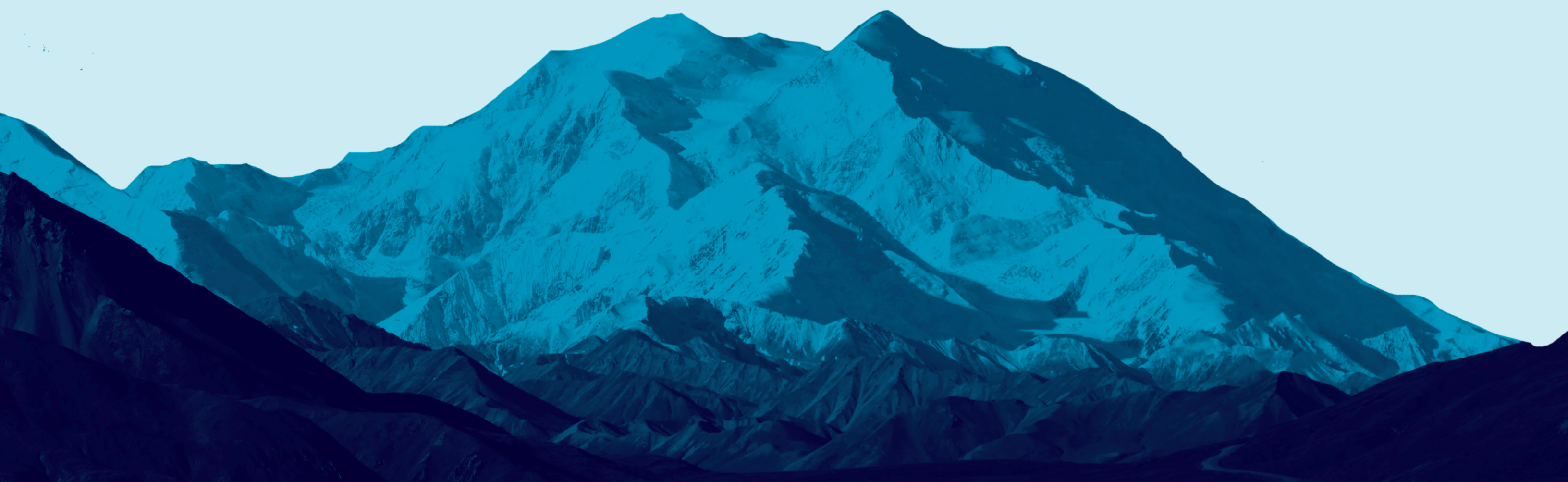
DENALI BANCORPORATION, INC. AND SUBSIDIARY

Report of Independent Auditors and
Consolidated Financial Statements

December 31, 2022 and 2021



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Note: These financial statements have not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

Report of Independent Auditors

The Stockholders and Board of Directors
Denali Bancorporation, Inc. and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Denali Bancorporation, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Denali Bancorporation, Inc. and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

Portland, Oregon
March 31, 2023

Denali Bancorporation, Inc. and Subsidiary
Consolidated Balance Sheets
(Dollars in thousands, except per share data)

	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 3,290	$ 2,879
Interest-bearing deposits in other financial institutions	5,642	30,241
Trading securities, at fair value	3,765	7,718
Investment securities available-for-sale, at fair value	84,421	108,989
Investment securities held-to-maturity, at amortized cost	30,313	31,299
Federal Home Loan Bank stock	1,429	457
Loans held-for-sale	5,576	9,306
Loans, net of allowance for loan losses and deferred fees	350,783	263,933
Accrued interest receivable	2,181	1,700
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	4,872	5,081
Cash surrender value of bank-owned life insurance	7,181	7,032
Other assets	5,855	2,003
Total assets	$ 505,308	$ 470,638
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$ 194,180	$ 187,570
Interest-bearing demand deposits	73,474	77,516
Savings	125,411	130,098
Time deposits	38,241	27,277
Total deposits	431,306	422,461
Subordinated notes	17,000	10,000
Dividends payable	2,160	2,067
Federal Home Loan Bank advances	21,610	-
Accrued interest payable and other liabilities	3,574	2,268
Total liabilities	475,650	436,796
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Common stock $1 par value; 10,000,000 shares authorized; 2,879,656 and 2,870,261 shares issued and outstanding at December 31, 2022 and 2021, respectively	2,879	2,870
Additional paid-in capital	5,711	5,611
Retained earnings	27,958	24,193
Accumulated other comprehensive (loss) income, net of taxes	(6,890)	1,168
Total stockholders’ equity	29,658	33,842
Total liabilities and stockholders’ equity	$ 505,308	$ 470,638
Book value per share of common stock	$ 10.30	$ 11.79

See accompanying notes.

Denali Bancorporation, Inc. and Subsidiary
Consolidated Statements of Income
(Dollars in thousands, except per share data)

	Years Ended December 31, 2022	2021
Interest Income		
Interest and fees on loans	$ 18,664	$ 14,682
Interest on investment securities	3,305	2,920
Interest on deposits at other financial institutions	30	45
Total interest income	21,999	17,647
Interest Expense		
Interest on deposits	437	415
Interest on borrowed funds	894	500
Total interest expense	1,331	915
Net Interest Income	20,668	16,732
Provision for Loan Losses	750	990
Net Interest Income After Provision for Loan Losses	19,918	15,742
Non-Interest Income		
Service charges and other fees	2,229	2,141
Net gain on sale of loans	942	1,701
Increase in value of bank-owned life insurance	149	154
Net (losses) gains on trading securities	(200)	110
Net losses on sale of investment securities	(68)	-
Total non-interest income	3,052	4,106
Non-Interest Expense		
Salaries and employee benefits	9,849	9,267
Data processing and telephone	1,443	1,406
Net occupancy and equipment	1,273	1,229
Professional fees	372	461
Bankcard processing	366	347
Advertising and promotion	398	389
Other operating expenses	1,555	1,077
Total non-interest expense	15,256	14,176
Income Before Provision for Income Taxes	7,714	5,672
Provision for Income Taxes	1,789	1,241
Net Income	$ 5,925	$ 4,431
Weighted Average Shares of Common Stock Outstanding	2,879	2,870
Basic and Diluted Earnings Per Share	$ 2.06	$ 1.54

See accompanying notes.

Denali Bancorporation, Inc. and Subsidiary
Consolidated Statements of Comprehensive (Loss) Income
(Dollars in thousands, except per share data)

	Years Ended December 31, 2022	2021
Net Income	$ 5,925	$ 4,431
Other Comprehensive Loss		
Change in unrealized gain on investment securities available-for-sale, net of taxes of ($3,219) and ($526)	(8,107)	(1,325)
Reclassification adjustment for realized loss on investment securities available-for-sale included in noninterest income, net of taxes of $19	49	-
Total other comprehensive loss, net of taxes	(8,058)	(1,325)
Comprehensive (Loss) Income	$ (2,133)	$ 3,106

Consolidated Statements of Changes in Stockholders' Equity
(Dollars in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance, December 31, 2020	2,863	$ 2,863	$ 5,539	$ 21,829	$ 2,493	$ 32,724
Net income	-	-	-	4,431	-	4,431
Other comprehensive loss, net of taxes	-	-	-	-	(1,325)	(1,325)
Directors' fees paid in common stock	7	7	72	-	-	79
Cash dividend ($0.72 per share)	-	-	-	(2,067)	-	(2,067)
Balance, December 31, 2021	2,870	2,870	5,611	24,193	1,168	33,842
Net income	-	-	-	5,925	-	5,925
Other comprehensive loss, net of taxes	-	-	-	-	(8,058)	(8,058)
Directors' fees paid in common stock	9	9	100	-	-	109
Cash dividend ($0.75 per share)	-	-	-	(2,160)	-	(2,160)
Balance, December 31, 2022	2,879	$ 2,879	$ 5,711	$ 27,958	$ (6,890)	$ 29,658

See accompanying notes.

Denali Bancorporation, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Years Ended December 31, 2022	2021
Cash Flows from Operating Activities		
Net income	$ 5,925	$ 4,431
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	750	990
Depreciation and amortization	541	538
Non-cash lease expense	130	127
Amortization of premiums/accretion of discounts on investment securities	1,170	1,215
Net loss on sale of investment securities available for sale	68	-
Net loss (gain) on trading securities	200	(110)
Purchases of trading securities	(88,337)	(41,784)
Proceeds from sales of trading securities	92,090	34,177
Gain on sales of other real estate owned	-	(12)
Directors' fees paid with common stock	109	79
Change in deferred loan fees and costs	24	736
Change in deferred taxes	(387)	(424)
Proceeds from sale of loans held-for-sale	62,376	76,243
Originations of loans held-for-sale	(57,704)	(73,042)
Net gain on sale of loans	(942)	(1,701)
Increase in value of bank-owned life insurance	(149)	(154)
Changes in cash due to changes in certain assets and liabilities:		
Accrued interest receivable	(481)	(13)
Other assets	(396)	10
Accrued interest payable and other liabilities	1,436	38
Decrease in lease liability	(130)	(127)
Net cash from operating activities	16,293	1,217
Cash Flows from Investing Activities		
Net change in interest-bearing deposits in other financial institutions	24,599	(16,047)
Purchases of available-for-sale securities	(5,127)	(48,083)
Proceeds from sale of available-for-sale securities	3,474	-
Proceeds from calls and maturities of available-for-sale securities	13,773	18,324
Purchases of held-to-maturity securities	-	(15,699)
Proceeds from calls and maturities of held-to-maturity securities	939	1,035
Net increase in loans	(87,624)	(28,068)
Proceeds from sales of other real estate owned	-	47
Purchases of Federal Home Loan Bank stock	(972)	(102)
Payments made for purchases of premises, equipment, and leasehold improvements	(332)	(241)
Net cash used in investing activities	(51,270)	(88,834)

See accompanying notes.

Denali Bancorporation, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Years Ended December 31, 2022	2021
Cash Flows from Financing Activities		
Net (decrease) increase in demand deposit and savings accounts	$ (2,119)	$ 87,528
Net increase in time deposits	10,964	1,563
Net Federal Home Loan Bank borrowings advanced	21,610	-
Proceeds from subordinated debt issuance	7,000	-
Cash dividends paid	(2,067)	(2,061)
Net cash from financing activities	35,388	87,030
Net Change in Cash and Cash Equivalents	411	(587)
Cash and Cash Equivalents, beginning of year	2,879	3,466
Cash and Cash Equivalents, end of year	$ 3,290	$ 2,879
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,260	$ 938
Cash paid for income taxes	$ 1,565	$ 2,055
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Change in fair value of securities included in accumulated other comprehensive (loss) income, net of tax	$ (8,058)	$ (1,325)
Transfer of loans to other real estate owned	$ -	$ 35
Dividends declared but unpaid	$ 2,160	$ 2,067

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

Denali Bancorporation, Inc. (the Company) is a bank holding company whose principal activity is the ownership and operation of its wholly-owned subsidiary, Denali State Bank (the Bank). The Bank generates commercial, consumer, construction and mortgage loans, and receives deposits from customers located primarily in Interior Alaska. The Bank is chartered and regulated by the State of Alaska and is insured and subject to regulation by the Federal Deposit Insurance Corporation.

Basis of presentation

The accompanying consolidated financial statements of Denali Bancorporation, Inc. include the accounts of the Company and its wholly-owned subsidiary, Denali State Bank. Significant intercompany transactions and balances have been eliminated in the preparation of the consolidated financial statements. All dollar amounts in the following notes are expressed in thousands, except per share data.

Financial statement presentation and use of estimates

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and reporting practices applicable to the banking industry. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ significantly from those estimates.

Significant estimates are necessary in determining the recorded value of the allowance for loan losses, fair values and impairment of investment securities, fair value of impaired loans, net realizable value of other real estate owned, and fair values of financial instruments. Management believes the assumptions used in arriving at these estimates are appropriate.

Comprehensive (loss) income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of stockholders' equity and within the consolidated statements of comprehensive (loss) income.

Cash and cash equivalents

Cash equivalents are generally short-term investments with a maturity of three months or less. Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold.

The Bank maintains balances in correspondent bank accounts which, at times, may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of correspondent banks. The Bank has not experienced any losses in such accounts.

Investment securities

Debt securities that are held principally for resale in the near term are classified as “trading” and recorded at fair value with changes in fair value included in earnings. Debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Securities are classified as “available-for-sale” if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Gains or losses on the sale of available-for-sale securities are determined using the specific-identification method. Unrealized holding gains and losses, net of tax, on available-for-sale securities are carried as accumulated other comprehensive income or loss within stockholders’ equity until realized. Fair values for these investment securities are generally based on quoted market prices for the same or similar instruments. Premiums and discounts for all investment securities are recognized in interest income using the effective interest method over the period to maturity for the accretion of discounts and until the most recent call date for securities purchased at a premium.

Investment securities are reviewed on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent, and nature of the change in fair value, issuer rating changes and trends, whether the Bank intends to sell a security or if it is likely that it will be required to sell the security before recovery of its amortized cost basis of the investment, which may be maturity, and other factors. For debt securities, if the Bank intends to sell the security or it is likely that it will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the Bank does not intend to sell the security and it is not likely that it will be required to sell the security, but it does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive (loss) income (OCI) within stockholders’ equity.

Securities transferred from held-to-maturity to available-for-sale are transferred at amortized cost and subsequently adjusted to fair value at the date of transfer. Fair value adjustments are recognized in other comprehensive (loss) income at the time of the transfer and, thereafter, among unrealized gains or losses recognized for all securities classified as available-for-sale.

Federal Home Loan Bank (FHLB) of Des Moines stock

At December 31, 2022 and 2021, the Bank held FHLB stock with a par value of $1,429 and $457, respectively. As a member of the FHLB system, the Bank is required to maintain a minimum investment level in FHLB stock, based on specific percentages of the Bank’s outstanding mortgages, total assets, or FHLB advances. This security is reported at par value, which represents the Bank’s cost. Stock redemptions are made at the discretion of the FHLB.

Stock in the FHLB of Des Moines is classified as restricted stock and is periodically evaluated for impairment. The determination as to whether the investment is impaired is based on the Bank's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as: (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock of the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. Management's review for impairment is based on ultimate recoverability of the Bank's cost basis in FHLB stock, and concluded that the FHLB stock investment was not impaired as of December 31, 2022.

Loans, net of allowance for loan losses and unearned income

Loans are stated at their unpaid principal balances, net of premiums and discounts on purchased loans, the allowance for loan losses and unamortized deferred fees and costs. All loan origination fees and related direct costs are deferred and amortized to interest income as an adjustment to yield over the respective maturities of the loans using the effective interest method. Interest on loans is accrued as earned on a daily basis based on principal amounts outstanding, except where reasonable doubt exists as to the collection of interest, in which case the accrual of interest is discontinued and the loan is placed on non-accrual status.

A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will not be able to collect all amounts due (both principal and interest), according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. Accrual of interest is discontinued on impaired loans when management believes, after considering economic and business conditions, collection efforts and collateral position, that the borrower's financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received and collection of the principal amount of the loan is reasonably assured.

A troubled debt restructuring is a formal restructure of a loan in which the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concession may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date. Troubled debt restructurings are measured at the time of restructure for impairment, and subsequently are subjected to the Bank's impaired loan accounting policy.

In conjunction with the passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in 2020, as amended by the Consolidated Appropriations Act in 2021, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under GAAP related to Troubled Debt Restructurings ("TDRs") for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the Pandemic). As a result, the Bank has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest only periods.

The Bank accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. For consumer and commercial loans, when payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. For residential mortgages, borrowers will pay scheduled principal and interest payments according to the loan amortization schedule with deferred principal and interest repaid in a balloon payment at original scheduled maturity. Accrued interest balances are assessed for collectability on a periodic basis.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. Recoveries of previously charged-off loans are recorded as a credit or increase to the allowance for loan losses. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower’s ability to pay. Various regulatory agencies, as a routine part of their examination process, periodically review the Bank’s reserve for loan losses. Such agencies may require the Bank to recognize additions to the allowance, based on their judgment of information available to them at the time of examinations.

Loans held-for-sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. Net unrealized losses are recognized in a valuation allowance by charges to income. Mortgage loans are generally sold with servicing rights retained by the Company.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other real estate owned

Other real estate owned (OREO), which represents property acquired through foreclosure or deeds in lieu of foreclosure, is initially measured and carried at fair value, establishing a new cost basis. At the time of foreclosure, any excess of the loan balance over the fair value of the property is charged to the allowance for loan losses and any excess estimated fair value over the loan's carrying value is recognized first as a recovery to the allowance for loan losses, to the extent that amounts have been charged-off for that loan.

Subsequently, any carrying value in excess of the loan's fair value is recognized in noninterest expense. Subsequent write-downs to net realizable value, if any, or any disposition gains or losses are included in noninterest expense.

Premises, equipment, and leasehold improvements

Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation, and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, or lease term in the case of leasehold improvements, which range from three to forty years.

Leases

The Company enters into leases in the normal course of business, primarily related to bank branches. The Company's leases have remaining terms ranging from one to five years, some of which include renewal options to extend the lease for up to five years. In addition, the Company leases office space within the Company's headquarters building to third-parties, the terms of which range from one to nine years.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the estimated rate of interest for collateralized borrowing at date of lease inception, adjusted for the lease term and other factors.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Cash surrender value of bank-owned life insurance

The Bank holds life insurance contracts covering certain executives and senior management. The cash surrender values of the contracts reflect the Bank's investment in the recorded assets, net of surrender charges. Holding gains and losses related to the contracts are included in earnings as gains or losses in the period in which they arise.

Income taxes
Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the position. A tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company does not anticipate that the amount of any unrecognized tax benefits will significantly increase or decrease in the next 12 months. The Company recognizes interest and penalties related to income tax matters in income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Alaska. The Company is no longer subject to U.S. or Alaska state examinations by tax authorities for years before 2018.

Off-balance sheet financial instruments
The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. These financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Revenue recognition
The majority of the Company's revenues come from interest income and other sources, including loans, and investments. The Company recognizes income in accordance with the applicable accounting guidance for these revenue sources. The Company's revenues that are within the scope of Accounting Standards Codification Topic 606 (ASC 606) include interchange income, service charges on deposits and gains and losses on other real estate owned, net.

Interchange income and expenses – Interchange income represent fees earned when a debit or credit card issued by the Bank is used. The Bank earns interchange fees from debit and credit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' debit or credit card. Certain expenses and rebates directly associated with the debt and credit card interchange contracts are recorded on a net basis with the interchange income.

Service charges on deposit accounts – The Company earns fees from its deposit customers for account maintenance, transaction-based activity and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Gain/loss on other real estate owned, net – The Company records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed of trust. When the Company finances the sale of other real estate owned to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, The Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Gains and losses on the sale of other real estate owned are included in noninterest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

Advertising and promotional expenses

The Bank expenses advertising and promotional costs as they are incurred. Advertising costs of $398 and $389 were charged to expense during the years ended December 31, 2022 and 2021, respectively.

Earnings per share

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period, retroactively adjusted for stock dividends and splits. Diluted earnings per common share is computed similar to basic earnings per common share except that the denominator is increased, using the treasury stock method, to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued.

Since the Company has no common stock equivalents outstanding as of December 31, 2022 and 2021, basic and diluted earnings per share are equal.

Fair value measurements
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Bank determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions.

These two types of inputs create the following fair value hierarchy:

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

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

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

The Bank used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value on a recurring and non-recurring basis in the financial statements:

Investment securities, trading and available-for-sale – For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing. The Company has determined these are Level 1 and Level 2 inputs.

Impaired loans – Fair value of impaired loans is based upon the present value of expected future cash flows discounted at rates being offered for loans with similar terms to borrowers of similar credit quality, the loan's market price, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. The Company has determined these are Level 3 inputs.

Other real estate owned – Certain assets held within other real estate owned represent impaired real estate that has been adjusted to its estimated fair value as a result of their transfer from the loan portfolio at the time of foreclosure and based on management's periodic impairment evaluation. The Company has determined these are Level 3 inputs.

Accounting pronouncements recently issued and not yet adopted

Financial Instruments-Credit Losses (Topic 326) - In September 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard, and subsequent amendments, are effective for annual periods beginning after December 15, 2022, and interim period within those annual periods. The Company's implementation will be effective January 1, 2023. The Company has actively assessed data and model needs, and has evaluated the impact of adopting the standard. The Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but has not yet determined the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

Reclassifications

Certain reclassifications were made to prior year reported amounts to conform to current year presentation.

Events subsequent to year-end

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued.

The Company has evaluated subsequent events through March 31, 2023, which is the date the consolidated financial statements became available to be issued.

Note 2 – Investment Securities

The amortized cost and estimated fair values of investments in debt securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
Securities available-for-sale				
Mortgage-backed securities	$ 55,629	$ 101	$ (5,639)	$ 50,091
Obligations of states and political subdivisions	31,152	35	(3,141)	28,046
Obligations of U.S. government corporations and agencies	7,266	-	(982)	6,284
	$ 94,047	$ 136	$ (9,762)	$ 84,421
Securities held-to-maturity				
Corporate debt	$ 16,000	$ -	$ (769)	$ 15,231
Obligations of states and political subdivisions	5,160	1	(610)	4,551
Mortgage-backed securities	9,153	5	(140)	9,018
	$ 30,313	$ 6	$ (1,519)	$ 28,800
December 31, 2021				
Securities available-for-sale				
Mortgage-backed securities	$ 62,908	$ 1,036	$ (953)	$ 62,991
Obligations of states and political subdivisions	37,208	1,686	(56)	38,838
Obligations of U.S. government corporations and agencies	7,242	-	(82)	7,160
	$ 107,358	$ 2,722	$ (1,091)	$ 108,989
Securities held-to-maturity				
Corporate debt	$ 16,000	$ 97	$ (55)	$ 16,042
Obligations of states and political subdivisions	6,054	68	(68)	6,054
Mortgage-backed securities	9,245	51	-	9,296
	$ 31,299	$ 216	$ (123)	$ 31,392

The following table presents the gross unrealized losses and fair values of the Bank's investment securities, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions:

	Less than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Securities available-for-sale						
Mortgage-backed securities	$ 18,606	$ (818)	$ 28,916	$ (4,821)	$ 47,522	$ (5,639)
Obligations of states and political subdivisions	19,082	(2,039)	3,698	(1,102)	22,780	(3,141)
Obligations of U.S. government corporations and agencies	-	-	6,284	(982)	6,284	(982)
	$ 37,688	$ (2,857)	$ 38,898	$ (6,905)	$ 76,586	$ (9,762)
Securities held-to-maturity						
Corporate debt	$ 10,876	$ (124)	$ 4,355	$ (645)	$ 15,231	$ (769)
Mortgage-backed securities	7,897	(140)	-	-	7,897	(140)
Obligations of states and political subdivisions	496	(5)	3,054	(605)	3,550	(610)
	$ 19,269	$ (269)	$ 7,409	$ (1,250)	$ 26,678	$ (1,519)
December 31, 2021						
Securities available-for-sale						
Mortgage-backed securities	$ 33,800	$ (742)	$ 4,419	$ (211)	$ 38,219	$ (953)
Obligations of states and political subdivisions	4,761	(56)	-	-	4,761	(56)
Obligations of U.S. government corporations and agencies	7,159	(82)	-	-	7,159	(82)
	$ 45,720	$ (880)	$ 4,419	$ (211)	$ 50,139	$ (1,091)
Securities held-to-maturity						
Corporate debt	$ 4,945	$ (55)	$ -	$ -	4,945	$ (55)
Obligations of states and political subdivisions	3,594	(68)	-	-	3,594	(68)
	$ 8,539	$ (123)	$ -	$ -	$ 8,539	$ (123)

At December 31, 2022 and 2021, the Bank held 101 and 38 securities available-for-sale, respectively, that had unrealized losses and are considered to be temporarily impaired investments. At December 31, 2022 and 2021, the Bank held 14 and seven securities held-to-maturity, respectively, that had unrealized losses and are considered to be temporarily impaired investments. Temporary impairment of these securities is due to interest rate risk associated with fixed-rate obligations and prepayment risk resulting from premature calls of similar classes of securities. Management believes that, while actual fluctuations in unrealized losses may occur over the life of investment securities, the temporary impairment of each investment security in an unrealized loss position at December 31, 2022, will reverse as the individual investment security approaches its contractual maturity date.

There were no other-than-temporary impairment charges recognized during the years ended December 31, 2022 or 2021. In determining whether other material amounts of other-than-temporary impairment exist, management has considered the likelihood that securities will be called prior to maturity and the ability of the issuer to satisfy its repayment obligation upon maturity. Based on these and other considerations, management believes that no material amounts of other-than-temporary impairment exist as of December 31, 2022.

Trading securities consist of U.S. Treasury securities and municipal bonds. Unrealized net holding gains on trading securities as of December 31, 2022 and 2021 were $93 and $68, respectively.

At December 31, 2022 and 2021, securities with fair values of approximately $50,560 and $54,158, respectively, were pledged to secure available borrowings and public deposits, as required or permitted by law.

The Bank sold available-for-sale securities totaling $3,474 for a loss of $68 during the year ended December 31, 2022. There were no sales during 2021.

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities by contractual maturity at December 31, 2022, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 517	$ 517	$ 5,022	$ 4,956
Due after one year through five years	2,317	2,137	7,518	7,378
Due after five years through ten years	15,058	13,843	15,655	14,620
Due after ten years	76,155	67,924	2,118	1,846
	$ 94,047	$ 84,421	$ 30,313	$ 28,800

For the purposes of the maturity table above, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. Mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

Note 3 – Loans, Net of Allowance for Loan Losses and Unearned Income

Loans consisted of the following at December 31:

	2022	2021
Commercial	$ 147,420	$ 115,308
Commercial real estate	85,182	71,883
Consumer	50,896	37,893
Residential	74,033	44,911
Total loans	357,531	269,995
Allowance for loan losses	(5,935)	(5,225)
Deferred loan fees and costs, net	(813)	(837)
Loans, net	$ 350,783	$ 263,933

Loans pledged to secure borrowings were approximately $72,163 and $63,200 as of December 31, 2022 and 2021, respectively.

Mortgage loans originated by the Bank are normally sold on a nonrecourse basis to the Alaska Housing Finance Corporation, the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae) and other secondary markets. At December 31, 2022 and 2021, the Bank serviced mortgage loans of $229,402 and $214,606, respectively, which had been sold to these investors.

The estimated fair value of mortgage servicing rights is less than material to the financial statements.

Pursuant to the CARES Act passed in March 2020, as amended by the PPP Flexibility Act in June 2020, the Company funded loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have a term of two years and earn interest at 1%. In addition, the Bank received a fee of 1%-5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans included in Commercial loans at December 31, 2022 and 2021 was $50 and $8,903, and the net deferred fee included in deferred loan fees and costs, net, was $0 and $382, respectively.

Note 4 – Allowance for Loan Losses

The following tables display the allocation of, and activity within, the allowance for loan losses to significant segments of the loan portfolio as of and for the years ended December 31, 2022 and 2021:

2022	Commercial	Commercial Real Estate	Consumer	Residential	Totals
Allowance					
Balance, beginning of the period	$ 2,521	$ 1,192	$ 1,075	$ 437	$ 5,225
Charge-offs	(29)	-	(39)	-	(68)
Recoveries	1	-	27	-	28
Provision for loan losses	466	83	(76)	277	750
Balance, end of the period	$ 2,959	$ 1,275	$ 987	$ 714	$ 5,935
Ending Allowance balances:					
Individually evaluated for impairment	$ 603	$ -	$ 2	$ 11	$ 616
Collectively evaluated for impairment	2,356	1,275	985	703	5,319
	$ 2,959	$ 1,275	$ 987	$ 714	$ 5,935
Loans					
Individually evaluated for impairment	$ 4,857	$ 1,616	$ 36	$ 274	$ 6,783
Collectively evaluated for impairment	142,563	83,566	50,860	73,759	350,748
Total loans	$ 147,420	$ 85,182	$ 50,896	$ 74,033	$ 357,531

2021	Commercial	Commercial Real Estate	Consumer	Residential	Totals
Allowance					
Balance, beginning of the period	$ 1,641	$ 1,192	$ 1,157	$ 362	$ 4,352
Charge-offs	-	-	(157)	(35)	(192)
Recoveries	-	-	75	-	75
Provision for loan losses	880	-	-	110	990
Balance, end of the period	$ 2,521	$ 1,192	$ 1,075	$ 437	$ 5,225
Ending Allowance balances:					
Individually evaluated for impairment	$ 564	$ 91	$ 1	$ 15	$ 671
Collectively evaluated for impairment	1,957	1,101	1,074	422	4,554
	$ 2,521	$ 1,192	$ 1,075	$ 437	$ 5,225
Loans					
Individually evaluated for impairment	$ 4,737	$ 2,141	$ 6	$ 435	$ 7,319
Collectively evaluated for impairment	110,571	69,742	37,887	44,476	262,676
Total loans	$ 115,308	$ 71,883	$ 37,893	$ 44,911	$ 269,995

Credit quality indicators

The Bank's risk rating methodology assigns risk ratings ranging from 1 to 9, where a higher rating represents higher risk. The Bank differentiates its lending portfolios into homogeneous loans (generally consumer loans) and non-homogeneous loans (generally all non-consumer loans). The 9 risk rating categories can be generally described by the following groupings for non-homogeneous loans:

Low Risk – These loans range from minimal credit risk to modest credit risk. These loans may be secured by cash, certificates of deposit, or investments. Borrowers are individuals and companies with well-established reputations and operating in reasonably stable industries. Cash flow from recurring sources is expected to continue to produce adequate debt service capacity.

Average Risk – These loans range from better than average to average credit risk. Primary repayment sources generate satisfactory debt service coverage under normal conditions. Cash flow from recurring sources is expected to continue to produce adequate debt service capacity. Borrowers have the ability to endure business cycles and usually have access to additional credit sources.

Acceptable Risk – Loans are graded as acceptable when there are some management weaknesses present or weakness of underlying fundamentals. This includes loans that have limited debt capacity, modest debt service coverage and below average asset quality, margins, or market share. These borrowers may be performing, but sensitive to market trends or business cycles.

Watch – A watch rating indicates that, according to current information, the borrower has the capacity to perform according to terms; however, elements of uncertainty exist (an uncharacteristic negative financial or other risk factor event). Margins of debt service coverage are narrow, and historical patterns of financial performance may be erratic, although overall trends are positive. Often the operating assets of the company and/or real estate will secure these loans. If secured, collateral value and adequate sources of repayment currently protect the loan. Material adverse trends have not developed at this time. Loans in this category can be new and/or thinly capitalized companies.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the Bank's credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a Substandard classification. A Special Mention loan has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank's position at some future date. Unlike a Substandard credit, there is a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than a liquidation of assets, and in a reasonable period of time.

Substandard – A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not necessarily exist in each individual asset classified as Substandard. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations, is the key distinction between Special Mention and Substandard loans.

Doubtful – Loans classified as Doubtful have all the weaknesses inherent in one classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a Loss (and immediate charge-off) is deferred until more exact status may be determined.

Loss – These loans are considered uncollectible and of such little value that their continuance as active assets of the Bank is not warranted. This classification does not mean that the loan has no recovery or salvage value, but rather that it is not practical or desirable to defer writing it off as an asset. While Loss is an active grade in the risk rating system, any loan considered to be in this category is to be charged-off as soon as possible.

The following tables show credit quality indicators as of December 31:

	2022				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Low Risk	$ 24,646	$ 899	$ 1,310	$ 7,837	$ 34,692
Average Risk	18,450	14,437	-	2,854	35,741
Acceptable Risk	83,823	66,358	49,550	63,238	262,969
Watch	15,771	2,039	-	67	17,877
Special Mention	-	-	-	-	-
Substandard	4,730	1,449	36	37	6,252
Total	$ 147,420	$ 85,182	$ 50,896	$ 74,033	$ 357,531

	2021				
	Commercial	Commercial Real Estate	Consumer	Residential	Total
Low Risk	$ 9,962	$ 915	$ 1,070	$ 5,798	$ 17,745
Average Risk	14,876	17,007	3	8,746	40,632
Acceptable Risk	82,028	49,585	36,815	30,102	198,530
Watch	3,775	1,298	-	70	5,143
Special Mention	111	1,122	-	8	1,241
Substandard	4,556	1,956	5	187	6,704
Total	$ 115,308	$ 71,883	$ 37,893	$ 44,911	$ 269,995

The following table shows the age analysis of past due and nonaccrual loans as of December 31, 2022 and 2021:

	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment >90 Days Past Due and Accruing	Total Past Due	Nonaccrual Loans	Current	Total Loans
December 31, 2022							
Commercial	$ 87	$ -	$ -	$ 87	$ 107	$147,226	$147,420
Commercial RE	534	-	-	534	1,616	83,032	85,182
Consumer	210	19	-	229	36	50,631	50,896
Residential	308	8	-	316	38	73,679	74,033
	$ 1,139	$ 27	$ -	$ 1,166	$ 1,797	$354,568	$357,531

	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment >90 Days Past Due and Accruing	Total Past Due	Nonaccrual Loans	Current	Total Loans
December 31, 2021							
Commercial	$ 300	$ 100	$ -	$ 400	$ 1,056	$113,852	$115,308
Commercial RE	-	-	-	-	2,141	69,742	71,883
Consumer	24	16	-	40	6	37,847	37,893
Residential	69	15	-	84	111	44,716	44,911
	$ 393	$ 131	$ -	$ 524	$ 3,314	$266,157	$269,995

The following table discloses information related to impaired loans for the years ended December 31, 2022 and 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2022					
With no related allowance recorded					
Commercial	$ 688	$ 688	$ -	$ 644	$ 32
Commercial real estate	1,616	1,616	-	1,646	-
Residential	31	31	-	71	-
Consumer	2	2	-	4	-
	2,337	2,337	-	2,365	32
With an allowance recorded					
Commercial	4,169	4,169	603	4,153	236
Commercial real estate	-	-	-	-	-
Residential	243	243	11	284	14
Consumer	34	34	2	18	-
	4,446	4,446	616	4,455	250
Totals					
Commercial	4,857	4,857	603	4,797	268
Commercial real estate	1,616	1,616	-	1,646	-
Residential	274	274	11	355	14
Consumer	36	36	2	22	-
	$ 6,783	$ 6,783	$ 616	$ 6,820	$ 282
December 31, 2021					
With no related allowance recorded					
Commercial	$ 600	$ 600	$ -	$ 500	$ 41
Commercial real estate	1,676	1,676	-	1,963	1
Residential	111	111	-	122	2
Consumer	5	5	-	13	-
	2,392	2,392	-	2,598	44
With an allowance recorded					
Commercial	4,137	4,137	564	4,837	67
Commercial real estate	465	465	91	-	1
Residential	324	324	15	178	17
Consumer	1	1	1	-	-
	4,927	4,927	671	5,015	85
Totals					
Commercial	4,737	4,737	564	5,337	108
Commercial real estate	2,141	2,141	91	1,963	2
Residential	435	435	15	300	19
Consumer	6	6	1	13	-
	$ 7,319	$ 7,319	$ 671	$ 7,613	$ 129

The Bank offers a variety of modifications to borrowers under circumstances of troubled debt restructurings. The modification categories offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is changed.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest only modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

Combination modification – Any other type of modification, including the use of multiple categories above.

The following tables present troubled debt restructurings by interest accrual status as of December 31, 2022 and 2021:

	December 31, 2022		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate	$ -	$ 53	$ 53
Residential	243	-	243
	$ 243	$ 53	$ 296

	December 31, 2021		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate	$ -	$ 68	$ 68
Residential	247	14	261
Commercial	57	-	57
	$ 304	$ 82	$ 386

As of December 31, 2022 and 2021, no lending commitments were outstanding for troubled debt restructurings.

During the year ended December 31, 2022 and 2021 there were no loans modified as troubled debt restructurings.

During 2022 and 2021, there were no loans with a payment default occurring within 12 months of the restructure date.

During 2022 there were no loans modified as a CARES Act deferral and not reported as a troubled debt restructuring. As of December 31, 2021, one commercial loan totaling $1,527 was modified as a CARES Act deferral and not reported as a troubled debt restructuring.

Note 5 – Premises, Equipment, and Leasehold Improvements

The composition of premises, equipment, and leasehold improvements at December 31 are summarized as follows:

	2022	2021
Buildings and leasehold improvements	$ 10,357	$ 10,107
Equipment	7,115	6,987
Land	708	708
Construction in progress	20	84
	18,200	17,886
Less: accumulated depreciation and amortization	(13,328)	(12,805)
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	$ 4,872	$ 5,081

Depreciation and amortization expense totaled $541 and $538 for 2022 and 2021, respectively.

Note 6 – Time Deposits

Time certificates of deposit of $250 and over totaled $10,265 and $9,889 at December 31, 2022 and 2021, respectively.

As of December 31, 2022, the scheduled maturities for all time deposits were as follows:

Years ending December 31,	2023	$ 30,864
	2024	5,203
	2025	1,760
	2026	99
	2027	315
		$ 38,241

Note 7 – Borrowings

Federal Home Loan Bank advances

As a member of the FHLB, the Bank has entered into a "Cash Management Advance Promissory Note" Program with the FHLB. Borrowings under the credit arrangement are collateralized by the Bank's FHLB stock as well as deposits, investment securities or other instruments, which may be pledged. At December 31, 2022 and 2021 available borrowings were approximately $44,100 and $36,100, respectively. Borrowings outstanding as of December 31, 2022 totaled $21,610, bore interest at a weighted average rate of 4.49% with a final maturity of February 10, 2023. There were no borrowings outstanding under this agreement as of December 31, 2021.

Federal funds lines of credit and other borrowing arrangements

The Bank has obtained federal funds lines of credit totaling $21,500 with three correspondent banks. These lines of credit will expire upon consent of both parties. The Bank also has a borrowing line of $2,650 with the Federal Reserve Bank of San Francisco collateralized by investment securities. There were no balances outstanding on these federal funds lines of credit or the Federal Reserve borrowing line as of December 31, 2022 and 2021.

Subordinated debt

On August 22, 2022, the Company issued $7,000 in fixed-to-floating subordinated notes that mature on August 21, 2032. The subordinated notes bear a fixed interest rate of 6.00% until August 22, 2027 and a floating interest rate equal to a benchmark rate, which is expected to be the three-month Secured Overnight Financing Rate plus 350 basis points thereafter until maturity. Debt issuance costs related to the transaction were immaterial. The Company may, at its option, redeem the notes, in whole or in part, without premium or penalty beginning on August 22, 2027.

On December 17, 2020, the Company issued $10,000 in fixed-to-floating subordinated notes that mature on December 16, 2030. The subordinated notes bear a fixed interest rate of 5.00% until December 17, 2025 and a floating interest rate equal to a benchmark rate, which is expected to be the three-month Secured Overnight Financing Rate plus 440 basis points thereafter until maturity. Debt issuance costs related to the transaction were immaterial. The Company may, at its option, redeem the notes, in whole or in part, without premium or penalty beginning on December 17, 2025.

Note 8 – Income Taxes

The provision for income taxes consists of the following for the years ended December 31:

	2022	2021
Current tax expense		
Federal	$ 1,500	$ 1,138
State	675	527
	2,175	1,665
Deferred tax benefit		
Federal	(285)	(313)
State	(101)	(111)
	(386)	(424)
Provision for income taxes	$ 1,789	$ 1,241

The following table presents the reconciliation of the federal statutory rate to the actual effective rate for the years ended December 31:

	2022		2021	
Statutory Federal income tax rate	$ 1,620	21.0%	$ 1,191	21.0%
State tax, net of Federal benefit	573	7.4%	421	7.4%
Tax exempt interest and non-taxable income	(380)	-4.9%	(339)	-6.0%
Other, net	(24)	-0.3%	(32)	-0.6%
	$ 1,789	23.2%	$ 1,241	21.8%

Deferred income taxes, recorded as other assets at December 31, 2022 and 2021, represent the tax effect of differences in timing between financial statement income and taxable income. The net deferred tax assets and liabilities, recorded within other assets, in the accompanying consolidated balance sheets at December 31, include the following components:

	2022	2021
Deferred tax assets		
Unrealized losses on securities available-for-sale	$ 2,736	$ -
Excess of provision for loan losses over deduction	1,512	1,314
Deferred compensation	593	501
Lease liability	67	104
Accrued leave	106	107
Nonaccrual interest income	107	161
Other reserves	27	4
Total deferred tax assets	5,148	2,191
Deferred tax liabilities		
Accelerated depreciation	(130)	(314)
Right-of-use asset	(67)	(104)
Prepaids	(132)	(73)
Deferred loan costs	(89)	(93)
Unrealized gains on securities available-for-sale	-	(464)
Total deferred tax liabilities	(418)	(1,048)
Net deferred tax assets	$ 4,730	$ 1,143

Management believes, based upon the Company's historical performance, the deferred tax assets will be realized in the normal course of operations and, accordingly, management has not reduced the deferred tax assets by a valuation allowance.

During the years ended December 31, 2022 and 2021, the Company recognized no interest and penalties related to taxes. As of December 31, 2022 and 2021, the Company had no unrecognized tax benefits. Management does not anticipate that the amount of unrecognized tax benefits will significantly change in the next 12 months.

Note 9 – Commitments and Contingencies

Legal contingencies

The Company may become a defendant in certain claims and legal actions arising in the ordinary course of business. There can be no assurance that the ultimate outcome will not differ materially from the Company's assessment of each matter. There can also be no assurance that all matters that may be brought against the Company are known to management or the Board of Directors at any point in time. In the opinion of management, after consultation with counsel regarding outstanding legal matters that could possibly result in a financial loss, there are no matters presently known to the Company that are expected to have a material adverse effect on the Company's financial condition or results of operations.

Off-balance sheet credit risk

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

The Bank's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit written, is represented by the contractual amount of those instruments. The Bank 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 customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing properties.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

At December 31, 2022, the Bank had outstanding commitments for letters of credit, unused lines of credit and origination of loans that are not reflected in the accompanying consolidated financial statements as follows:

Commercial lines of credit	$ 18,580
Commitments to extend credit	14,037
Home equity lines	9,581
Other unused commitments	2,986
Total commitments	$ 45,184

Note 10 – Leases

The Company, as lessee, leases three branch facilities under operating lease agreements that will expire between 2023 and 2024. In addition, the Company, as lessor, leases office space to two tenants, also under operating lease agreements.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications are as follows as of December 31:

	Balance Sheet Classification	2022	2021
Right-of-use asset:			
Operating leases	Other assets	$ 237	$ 367
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 237	$ 367

The components of total lease expense recorded in net occupancy expenses were as follows for the year ended December 31:

	2022	2021
Operating lease expense:		
Operating leases (1)	$ 196	$ 196
Less: operating lease income	(161)	(161)
Total operating lease expense, net	$ 35	$ 35

(1) Short-term lease costs were less than material to the financial statements

Future undiscounted lease liability maturities and lease receipts associated with lease agreements are as follows for the years ended December 31:

	Operating Leases	
	As Lessee	As Lessor
2023	$ 173	$ 149
2024	99	137
2025	-	137
2026	-	137
Total undiscounted lease payments and receipts	272	$ 560
Less: imputed interest	(35)	
Net lease liabilities	$ 237	

Supplemental Lease information

For the year ended December 31:

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 158	$ 158
Operating lease weighted average remaining lease term (years)	2.5	3.4
Operating lease weighted average discount rate	5.46%	5.32%

There were no new right-of-use assets obtained in exchange for new operating lease liabilities during the year ended December 31, 2022.

Lease agreements do not contain any residual value guarantees or restrictive covenants.

Note 11 – Concentrations of Credit Risk

The majority of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The Bank's loan policy does not allow the extension of credit to any single borrower or group of related borrowers in excess of one-million dollars without approval from the Board of Directors' Loan Committee.

Note 12 – Transactions with Related Parties

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. All loans and commitments to lend included in such transactions are made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collection or present any other unfavorable features. The amount of loans and loan commitments outstanding to directors, executive officers, principal stockholders, and companies that they are associated with at December 31 was as follows:

	2022	2021
Balance, beginning of year	$ 899	$ 1,020
Principal advanced	325	360
Principal repaid	(81)	(481)
Reclassification of loans out	(404)	-
Balance, end of year	$ 739	$ 899

As of December 31, 2022 and 2021, funds on deposit with the Bank from directors, principal stockholders, their related interests, and principal officers totaled $21,086 and $21,566, respectively.

The Company's directors are issued stock as compensation for attending meetings. The stock is valued at the average sales price for all stock transactions that occurred during the 12-month period preceding the issuance.

During the years ended December 31, 2022 and 2021, the Company issued directors 9,395 shares at $11.50 per share and 7,260 shares at $11.00 per share, respectively, as compensation for attending board meetings.

Note 13 – Employee Benefit Plans

401(k) pension and profit sharing plans

The Company has a 401(k) defined contribution profit sharing plan that covers all eligible employees. Participants may elect to contribute to the 401(k) plan up to the limits set by the Internal Revenue Code. To encourage employee participation in saving for retirement, the Company contributes a 3% non-elective safe harbor election, and also elected a 2% Company match for all eligible employees contributing to the 401(k) plan. The Company contributed $333 and $288 to this plan in 2022 and 2021, respectively. The Company may also make annual profit sharing contributions, as determined by the Board of Directors, but may not exceed the percentage of compensation allowable for income tax purposes. Company profit sharing contributions to the 401(k) plan were $472 and $376 for the years ended December 31, 2022 and 2021, respectively.

Supplemental executive retirement and deferred compensation plans

A supplemental executive retirement plan was established in 1996 to cover certain executive employees. The Company may make contributions to the plan at the discretion of the Board of Directors. However, the Company made no contributions to the plan during either 2022 or 2021. The total recorded plan obligation was $31 and $50 for the years ended December 31, 2022 and 2021, respectively. Contributions are held in a trust account for the benefit of the participants, with an offsetting liability account maintained to recognize the Company's obligation under the plan.

A separate supplemental executive retirement plan was established in 2016 to benefit certain executives and senior management. Participants are vested 100% after five years of service. Upon reaching retirement age, as determined by the plan, participants receive a monthly benefit upon retirement age paid out over a period of 15 years. As of December 31, 2022 and 2021, the liability associated with this plan was $2,048 and $1,706, respectively, and the Company recorded expense in the statement of income for the years ended December 31, 2022 and 2021, of $343 and $328, respectively. The Bank holds bank-owned life insurance on the participants to fund the supplemental retirement obligations under this plan.

Note 14 – Fair Values of Assets and Liabilities

The following table presents information about the Company's assets measured at fair value on a recurring and nonrecurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Fair Value Measurements			
	Fair Value	(Level 1)	(Level 2)	(Level 3)
December 31, 2022				
Recurring items				
Trading securities	$ 3,765	$ 3,765	$ -	$ -
Mortgage-backed securities	50,091	-	50,091	-
Obligations of states and political subdivisions	28,046	-	28,046	-
Obligations of U.S. government corporations and agencies	6,284	-	6,284	-
	$ 88,186	$ 3,765	$ 84,421	$ -
Nonrecurring items				
Impaired loans, net	$ 3,830	$ -	$ -	$ 3,830
December 31, 2021				
Recurring items				
Trading securities	$ 7,718	$ 7,718	$ -	$ -
Mortgage-backed securities	62,991	-	62,991	-
Obligations of states and political subdivisions	38,838	-	38,838	-
Obligations of U.S. government corporations and agencies	7,160	-	7,160	-
	$ 116,707	$ 7,718	$ 108,989	$ -
Nonrecurring items				
Impaired loans, net	$ 4,256	$ -	$ -	$ 4,256

Assets and liabilities are reported in the table by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the consolidated financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the consolidated financial statements at some time during the reporting period.

The following table provides a description of the valuation technique, observable input and qualitative information about the unobservable inputs for the Company's assets classified as Level 3 and measured at fair value on a nonrecurring basis at December 31, 2022 and 2021:

Financial Instruments	Valuation Technique	Unobservable Inputs	Discount Range 2022	Discount Range 2021
Impaired loans, net	Market comparable	Adjustments to appraised values	10% – 15%	10% – 15%
	Discounted cash flow	Discount rate	3% – 7%	3% – 7%

The Company did not change the methodology used to determine fair value for any financial instruments during the years ended December 31, 2022 and 2021. Nor did the Company have any transfers to or from Level 1, Level 2 or Level 3 during these years.

The following tables disclose the estimated fair value and the related carrying value of the Company's financial assets and liabilities:

	Carrying Value	Fair Value at December 31, 2022 Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 3,290	$ 3,290	$ 3,290	$ -	$ -
Interest-bearing deposits in other financial institutions	5,642	5,642	5,642	-	-
Trading securities	3,765	3,765	3,765	-	-
Securities available-for-sale	84,421	84,421	-	84,421	-
Securities held-to-maturity	30,313	28,800	-	28,800	-
Loans held-for-sale	5,576	5,576	-	5,576	-
Loans	357,531	351,596	-	-	351,596
Accrued interest receivable	2,181	2,181	-	2,181	-
Federal Home Loan Bank stock	1,429	1,429	-	1,429	-
Financial liabilities					
Noninterest-bearing demand deposits	194,180	194,180	194,180	-	-
Interest-bearing demand deposits	73,474	73,474	73,474	-	-
Savings	125,411	125,411	125,411	-	-
Time deposits	38,241	38,283	-	38,283	-
Subordinated notes	17,000	17,000	-	17,000	-
Accrued interest payable	127	127	-	127	-

	Carrying Value	Fair Value at December 31, 2021 Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 2,879	$ 2,879	$ 2,879	$ -	$ -
Interest-bearing deposits in other financial institutions	30,241	30,241	30,241	-	-
Trading securities	7,718	7,718	7,718	-	-
Securities available-for-sale	108,989	108,989	-	108,989	-
Securities held-to-maturity	31,299	31,392	-	31,392	-
Loans held-for-sale	9,306	9,306	-	9,306	-
Loans	269,995	262,987	-	-	262,987
Accrued interest receivable	1,700	1,700	-	1,700	-
Federal Home Loan Bank stock	457	457	-	457	-
Financial liabilities					
Noninterest-bearing demand deposits	187,570	187,570	187,570	-	-
Interest-bearing demand deposits	77,516	77,516	77,516	-	-
Savings	130,098	130,098	130,098	-	-
Time deposits	27,277	27,316	-	27,316	-
Subordinated notes	10,000	10,150	-	10,150	
Accrued interest payable	55	55	-	55	-

Note 15 – Regulatory Capital

The Company and 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 Company and Bank’s financial statements. Under capital adequacy guidelines, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1, common equity Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2022 and 2021, that the Company and Bank meet all capital requirements to which it is subject.

As of the most recent notifications from its regulatory agencies, the Bank was categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 and Tier 1 leverage capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes may have changed the Bank’s category.

The following table presents the capital ratios for the Bank:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Total risk-based capital (to risk-weighted assets)	$56,671	14.2%	$32,037	8.0%	$ 40,046	10.0%
Tier I capital (to risk-weighted assets)	$51,654	12.9%	$24,027	6.0%	$ 32,037	8.0%
Common equity tier 1 (to risk-weighted assets)	$51,564	12.9%	$18,021	4.5%	$ 26,030	6.5%
Tier I capital (to average total assets)	$51,654	10.1%	$20,529	4.0%	$ 25,661	5.0%
December 31, 2021						
Total risk-based capital (to risk-weighted assets)	$45,556	14.5%	$25,165	8.0%	$ 31,456	10.0%
Tier I capital (to risk-weighted assets)	$41,608	13.2%	$18,874	6.0%	$ 25,165	8.0%
Common equity tier 1 (to risk-weighted assets)	$41,608	13.2%	$14,155	4.5%	$ 20,446	6.5%
Tier I capital (to average total assets)	$41,608	8.9%	$18,760	4.0%	$ 23,449	5.0%

The Bank is required to maintain a common equity Tier 1 capital capital conservation buffer of greater than 2.5% of risk-weighted assets (above the minimum for capital adequacy purposes). An institution that does not meet the conservation buffer requirement will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

Dividends

Regulations of the FDIC do not permit the Bank to pay dividends on its common stock if stockholders' equity would thereby be reduced below the Bank's regulatory capital requirements.

Note 16 – Revenue from Contracts with Customers

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Company's sources of non-interest income for the twelve months ended December 31:

	2022	2021
Non-interest income		
Service charges and other fees		
Interchange income, net	$ 836	$ 787
Loan servicing income (1)	636	589
Service charges on deposits	558	539
Other income (1)	199	226
Total service charges and fees	2,229	2,141
Net gain on sale of loans (1)	942	1,701
Increase in value of bank-owned life insurance (1)	149	154
Net (losses) gains on trading securities (1)	(200)	110
Net losses on sale of investment securities (1)	(68)	-
Total non-interest income	$ 3,052	$ 4,106

(1) Not within the scope of ASC 606