	$ -	$ 747	$ -	$ -	$ 90,660
Consumer installment	1,171	-	-	-	-	1,171
Real estate – residential	4,281	-	-	210	-	4,491
Real estate – commercial	57,848	-	-	144	-	57,992
Real estate – construction and land	3,539	-	-	-	-	3,539
SBA	211,691	19,538	4,501	1,005	-	236,735
USDA	813	-	-	-	-	813
Factored Receivables	33,545	-	-	-	-	33,545
Total	$ 402,801	$ 19,538	$ 5,248	$ 1,359	$ -	$ 428,946
December 31, 2021						
Commercial and industrial	$ 82,105	$ 1,243	$ -	$ -	$ -	$ 83,348
Consumer installment	1,099	-	-	-	-	1,099
Real estate – residential	5,242	-	-	210	-	5,452
Real estate – commercial	62,817	-	-	149	-	62,966
Real estate – construction and land	2,585	-	-	-	-	2,585
SBA	213,630	16,265	2,659	1,301	-	233,855
USDA	806	-	-	-	-	806
Factored Receivables	38,636	-	-	-	-	38,636
Total	$ 406,920	$ 17,508	$ 2,659	$ 1,660	$ -	$ 428,747

The activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2022 and 2021 is presented below. Management has evaluated the adequacy of the allowance for loan losses by estimating the losses in various categories of the loan portfolio.

(In thousands)	Commercial and Industrial	Consumer Installment	Real Estate Residential	Real Estate Commercial	Real Estate Construction and Land	SBA	USDA	Factored Receivables	Total
Three months ended:									
June 30, 2022									
Beginning Balance	$ 1,213	$ 17	$ 29	$ 901	$ 50	$ 1,409	$ 20	$ 715	$ 4,354
Provision for loan losses	40	(2)	32	(115)	(2)	48	(1)	-	-
Charge-offs	(30)	-	-	-	-	-	-	(108)	(138)
Recoveries	-	-	-	-	-	7	-	12	19
Net recoveries (charge-offs)	(30)	-	-	-	-	7	-	(96)	(119)
Ending balance	$ 1,223	$ 15	$ 61	$ 786	$ 48	$ 1,464	$ 19	$ 619	$ 4,235
June 30, 2021									
Beginning Balance	$ 1,037	$ 100	$ 46	$ 581	$ 111	$ 1,264	$ 19	$ -	$ 3,158
Provision for loan losses	92	(50)	30	157	(6)	(82)	-	-	141
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	8	-	-	8
Net charge-offs	-	-	-	-	-	8	-	-	8
Ending balance	$ 1,129	$ 50	$ 76	$ 738	$ 105	$ 1,190	$ 19	$ -	$ 3,307

(In thousands)	Commercial and Industrial	Consumer Installment	Real Estate Residential	Real Estate Commercial	Real Estate Construction and Land	SBA	USDA	Factored Receivables	Total
Six months ended:									
June 30, 2022									
Beginning Balance	$ 1,154	$ 15	$ 76	$ 869	$ 40	$ 1,324	$ 20	$ 654	$ 4,152
Provision for loan losses	99	-	(15)	(83)	8	171	(1)	148	327
Charge-offs	(30)	-	-	-	-	(42)	-	(212)	(284)
Recoveries	-	-	-	-	-	11	-	29	40
Net charge-offs	(30)	-	-	-	-	(31)	-	(183)	(244)
Ending balance	$ 1,223	$ 15	$ 61	$ 786	$ 48	$ 1,464	$ 19	$ 619	$ 4,235
June 30, 2021									
Beginning Balance	$ 928	$ 91	$ 52	$ 527	$ 100	$ 1,225	$ 18	$ -	$ 2,941
Provision for loan losses	201	(41)	24	211	5	168	1	-	569
Charge-offs	-	-	-	-	-	(215)	-	-	(215)
Recoveries	-	-	-	-	-	12	-	-	12
Net charge-offs	-	-	-	-	-	(203)	-	-	(203)
Ending balance	$ 1,129	$ 50	$ 76	$ 738	$ 105	$ 1,190	$ 19	$ -	$ 3,307

The Company's allowance for loan losses as of June 30, 2022 and December 31, 2021 by portfolio segment and detailed on the basis of the Company's impairment methodology was as follows:

(In thousands)	Commercial and Industrial	Consumer Installment	Real Estate Residential	Real Estate Commercial	Real Estate Construction and Land	SBA	USDA	Factored Receivables	Total
June 30, 2022									
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	1,223	15	61	786	48	1,464	19	619	4,235
Ending balance	$ 1,223	$ 15	$ 61	$ 786	$ 48	$ 1,464	$ 19	$ 619	$ 4,235
December 31, 2021									
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	1,154	15	76	869	40	1,324	20	654	4,152
Ending balance	$ 1,154	$ 15	$ 76	$ 869	$ 40	$ 1,324	$ 20	$ 654	$ 4,152

The Company's recorded investment in loans as of June 30, 2022 and December 31, 2021 related to each balance in the allowance for loan losses by portfolio segment and detailed on the basis of the Company's impairment methodology was as follows:

(In thousands)	Commercial and Industrial	Consumer Installment	Real Estate Residential	Real Estate Commercial	Real Estate Construction and Land	SBA	USDA	Factored Receivables	Total
June 30, 2022									
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 2,126	$ -	$ -	$ 2,126
Loans collectively evaluated for impairment	90,660	1,171	4,491	57,992	3,539	234,609	813	33,545	426,820
Ending balance	$ 90,660	$ 1,171	$ 4,491	$ 57,992	$ 3,539	$ 236,735	$ 813	$ 33,545	$ 428,946
December 31, 2021									
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 3,071	$ -	$ -	$ 3,071
Loans collectively evaluated for impairment	83,348	1,099	5,452	62,966	2,585	230,784	806	38,636	425,676
Ending balance	$ 83,348	$ 1,099	$ 5,452	$ 62,966	$ 2,585	$ 233,855	$ 806	$ 38,636	$ 428,747

Note 4. Leases

The Company leases certain office facilities and office equipment under operating leases. Certain of the leases contain provisions for renewal options, escalation clauses based on increases in certain costs incurred by the lessor, as well as free rent periods and tenant improvement allowances. The Company amortizes office lease incentives and rent escalations on a straight-line basis over the life of the respective leases. The Company has obligations under operating leases that expire between 2022 and 2027 with initial non-cancellable terms in excess of one year.

We recognize our operating leases on our consolidated balance sheet. Right-of-use assets represent our right to utilize the underlying asset during the lease term, while lease liability represents the obligation to make periodic lease payments over the life of the lease. As of June 30, 2022 and December 31, 2021, right-of-use assets totaled $1.9 million and $1.4 million, respectively, and are reported as other assets on our accompanying consolidated balance sheets. The related lease liabilities totaled $1.9 million and $1.4 million, respectively, and are reported in other liabilities on our accompanying consolidated balance sheet. As of June 30, 2022, the weighted average remaining lease term is forty-six months, and the weighted average discount rate is 4.11%.

As of June 30, 2022, the minimum rental commitments under these noncancelable operating leases are as follows (in thousands):

2022	$ 300
2023	349
2024	595
2025	598
2026	339
2027 and thereafter	54
Total minimum rental payments	2,235
Less: Interest	(310)
Present value of lease liabilities	$ 1,925

The Company currently receives rental income from eleven tenants in its headquarters building for office space the Company does not occupy. Aggregate future minimum rentals to be received under non-cancelable leases as of June 30, 2022 were $673,000 through 2028.

Note 5. Goodwill and Core Deposit Intangible

Goodwill and core deposit intangible assets were as follows:

(In thousands)		June 30, 2022		December 31, 2021
Goodwill	$	21,440	$	21,440
Core deposit intangible, net		674		777

During the year ended December 31, 2021, the Company recorded goodwill of $10.7 million in connection with the acquisition of Integra. See Note 17, *Acquisition*, to these consolidated financial statements for more information regarding the Company's acquisition of Integra

Core deposit intangible is amortized on a straight line basis over the initial estimated lives of the deposits, which range from five to twelve years. The core deposit intangible amortization totaled $53,000 and $103,000 for the three and six months ended June 30, 2022 and $50,000 and $101,000 for the three and six months ended June 30, 2021, respectively.

The carrying basis and accumulated amortization of the core deposit intangible as of June 30, 2022 and December 31, 2021 were as follows:

(In thousands)		June 30, 2022		December 31, 2021
Gross carrying basis	$	1,708	$	1,708
Accumulated amortization		(1,034)		(931)
Net carrying amount	$	674	$	777

The estimated amortization expense of the core deposit intangible remaining as of June 30, 2022 is as follows:

(In thousands)		
2022 remaining	$	105
2023		210
2024		210
2025		149
Total	$	674

Note 6. Deposits

Deposits were as follows**:**

(In thousands, except percentages)		June 30, 2022			December 31, 2021	
Non-interest bearing demand	$	100,977	22%	$	88,876	20%
Interest-bearing demand (NOW)		8,033	1		6,459	1
Money market accounts		127,343	27		133,536	30
Savings accounts		9,473	2		7,914	2
Time deposits		228,801	48		207,384	47
Total	$	474,627	100%	$	444,169	100%

The aggregate amount of demand deposit overdrafts that have been reclassified as loans as of June 30, 2022 and December 31, 2021 was insignificant.

Note 7. Borrowed Funds and Subordinated Notes

The Company has a blanket lien credit line with the FHLB with borrowing capacity of $48.3 million secured by commercial loans. The Company determines its borrowing needs and utilizes overnight advance accordingly at varying terms. The Company had no borrowings with FHLB as of June 30, 2022 and December 31, 2021.

The Company also has a credit line with the FRB with borrowing capacity of $20.3 million, which is secured by commercial loans. The Company had no borrowings under this line from the FRB as of June 30, 2022 and December 31, 2021. As part of the CARES Act, the FRB offered secured discounted borrowings to banks who originated PPP loans through the Paycheck Protection Program Liquidity Facility ("PPPLF"). During June 2022, the Bank repaid its PPPLF borrowings from the FRB and had no borrowings under the PPPLF as of June 30, 2022.

As of June 30, 2022 and December 31, 2021, the Company also had subordinated notes totaling $12.0 million, consisting of $8.0 million issued in 2017 bearing an interest rate of 7.125% payable semi-annually and maturing on July 20, 2027, and $4.0 million issued in 2018 bearing an interest rate of 7.125% payable semi-annually and maturing on March 31, 2028. The subordinated notes are unsecured and subordinated in right of payment to the payment of our existing and future senior indebtedness and structurally subordinated to all existing and future indebtedness of our subsidiaries.

Note 8. Benefit Plans

The Company funds certain costs for medical benefits in amounts determined at the discretion of management. The Company has a retirement savings 401(k) plan covering substantially all employees of the Bank, and a second plan covering substantially all employees of Sanders Morris, Tectonic Advisors and the Company.

Under the plans, the Company matches 100% of the employee's contribution on the first 1% of the employee's compensation, and 50% of the employee's contribution on the next 5% of the employee's compensation. An eligible employee may contribute up to the annual maximum contribution allowed for a given year under guidance from the Internal Revenue Service. At its discretion, the Company may also make additional annual contributions to the plans. Any discretionary contributions are allocated to employees in the proportion of employee contributions to the total contributions of all participants in the plans. No discretionary contributions were made during the three and six months ended June 30, 2022 and 2021.

The amount of employer contributions charged to expense under the two plans was $135,000 and $322,000 for the three and six months ended June 30, 2022, respectively, and $112,000 and $275,000 for the three and six months ended June 30, 2021, respectively, and is included in salaries and employee benefits on the consolidated statements of income. There was no accrual payable to the plans as of June 30, 2022 and December 31, 2021.

Note 9. Income Taxes

Income tax expense was approximately $1.2 million and $2.2 million for the three and six months ended June 30, 2022, respectively, and $1.1 million and $2.3 million for the three and six months ended June 30, 2021, respectively. The Company's effective income tax rate was 19.8% and 19.7% for the three and six months ended June 30, 2022, respectively, and 22.4% and 22.5% for the three and six months ended June 30, 2021, respectively.

Net deferred tax assets totaled $695,000 and $405,000 at June 30, 2022 and December 31, 2021, respectively.

The Company files U.S. federal and state income tax returns.

Note 10. Stock Compensation Plans

The board of directors and shareholders adopted the Tectonic Financial, Inc. 2017 Equity Incentive Plan ("Plan") in May 2017 in connection with the Company's acquisition of TBI. The Plan was amended and restated by the Company and its shareholders effective March 27, 2019 in connection with the Company's initial public offering. The Plan is administered by the Compensation Committee of the Company's board of directors and authorizes the granting of stock options, stock appreciation rights, restricted stock and restricted stock units to employees, directors and consultants in order to promote the success of the Company's business. Incentive stock options may be granted only to employees of the Company, or a parent or subsidiary of the Company. The Company reserved 750,000 authorized shares of common stock for the Plan. The term of each stock option is no longer than 10 years from the date of the grant.

The Company accounts for stock-based employee compensation plans using the fair value-based method of accounting. The fair value of each stock option award is estimated on the date of grant by a third party using a closed form option valuation (Black-Scholes) model. The fair value of each grant award was estimated on the date of grant by a third party using the market approach based on the application of latest 12-month Company metrics to guideline public company multiples.

On September 27, 2021, 40,000 shares of restricted stock of the Company with an exercise price of $10.00 per share and an intrinsic value of $6.92 per share were granted with a contract life through December 31, 2021. Sanders Morris issued a full recourse secured promissory note at the time of the grant. These shares of restricted stock vested immediately, and were exercised on October 29, 2021, with the grantees utilizing the proceeds of the promissory note from Sanders Morris to fund the exercise price. This note receivable is recognized within a contra-equity account, with payments by the grantees reducing this balance as they occur. As of June 30, 2022 and December 31, 2021, the note receivable balance was $350,000 and $400,000, respectively. The shares are subject to a right of repurchase by the Company under certain circumstances through December 31, 2023.

There were no stock options granted, vested, or forfeited during the three and six months ended June 30, 2022 and 2021. No options were exercised during the three months ended June 30, 2022. During the six months ended June 30, 2022, options on 10,000 shares of the Company's common stock were exercised at $4.30 per share. There were no options exercised during the three and six months ended June 30, 2021.

The number of options outstanding as of June 30, 2022 and December 31, 2021 was 180,000 and 190,000, respectively, and the weighted average exercise price as of June 30, 2022 and December 31, 2021 was $5.43 and $5.37, respectively. The weighted average contractual life as of June 30, 2022 and December 31, 2021 was 4.87 years and 5.62 years, respectively. Stock options outstanding at the end of the period had immaterial aggregate intrinsic values. The weighted-average grant date fair value of the options as of June 30, 2022 and December 31, 2021 was $1.95 and $1.94, respectively.

As of June 30, 2022, all 180,000 stock options outstanding were vested, and unrecognized compensation cost totaled $122,000, all of which was related to the right of repurchase period for the 40,000 shares of restricted stock issued and exercised in 2021. The Company recorded compensation expense on a straight-line basis over the vesting periods, and for the 40,000 shares of restricted stock granted September 27, 2021, over the right of repurchase period. The Company recorded salaries and employee benefits expense on our consolidated statements of income in connection with the Plan of approximately $20,000 and $38,000 for the three and six months ended June 30, 2022 and $8,000 and $24,000 for the three and six months ended June 30, 2021, respectively, related to the stock options.

The Company granted restricted stock awards totaling 210,000 shares of common stock on September 30, 2020. The vesting schedules vary by award, with all of the awards vesting over a three-year period from 2023 through 2025.

As of June 30, 2022, all 210,000 awarded shares of restricted stock were outstanding, and the grant date fair value was $4.81. None of the restricted stock awards were vested as of June 30, 2022 and December 31, 2021. The weighted average contractual life as of June 30, 2022 and December 31, 2021 was 1.97 years and 2.46 years, respectively. The Company is recording compensation expense on a straight-line basis over the respective vesting periods. The Company recorded salaries and employee benefits expense on our consolidated statements of income in connection with the Plan of approximately $70,000 and $139,000 for the three and six months ended June 30, 2022, and $70,000 and $139,000 for the three and six months ended June 30, 2021, respectively, related to the restricted stock awards. As of June 30, 2022, there was $517,000 of unrecognized compensation cost related to the restricted stock awards.

Note 11. Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the accompanying balance sheets. The Company's exposure to credit loss in the event of non-performance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The following table summarizes loan commitments:

(In thousands)	**June 30, 2022**	**December 31, 2021**
Undisbursed loan commitments	$ 42,618	$ 33,704
Standby letters of credit	282	282
Total	$ 42,900	$ 33,986

The Company is involved in various regulatory inspections, inquiries, investigations and proceedings, and litigation matters that arise from time to time in the ordinary course of business. The process of resolving matters through litigation or other means is inherently uncertain, and it is possible that an unfavorable resolution of these matters, will adversely affect the Company, its results of operations, financial condition and cash flows. The Company's regular practice is to expense legal fees as services are rendered in connection with legal matters, and to accrue for liabilities when payment is probable.

The Company, through its wholly owned subsidiary Sanders Morris, has uncommitted financing arrangements with clearing brokers that finance its customer accounts, certain broker-dealer balances, and firm trading positions. Although these customer accounts and broker-dealer balances are not reflected on the consolidated balance sheets for financial reporting purposes, Sanders Morris has generally agreed to indemnify these clearing brokers for losses they may sustain in connection with the accounts, and therefore, retains risk on these accounts. Sanders Morris is required to maintain certain cash or securities on deposit with its clearing brokers. Deposits with clearing organizations were $250,000 as of June 30, 2022 and December 31, 2021.

Employment Agreements

The Company is party to amended and restated employment agreements with Patrick Howard, President and Chief Operating Officer of the Company, and Ken Bramlage, Executive Vice President and Chief Financial Officer of the Company. In addition, the Company entered into an employment agreement with A. Haag Sherman, Chief Executive Officer of the Company, in connection with the Company's merger with Tectonic Holdings and its initial public offering. Messrs. Sherman and Howard's employment agreements have a four year term and Mr. Bramlage's employment agreement has a three year term. Each employment agreement is automatically renewable for an additional one-year term unless either party elects not to renew.

Note 12. Related Parties

Advisors' service agreements: In January 2006, the Company entered into a services agreement (the "Tectonic Advisors-CWA Services Agreement") with Cain Watters. The owners of Cain Watters together hold approximately 30% of the voting ownership in the Company. Under the Tectonic Advisors-CWA Services Agreement, Cain Watters pays the Company for due diligence and research services on investment alternatives available to Cain Watters' clients. The Company earned $20,000 and $97,000 during the three and six months ended June 30, 2022, respectively, and $180,000 and $484,000 during the three and six months ended June 30, 2021, respectively, under the Tectonic Advisors-CWA Services Agreement. These fees are included in investment advisory and other related services in the accompanying consolidated statements of income. The Company had $35,000 in fees payable and $76,000 in fees receivable related to these services at June 30, 2022 and December 31, 2021, respectively, which is included in other liabilities and other assets, respectively, on the consolidated balance sheets.

CWA Fee Allocation Agreement: In January 2006, Tectonic Advisors entered into an agreement (the "Fee Allocation Agreement") with Cain Watters with reference to its advisory agreement with the Bank. Tectonic Advisors had $192,000 and $225,000 payable to Cain Watters related to this agreement at June 30, 2022 and December 31, 2021, respectively, which are included in other liabilities on the accompanying consolidated balance sheets.

During the fourth quarter of 2021, Sanders Morris issued a note receivable in the amount of $400,000 related to the exercise of restricted stock options which were granted to employees of Sanders Morris on September 27, 2021. See Note 10, *Stock Compensation Plans*, to these consolidated financial statements for more information. As of June 30, 2022 and December 31, 2021, the note receivable balance was $350,000 and $400,000, respectively.

As of June 30, 2022 and December 31, 2021, certain officers, directors and their affiliated companies had depository accounts with the Bank totaling approximately $6.5 million and $9.2 million, respectively. None of those deposit accounts have terms more favorable than those available to any other depositor. There were no loans outstanding to directors of the Bank or their affiliated companies as of June 30, 2022 and December 31, 2021.

Note 13. Regulatory Matters

The Company and the Bank are 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 and, accordingly, the Company's business, results of operations and financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and tier 1 capital to risk-weighted assets, common equity Tier 1 (“CET1”) capital to total risk-weighted assets, and of tier 1 capital to average assets. To be categorized as “well-capitalized” under the prompt corrective action framework, the Bank must maintain (i) a Total risk-based capital ratio of 10%; (ii) a Tier 1 risk-based capital ratio of 8%; (iii) a Tier 1 leverage ratio of 5%; and (iv) a CET1 risk-based capital ratio of 6.5%.

The Basel III minimum capital ratio requirements and additional capital conservation buffers as applicable to the Company and the Bank as of June 30, 2022 are summarized in the table below.

	BASEL III Minimum for Capital Adequacy Requirements	BASEL III Additional Capital Conservation Buffer	BASEL III Ratio with Capital Conservation Buffer
Total Risk Based Capital (total capital to risk weighted assets)	8.0%	2.5%	10.5%
Tier 1 Risk Based Capital (tier 1 to risk weighted assets)	6.0%	2.5%	8.5%
Common Equity Tier 1 Risk Based (CET1 to risk weighted assets)	4.5%	2.5%	7.0%
Tier 1 Leverage Ratio (tier 1 to average assets)	4.0%	-%	4.0%

Accordingly, a financial institution may be considered “well capitalized” under the prompt corrective action framework, but not satisfy the buffered Basel III capital ratios. As of June 30, 2022, the Bank’s regulatory capital ratios are in excess of the capital conservation buffer and the levels established for “well capitalized” institutions under the Basel III Rules.

The regulatory capital ratios of the Company and the Bank are as follows:

	Actual		Minimum Capital Required - Basel III		Required to be Considered Well Capitalized	
(In thousands, except percentages)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2022						
Total Capital (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	$ 74,621	19.58%	$ 40,016	10.50%	$ 38,110	10.00%
T Bank, N.A.	74,573	19.80	39,539	10.50	37,656	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	70,386	18.47	32,394	8.50	30,488	8.00
T Bank, N.A.	70,338	18.68	32,008	8.50	30,125	8.00
Common Equity Tier 1 (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	53,136	13.94	26,677	7.00	24,772	6.50
T Bank, N.A.	70,338	18.68	26,359	7.00	24,476	6.50
Tier 1 Capital (to Average Assets)						
Tectonic Financial, Inc. (consolidated)	70,386	12.92	21,790	4.00	27,238	5.00
T Bank, N.A.	70,338	13.09	21,487	4.00	26,859	5.00
As of December 31, 2021						
Total Capital (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	$ 66,946	18.55%	$ 37,894	10.50%	$ 36,089	10.00%
T Bank, N.A.	67,454	18.87	37,542	10.50	35,754	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	62,794	17.40	30,676	8.50	28,871	8.00
T Bank, N.A.	63,302	17.70	30,391	8.50	28,604	8.00
Common Equity Tier 1 (to Risk Weighted Assets)						
Tectonic Financial, Inc. (consolidated)	45,544	12.62	25,263	7.00	23,458	6.50
T Bank, N.A.	63,302	17.70	25,028	7.00	23,240	6.50
Tier 1 Capital (to Average Assets)						
Tectonic Financial, Inc. (consolidated)	62,794	11.82	21,245	4.00	26,557	5.00
T Bank, N.A.	63,302	12.06	21,002	4.00	26,252	5.00

Dividend Restrictions. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared (including those on the Series A preferred stock) would cause the regulatory capital of the Bank and/or the Company to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. As of June 30, 2022, approximately $6.8 million was available for the declaration of dividends by the Bank to the Company without prior approval of regulatory agencies and still maintain its “well capitalized” status. In addition, as a Texas corporation, we are restricted under the Texas Business Organizations Code from paying dividends under certain conditions. Under Texas law, we cannot pay dividends to shareholders if the dividends exceed our surplus or if after giving effect to the dividends, we would be insolvent.

In addition to the regulatory requirements of the federal banking agencies, Sanders Morris and Tectonic Advisors are subject to the regulatory framework applicable to registered investment advisors under the SEC’s Division of Investment Management, and additionally, Sanders Morris is regulated by FINRA, which, among other requirements, imposes minimums on its net regulatory capital.

Note 14. Operating Segments

The Company’s reportable segments consist of “Banking,” “Other Financial Services,” and “HoldCo” operations.

The “Banking” segment consists of operations relative to the Company’s full service banking operations, including providing depository and lending services to individual and business customers, and other related banking services, along with services provided through the factoring operations of the Bank’s Integra division.

The “Other Financial Services” segment includes managed and directed brokerage, investment advisory services, including related trust company operations, third party administration, and life and disability insurance brokerage services to both individuals and businesses.

The “HoldCo” operations include the operations and subordinated debt held at the Bank’s immediate parent, as well as the activities of the financial holding company which serves as TBI’s parent.

The tables below present the financial information for each segment that is specifically identifiable, or based on allocations using internal methods, for the three and six months ended June 30, 2022 and 2021:

(In thousands)	Banking	Other Financial Services	HoldCo	Consolidated
Three Months Ended June 30, 2022				
Income Statement				
Total interest income	$ 7,504	$ -	$ -	$ 7,504
Total interest expense	697	-	219	916
Provision for loan losses	-	-	-	-
Net interest income (loss) after provision for loan losses	6,807	-	(219)	6,588
Non-interest income	337	10,252	15	10,604
Depreciation and amortization expense	95	13	-	108
All other non-interest expense	3,525	7,100	546	11,171
Income (loss) before income tax	$ 3,524	$ 3,139	$ (750)	$ 5,913
Goodwill and other intangibles	$ 19,764	$ 2,350	$ -	$ 22,114
Total assets	$ 574,660	$ 13,145	$ 1,019	$ 588,824

(In thousands) Six Months Ended June 30, 2022 Income Statement	Banking	Other Financial Services	HoldCo	Consolidated
Total interest income	$ 15,052	$ -	$ -	$ 15,052
Total interest expense	1,369	-	438	1,807
Provision for loan losses	327	-	-	327
Net-interest income (loss) after provision for loan losses	13,356	-	(438)	12,918
Non-interest income	593	19,955	15	20,563
Depreciation and amortization expense	190	28	-	218
All other non-interest expense	7,103	13,916	1,001	22,020
Income (loss) before income tax	$ 6.656	$ 6,011	$ (1,424)	$ 11,243
Goodwill and other intangibles	$ 19,764	$ 2,350	$ -	$ 22,114
Total assets	$ 574,660	$ 13,145	$ 1,019	$ 588,824

(In thousands) Three Months Ended June 30, 2021 Income Statement	Banking	Other Financial Services	HoldCo	Consolidated
Total interest income	$ 6,216	$ -	$ -	$ 6,216
Total interest expense	669	-	219	888
Provision for loan losses	141	-	-	141
Net-interest income (loss) after provision for loan losses	5,406	-	(219)	5,187
Non-interest income	275	8,158	-	8,433
Depreciation and amortization expense	92	36	-	128
All other non-interest expense	2,608	5,761	336	8,705
Income (loss) before income tax	$ 2,981	$ 2,361	$ (555)	$ 4,787
Goodwill and other intangibles	$ 9,257	$ 2,350	$ -	$ 11,607
Total assets	$ 546,818	$ 10,228	$ 376	$ 557,422

(In thousands) Six Months Ended June 30, 2021 Income Statement	Banking	Other Financial Services	HoldCo	Consolidated
Total interest income	$ 12,530	$ -	$ -	$ 12,530
Total interest expense	1,401	-	437	1,838
Provision for loan losses	569	-	-	569
Net-interest income (loss) after provision for loan losses	10,560	-	(437)	10,123
Non-interest income	459	17,303	85	17,847
Depreciation and amortization expense	184	74	-	258
All other non-interest expense	4,742	11,939	686	17,367
Income (loss) before income tax	$ 6,093	$ 5,290	$ (1,038)	$ 10,345
Goodwill and other intangibles	$ 9,257	$ 2,350	$ -	$ 11,607
Total assets	$ 546,818	$ 10,228	$ 376	$ 557,422

Note 15. Fair Value of Financials Instruments

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820, *Fair Value Measurement,* 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 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.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company has no securities in the Level 1 or Level 3 inputs.

The following table summarizes securities available for sale measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(In thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
As of June 30, 2022				
Securities available for sale:				
U.S. Treasuries	$ -	$ 1,965	$ -	$ 1,965
U.S. government agencies	-	13,690	-	13,690
Mortgage-backed securities	-	4,519	-	4,519
As of December 31, 2021				
Securities available for sale:				
U.S. government agencies	$ -	$ 15,402	$ -	$ 15,402
Mortgage-backed securities	-	1,754	-	1,754

Market valuations of our investment securities which are classified as level 2 are provided by an independent third party. The fair values are determined by using several sources for valuing fixed income securities. Their techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid and other market information. In accordance with the fair value hierarchy, the market valuation sources include observable market inputs and are therefore considered Level 2 inputs for purposes of determining the fair values.

The Company considers transfers between the levels of the hierarchy to be recognized at the end of related reporting periods. During the three and six months ended June 30, 2022, no assets for which fair value is measured on a recurring basis transferred between any levels of the hierarchy.

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

Financial assets measured at fair value on a non-recurring basis during the reported periods include impaired loans and loans held for sale.

Impaired loans. As of June 30, 2022 and December 31, 2021, there were no impaired loans that were reduced by specific valuation allowances.

The significant unobservable inputs (Level 3) used in the fair value measurement of collateral for collateral-dependent impaired loans primarily relate to the specialized discounting criteria applied to the borrower's reported amount of collateral. The amount of the collateral discount depends upon the condition and marketability of the collateral, as well as other factors which may affect the collectability of the loan. As the Company's primary objective in the event of default would be to liquidate the collateral to settle the outstanding balance of the loan, collateral that is less marketable would receive a larger discount. During the reported periods, there were no discounts for collateral-dependent impaired loans.

The valuation of our not readily marketable investment securities which are classified as Level 3 are based on the Company's own assumptions and inputs that are both significant to the fair value measurement, and are unobservable.

Our assessment of the significance of a particular input to the Level 3 fair value measurements in their entirety requires judgment and considers factors specific to the assets. It is reasonably possible that a change in the estimated fair value for instruments measured using Level 3 inputs could occur in the future.

Loans held for sale. Loans held for sale include the guaranteed portion of SBA and USDA loans and are reported at the lower of cost or estimated fair value. Fair value for SBA and USDA loans is based on market indications available in the market. There were no impairments reported for the periods presented.

Non-financial assets measured at fair value on a non-recurring basis during the reported periods include other real estate owned which, upon initial recognition, was re-measured and reported at fair value through a charge-off to the allowance for loan losses. Additionally, foreclosed assets which, subsequent to their initial recognition, are re-measured at fair value through a write-down included in other non-interest expense. Regulatory guidelines require the Company to reevaluate the fair value of foreclosed assets on at least an annual basis. The fair value of foreclosed assets, upon initial recognition and impairment, are re-measured using Level 2 inputs based on observable market data. Estimated fair value of other real estate is based on appraisals. Appraisers are selected from the list of approved appraisers maintained by management. As of June 30, 2022 and December 31, 2021, foreclosed assets totaled $1.1 million consisting of two loans that were foreclosed during 2021 and were recorded at fair value. There were no foreclosed assets during the three and six months ended June 30, 2022 and 2021, and there were no foreclosed assets re-measured during the three and six months ended June 30, 2022 and 2021.

The methods and assumptions used to estimate fair value of financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, restricted securities, accrued interest receivable and accrued interest payable. The estimated fair value of demand and savings deposits is the carrying amount since rates are regularly adjusted to market rates and amounts are payable on demand. For borrowed funds and variable rate loans or deposits that re-price frequently and fully, the estimated fair value is the carrying amount. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent re-pricing, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. For loans held for sale, the estimated fair value is based on market indications for similar assets in the active market. The estimated fair value of other financial instruments and off-balance-sheet loan commitments approximate cost and are not considered significant to this presentation.

The Company adds a servicing asset when loans are sold and the servicing is retained, and uses the amortization method for the treatment of the servicing asset. The servicing asset is carried at lower of cost or fair value. Loan servicing assets do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using a discounted cash flow model having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, servicing rights are classified within Level 3 of the hierarchy. During the three and six months ended June 30, 2022, the Company had no sale of loans and did not add any servicing assets. During the three and six months ended June 30, 2021, the Company added servicing assets totaling $19,000 in connection with the sale of $1.1 million in loans. There was no allowance provision for servicing assets for the three and six months ended June 30, 2022 and 2021.

FASB ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value approximates carrying value for cash and cash equivalents and accrued interest. The methodologies for other financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis are discussed below.

Securities held to maturity. The securities in this category include PACE and PID/TIRZ investments. These investment contracts or bonds originate under a contractual obligation between the property owners, the local county administration, and a third-party administrator and sponsor. These investments have no readily determinable fair value.

Loans. The estimated fair value approximates carrying value for variable-rate loans that reprice frequently and with no significant change in credit risk. The fair value of fixed-rate loans and variable-rate loans which reprice on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality.

Deposits. The fair values of demand deposits, savings deposits are, by definition, equal to the amount payable on demand and, therefore, approximate their carrying amounts. The fair values for time deposits are estimated using a discounted cash flow calculation that utilizes interest rates currently being offered on time deposits with similar contractual maturities.

Borrowed Funds. The estimated fair value approximates carrying value for short-term borrowings. The fair value of long-term fixed-rate borrowings is estimated using quoted market prices, if available, or by discounting future cash flows using current interest rates for similar financial instruments. The estimated fair value approximates carrying value for variable-rate junior subordinated deferrable interest debentures that reprice quarterly.

Loan Commitments, Standby and Commercial Letters of Credit. Our lending commitments have variable interest rates and "escape" clauses if the customer's credit quality deteriorates. Therefore, the fair values of these items are not significant and are not included in the following table.

Carrying amounts and estimated fair values of other financial instruments by level of valuation input were as follows:

	June 30, 2022	
(In thousands)	**Carrying Amount**	**Estimated Fair Value**
Financial assets:		
Level 1 inputs:		
Cash and cash equivalents	$ 41,513	$ 45,513
Level 2 inputs:		
Securities available for sale	20,174	20,174
Securities, restricted	3,485	3,485
Loans held for sale	31,950	34,639
Accrued interest receivable	1,785	1,785
Level 3 inputs:		
Securities held to maturity	26,227	26,227
Securities not readily marketable	100	100
Loans, net	424,711	429,313
Servicing asset	364	364
Financial liabilities:		
Level 1 inputs:		
Non-interest bearing deposits	100,977	100,977
Level 2 inputs:		
Interest bearing deposits	373,650	360,918
Borrowed funds	12,000	12,000
Accrued interest payable	516	516

(In thousands)	December 31, 2021 Carrying Amount	Estimated Fair Value
Financial assets:		
Level 1 inputs:		
Cash and cash equivalents	$ 45,992	$ 45,992
Level 2 inputs:		
Securities available for sale	17,156	17,156
Securities, restricted	2,432	2,432
Loans held for sale	33,762	37,549
Accrued interest receivable	2,268	2,268
Level 3 inputs:		
Securities held to maturity	19,673	19,673
Securities not readily marketable	100	100
Loans, net	424,595	430,810
Servicing asset	503	503
Financial liabilities:		
Level 1 inputs:		
Non-interest bearing deposits	88,876	88,876
Level 2 inputs:		
Interest bearing deposits	355,293	359,606
Borrowed funds	46,521	46,521
Accrued interest payable	561	561

Note 16. Recent Accounting Pronouncements

FASB Accounting Standards Update (“ASU”) 2022-02, “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Additionally, ASU 2022-02 requires entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of ASC Subtopic 3126-20, Financial Instruments - Credit Losses - Measured at Amortized Cost. ASU 2022-02 will be effective for us on January 1, 2023 though early adoption is permitted. The adoption of ASU 2022-02 is not expected to have a significant impact on our financial statements.

ASU 2016-13, “*Financial Instruments-Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments.*” ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 became effective for most public companies on January 1, 2020, subject to a company’s election to defer implementation due to the COVID-19 pandemic. On July 17, 2019, the FASB proposed to delay the implementation of the current expected credit loss standard (“CECL”) for certain companies including smaller reporting companies (“SRCs”) as defined by the SEC. The Company falls within the definition of an SRC under applicable rules promulgated by the SEC. The proposed delay by FASB was subject to a comment period. At the October 16, 2019 FASB meeting, the FASB voted unanimously to delay the effective date of CECL adoption for SRCs to January 1, 2023. The Company has developed processes for assessment and documentation, model development and validation. While the Company generally expects that the implementation of ASU 2016-13 may increase their allowance for loan losses balance, the adoption of the CECL methodology will be significantly influenced by the composition, characteristics and quality of the loan portfolio along with the prevailing economic conditions and forecasts as of the adoption date.

Note 17. Acquisition

On July 1, 2021, we, through our wholly-owned subsidiary TBI, acquired Integra through the merger of Integra with and into TBI, with TBI surviving the merger. Integra’s activity will be reported within our Banking segment. Integra is a factoring company that provides financing to smaller transportation companies across the United States principally by purchasing their accounts receivable at a discount and then collecting such receivables at face value. We believe that the addition of this small business lending vertical will provide the Bank with additional breadth in its lending platform and enable the Bank to continue to prudently grow its balance sheet and generate relatively attractive returns on its assets.

Pursuant to the terms of and subject to the conditions set forth in the Agreement and Plan of Merger by and between the Company and Integra (the "Merger Agreement"), the transaction provided for the payment to the members of Integra of (a) an amount of cash equal to (i) approximately $2.5 million, subject to certain adjustments described in the Merger Agreement which totaled $726,721, and (b) 453,203 shares of the Company's common stock. In addition, the Company incurred $115,726 of expenses related to the acquisition of Integra, which is reported in non-interest expense on our consolidated statements of income.

A summary of the fair values of assets acquired, liabilities assumed, consideration transferred, and the resulting goodwill, which represents the expected synergies from the Integra merger, and is not deductible for tax purposes, is as follows:

(In thousands)		
Assets acquired:		
Factored receivables	$	33,442
Other assets		270
Premises and equipment		24
Loans receivable		1,103
		34,839
Liabilities assumed:		
Deposits		2,535
Other liabilities		253
Borrowings		28,927
		31,715
Fair value of net assets acquired		3,124
Consideration:		
Cash paid		3,185
Common stock		10,650
Total consideration		13,835
Goodwill	$	10,711

The contractual value of the factored receivables acquired was $34.3 million. The amount above represents the contractual value of the receivables less the purchased deferred discount of $397,000 and the fair value adjustment of $492,000. The value for the common stock was based on an earnings based multiple plus a control premium.

Supplemental Pro Forma Information (unaudited)

The following table presents financial information regarding the former Integra operations included in the Company's consolidated Statements of Income for the six months ended June 30, 2022. In addition, the table presents unaudited condensed pro forma financial information assuming that the Integra acquisition was completed as of January 1, 2021. Integra was a subchapter S corporation and as such, income tax on its earnings was paid by its shareholders. The results shown below for the period prior to the acquisition include an estimate for income tax at the Company's statutory rate.

The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been obtained had the acquisition occurred on January 1, 2021, nor is it indicative of future results.

(In thousands)	**Integra for the Six Months ended June 30, 2022**	**Actual Consolidated for the Six Months Ended June 30, 2022**	**Pro Forma Combined for the Six Months Ended June 30, 2021**
Net interest income	$ 3,735	$ 12,918	$ 12,496
Noninterest income	313	20,563	17,864
Noninterest expense	1,535	22,238	18,771
Net income after income taxes	1,986	9,026	8,998

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes thereto appearing in Item 1 of Part I of this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2022 (this "Form 10-Q"), as well as with our consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission (the "SEC") on March 31, 2022 (the "2021 Form 10-K").

Cautionary Notice Regarding Forward-Looking Statements

Statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including our expectations, intentions, beliefs, or strategies regarding the future. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," and similar expressions. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may differ materially from those in or implied by such forward-looking statements due to the factors discussed under the section entitled "Risk Factors," in our 2021 Form 10-K, including, but not limited to, the following:

- changes in interest rates, including the recent significant increases in market interest rates experienced in the first half of 2022, which could negatively impact bond market values and result in a lower net book value;
- our ability to successfully manage the current rising market interest rate environment, our credit risk and the level of future non-performing assets and charge-offs;
- risks associated with the uncertain inflationary outlook in the United States and our market areas and its impact on market interest rates, the economy and credit quality;
- the potential for a recession in the United States and our market areas and the negative and adverse impact a recession would have on our earnings, capital and financial position resulting from higher losses on the Bank's loan and factored receivables portfolios; a decline in the equity and fixed income markets that would reduce assets under management and capital markets activity, thereby reducing the earnings at Sanders Morris and Tectonic Advisors, as well as earnings on trust assets at the Bank;
- changes in the United States economy generally and the regulatory response thereto;
- changes in the economy of the State of Texas, our primary market;
- risks associated with the ongoing COVID-19 global pandemic ("COVID-19"), or any current or future variants of COVID-19, including, among others, business disruption for our customers, customers' ability to fulfill their financial obligations to the Company, our employees' ability to conduct banking and other transactions, the response of governmental authorities to the COVID-19 pandemic, or any current or future variants thereof, and our participation in COVID-19-related government programs such as the Paycheck Protection Program (the "PPP") administered by the Small Business Administration (the "SBA") and created under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act");
- risks associated with implementing aspects of our expansion strategy, whether through additional services and products or acquisitions;
- liquidity risks, including those related to having enough liquid assets to meet depositor demands;
- the need to hold more capital in order to comply with consolidated capital ratios;
- competition from other banks, financial institutions and wealth and investment management firms and our ability to retain our clients;
- the adequacy of our allowance for loan losses;
- risks associated with generating deposits from retail sources without a branch network so that we can fund our loan portfolio and growth;
- risks associated with higher cost deposits relative to our peer group, which has an impact on our net interest margin and profits;
- risks associated with having one referral source, Cain Watters & Associates, LLC ("Cain Watters"), comprise a substantial part of our business;
- our reliance on key personnel and the ability to attract and retain the personnel necessary to implement our business plan;
- risks specific to commercial loans and borrowers (particularly dental and SBA loans);
- our ability to continue to originate loans (including SBA loans);
- impairment of our goodwill or other intangible assets;
- claims and litigation pertaining to our fiduciary responsibilities;
- generating investment returns for our wealth management, brokerage and other customers that are satisfactory to them;
- our ability to maintain a strong core deposit base or other low-cost funding sources;
- our ability to manage our credit risk;

- regulatory scrutiny related to our loan portfolio, including commercial real estate;
- the earning capacity of our borrowers;
- fluctuation in the value of our investment securities;
- our inability to identify and address potential conflicts of interest;
- our ability to maintain effective internal control over financial reporting;
- the accuracy of estimates and assumptions;
- the development of an active, liquid market for the Series B preferred stock;
- fluctuations in the market price of the Series B preferred stock;
- our ability to raise additional capital, particularly during times of stress;
- the soundness of other counterparty financial institutions and certain securities brokerage firms;
- technological change in the banking, investment, brokerage and insurance industry;
- our ability to protect against and manage fraudulent activity, breaches of our information security, and cybersecurity attacks;
- our reliance on communications, information, operating and financial control systems technology and related services from third-party service providers;
- natural disasters and epidemics and pandemics, such as COVID-19, or any current or future variants thereof;
- the effects of terrorism and acts of war or threat thereof, including the current conflict in Ukraine, and efforts by the U.S. to combat it;
- environmental liabilities;
- regulation of the financial services industry;
- legislative changes or the adoption of tax reform policies;
- political instability and changes in tariffs and trade barriers;
- compliance with laws and regulations, supervisory actions, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Economic Growth, Regulatory Relief and Consumer Protection Act (“EGRRCPA”), capital requirements, the Bank Secrecy Act, anti-money laundering laws, consumer laws, and other statutes and regulations;
- regulation of broker-dealers and investment advisors;
- the enactment of regulations relating to privacy, information security and data protection;
- legal and regulatory examinations, proceedings, investigations and inquiries, fines and sanctions;
- future issuances of preferred stock or debt securities and its impact on the Series B preferred stock;
- our ability to manage our existing and future preferred stock and indebtedness;
- our ability to pay dividends;
- the continuation of securities analysts coverage of the company;
- our management and board of directors have significant control over our business;
- risks related to being a “controlled company” under NASDAQ rules;
- the costs and expenses of being a public company; and
- changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters, including the policies of the Board of Governors of the Federal Reserve System (“Federal Reserve”) and as a result of initiatives of the Biden administration.

In addition, financial markets and global supply chains may be adversely affected by the current or anticipated impact of military conflict, including the current Russian invasion of Ukraine, terrorism or other geopolitical events.

You should not place undue reliance on any such forward-looking statements. Any forward-looking statement reflects only information known to us as of the date on which it is made and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by law. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Other Available Information

We file or furnish with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports required by Section 13(a) or 15(d) of the Exchange Act. Electronic copies of our SEC filings are available to the public at the SEC’s website at https://www.sec.gov. In addition, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports required by Section 13(a) or 15(d) of the Exchange Act are available through our website, www.t.financial, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The Company routinely posts important information for investors on its website, www.t.financial. The Company intends to use its website as a means of disclosing material non-public information and for complying with its disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Company's website, in addition to following the Company's press releases, SEC filings, public conference calls, presentations and webcasts.

Our website and the information contained on or accessible through our website is not incorporated by reference into, and is not a part of, this Form 10-Q.

General

We are a financial holding company headquartered in Dallas, Texas. We provide a wide array of financial products and services including banking, trust, investment advisory, securities brokerage, third party administration, qualified plan recordkeeping and insurance services to individuals, small businesses and institutions across the United States.

The following discussion and analysis presents our consolidated financial condition as of June 30, 2022 and December 31, 2021, and our consolidated results of operations for the three and six months ended June 30, 2022 and 2021. The discussion should be read in conjunction with our financial statements and the notes related thereto in this Form 10-Q and in the audited financial statements in our 2021 Form 10-K.

We operate through four main direct and indirect subsidiaries: (i) T Bancshares, Inc. ("TBI"), which was incorporated under the laws of the State of Texas on December 23, 2002 to serve as the bank holding company for T Bank, N.A. a national banking association (the "Bank"), (ii) Sanders Morris Harris LLC ("Sanders Morris"), a registered broker-dealer with the Financial Industry Regulatory Authority ("FINRA"), and registered investment advisor with the SEC, (iii) Tectonic Advisors, LLC ("Tectonic Advisors"), a registered investment advisor registered with the SEC focused generally on managing money for relatively large, affiliated institutions, and (iv) HWG Insurance Agency LLC ("HWG"), an insurance agency registered with the Texas Department of Insurance ("TDI").

Critical Accounting Policies and Estimates

We prepare consolidated financial statements based on accounting principles generally accepted in the United States ("GAAP") and to customary practices within the financial services industry. These policies, in certain areas, require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While we base estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

We consider accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain at the time we make the accounting estimate and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the financial statements.

Accounting policies related to the allowance for loan losses are considered to be critical as these policies involve considerable subjective judgment and estimation by management. Management has adopted a methodology to properly analyze and determine an adequate loan loss allowance, which includes allowance allocations calculated in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, *Receivables*, and allowance allocations calculated in accordance with FASB ASC Topic 450, *Contingencies*. The analysis is based on sound, reliable and well documented information and is designed to support an allowance that is adequate to absorb all estimated incurred losses in our loan portfolio. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance accounts is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets. Refer to the 2021 Form 10-K for additional information regarding critical accounting policies.

Performance Summary

Net income available to common shareholders increased $1.0 million, or 30.3%, to $4.4 million for the three months ended June 30, 2022, compared to $3.3 million for the three months ended June 30, 2021. Earnings per diluted common share were $0.59 and $0.50 for the three months ended June 30, 2022 and 2021, respectively. Net income available to common shareholders increased $1.0 million, or 13.9%, to $8.3 million for the six months ended June 30, 2022, compared to $7.2 million for the six months ended June 30, 2021. Earnings per diluted common share were $1.13 and $1.09 for the six months ended June 30, 2022 and 2021, respectively. The increases in net income available to common shareholders for the three and six months ended June 30, 2022 resulted primarily from increases in net interest income and non-interest income, partly offset by an increase in noninterest expense.

For the three months ended June 30, 2022, annual return on average assets was 3.32%, compared to 2.71% for the same period in the prior year, and annual return on average equity was 21.48%, compared to 20.91% for the same period in the prior year. For the six months ended June 30, 2022, annual return on average assets was 3.14%, compared to 3.04% for the same period in the prior year, and annual return on average equity was 23.37%, compared to 26.11% for the same period in the prior year. The higher annual return on average assets ratios for the three and six months ended June 30, 2022 was due to an increase in income which outpaced the increase in average assets compared to the same period in the prior year. The lower annual return on average equity ratios for the three and six months ended June 30, 2022 was due to the increase in equity which outpaced the increase in income compared to the same period in the prior year. The growth in average equity between the two periods is primarily related to shares of Company common stock issued for the Company's acquisition of Integra Funding Solutions, LLC, a Texas limited liability company ("Integra"), on July 1, 2021.

Our accounting and reporting policies conform to GAAP and the prevailing practices in the banking industry. However, this Form 10-Q contains financial information determined by methods other than in accordance with GAAP, which includes return on average tangible common equity. We calculate return on average tangible common equity as net income available to common shareholders (net income less dividends paid on preferred stock) divided by average tangible common equity. We calculate average tangible common equity as average shareholders' equity less average goodwill, average core deposit intangible and average preferred stock. The most directly comparable GAAP financial measure for tangible common equity is average total shareholders' equity. We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, measures and ratios prepared in accordance with GAAP.

The following table presents non-GAAP reconciliations of annual return on average tangible common equity:

(Dollars in thousands)	As of and for the Three Months Ended June 30, 2022	As of and for the Three Months Ended June 30, 2021	As of and for the Six Months Ended June 30, 2022	As of and for the Six Months Ended June 30, 2021
Income available to common shareholders (a)	$ 4,353	$ 3,329	$ 8,250	$ 7,239
Average shareholders' equity	$ 88,534	$ 63,806	$ 87,051	$ 61,904
Less: average goodwill	21,440	10,729	21,440	10,729
Less: average core deposit intangible	708	910	734	935
Less: average preferred stock	17,250	17,250	17,250	17,250
Average tangible common equity (b)	$ 49,136	$ 34,917	$ 47,627	$ 32,990
Annual return on average tangible common equity (a)/(b)	35.53%	38.24%	34.93%	44.25%

Total assets increased $3.8 million, or 0.7%, to $588.8 million as of June 30, 2022, from $585.0 million as of December 31, 2021. This increase was primarily due to increases of $3.0 million in securities available for sale and $6.6 million in securities held to maturity, partly offset by decreases of $4.5 million in cash and cash equivalents and $1.8 million in loans held for sale. Substantially all loans outside of those made under the PPP are secured by specific collateral, including business assets, consumer assets, and commercial real estate.

Shareholders' equity increased $6.0 million, or 7.1%, to $90.8 million as of June 30, 2022, from $84.8 million as of December 31, 2021. See analysis of shareholders' equity in the section captioned "Capital Resources and Regulatory Capital Requirements" included elsewhere in this discussion.

Results of Operations for the Three and Six Months Ended June 30, 2022 and 2021

Details of the changes in the various components of net income are discussed below.

Net Interest Income

Net interest income is the difference between interest income on interest-earning assets, such as loans, investment securities, and interest-bearing cash, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Changes in net interest income result from changes in volume and spread, and are reflected in the net interest margin, as well as changes in average interest rates. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Margin refers to net interest income divided by average interest-earning assets, and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

The following tables present the changes in net interest income and identifies the changes due to differences in the average volume of interest-earning assets and interest–bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities. The changes in net interest income due to changes in both average volume and average interest rate have been allocated to the average volume change or the average interest rate change in proportion to the absolute amounts of the change in each.

Three Months Ended June 30, 2022 and 2021

	Three Months Ended June 30, 2022 vs June 30, 2021		
	Increase (Decrease) Due to Change in		
(In thousands)	**Rate**	**Average Volume**	**Total**
Interest-bearing deposits and federal funds sold	$ 114	$ (57)	$ 57
Securities	33	177	210
Loans, net of unearned discount (1)	814	207	1,021
Total earning assets	961	327	1,288
Savings and interest-bearing demand	-	2	2
Money market deposit accounts	78	28	106
Time deposits	(88)	79	(9)
FHLB and other borrowings	67	(138)	(71)
Total interest-bearing liabilities	57	(29)	28
Changes in net interest income	$ 904	$ 356	$ 1,260

(1) Average loans include non-accrual.

Net interest income increased $1.3 million, or 24.5%, from $5.3 million for the three months ended June 30, 2021 to $6.6 million for the three months ended June 30, 2022. The increase in net interest income was primarily due to the increase in the average yield on loans, and to a lesser extent an increase in the average yield in the interest-bearing deposits (which are held at the Federal Reserve Bank of Dallas (the "FRB")), and to an increase in the average volume of securities and loans. Net interest margin for the three months ended June 30, 2022 and 2021 was 5.03% and 4.11%, respectively, an increase of 92 basis points.

The average volume of interest-earning assets increased $6.1 million, or 1.2%, from $519.7 million for the three months ended June 30, 2021 to $525.8 million for the three months ended June 30, 2022. The average volume of securities increased $18.6 million, or 73.8%, from $25.2 million for the three months ended June 30, 2021, to $43.8 million for the three months ended June 30, 2022, and the average volume of loans increased $13.3 million, or 3.0%, from $436.0 million for the three months ended June 30, 2021 to $449.2 million for the three months ended June 30, 2022. The increases were partly offset by a decrease in the average volume of interest-bearing deposits of $25.7 million, or 44.0%, from $58.4 million for the three months ended June 30, 2021 to $32.7 million for the three months ended June 30, 2022. The increase in the average volume of loans included increases of $69.8 million for organic loan growth and $34.5 million for factored receivables related to the Integra acquisition during the third quarter of 2021, partly offset by a $91.1 million decrease of PPP loans. The average yield on interest-earning assets increased 92 basis points from 4.80% for the three months ended June 30, 2021 to 5.72% for the three months ended June 30, 2022. The average yield on interest earning assets was impacted by changes in market interest rates and changes in the mix of interest-earning assets. The average yield for loans increased 75 basis points from 5.51% for the three months ended June 30, 2021 to 6.26% for the three months ended June 30, 2022. During the three months ended June 30, 2022, we recognized $1.9 million of interest income related to the factored receivables, with an average yield of 22.5%. During the three months ended June 30, 2022, we recognized $3,000 in PPP related deferred fees (net of amortization of related deferred origination costs) as a yield adjustment and this amount is included in interest income on loans. This was a decrease of $1.2 million from the same period in the prior year. As a result of the inclusion of these net fees in interest income, the average yield on PPP loans decreased to 1.2% for the three months ended June 30, 2022, from 6.1% for the same period in the prior year. The average yield on securities increased 52 basis points from 3.30% for the three months ended June 30, 2021, to 3.82% for the three months ended June 30, 2022, and the average yield on interest-bearing deposits increased 78 basis points from 0.11% for the three months ended June 30, 2021, to 0.89% for the three months ended June 30, 2022.

The average volume of interest-bearing liabilities decreased $31.9 million, or 7.9%, from $405.9 million for the three months ended June 30, 2021, to $374.0 million for the three months ended June 30, 2022. The average volume of interest-bearing deposits increased $55.5 million, or 18.5%, from $299.5 million for the three months ended June 30, 2021, to $355.0 million for the three months ended June 30, 2022. The average interest rate paid on interest-bearing liabilities increased 10 basis points from 0.88% for the three months ended June 30, 2021, to 0.98% for the three months ended June, 2022. The average interest rate paid on interest-bearing deposits decreased just 1 basis point from 0.79% for the three months ended June 30, 2021, to 0.78% for the three months ended June, 2022. The average volume of non-interest bearing deposits increased $28.3 million, or 39.6%, from $71.5 million for the three months ended June 30, 2021 to $99.8 million for the three months ended June 30, 2022. The average volume of FHLB and other borrowings decreased $87.5 million, or 92.6%, from $94.4 million for the three months ended June 30, 2021 to $6.9 million for the three months ended June 30, 2022, consisting mostly of funding from the PPPLF, at an interest rate of 0.35%, used to fund the PPP loans. The average cost of FHLB and other borrowings increased 28 basis points from 0.35% for the three months ended June 30, 2021, to 0.63% for the three months ended June 30, 2022.

Six Months Ended June 30, 2022 and 2021

	Six Months Ended June 30, 2022 vs June 30, 2021		
	Increase (Decrease) Due to Change in		
(In thousands)	**Rate**	**Average Volume**	**Total**
Interest-bearing deposits and federal funds sold	$ 74	$ (1)	$ 73
Securities	106	293	399
Loans, net of unearned discount (1)	1,629	421	2,050
Total earning assets	1,809	713	2,522
Savings and interest-bearing demand	2	3	5
Money market deposit accounts	72	57	129
Time deposits	(200)	154	(46)
FHLB and other borrowings	29	(148)	(119)
Total interest-bearing liabilities	(97)	66	(31)
Changes in net interest income	$ 1,906	$ 647	$ 2,553

(1) Average loans include non-accrual.

Net interest income increased $2.6 million, or 24.0%, from $10.7 million for the six months ended June 30, 2021 to $13.2 million for the six months ended June 30, 2022. The increase in net interest income was primarily due to an increase in the average yield on loans and an increase in the average volume of loans, and to a lesser extent an increase in average volume of securities and a decrease in the average rate paid on time deposits. Net interest margin for the six months ended June 30, 2022 and 2021 was 5.01% and 4.28%, respectively, an increase of 73 basis points.

The average volume of interest-earning assets increased $29.1 million, or 5.8%, from $503.5 million for the six months ended June 30, 2021 to $532.6 million for the six months ended June 30, 2022. The average volume of securities increased $16.3 million, or 63.7%, from $25.6 million for the six months ended June 30, 2021, to $41.9 million for the six months ended June 30, 2022, and the average volume of loans increased $13.4 million, or 3.1%, from $437.4 million for the six months ended June 30, 2021 to $450.8 million for the six months ended June 30, 2022. The increase in the average volume of loans included increases of $66.2 million for organic loan growth and $35.8 million for factored receivables related to the Integra acquisition during the third quarter of 2021, partly offset by a $85.6 million decrease of PPP loans. The average yield on interest-earning assets increased 68 basis points from 5.02% for the six months ended June 30, 2021 to 5.70% for the six months ended June 30, 2022. The average yield on interest earning assets was impacted by changes in market interest rates and changes in the mix of interest-earning assets. The average yield for loans increased 76 basis points from 5.60% for the six months ended June 30, 2021, to 6.36% for the six months ended June 30, 2022. During the six months ended June 30, 2022, we recognized $175,000 in PPP related deferred fees (net of amortization of related deferred origination costs) as a yield adjustment and this amount is included in interest income on loans. This was a decrease of $2.7 million from the same period in the prior year. As a result of the inclusion of these net fees in interest income, the average yield on PPP loans decreased to 3.5% for the six months ended June 30, 2022, from 6.8% for the same period in the prior year. The average yield on securities increased 84 basis points from 2.78% for the six months ended June 30, 2021, to 3.62% for the six months ended June 30, 2022, and the average yield on interest-bearing deposits increased 37 basis points from 0.10% for the six months ended June 30, 2021, to 0.47% for the six months ended June 30, 2022.

The average volume of interest-bearing liabilities decreased $14.2 million, or 3.6%, from $398.1 million for the six months ended June 30, 2021 to $383.9 million for the six months ended June 30, 2022. The average volume of interest-bearing deposits increased $57.6 million, or 19.3%, from $297.8 million for the six months ended June 30, 2021, to $355.4 million for the six months ended June 30, 2022. The average interest rate paid on interest-bearing liabilities increased 2 basis points from 0.93% for the six months ended June 30, 2021, to 0.95% for the six months ended June, 2022. The average interest rate paid on interest-bearing deposits decreased 9 basis points from 0.85% for the six months ended June 30, 2021, to 0.76% for the six months ended June 30, 2022. Non-interest bearing deposits increased $33.9 million, or 52.8%, from $64.2 million for the six months ended June 30, 2021, to $98.1 million for the six months ended June 30, 2022. The average volume of FHLB and other borrowings decreased $71.9 million, or 81.4%, from $88.3 million for the six months ended June 30, 2021, to $16.4 million for the six months ended June 30, 2022, consisting mostly of funding from the PPPLF program, at an interest rate of 0.35%, used to fund the PPP loans. The average cost of FHLB and other borrowings increased 7 basis points from 0.35% for the six months ended June 30, 2021, to 0.42% for the six months ended June 30, 2022.

The following table sets forth our average balances of assets, liabilities and shareholders' equity, in addition to the major components of net interest income and our net interest margin, for the three months ended June 30, 2022 and 2021.

	Three Months Ended June 30,					
	2022			2021		
(In thousands, except percentages)	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Assets						
Interest-bearing deposits and federal funds sold	$ 32,734	$ 73	0.89%	$ 58,444	$ 16	0.11%
Securities	43,756	417	3.82	25,197	207	3.30
Loans, net of unearned discount (1)	449,289	7,014	6.26	436,020	5,993	5.51
Total earning assets	525,779	7,504	5.72	519,661	6,216	4.80
Cash and other assets	51,310			32,761		
Allowance for loan losses	(4,322)			(3,193)		
Total assets	$ 572,767			$ 549,229		
Liabilities and Shareholders' Equity						
Savings and interest-bearing demand	$ 17,952	11	0.25%	$ 15,371	9	0.23%
Money market deposit accounts	130,007	206	0.64	112,089	100	0.36
Time deposits	207,047	469	0.91	172,000	478	1.11
Total interest-bearing deposits	355,006	686	0.78	299,460	587	0.79
FHLB and other borrowings	6,964	11	0.63	94,455	82	0.35
Subordinated notes	12,000	219	7.32	12,000	219	7.32
Total interest-bearing liabilities	373,970	916	0.98	405,915	888	0.88
Non-interest-bearing deposits	99,754			71,547		
Other liabilities	10,509			7,961		
Total liabilities	484,233			485,426		
Shareholders' equity	88,534			63,806		
Total liabilities and shareholders' equity	$ 572,767			$ 549,229		
Net interest income		$ 6,588			$ 5,328	
Net interest spread			4.74%			3.92%
Net interest margin			5.03%			4.11%

(1) Includes non-accrual loans.

The following table sets forth our average balances of assets, liabilities and shareholders' equity, in addition to the major components of net interest income and our net interest margin, for the six months ended June 30, 2022 and 2021.

	Six Months Ended June 30,					
	2022			2021		
(In thousands, except percentages)	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Assets						
Interest-bearing deposits and federal funds sold	$ 39,973	$ 94	0.47%	$ 40,555	$ 21	0.10%
Securities	41,873	752	3.62	25,566	353	2.78
Loans, net of unearned discount (1)	450,754	14,206	6.36	437,395	12,156	5.60
Total earning assets	532,600	15,052	5.70	503,516	12,530	5.02
Cash and other assets	50,685			31,951		
Allowance for loan losses	(4,226)			(3,070)		
Total assets	$ 579,059			$ 532,397		
Liabilities and Shareholders' Equity						
Savings and interest-bearing demand	$ 16,275	21	0.26%	$ 13,740	16	0.23%
Money market deposit accounts	132,542	327	0.50	109,602	198	0.36
Time deposits	206,617	988	0.96	174,470	1,034	1.20
Total interest-bearing deposits	355,434	1,336	0.76	297,812	1,248	0.85
FHLB and other borrowings	16,459	34	0.42	88,318	153	0.35
Subordinated notes	12,000	437	7.34	12,000	437	7.34
Total interest-bearing liabilities	383,893	1,807	0.95	398,130	1,838	0.93
Non-interest-bearing deposits	98,117			64,205		
Other liabilities	9,998			8,158		
Total liabilities	492,008			470,493		
Shareholders' equity	87,051			61,904		
Total liabilities and shareholders' equity	$ 579,059			$ 532,397		
Net interest income		$ 13,245			$ 10,692	
Net interest spread			4.75%			4.09%
Net interest margin			5.01%			4.28%

Provision for Loan Losses

There was no provision for loan losses for the three months ended June 30, 2022. The provision for loan losses totaled $141,000 for the three months ended June 30, 2021. For the six months ended June 30, 2022, the provision for loan losses totaled $327,000, compared to $569,000 for the six months ended June 30, 2021. We determined a provision for loan losses that we consider sufficient to maintain an allowance to absorb probable losses inherent in our portfolio as of the balance sheet date. Nevertheless, there is continued uncertainty in the forecasted economic conditions due to the rising interest rate environment and persistent high inflation levels, and additional or reversal provisions for loan losses may be necessary in future periods.

For additional information concerning this determination, see the section captioned "Allowance for Loan Losses" elsewhere in this discussion.

Non-Interest Income

The components of non-interest income were as follows:

(In thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Trust income	$ 1,557	$ 1,532	$ 3,154	$ 2,972
Gain on sale of loans	-	101	-	101
Advisory income	3,358	3,276	6,932	6,293
Brokerage income	3,712	2,028	6,183	4,591
Service fees and other income	1,889	1,408	4,105	3,714
Rental income	88	88	189	176
Total	$ 10,604	$ 8,433	$ 20,563	$ 17,847

Total non-interest income for the three months ended June 30, 2022 increased $2.2 million, or 25.7%, and $2.7 million, or 15.2%, compared to the same periods in the prior year. Material changes in the various components of non-interest income are discussed below.

Trust Income. Trust income is earned for trust services on the value of managed and non-managed assets held in custody. Volatility in the bond and equity markets impacts the market value of trust assets and the related fees. Trust income for the three and six months ended June 30, 2022 increased $25,000, or 1.6%, and increased $182,000, or 6.1%, respectively, compared to the same periods in the prior year. The increase in trust income between the periods is due to an increase in the average market value of the trust assets for the three and six months ended June 30, 2022 compared to the three and six months ended June 30, 2021. The increase in the average market value of the trust assets between the two periods was primarily due to an increase in net flows of assets, which offset a decrease in average market values of trust assets from market declines during early 2022. Such decrease deepened during the three months ended June 30, 2022 and is attributed to the Federal Open Market Committee of the Board of Governors of the Federal Reserve System raising their target benchmark interest rate during the three months ended June 30, 2022, and the ensuing increases in market interest rates during the period. In addition, asset values during the three and six months ended June 30, 2021 reflected the continued uncertainty related to the economic impacts of the ongoing COVID-19 pandemic, which led to volatility in asset values, negatively impacting trust income, whereas the uncertainty around the COVID-19 pandemic abated during the remainder of 2021. Volatility related to impacts of geo-political instability related to the war in Ukraine, regulatory action, including further increases in market interest rates by the Federal Reserve in response to the persistence of the inflationary environment in the United States, or continuing effects of the COVID-19 pandemic, including supply-chain disruptions, all of which are likely to impact the bond and equity markets, could result in future net decreases in the average values of our assets held in custody, and/or in a decrease in net flows to our assets held in custody, decreasing our trust income.

Gain on sale of loans. Gain on sale of loans is generally gain on sales of the guaranteed portion of loans within our SBA loan portfolio. Gain on sale of loans decreased $101,000 during the three and six months ended June 30, 2022, when there were no loans sold and therefore no gain on sale of loans, compared to the same period in the prior year, when there was gain on sale of loans of $101,000 in each the three and six months ended June 30, 2021, resulting from the sale of $1.1 million of SBA loans.

Advisory income. Advisory fees are typically based on a percentage of the underlying average asset values for a given period, where each percentage point represents 100 basis points. These revenues are of a recurring nature, but are directly affected by increases and decreases in the values of the underlying assets. For the three and six months ended June 30, 2022, advisory income increased $82,000, or 2.5%, and $639,000, or 10.2%, respectively, compared to the same periods in the prior year. The increase in advisory income between the two periods is due to an increase in the average market value of the advisory assets for the three and six months ended June 30, 2022 as compared to the same periods in the prior year. Similar to our trust income, changes in the value of our assets under management will result in comparable changes in our advisory income. Net inflows to our assets under management throughout 2021 and during the first quarter of 2022 offset a decrease in average market values of trust assets from market declines during the six months ended June 30, 2022, resulting in a net increase in the average market value of our advisory assets. This was partially due to a decrease in volatility related to decreased uncertainty as to the effects of the ongoing COVID-19 pandemic between the two periods, which resulted in less pressure on asset values and therefore less pressure on advisory income from factors related to the COVID-19 pandemic. As with trust income, volatility related to regulatory action, including further increases in market interest rates by the Federal Reserve in response to the persistence of the inflationary environment in the United States, as well as supply chain disruptions related to geo-political instability, including the war in Ukraine, and/or disruptions in the supply chain related to continuing world-wide effects of the COVID-19 pandemic, are likely to impact the financial markets and the value of and/or net inflows to our assets under management, potentially decreasing our advisory income.

Brokerage income. Brokerage revenues are generally based on a per share fee or commission to trade a share of a particular stock, bond or other security. In addition, brokerage revenues, in this context, include private placements, participation in syndication of public offerings, and certain other brokerage revenues, including interest earned on margin lending. Brokerage revenue is dependent on the volume of trading, and on private placement and syndication activity during the period, and in the case of margin lending, on interest rates. Brokerage income for the three and six months ended June 30, 2022 increased $1.7 million, or 83.0%, and $1.6 million, or 34.7%, compared to the same periods in the prior year. The vast majority of the increase was related to an increase in commission income from private placement activity of $1.7 million and $2.0 million during the three and six months ended June 30, 2022, respectively, from a recovery in private placement activity from the economic uncertainty that persisted during the three and six months ended June 30, 2021from the COVID-19 pandemic and dampened private offering activity, and also influenced by the possibility of further increases in interest rates leading to market volatility later in 2022. In addition, income from money market rebates and margin lending increased $155,000 and $134,000, and $156,000 and $280,000, respectively, during the three and six months ended June 30, 2022 and 2021, respectively, related to increases in interest rates and rising cash balances, increasing the availability of funds and related margin lending and corresponding revenue. Commissions from options trading also increased by $166,000 and $217,000 during the three and six months ended June 30, 2022, respectively, over the same periods in the prior year. These increases were offset by a decrease in brokerage commissions from general over-the-counter trading of $386,000 and $1.1 million for the three and six months ended June 30, 2022, respectively, as well as other immaterial fluctuations in brokerage income netting to a decrease of $89,000 and an increase of $15,000 during the three and six months ended June 30, 2022, respectively compared to the same periods in the prior year. Private offering activity in particular did recover somewhat during the three and six months ended June 30, 2022, but expectations of economic disruption related to geo-political factors and further increases in market interest rates by the Federal Reserve Reserve in response to the persistence of the inflationary environment in the United States, among other factors, have led to economic uncertainty, which has the potential to decrease offering activity and general brokerage activity in future periods given price uncertainty in the face of volatile markets.

The table below reflects a rollforward of our client assets from June 30, 2021 through June 30, 2022, which includes both advisory and brokerage assets, and the inflows and outflows and net market appreciation from December 31, 2020 through June 30, 2022. Our brokerage and advisory assets experienced a decrease of approximately $312.4 million, or 5.9%, between June 30, 2021 and June 30, 2022, related to positive net flows offset by market depreciation.

(In thousands)	**Client Assets**
As of December 31, 2020	$ 4,524,376
Client inflows	1,515,091
Client outflows	(1,299,643)
Net flows	215,448
Market appreciation	549,635
As of June 30, 2021	$ 5,289,459
Client inflows	1,127,536
Client outflows	(904,112)
Net flows	223,424
Market appreciation	96,429
As of December 31, 2021	$ 5,609,312
Client inflows	1,750,576
Client outflows	(1,247,399)
Net flows	503,177
Market depreciation	(1,135,447)
As of June 30, 2022	$ 4,977,042

Service fees and other income. Service fees includes fees for deposit-related services, loan and factored receivables servicing, third-party administration fees, and other income. Service fees and other income for the three and six months ended June 30, 2022 increased $481,000, or 34.2%, and $391,000, or 10.5%, respectively, compared to the same periods in the prior year. The increases for the three and six months ended June 30, 2022 over the same periods in the prior year were the result of increases in third party pension administration fees from the Bank's Nolan division of $347,000 and $314,000, respectively and increases in the servicing fees from the Bank's Integra factoring division of $159,000 and $313,000, respectively, which was acquired effective July 1, 2021 and therefore had no revenue during the same periods in the prior year, as well as an increase in income distributions from an interest in securities not readily marketable of $14,000 for the three months ended June 30, 2022. These increases were offset for the three and six months ended June 30, 2022 by decreases in net loan servicing fees of $2,000 and $107,000, respectively, consulting fees of $34,000 and $56,000, respectively, and from losses on errors of $11,000 and $44,000, respectively, over the same periods in the prior year, as well as a decrease in income distributions from an interest in securities not readily marketable of $71,000 for the six months ended June 30, 2022 over the same period in the prior year. Immaterial fluctuations accounted for the remaining differences. The increase in third-party administration fees for the periods was primarily due to timing differences in completion of plan administration work compared to the same periods in the earlier year, during which the COVID-19 pandemic and related shutdowns led to a slowdown in submission of records from plan sponsors, delaying completion of work, as well as from an increase in third party administration clients.

Rental income. The Company receives monthly rental income from tenants leasing space in the Bank building. Rental income for the three months ended June 30, 2022 showed no material variance, and rental income for the six months ended June 30, 2022 increased $13,000, or 7.4%. The increase was primarily due to a new tenant moving into vacant space during the second quarter 2021.

Non-Interest Expense

The components of non-interest expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2022**	**2021**	**2022**	**2021**
Salaries and employee benefits	$ 7,879	$ 5,923	$ 15,335	$ 11,789
Occupancy and equipment	422	392	873	819
Trust expenses	560	595	1,158	1,159
Brokerage and advisory direct costs	498	491	1,026	997
Professional fees	353	332	753	782
Data processing	221	266	390	470
Other	1,346	834	2,703	1,609
Total	$ 11,279	$ 8,833	$ 22,238	$ 17,625

Total non-interest expense for the three and six months ended June 30, 2022 increased $2.4 million, or 27.7%, and $4.6 million, or 26.2%, respectively, compared to the same periods in the prior year, primarily due to increases in salaries and employee benefits, trust expenses, other expenses, and professional fees, as well as in data processing fees, which were partially offset by a decrease in depreciation expense within our occupancy and equipment expense and in brokerage and advisory direct costs. Material changes in the various components of non-interest income are discussed below.

Salaries and employee benefits. Salaries and employee benefits for the three and six months ended June 30, 2022 increased $2.0 million, or 33.0%, and $4.5 million, or 30.1%, compared to the same periods in the prior year. The increases were primarily due to increases in bonuses, salaries, and related payroll expenses in our Banking segment, the majority of which are related to the increase staff from the acquisition of the Integra factoring division, and in our Other Financial Services segment, primarily from increases in incentive bonuses and earnouts at Sanders Morris Harris, and increase in staff and merit increases in the Bank's Nolan division, Tectonic Advisors and the Bank's Trust department. In addition, health insurance and other employee benefits costs increased for the three and six months ended June 30, 2022 across the Company by $99,000 and $204,000, respectively, compared to the same periods in the prior year due primarily to increases in headcount and rate increases. The increases in salary, bonus, and other related payroll costs during the three and six months ended June 30, 2022 in our Banking segment of $546,000 and $1.5 million, respectively, related to increases of $511,000 and $1.0 million from the acquisition of the Bank's Integra division in July 2021, and increases of $36,000 and $480,000 elsewhere in our Banking segment, related to merit increases in salaries and an increase in headcount, including within the Bank's SBA division. Salaries and bonuses in our Other Financial Services segment increased $1.2 million and $1.7 million for the three and six months ended June 30, 2022, respectively, compared to the same periods in the prior year, of which $1.0 million and $1.1 million, respectively, is related to increases in commissions, incentive bonuses and earnouts related to increases in brokerage and private placement activity, $93,000 and $191,000 is related to Tectonic Advisors for increases in headcount in our investment operations team resulting from increases in net flows of assets under management and merit raises, $44,000 and $347,000 is related to the Bank's Nolan division for increases in headcount, promotions and merit increases, and production related bonuses, and $31,000 and $41,000 is related to the Bank's Trust department for increases in headcount and merit increases and promotions. In addition, stock compensation expense across the Company increased by $12,000 and $13,000 over the same periods in the prior year.

Occupancy and equipment expense. Occupancy and equipment expense for the three and six months ended June 30, 2022 increased $30,000, or 7.7%, and $54,000, or 6.6%, compared to the same periods in the prior year. The increases were related to increases totaling $55,000 and $126,000 at our Banking segment, offset by decreases of $25,000 and $72,000 in our Other Financial Services segment. The increases for the three and six months ended June 30, 2022 at our Banking segment included increases of $39,000 and $89,000 related to the acquisition of the Bank's Integra division in July 2021, as well as increases in the Bank's facilities expense of $16,000 and $37,000, respectively, compared to the same periods in the prior year. The decreases of in our Other Financial Services segment for the three and six months ended June 30, 2022 included decreases in depreciation expense of $23,000 and $45,000 and in facilities expense of $24,000 and $35,000, offset by individually immaterial fluctuations netting to increases of $22,000 and $8,000, compared to the same periods in the prior year.

Trust expenses. Trust expenses are advisory fees paid to a fund advisor to advise the Company on the common trust funds managed by the Company, and are based on the value of the assets held in custody. Volatility in the bond and equity markets impacts the market value of trust assets and the related expenses. The monthly advisory fees are assessed based on the market value of assets at month-end. Trust expenses for the three and six months ended June 30, 2022 decreased $35,000, or 5.9%, and $1,000, or less than 1%, compared to the same periods in the prior year due to a decrease in the value of trust assets for the three and six months ended June 30, 2022 over the value during the same period in the prior year. This was due to a decrease in the valuation of trust assets, primarily during the three months ended June 30, 2022, which was partially offset by the increase in asset values and net flows earlier in 2022, compared to the same periods in the prior year.

Brokerage and advisory direct costs. Brokerage and advisory direct costs for the three and six months ended June 30, 2022 increased $7,000, or 1.4%, and $29,000, or 2.9%, compared to the same periods in the prior year. The increases for the three and six months ended June 30, 2022 related primarily to increases in information services fees at Tectonic Advisors of $24,000 and $54,000, respectively, which were offset by a decrease in clearing firm service fees at Sanders Morris of $21,000 and $42,000, combined with other individually immaterial fluctuations at Sanders Morris, including HWG, netting to decreases of $17,000 and $25,000, respectively, compared to the same periods in the prior year.

Professional fees. Professional fees, which include legal, consulting, audit and tax fees, for the three and six months ended June 30, 2022 increased $21,000, or 6.3%, and decreased $29,000, or 3.7%, compared the same periods in the prior year. The increase for the three months ended June 30, 2022, was the result of increases in audit and tax consulting fees totaling $75,000, the majority of which was in our Holdco segment related to an increase in complexity of our annual audit from an increase in our activity overall, offset by a decrease in legal and professional fees of $15,000 and $40,000, respectively, from decreases in consulting fees related to our participant directed plan services team, and increases in our legal fees during the same period in the prior year related to the acquisition of Integra. The decrease for the six months ended June 30, 2022 related to an increase in audit and audit and tax consulting services of $108,000, shared across all segments related to the increase in complexity of our annual audit and tax preparation services, which was partially offset by decreases in professional fees of $115,000, a decrease of $137,000 at the Bank's trust department primarily due to a decrease in consulting fees related to our participant directed plan services team, where staff increases have allowed us to reduce our reliance on consultants, and a decrease in legal fees $22,000 compared to the same period in the prior year related primarily to the acquisition of Integra.

Data processing. Data processing includes costs related to the Company's operating systems. Data processing expense for the three and six months ended June 30, 2022 decreased $45,000, or 16.9%, and $80,000, or 17.0%, compared to the same periods in the prior year. The decreases were the result of decreases of $55,000 and $97,000 in our Banking segment, offset by increases of $11,000 and $17,000 in our Other Financial Services segment. The decreases in our Banking segment were primarily related to the conversion of the Bank's core accounting system during the same periods in the prior year, which increased expense during the earlier periods, and the offsetting increases were primarily related to increases at the Bank's trust division of $9,000 and $20,000, and other immaterial fluctuations.

Other. Other expenses include costs for insurance, Federal Deposit Insurance Corporation ("FDIC") and Office of the Comptroller of the Currency ("OCC") assessments, director fees, regulatory filing fees related to our brokerage business, business travel, management fees, and other operational expenses. Other expenses for the three and six months ended June 30, 2022 increased $512,000, or 61.4%, and $1.1 million, or 68.0%, compared to the same period in the prior year. The increases for the three and six months ended June 30, 2022 included increases of $291,000 and $630,000 in our Banking segment, of $112,000 and $272,000 in our Other Financial Services segment, and in our HoldCo segment of $109,000 and $191,000, respectively. The increases in our Banking segment include increases of $134,000 and $257,000 related to other expenses at the Bank's Integra division which was acquired in July 2021, and includes increases in marketing and advertising costs of $35,000 and $74,000, correspondent bank charges of $45,000 and $76,000, software costs of $10,000 and $22,000, and other individually immaterial operating costs of $44,000 and $86,000, respectively. Other increases in our Banking segment included increases of $29,000 and $118,000 in software licenses, of $4,000 and $40,000 in employee recruitment related primarily to growth, and other individually immaterial increases. The increases of $112,000 and $272,000 in our Other Financial Services segment were related to increases in our marketing, advertising and public relations costs of $28,000 and $117,000, which includes marketing initiatives at Tectonic Advisors related to assets under management attributable to Cain Watters clients, and other marketing initiatives across the Company, as well as increases in travel, meals, and lodging of $20,000 and $46,000, and net increases of $44,000 and $63,000 in software, licenses, and computer services related to technology initiatives across the company, and other individually smaller fluctuations which increased other expenses by $20,000 and $46,000, respectively. The increases of $109,000 and $191,000 in our HoldCo segment for the three and six months ended June 30, 2022 were primarily the result of increases of $64,000 and $136,000 in marketing and public relations initiatives across the Company, an increase in Texas franchise tax expense of $25,000 for each the three and six months ended June 30, 2022, as well as other immaterial fluctuations netting to increases of $31,000 and $20,000 compared to the same periods in the prior year.

Income Taxes

Income tax expense for the three and six months ended June 30, 2022 was approximately $1.2 million and $2.2 million, respectively, compared to $1.1 million and $2.3 million, respectively, for the same periods in the prior year. The effective income tax rate was 19.8% and 19.7% for the three and six months ended June 30, 2022, respectively, compared to 22.4% and 22.5%, respectively, for the same periods in the prior year.

Segment Reporting

We have three operating segments: Banking, Other Financial Services and HoldCo. Our primary operating segments are Banking and Other Financial Services.

Our banking operating segment includes both commercial and consumer banking services, and factoring services through the Bank's Integra division. Commercial banking services are provided primarily to small to medium-sized businesses and their employees, which includes a wide array of lending and cash management products. Consumer banking services include lending and depository services. Factoring services are provided primarily to small over-the-road trucking businesses.

Our other financial services segment includes Tectonic Advisors, Sanders Morris, the Bank's Trust Division, which includes the Nolan division and a participant directed recordkeeping team, and HWG. Through these business divisions, we offer investment advisory and brokerage services to individuals and businesses, private trust services, and financial management services, including personal wealth management, retirement plan design and administrative services, and insurance brokerage services.

A third operating segment, HoldCo, includes the Bank's immediate parent and related subordinated debt, as well as operations of the financial holding company that serves as parent for the group overall. Our principal source of revenue is dividends from our subsidiaries.

The following table presents key metrics related to our segments as of the dates indicated:

	Three Months Ended June 30, 2022				Six Months Ended June 30, 2022			
(In thousands)	Banking	Other Financial Services	HoldCo	Consolidated	Banking	Other Financial Services	HoldCo	Consolidated
Revenue(1)	$ 7,144	$ 10,252	$ (204)	$ 17,192	$ 14,276	$ 19,955	$ (423)	$ 33,808
Income (Loss) Before Taxes	$ 3,524	$ 3,139	$ (750)	$ 5,913	$ 6,656	$ 6,011	$ (1,424)	$ 11,243

	Three Months Ended June 30, 2021				Six Months Ended June 30, 2021			
(In thousands)	Banking	Other Financial Services	HoldCo	Consolidated	Banking	Other Financial Services	HoldCo	Consolidated
Revenue(1)	$ 5,822	$ 8,158	$ (219)	$ 13,761	$ 11,588	$ 17,303	$ (352)	$ 28,539
Income (loss) before taxes	$ 2,981	$ 2,361	$ (555)	$ 4,787	$ 6,093	$ 5,290	$ (1,038)	$ 10,345

(1) Net interest income plus non-interest income

Banking

Income before taxes for the three and six months ended June 30, 2022 increased $543,000, or 18.2%, and $563,000, or 9.2%, respectively, compared to the same periods in the prior year. The increase during the three months ended June 30, 2022 was primarily the result of a $1.3 million increase in net interest income, a $141,000 decrease in the provision for loan losses, and a $62,000 increase in non-interest income, partly offset by a $920,000 increase in non-interest expense. The increase during the six months ended June 30, 2022 was primarily the result of a $2.6 million increase in net interest income, a $242,000 decrease in the provision for loan losses, and a $134,000 increase in non-interest income, partly offset by a $2.4 million increase in non-interest expense.

Net interest income for the three and six months ended June 30, 2022 increased $1.3 million, or 22.7%, and $2.6 million, or 22.9%, respectively, compared to the same periods in the prior year. The increase in net interest income was primarily due to the increase in the average yield on loans, and to a lesser extent an increase in the average yield in the interest-bearing deposits (which are held at the FRB), and to an increase in the average volume of securities and loans. The average yield on interest earning assets was impacted by changes in market interest rates and changes in the mix of interest-earning assets. See the analysis of net interest income included in the section captioned “Net Interest Income” included elsewhere in this discussion.

There was no provision for loan losses for the three months ended June 30, 2022. The provision for loan losses totaled $141,000 for the three months ended June 30, 2021. For the six months ended June 30, 2022, the provision for loan losses totaled $327,000, compared to $569,000 for the six months ended June 30, 2021. Nevertheless, there is continued uncertainty in the forecasted economic conditions due to the rising interest rate environment and persistent high inflation levels, and additional or reversal provisions for loan losses may be necessary in future periods. See “Allowance for Loan Losses” included elsewhere in this discussion.

Non-interest income for the three months ended June 30, 2022 increased $62,000, or 22.5%, compared to the same period in the prior year. The increase was primarily due to the recording of $159,000 for factoring service fees for the three months ended June 30, 2022, related to the Integra acquisition during the third quarter of 2021, partly offset by a $101,000 decrease in gain on sale of loans. Non-interest income for the six months ended June 30, 2022 increased $134,000, or 29.2%, compared to the same period in the prior year. The increase was primarily due to the recording of $313,000 for factoring service fees for the six months ended June 30, 2022, related to the Integra acquisition during the third quarter of 2021, a $16,000 increase in deposit service income and a $13,000 increase in rental income, partly offset by a $107,000 decrease in net loan servicing income and a $101,000 decrease in gain on sale of loans. See the analysis of non-interest income included in the section captioned “Non-Interest Income” included elsewhere in this discussion.

Non-interest expense for the three and six months ended June 30, 2022 increased $920,000, or 34.1%, and $2.4 million, or 48.1%, respectively, compared to the same periods in the prior year. The increases included salaries and employee benefits of $621,000 and $1.7 million for the three and six months ended June 30, 2022, respectively, for annual merit increases and increases in staff (including $566,000 and $1.1 million for the three and six months ended June 30, 2022, respectively, for the addition of Integra), and incentive bonuses, occupancy and equipment expense of $54,000 and $125,000 for the three and six months, respectively, (including $48,000 and $110,000 for the three and six months ended June 30, 2022, respectively, for the addition of Integra), professional fees of $9,000 for the three months ended June 30, 2022 (which was for the addition of Integra) and $47,000 for the six months ended June 30, 2022 (which includes $18,000 for the addition of Integra) and $33,000 for legal and audit fees, and other expenses of $291,000 and $630,000 for the three and six months ended June 30, 2022, respectively. The increase for the three months ended June 30, 2022 includes $120,000 for the addition of Integra, $40,000 for software development, $40,000 for other real estate expenses, $23,000 for FDIC insurance premiums, and a net increase of $68,000 for various other expenses. The increase for the six months ended June 30, 2022 includes $232,000 for the addition of Integra, $135,000 for software development, $62,000 for other real estate expenses, $41,000 for employee recruitment, $44,000 for FDIC insurance premiums, and a net increase of $116,000 for various other expenses. The increases were partly offset by decreases in data processing of $55,000 and $97,000 for the three and six months ended June 30, 2022, respectively, (related to discount credits received for the Bank’s core system conversion during March of 2021 which were first applied to conversion cost during 2021 and applied to data processing expense during 2022). See the analysis of non-interest expense included in the section captioned “Non-Interest Expense” included elsewhere in this discussion.

Other Financial Services

Income before taxes for the three and six months ended June 30, 2022 increased $778,000, or 33.0%, and $721,000, or 13.6%, compared to the same periods in the prior year. The increases during the three and six months ended June 30, 2022 were the result of increases of $2.1 million and $2.6 million in non-interest income for the three and six months ended June 30, 2022, respectively, offset by increases of $1.3 million and $1.9 million in non-interest expense, respectively.

Non-interest income for the three and six months ended June 30, 2022 increased $2.1 million, or 25.7%, and $2.6 million, or 15.3%, compared to the same period in the prior year. The increases were primarily due to increases in brokerage income totaling $1.7 million and $1.6 million, respectively, related to a sharp increase in commissions earned from private placement activity for the three and six months ended June 30, 2022 compared to those in the same periods in the prior year, and in trust and advisory income totaling $107,000 and $821,000, respectively, related to net inflows to our assets under management throughout 2021, as well as continued uncertainty during the same periods in the prior year as to the effects of the ongoing COVID-19 pandemic, which decreased asset values in those earlier periods. In addition, service fees and other income increased $302,000 and $239,000, respectively, for the three and six months ended June 30, 2022, compared to the same periods in the prior year related to increases in third party pension administration fees from the Bank’s Nolan division of $347,000 and $314,000, which were offset by decreases in consulting fees of $34,000 and $56,000, and from losses on errors of $11,000 and $44,000, respectively, and other immaterial differences. See also the analysis of non-interest income included in the section captioned “Non-Interest Income” included elsewhere in this discussion.

Non-interest expense for the three and six months ended June 30, 2022 increased $1.3 million, or 22.7%, and $1.9 million, or 16.1%, compared to the same periods in the prior year. These increases were primarily related to increases in salaries and employee benefits of $1.2 million and $1.8 million, respectively, during the three and six months ended June 30, 2022, and increases of $112,000 and $272,000, respectively, in other expenses. For the three and six months ended June 30, 2022, these increases were offset by decreases in occupancy and equipment expense of $25,000 and in trust expense of $35,000. For the three months ended June 30, 2022 compared to the same period in the prior year, there were other immaterial increases in brokerage and advisory direct costs, professional fees, and data processing totaling $22,000. For the six months ended June 30, 2022 compared to the same period in the prior year, the increases in salaries and employee benefits and other expenses were offset by decreases in occupancy and equipment expense of $72,000 and in professional fees of $75,000, related to a decrease in consulting fees in our participant directed plan services team related to staffing increases, which reduced our reliance upon consultants. There were other immaterial increases in brokerage and advisory direct costs and data processing expense of $29,000 and $17,000, respectively for the six months ended June 30, 2022. The increases in salaries and employee benefits expense for the three and six months ended June 30, 2022 included $1.0 million and $1.1 million, respectively, related to increases in commissions, incentive bonuses and earnouts related to increases in brokerage and private placement activity, $93,000 and $191,000 related to Tectonic Advisors for increases in headcount in our investment operations team resulting from increases in net flows of assets under management and merit raises, $44,000 and $347,000 related to the Bank's Nolan division for increases in headcount, promotions and merit increases, and production related bonuses, and $31,000 and $41,000 related to the Bank's Trust department for increases in headcount and merit increases and promotions. The increases in other expenses for the three and six months ended June 30, 2022 included increases in marketing, advertising and public relations expense of $28,000 and $118,000, respectively, related to initiatives across the segment aimed at supporting growth in our assets under management and our brokerage and third party administration services, increases in travel, meals, and lodging of $20,000 and $46,000, respectively, and net increases of $44,000 and $63,000, respectively, in software, licenses, and computer services related to technology initiatives across the segment, and other immaterial fluctuations related to increases in headcount. See also the analysis of non-interest income included in the section captioned "Non-Interest Expense" included elsewhere in this discussion.

HoldCo

The loss before taxes for the three and six months ended June 30, 2022 increased $195,000, or 35.1%, and $386,000, or 37.2%, compared to the same periods in the prior year. The increases in the loss were due to a decrease in service fees and other income for the six months ended June 30, 2022 of $70,000 related to a decrease in distributions from securities not readily marketable compared to the same period in the prior year, and to increases for the three and six months ended June 30, 2022 in salaries and employee benefits of $93,000 and $123,000, respectively, primarily related to an increase in salary, bonuses, and related payroll taxes, and in other expenses of $109,000 and $192,000, respectively, primarily related to an increase in costs for branding initiatives at our parent company, compared to the same periods in the prior year, and other individually immaterial fluctuations.

Financial Condition

Investment Securities

The primary purpose of the Company's investment portfolio is to provide a source of earnings for liquidity management purposes, to provide collateral to pledge against borrowings, and to control interest rate risk. In managing the portfolio, the Company seeks to attain the objectives of safety of principal, liquidity, diversification, and maximized return on investment.

As of June 30, 2022, securities available for sale consisted of U.S. government agency securities and mortgage-backed securities guaranteed by U.S. government agencies. Securities held to maturity consist of Property Assessed Clean Energy ("PACE") and PID/TIRZ investments. These investment contracts or bonds located in Texas, California and Florida, originate under a contractual obligation between the property owners, the local county or city administration, and a third-party administrator and sponsor. PACE assessments are created to fund the purchase and installation of energy saving improvements to the property such as solar panels. PID/TIRZ assessments are used to pay for the development costs of a residential subdivision. Generally, as a property assessment, the total assessment is repaid in installments over a period of 5 to 32 years by the then current property owner(s). Each installment is collected by the County or City Tax Collector where the property is located. The assessments are an obligation of the property.

As of June 30, 2022 and December 31, 2021, the Bank held FRB stock in the amount of $2.2 million and $1.2 million, respectively. The Bank held FHLB stock in the amount of $1.3 million at each of June 30, 2022 and December 31, 2021. The FRB stock and FHLB stock were classified as restricted securities.

Securities not readily marketable consists of an income interest in a private investment.

The following table presents the amortized cost and fair values of the Company's securities portfolio as of the dates indicated:

(In thousands)	As of June 30, 2022 Amortized Cost	As of June 30, 2022 Estimated Fair Value	As of December 31, 2021 Amortized Cost	As of December 31, 2021 Estimated Fair Value
Securities available for sale:				
U.S. Treasuries	$ 1,980	$ 1,965	$ -	$ -
U.S. government agencies	15,768	13,690	15,847	15,402
Mortgage-backed securities	4,641	4,519	1,724	1,754
Total securities available for sale	$ 22,389	$ 20,174	$ 17,571	$ 17,156
Securities held to maturity:				
PACE investments	$ 2,593	$ 2,593	$ 2,731	$ 2,731
PID/TIRZ investments	23,634	23,634	16,942	16,942
Total securities held to maturity	$ 26,227	$ 26,227	$ 19,673	$ 19,673
Securities, restricted:				
Other	$ 3,485	$ 3,485	$ 2,432	$ 2,432
Securities not readily marketable	$ 100	$ 100	$ 100	$ 100

The following table summarizes the maturity distribution schedule with corresponding weighted-average yields of securities available for sale and securities held to maturity as of June 30, 2022. Yields are calculated based on amortized cost. Mortgage-backed securities are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Other securities classified as restricted include stock in the FRB and the FHLB, which have no maturity date. These securities have been included in the total column only and are not included in the total yield.

	Maturing									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
(In thousands, except percentages)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available for sale:										
U.S. Treasuries	$ 982	2.16%	$ 998	2.62%	$ -	-%	$ -	-%	$ 1,980	2.39%
U.S. government agencies	6	2.22%	4,996	0.87%	7,120	1.04%	3,646	0.83%	15,768	0.94%
Mortgage-backed securities	-	-	2,583	2.92%	-	-	2,058	3.69	4,641	1.93
Total	$ 988	2.16%	$ 8,577	1.69%	$ 7,120	1.04%	$ 5,704	0.78%	$ 22,389	1.27%
Securities held to maturity:										
PACE investments	$ -	-%	$ -	-%	$ -	-%	$ 2,593	7.32%	$ 2,593	7.32%
PID/TIRZ investments	-		2,127	4.12	-	-	21,507	6.26	23,634	6.07
Total	$ -	-%	$ 2,127	4.12%	$ -	-%	$ 24,100	6.38%	$ 26,227	6.19%
Securities, restricted:										
Other	$ -	-%	$ -	-%	$ -	-%	$ -	-%	$ 3,485	-%
Securities not readily marketable	$ -	-%	$ -	-%	$ -	-%	$ -	-%	$ 100	-%

Loan Portfolio Composition

Total loans excluding allowance for loan losses, decreased $200,000 to $428.9 million at June 30, 2022, compared to $428.7 million at December 31, 2021. PPP loans totaled $363,000 at June 30, 2022, compared to $34.1 million at December 31, 2021. SBA loans comprise the largest group of loans in our portfolio totaling $236.7 million, or 55.2%, of the total loans at June 30, 2022, compared to $233.9 million, or 54.5% (50.6% excluding PPP loans) at December 31, 2021. Commercial and industrial loans totaled $90.7 million, or 21.1%, of the total loans at June 30, 2022, compared to $83.3 million, or 14.3% (21.1% excluding PPP loans), at December 31, 2021. Commercial and construction real estate loans totaled $61.5 million, or 14.3%, of the total loans at June 30, 2022, compared to $65.6 million, or 15.3% (16.6% excluding PPP loans), at December 31, 2021.

The following table sets forth the composition of our loans held for investment:

(In thousands, except percentages)	June 30, 2022		December 31, 2021	
Commercial and industrial	$ 90,660	21.1%	$ 83,348	19.4%
Consumer installment	1,171	0.3	1,099	0.3
Real estate – residential	4,491	1.1	5,452	1.3
Real estate – commercial	57,992	13.5	62,966	14.7
Real estate – construction and land	3,539	0.8	2,585	0.6
SBA 7(a) guaranteed	143,488	33.4	145,983	34.0
SBA 7(a) unguaranteed	58,231	13.6	52,524	12.3
SBA 504	35,016	8.2	35,348	8.2
USDA	813	0.2	806	0.2
Factored Receivables	33,545	7.8	38,636	9.0
Total Loans	$ 428,946	100.0%	$ 428,747	100.0%

	Maturity Distribution of Loan Portfolio at June 30, 2022				
(In thousands)	One Year or Less	Over One Year Through Five Years	Over Five Years Through Fifteen Years	Over Fifteen Years	Total Loans Receivable
Commercial and industrial	$ 9,735	$ 12,656	$ 68,131	$ 138	$ 90,660
Consumer installment	233	938	-	-	1,171
Real estate – residential	217	4,274	-	-	4,491
Real estate – commercial	19,810	31,078	5,573	1,531	57,992
Real estate – construction and land	2,546	993	-	-	3,539
SBA 7(a) guaranteed	125,898	13,815	3,775	-	143,488
SBA 7(a) unguaranteed	49,388	7,067	1,551	225	58,231
SBA 504	17,043	14,335	3,638	-	35,016
USDA	813	-	-	-	813
Factored Receivables	33,545	-	-	-	33,545
Total	$ 259,228	$ 85,156	$ 82,668	$ 1,894	$ 428,946

(In thousands)	Loans Due After One Year at June 30, 2022 Fixed Rate	Floating or Adjustable Rate	Total
Commercial and industrial	$ 79,494	$ 1,431	$ 80,925
Consumer installment	938	-	938
Real estate – residential	4,274	-	4,274
Real estate – commercial	4,655	33,527	38,182
Real estate – construction and land	993	-	993
SBA 7(a) guaranteed	5,432	12,158	17,590
SBA 7(a) unguaranteed	1,843	7,000	8,843
SBA 504	-	17,973	17,973
USDA	-	-	-
Factored Receivables	-	-	-
Total	$ 97,629	$ 72,089	$ 169,718

	Maturity Distribution of Loan Portfolio at December 31, 2021				
(In thousands)	One Year or Less	Over One Year Through Five Years	Over Five Years Through Fifteen Years	Over Fifteen Years	Total Loans Receivable
Commercial and industrial	$ 12,430	$ 11,047	$ 59,730	$ 141	$ 83,348
Consumer installment	109	990	-	-	1,099
Real estate – residential	211	5,241	-	-	5,452
Real estate – commercial	10,411	34,651	16,325	1,579	62,966
Real estate – construction and land	1,178	677	730	-	2,585
SBA 7(a) guaranteed	98,524	47,024	435	-	145,983
SBA 7(a) unguaranteed	47,460	4,659	177	228	52,524
SBA 504	16,880	14,786	3,682	-	35,348
USDA	806	-	-	-	806
Factored Receivables	38,636	-	-	-	38,636
Total	$ 226,645	$ 119,075	$ 81,079	$ 1,948	$ 428,747

(In thousands)	Loans Due After One Year at December 31, 2021 Fixed Rate	Floating or Adjustable Rate	Total
Commercial and industrial	$ 69,707	$ 1,211	$ 70,918
Consumer installment	990	-	990
Real estate – residential	5,241	-	5,241
Real estate – commercial	10,191	42,364	52,555
Real estate – construction and land	1,407	-	1,407
SBA 7(a) guaranteed	35,278	12,181	47,459
SBA 7(a) unguaranteed	730	4,334	5,064
SBA 504	-	18,468	18,468
USDA	-	-	-
Factored Receivables	-	-	-
Total	$ 123,544	$ 78,558	$ 202,102

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is less than their average contractual terms due to prepayments.

Non-performing Assets

Our primary business segments are Banking and Other Financial Services, and as outlined above, the Banking segment's primary business is lending. That activity entails potential loan losses, the magnitude of which depends on a variety of economic factors affecting borrowers and factor clients which are beyond our control. While we have instituted underwriting guidelines and policies and credit review procedures to protect us from avoidable credit losses, some losses will inevitably occur. The COVID-19 pandemic has contributed to an increased risk of delinquencies, defaults and foreclosures. Through the date of this filing, the Company has not experienced any loan charge-offs caused by the economic impact from COVID-19 pandemic.

Loans are considered past due when principal and interest payments have not been received as of the date such payments are contractually due. Loans are placed on non-accrual status when management has concerns relating to the ability to collect the loan interest and generally when such loans are 90 days or more past due. A loan is considered impaired when it is probable that not all principal and interest amounts will be collected according to the original loan contract.

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for possible loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs are provided for subsequent declines in value and are included in other non-interest expense along with other expenses related to maintaining the properties.

Nonperforming assets include nonaccrual loans, loans modified under restructurings as a result of the borrower experiencing financial difficulties ("TDR"), factored receivables greater than 90 days past due and foreclosed assets. The following table sets forth certain information regarding non-performing assets and restructured loans by type, including ratios of such loans to total assets as of the dates indicated:

	June 30, 2022		December 31, 2021	
(In thousands, except percentages)	**Amount**	**Loan Category to Total Assets**	**Amount**	**Loan Category to Total Assets**
Non-accrual loans**:**				
Real estate – commercial	$ 144	0.02%	$ 149	0.03%
SBA guaranteed	2,347	0.40	2,039	0.35
SBA unguaranteed	56	0.01	-	-
Total non-accrual loans	2,547	0.43	2,188	0.37
Total loans past due 90 days and still accruing	380	0.06	400	0.07
Foreclosed assets	1,079	0.18	1,079	0.18
Total non-performing assets	$ 4,006	0.68%	$ 3,667	0.63%
Restructured loans on non-accrual	$ -	-%	$ -	-%

Restructured loans are considered "troubled debt restructurings" if, due to the borrower's financial difficulties, we have granted a concession that we would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modifications of terms that could potentially qualify as a troubled debt restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current market rate for new debt with similar risk, or a reduction of the face amount of debt, either forgiveness of principal or accrued interest. As of June 30, 2022 and December 31, 2021, we had no loans considered to be a troubled debt restructuring.

As noted in Note 3, "Loans and Allowance for Loan Losses," Section 4013 of the CARES Act, as amended by the Consolidated Appropriations Act, 2021, provides financial institutions the option to suspend troubled debt restructuring accounting under GAAP in certain circumstances and the Company has elected that option. The Company has worked proactively with customers experiencing financial challenges from the COVID-19 pandemic. There were no loans in deferment due to the COVID-19 pandemic as of June 30, 2022. As of December 31, 2021, the amount of loans remaining in COVID-19 related deferment was not significant.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses ("ALLL") is a valuation allowance for credit losses in the loan portfolio. Management has adopted a methodology to properly analyze and determine an adequate loan loss allowance, which includes allowance allocations calculated in accordance with FASB ASC Topic 310, *Receivables*, and allowance allocations calculated in accordance with FASB ASC Topic 450, *Contingencies*. The analysis is based on sound, reliable and well documented information and is designed to support an allowance that is adequate to absorb all estimated incurred losses in our loan portfolio.

In estimating the specific and general exposure to loss on impaired loans, we have considered a number of factors, including the borrower's character, overall financial condition, resources and payment record, the prospects for support from any financially responsible guarantors, and the realizable value of any collateral.

We also consider other internal and external factors when determining the allowance for loan losses, which include, but are not limited to, changes in national and local economic conditions, loan portfolio concentrations, and trends in the loan portfolio. Given the level of economic disruption and uncertainty within the State of Texas and the nation as a whole, arising from the COVID-19 pandemic and volatility, the Company qualitatively adjusted the analysis for the allowance for loan losses for these and other risk factors as discussed in Item 1.A. "Risk Factors" of the 2021 Form 10-K. Based on an analysis performed by management at June 30, 2022, the allowance for loan losses is believed to be adequate to cover estimated loan losses in the portfolio as of that date based on the loan loss methodology employed by management. However, management's judgment is based upon a number of assumptions about future events, which are believed to be reasonable, but which may or may not prove valid. Thus, charge-offs in future periods may exceed the allowance for loan losses or significant additional increases in the allowance for loan losses may be required.

Senior management and the Directors' Loan Committee review this calculation and the underlying assumptions on a routine basis not less frequently than quarterly.

The table below presents a summary of the Company's net loan loss experience and provisions to the ALLL for the period indicated:

(In thousands, except percentages)	As of and for the Three Months Ended June 30 2022	As of and for the Three Months Ended June 30 2021	As of and for the Six Months Ended June 30 2022	As of and for the Six Months Ended June 30 2021
Average loans outstanding	$ 449,289	$ 436,020	$ 450,754	$ 437,395
Gross loans outstanding at end of period	$ 428,946	$ 410,811	$ 428,946	$ 410,811
Allowance for loan losses at beginning of period	$ 4,354	$ 3,158	$ 4,152	$ 2,941
Provision for loan losses	-	141	327	569
Charge offs:				
Commercial and industrial	30	-	30	-
SBA 7(a)	-	-	42	215
Factored Receivables	108	-	212	-
Total charge-offs	138	-	284	215
Recoveries:				
SBA 7(a)	7	8	11	12
Factored Receivables	12	-	29	-
Total recoveries	19	8	40	12
Net (charge-offs) recoveries	(119)	8	(244)	(203)
Allowance for loan losses at end of period	$ 4,235	$ 3,307	$ 4,235	$ 3,307
Ratio of allowance to end of period loan	0.99%	0.80%	0.99%	0.80%
Ratio of net charge-offs to average loans	0.03%	0.00%	0.05%	0.05%

The following table sets forth the allocation of the allowance as of the date indicated and the percentage of allocated possible loan losses in each category to total gross loans as of the date indicated:

(In thousands, except percentages)	June 30, 2022		December 31, 2021	
Allocated:	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans
Commercial and industrial	$ 1,223	21.1%	$ 1,154	19.4%
Consumer installment	15	0.3	15	0.3
Real estate – residential	61	1.1	76	1.3
Real estate – commercial	786	13.5	869	14.7
Real estate – construction and land	48	0.8	40	0.6
SBA	1,464	55.2	1,324	54.5
USDA	19	0.2	20	0.2
Factored Receivables	619	7.8	654	9.0
Total allowance for loan losses	$ 4,235	100.0%	$ 4,152	100.0%

Sources of Funds

General

Deposits, loan and investment security repayments and prepayments, proceeds from the sale of securities, and cash flows generated from operations are the primary sources of our funds for lending, investing, and other general purposes. Loan repayments are generally a relatively stable source of funds, while deposit inflows and outflows tend to fluctuate with prevailing interest rates, markets and economic conditions, and competition.

Deposits

Deposits are attracted principally from our primary geographic market area with the exception of time deposits, which, due to the Company's attractive rates, are attracted from across the nation. The Company offers a broad selection of deposit products, including demand deposit accounts, NOW accounts, money market accounts, regular savings accounts, term certificates of deposit and retirement savings plans (such as IRAs). Deposit account terms vary, with the primary differences being the minimum balance required, the time period the funds must remain on deposit, and the associated interest rates. Management sets the deposit interest rates periodically based on a review of deposit flows and a survey of rates among competitors and other financial institutions. The Company relies on customer service and long-standing relationships with customers to attract and retain deposits, and also on CD listing services. During the second quarter of 2020, we received $40.0 million in brokered deposits through an Insured Cash Sweep One-Way Buy agreement to provide liquidity to fund PPP loan originations. This brokered deposit is included in our money market accounts as of June 30, 2022.

Total deposits increased $31.0 million, or 15.2%, to $475.0 million as of June 30, 2022, as compared to $444.0 million as of December 31, 2021. The following table sets forth our average deposit account balances, the percentage of each type of deposit to total deposits, and average cost of funds for each category of deposits for the periods indicated:

	For the six months ended June 30,					
	2022			2021		
(In thousands, except percentages)	Average Balance	Percent of Deposits	Average Rate	Average Balance	Percent of Deposits	Average Rate
Non-interest-bearing deposits	$ 98,117	21.6%	0.00%	$ 64,205	17.7%	0.00%
Savings and interest-bearing demand	16,275	3.6	0.26	13,740	3.8	0.23
Money market accounts	132,542	29.2	0.50	109,602	30.3	0.36
Time deposits	206,617	45.6	0.96	174,470	48.2	1.20
Total deposits	$ 453,551	100.00%	0.59%	$ 362,017	100.00%	0.70%

The following table provides information on the maturity distribution of the insured time deposits and the time deposits exceeding the FDIC insurance limit as of June 30, 2022:

(In thousands)	As of June 30, 2022 Insured	Uninsured	Total
Maturing			
Three months or less	$ 36,281	$ 19,603	$ 55,884
Over three months to six months	23,599	14,204	37,803
Over six months to 12 months	59,094	29,349	88,443
Over 12 months	43,964	2,707	46,671
Total	$ 162,938	$ 65,863	$ 228,801

Borrowings

The table below presents balances of each of the borrowing facilities as of the dates indicated:

(In thousands)	June 30, 2022	December 31, 2021
Borrowings:		
FRB borrowings (PPPLF)	$ -	$ 34,521
Subordinated notes	12,000	12,000
	$ 12,000	$ 46,521

The Company has a credit line with the FHLB with borrowing capacity of $48.3 million secured by commercial loans. The Company determines its borrowing needs and renews the advances accordingly at varying terms. The Company had no borrowings with FHLB as of June 30, 2022 and December 31, 2021.

The Company also has a credit line with the FRB with borrowing capacity of $20.3 million, which is secured by commercial loans. The Company had no borrowings under this line from the FRB as of June 30, 2022 and December 31, 2021. As part of the CARES Act, the FRB offered secured discounted borrowings to banks who originated PPP loans through the Paycheck Protection Program Liquidity Facility (“PPPLF”). During June 2022, the Bank repaid its PPPLF from the FRB and had no borrowings under the PPPLF as of June 30, 2022.

As of June 30, 2022 and December 31, 2021, the Company also had subordinated notes totaling $12.0 million, consisting of $8.0 million issued in 2017 bearing an interest rate of 7.125% payable semi-annually and maturing on July 20, 2027, and $4.0 million issued in 2018 bearing an interest rate of 7.125% payable semi-annually and maturing on March 31, 2028. The subordinated notes are unsecured and subordinated in right of payment to the payment of our existing and future senior indebtedness and structurally subordinated to all existing and future indebtedness of our subsidiaries.

Capital Resources and Regulatory Capital Requirements

Shareholders’ equity increased $6.0 million, or 7.1%, to $90.8 million as of June 30, 2022, from $84.8 million as of December 31, 2021. The increase included net income of $9.0 million, $177,000 related to stock compensation expense and the issuance of common stock related to exercise of stock options in the amount of $43,000 along with $50,000 related to the reduction in note receivable utilized to exercise stock options. The increases were partly offset by a $1.4 million net after-tax decrease in accumulated other comprehensive income related to the decrease in market value of the securities available for sale due to the recent significant increases in market interest rates, the repurchase of common stock in the amount of $181,000 and dividends paid on the Series B preferred stock and paid on the common stock in the amounts of $776,000 and $883,000, respectively.

Together with the Bank, the Company 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 and, accordingly, the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As of June 30, 2022, the Company and the Bank met all capital adequacy requirements to which they were subject. As of June 30, 2022, the Bank qualified as “well capitalized” under the prompt corrective action regulations of Basel III and the OCC.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations).

The following table presents our regulatory capital ratios, as well as those of the Bank, as of the dates indicated**:**

(In thousands, except percentages)	**June 30, 2022**		**December 31, 2021**	
	Amount	**Ratio**	**Amount**	**Ratio**
Tectonic Financial, Inc.				
Tier 1 Capital (to Average Assets)	$ 70,386	12.92%	$ 62,794	11.82%
Common Equity Tier 1 (to Risk Weighted Assets)	53,136	13.94	45,544	12.62
Tier 1 Capital (to Risk Weighted Assets)	70,386	18.47	62,794	17.40
Total Capital (to Risk Weighted Assets)	74,621	19.58	66,946	18.55
T Bank, N.A.				
Tier 1 Capital (to Average Assets)	$ 70,338	13.09%	$ 63,302	12.06%
Common Equity Tier 1 (to Risk Weighted Assets)	70,338	18.68	63,302	17.70
Tier 1 Capital (to Risk Weighted Assets)	70,338	18.68	63,302	17.70
Total Capital (to Risk Weighted Assets)	74,573	19.80	67,454	18.87

In addition to the regulatory requirements of the federal banking agencies, Sanders Morris and Tectonic Advisors are subject to the regulatory framework applicable to registered investment advisors under the SEC's Division of Investment Management.

Sanders Morris is regulated by FINRA, which, among other requirements, imposes minimums on its net regulatory capital. As of June 30, 2022, Sanders Morris is in compliance with its net regulatory capital requirement.

Liquidity

Our liquidity relates to our ability to maintain a steady flow of funds to support our ongoing operating, investing and financing activities. Our board of directors establishes policies and analyzes and manages liquidity to ensure that adequate funds are available to meet normal operating requirements in addition to unexpected customer demands for funds, such as high levels of deposit withdrawals or loan demand, in a timely and cost-effective manner. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and funds. Ultimately, public confidence is generated through profitable operations, sound credit quality and a strong capital position. Liquidity management is viewed from a long-term and a short-term perspective as well as from an asset and liability perspective. We monitor liquidity through a regular review of loan and deposit maturities and forecasts, incorporating this information into a detailed projected cash flow model.

The Bank's liquidity is monitored by its management, the Asset-Liability Committee and its board of directors who review historical funding requirements, current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds, and anticipated future funding needs, including the level of unfunded commitments.

The Company's primary sources of funds are retail, small business, custodial, wholesale commercial deposits, loan repayments, maturity of investment securities, other short-term borrowings, and other funds provided by operations. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and loan prepayments are more influenced by interest rates, general economic conditions, and competition. The Company will maintain investments in liquid assets based upon management's assessment of (1) the need for funds, (2) expected deposit flows, (3) yields available on short-term liquid assets, and (4) objectives of the asset/liability management program.

As of June 30, 2022 the Company had approximately $31.6 million held in an interest-bearing account at the FRB. The Company has the ability to borrow funds as members of the FHLB and the FRB. As of June 30, 2022, the Company's borrowing capacity with the FHLB was $48.3 million based upon loan collateral pledged to the FHLB, of which none was utilized as of June 30, 2022. In addition, the Company had $20.1 million of unpledged securities that could be pledged to the FHLB as collateral to increase the borrowing capacity. The borrowing capacity with the FRB was $20.3 million, of which none was utilized as of June 30, 2022. In addition, the Company has approximately $140.1 million of SBA guaranteed loans held for investment that could be sold to investors.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the accompanying balance sheets. Our exposure to credit loss in the event of non-performance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. We follow the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of credit extended is based on management’s credit evaluation of the customer and, if deemed necessary, may require collateral.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

As of June 30, 2022, we had commitments to extend credit and standby letters of credit of approximately $42.6 million and $282,000, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability management policy provides management with guidelines for effective funds management and we have established a measurement system for monitoring the net interest rate sensitivity position.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage exposure to interest rates by structuring the balance sheet in the ordinary course of business. We use no off-balance-sheet financial instruments to manage interest rate risk.

Our exposure to interest rate risk is managed by the Bank's Asset Liability Committee in accordance with policies approved by the Bank's board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, liquidity, business strategies and other factors.

The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. We employ methodologies to manage interest rate risk which include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On at least an annual basis, we run various stress tests to measure the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static model, rates are shocked instantaneously, and ramped rates change over a twelve-month and twenty-four month horizon based upon parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Additionally, we run non-parallel simulation involving analysis of interest income and expense under various changes in the shape of the yield curve.

The following table summarizes the impact of an instantaneous, sustained simulated change in net interest income over a 12-month horizon as of June 30, 2022:

Change in Interest Rates (basis points)	% Change in Net Interest Income
+200	12.78
+100	6.39
-100	(6.02)

We have found that, historically, interest rates on deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis, meaning that process by which we measure the gap between interest rate sensitive assets verses interest rate sensitive liabilities. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this Form 10-Q have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession. Inflation generally increases the costs of funds and operating overhead, and to the extent loans and other assets bear variable rates, the yields on such assets. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on the performance of a financial institution than the effects of general levels of inflation. In addition, inflation affects a financial institution's cost of goods and services purchased, the cost of salaries and benefits, occupancy expense and similar items. Inflation and related increases in market interest rates by the Federal Reserve generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings and shareholders' equity.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-Q, an evaluation was performed by the Company, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective at the end of the period covered by this Form 10-Q.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2022 that has materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of its business. Based on the information presently available, management believes that the ultimate outcome in such proceedings, in the aggregate, will not have a material adverse effect on the business's financial condition or results of operations of the Company on a consolidated basis.

Item 1A. Risk Factors.

There have been no material changes in the risk factors disclosed under Item 1A., "Risk Factors," of the Company's 2021 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None during the quarter ended June 30, 2022.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits and Financial Statement Schedules.

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Formation (incorporated by reference from Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1/A filed with the SEC on May 9, 2019 (File No. 333-230949))
3.2	Certificate of Designation of 10.0% Series A Non-Cumulative Perpetual Preferred Stock (incorporated by reference from Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on May 16, 2019 (File No. 001-38910))
3.3	Certificate of Designation of 9.00% Fixed-to-Floating Rate Series B Non-Cumulative Perpetual Preferred Stock (incorporated by reference from Exhibit 3.2 to the Current Report on Form 8-K filed with the SEC on May 16, 2019 (File No. 001-38910))
3.4	Certificate of Amendment to effect Reverse Stock Split (incorporated by reference from Exhibit 3.3 to the Current Report on Form 8-K filed with the SEC on May 16, 2019 (File No. 001-38910))
3.5	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.5 to Amendment No. 1 to the Registration Statement on Form S-1/A filed with the SEC on May 6, 2019 (File No. 333-230949))
31.1	Rule 13a-14(a) Certification of Principal Executive Officer*
31.2	Rule 13a-14(a) Certification of Principal Financial Officer*
32.1	Section 1350 Certification**
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Label Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Definition Linkbase*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith
** Furnished herewith

SIGNATURES

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

TECTONIC FINANCIAL, INC.

Date: August 15, 2022

By: /s/ A. Haag Sherman

A. Haag Sherman
Chief Executive Officer/Principal Executive Officer

By: /s/ Ken Bramlage

Ken Bramlage
Executive Vice President and Chief Financial Officer/Principal Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, A. Haag Sherman, Chief Executive Officer of Tectonic Financial, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tectonic Financial, Inc. (the “registrant”) for the quarter ended June 30, 2022 (this “report”);

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

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

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

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

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

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

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

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

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

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

Date: August 15, 2022

By: /s/ A. Haag Sherman
A. Haag Sherman
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Ken Bramlage, Executive Vice President & Chief Financial Officer of Tectonic Financial, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tectonic Financial, Inc. (the “registrant”) for the quarter ended June 30, 2022 (this “report”);

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

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

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

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

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

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

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

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

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

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

Date: August 15, 2022

By: /s/ Ken Bramlage
Ken Bramlage
Executive Vice President & Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of Tectonic Financial, Inc. (the "Company") for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), A. Haag Sherman, as Chief Executive Officer of the Company, and Ken Bramlage, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

TECTONIC FINANCIAL, INC.

Date: August 15, 2022

By: /s/ A. Haag Sherman
A. Haag Sherman
Chief Executive Officer

Date: August 15, 2022

By: /s/ Ken Bramlage
Ken Bramlage
Executive Vice President & Chief Financial Officer