DENALI BANCORPORATION, INC. AND SUBSIDIARY

Consolidated Financial Statements and
Report of Independent Auditors

December 31, 2023 and 2022

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

MOSSADAMS

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, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), 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 consolidated financial position of the Company as of December 31, 2023 and 2022, 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 the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, on January 1, 2023, the Company adopted Accounting Standards Update 2016-13*, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*, as amended, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. Our opinion is not modified with respect to this matter.

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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Moss Adams LLP

Portland, Oregon
April 10, 2024

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

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 3,953	$ 3,290
Interest-bearing deposits in other financial institutions	2,939	5,642
Trading securities, at fair value	4,579	3,765
Investment securities available-for-sale, at fair value	83,228	84,421
Investment securities held-to-maturity, at amortized cost, net of allowance for credit losses	28,791	30,313
Federal Home Loan Bank stock	962	1,429
Loans held-for-sale	4,824	5,576
Loans, net of allowance for credit losses and deferred fees	336,399	350,783
Accrued interest receivable	2,238	2,181
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	4,837	4,872
Cash surrender value of bank-owned life insurance	9,213	7,181
Other real estate owned	179	-
Other assets	5,604	5,855
Total assets	$ 487,746	$ 505,308
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$ 170,293	$ 194,180
Interest-bearing demand deposits	56,983	73,474
Savings	94,280	125,411
Time deposits	84,165	38,241
Total deposits	405,721	431,306
Subordinated notes	17,000	17,000
Dividends payable	2,311	2,160
Borrowings	21,630	21,610
Accrued interest payable and other liabilities	5,532	3,574
Total liabilities	452,194	475,650
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Common stock $1 par value; 10,000,000 shares authorized; 2,888,921 and 2,879,656 shares issued and outstanding at December 31, 2023 and 2022, respectively	2,889	2,879
Additional paid-in capital	5,821	5,711
Retained earnings	33,135	27,958
Accumulated other comprehensive loss, net of taxes	(6,293)	(6,890)
Total stockholders’ equity	35,552	29,658
Total liabilities and stockholders’ equity	$ 487,746	$ 505,308
Book value per share of common stock	$ 12.31	$ 10.30

See accompanying notes.

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

	Years Ended December 31, 2023	2022
Interest Income		
Interest and fees on loans	$ 24,613	$ 18,664
Interest on investment securities	4,291	3,305
Interest on deposits at other financial institutions	53	30
Total interest income	28,957	21,999
Interest Expense		
Interest on deposits	2,319	437
Interest on borrowed funds	2,312	894
Total interest expense	4,631	1,331
Net Interest Income	24,326	20,668
Provision for Credit Losses	1,294	750
Net Interest Income After Provision for Credit Losses	23,032	19,918
Non-Interest Income		
Service charges and other fees	2,404	2,229
Net gain on sale of loans	446	942
Increase in value of bank-owned life insurance	232	149
Net gains (losses) on trading securities	153	(200)
Net losses on sale of investment securities	(144)	(68)
Total non-interest income	3,091	3,052
Non-Interest Expense		
Salaries and employee benefits	10,273	9,849
Data processing and telephone	1,388	1,443
Net occupancy and equipment	1,278	1,273
Professional fees	475	372
Advertising and promotion	460	398
Bankcard processing	385	366
Other operating expenses	1,755	1,555
Total non-interest expense	16,014	15,256
Income Before Provision for Income Taxes	10,109	7,714
Provision for Income Taxes	2,491	1,789
Net Income	$ 7,618	$ 5,925
Weighted Average Shares of Common Stock Outstanding	2,889	2,879
Basic and Diluted Earnings Per Share	$ 2.64	$ 2.06

See accompanying notes.

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

	Years Ended December 31, 2023	Years Ended December 31, 2022
Net Income	$ 7,618	$ 5,925
Other Comprehensive Income (Loss)		
Change in unrealized loss on investment securities available-for-sale, net of taxes of $196 and ($3,219)	494	(8,107)
Reclassification adjustment for realized loss on investment securities available-for-sale included in noninterest income, net of taxes of $41 and $19	103	49
Total other comprehensive income (loss), net of taxes	597	(8,058)
Comprehensive Income (Loss)	$ 8,215	$ (2,133)

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 Income (Loss)	Total Stockholders' Equity
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
Cumulative effect of ASU 2016-13	-	-	-	(130)	-	(130)
Net income	-	-	-	7,618	-	7,618
Other comprehensive income, net of taxes	-	-	-	-	597	597
Directors' fees paid in common stock	10	10	110	-	-	120
Cash dividend ($0.80 per share)	-	-	-	(2,311)	-	(2,311)
Balance, December 31, 2023	2,889	$ 2,889	$ 5,821	$ 33,135	$ (6,293)	$ 35,552

See accompanying notes.

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

	Years Ended December 31, 2023	2022
Cash Flows from Operating Activities		
Net income	$ 7,618	$ 5,925
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	1,294	750
Depreciation and amortization	514	541
Amortization of premiums/accretion of discounts on investment securities	676	1,170
Net loss on sale of investment securities available for sale	144	68
Net (gain) loss on trading securities	(153)	200
Purchases of trading securities	(72,689)	(88,337)
Proceeds from sales of trading securities	72,028	92,090
Gain on sale of equipment	(4)	-
Directors' fees paid with common stock	120	109
Change in deferred loan fees and costs	(133)	24
Change in deferred taxes	129	(387)
Proceeds from sale of loans held-for-sale	30,933	62,376
Originations of loans held-for-sale	(29,735)	(57,704)
Net gain on sale of loans	(446)	(942)
Increase in value of bank-owned life insurance	(232)	(149)
Non-cash lease expense	176	130
Decrease in lease liability	(176)	(130)
Changes in cash due to changes in certain assets and liabilities:		
Accrued interest receivable	(57)	(481)
Other assets	(89)	(396)
Accrued interest payable and other liabilities	1,932	1,436
Net cash from operating activities	11,850	16,293
Cash Flows from Investing Activities		
Net change in interest-bearing deposits in other financial institutions	2,703	24,599
Purchases of available-for-sale securities	(9,860)	(5,127)
Proceeds from sale of available-for-sale securities	3,231	3,474
Proceeds from calls and maturities of available-for-sale securities	7,858	13,773
Proceeds from calls and maturities of held-to-maturity securities	1,401	939
Purchases of bank-owned life insurance	(1,800)	-
Net decrease (increase) in loans	13,013	(87,624)
(Purchases) redemptions of Federal Home Loan Bank stock	467	(972)
Payments made for purchases of premises, equipment, and leasehold improvements	(479)	(332)
Proceeds received from the sale of equipment	4	-
Net cash provided (used) by investing activities	16,538	(51,270)

See accompanying notes.

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

	Years Ended December 31, 2023	Years Ended December 31, 2022
Cash Flows from Financing Activities		
Net decrease in demand deposit and savings accounts	$ (71,509)	$ (2,119)
Net increase in time deposits	45,924	10,964
Net proceeds from borrowings	20	21,610
Proceeds from subordinated debt issuance	-	7,000
Cash dividends paid	(2,160)	(2,067)
Net cash (used) provided by financing activities	(27,725)	35,388
Net Change in Cash and Cash Equivalents	663	411
Cash and Cash Equivalents, beginning of year	3,290	2,879
Cash and Cash Equivalents, end of year	$ 3,953	$ 3,290
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 4,560	$ 1,260
Cash paid for income taxes	$ 2,910	$ 1,565
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Change in fair value of securities included in accumulated other comprehensive income (loss), net of tax	$ 597	$ (8,058)
Transfer of loans to other real estate owned	$ 179	$ -
Dividends declared but unpaid	$ 2,311	$ 2,160

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.

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 credit 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 income (loss)
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 income (loss).

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.

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 income (loss) at the time of the transfer and, thereafter, among unrealized gains or losses recognized for all securities classified as available-for-sale.

Allowance for Credit Losses – Investment Securities

For available for sale securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For available for sale securities not meeting the aforementioned criteria, the Bank evaluates whether the decline in fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit-related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is measured as the amount by which the present value of expected future cash flows is below the security’s amortized cost. Credit-related losses are recognized as a charge to earnings and an increase to the allowance for credit losses, limited to the amount by which amortized cost basis exceeds fair value.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

The allowance for credit losses on held to maturity securities is estimated on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Federal Home Loan Bank (FHLB) of Des Moines stock

At December 31, 2023 and 2022, the Bank held FHLB stock with a par value of $961,600 and $1,429,500 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, 2023.

Loans

Loans are stated at their unpaid principal balances, net of premiums and discounts on purchased loans, the allowance for credit 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.

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.

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.

Allowance for Credit Losses - Loans
The allowance for credit losses on loans is a valuation allowance estimate that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

The Bank estimates the allowance for credit losses on loans based on the underlying loan's amortized cost basis, which is the amount of the loan at origination or acquisition, adjusted for collection of cash and charge-offs. The Bank has elected to exclude accrued interest from the measurement of the allowance for credit losses.

The allowance for credit losses is established through a provision for loan losses charged to expense as further described herein. Loans are charged against the allowance for credit losses when management believes that the collectability of principal is unlikely. Loans are charged off when management determines that all or some of the loan is uncollectible. Recoveries of previously charged-off loans are recorded as a credit or increase to the allowance for credit losses.

The Bank measures expected credit losses of loans on a collective (pool) basis when the loans share similar risk characteristics, or are grouped by program in the case of out-of-area lending programs in which the Bank participates. The Bank uses a weighted average remaining life method to estimate expected credit losses quantitatively for pooled loans, and historical loss rates for loan programs. The weighted average remaining life method uses exposure at default, along with the expected credit losses adjusted for prepayments to calculate the required allowance. The Bank utilizes peer historical loss data to estimate credit losses under the weighted average remaining life method.

In addition to the quantitative portion of the allowance for credit losses derived using the weighted average remaining life method, the Bank also considers the effects of qualitative factors in its calculation of expected losses in the loan portfolio. The qualitative factors are based on quantitative metrics, but also includes a high degree of subjectivity and changes in any of the metrics could have a significant impact on the calculation of the allowance for credit losses.

Loans that do not share similar risk characteristics with other loans or are part of loan programs are individually evaluated for expected credit losses. Loans are identified for individual evaluation during regular credit reviews of the portfolio. A loan is generally identified for individual evaluation when management determines that it is probable that not all amounts due on the loan, including accrued interest, will be collected. Expected credit losses on individually analyzed loans are measured using either the discounted cash flow method, enterprise value method, historical loss rates, or collateral method, or a combination of these methods, depending on the loan's characteristics and management's judgment. For collateral dependent loans, the current fair value of the collateral, less selling costs, is used to determine the recognition of an allowance for credit losses.

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 Bank.

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 Bank, (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 Bank 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 credit losses and any excess estimated fair value over the loan’s carrying value is recognized first as a recovery to the allowance for credit 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 Bank enters into leases in the normal course of business, primarily related to bank branches. The Bank’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 Bank leases office space within the Bank’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 Bank’s right to use an underlying asset for the lease term and lease liabilities represent the Bank’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 Bank 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 Bank’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 Bank includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Bank will exercise the option. In addition, the Bank has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Bank has also elected not to recognize leases with original lease terms of twelve months or less (short-term leases) on the Bank'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 percent 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 twelve 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 2019.

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.

The Bank records a liability for expected credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to the provision for credit loss expense.

Revenue recognition
The majority of the Bank's revenues come from interest income and other sources, including loans, and investments. The Bank recognizes income in accordance with the applicable accounting guidance for these revenue sources. The Bank'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 Bank 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 Bank 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 Bank finances the sale of other real estate owned to the buyer, the Bank 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 Bank 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 $460,210 and $397,794 were charged to expense during the years ended December 31, 2023 and 2022, 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, 2023 and 2022, 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 Bank has determined these are Level 1 and Level 2 inputs.

Collateral dependent loans – The fair value of collateral-dependent loans in Level 3 is generally based on the lower of the loan balance or the collateral's appraised value. The analysis of collateral dependent loans includes external appraisals or in-house evaluations on loans secured by real property, management's assessment of the current market, recent payment history and an evaluation of other sources or repayment.

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 Bank has determined these are Level 3 inputs.

Recent accounting pronouncements
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 Bank implemented the standard effective Janaury 1, 2023. The effect is an increase to the allowance for credit losses totaling $181,360, and a decrease to retained earnings of $129,797, net of a corresponding increase to deferred tax assets of $51,563. Prior period amounts continue to be reported in accordance with previously applicable United States Generally Accepted Accounting Principles. The table below presents the impact of adoption of ASC 326 on the allowance for credit losses as of January 1, 2023 ($ in thousands).

	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Held-to-maturity investments:			
Municipal securities	$ 3	-	$ 3
Corporate debt	198	-	198
Allowance for credit losses on debt securities	$ 201	-	$ 201
Loans:			
Commercial	3,003	2,959	44
Commercial real estate	1,461	1,275	186
Consumer	550	987	(437)
Residential	845	714	131
Allowance for credit losses on loans	$ 5,859	$ 5,935	$ (76)
Allowance for credit losses on unfunded commitments	$ 56	-	$ 56

In March 2022, the FASB issued Troubled Debt Restructurings (TDR) and Vintage Disclosures ("ASU 2022-02"). The amendments in ASU 2022-02 eliminate the accounting guidance for TDRs by creditors while enhancing disclosure requirements for certain loan modifications when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs which includes an assessment of whether the creditor has granted a concession, an entity must evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. The Bank implemented the standard effective January 1, 2023.

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 April 10, 2024, 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 investment securities are summarized in the table below ($ in thousands). There was no allowance for credit losses necessary for securities available for sale.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Securities available-for-sale				
Mortgage-backed securities	$ 57,344	$ 206	$ (5,627)	$ 51,923
Obligations of states and political subdivisions	27,390	26	(2,493)	24,923
Obligations of U.S. government corporations and agencies	7,286	-	(904)	6,382
	$ 92,020	$ 232	$ (9,024)	$ 83,228
Securities held-to-maturity				
Corporate debt	$ 16,000	$ -	$ (1,065)	$ 14,935
Obligations of states and political subdivisions	5,155	4	(534)	4,625
Mortgage-backed securities	7,735	3	(91)	7,647
Allowance for credit losses	(99)	-	-	-
	$ 28,791	$ 7	$ (1,690)	$ 27,207
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

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 ($ in thousands):

	Less than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Securities available-for-sale						
Mortgage-backed securities	$ 5,613	$ (91)	$ 36,694	$ (5,536)	$ 42,307	$ (5,627)
Obligations of states and political subdivisions	370	(23)	18,037	(2,470)	18,407	(2,493)
Obligations of U.S. government corporations and agencies	-	-	7,833	(904)	7,833	(904)
	$ 5,983	$ (114)	$ 62,564	$ (8,910)	$ 68,547	$ (9,024)
Securities held-to-maturity						
Corporate debt	$ -	$ -	$ 6,935	$ (1,065)	$ 6,935	$ (1,065)
Mortgage-backed securities	-	-	7,541	(91)	7,541	(91)
Obligations of states and political subdivisions	-	-	3,121	(534)	3,121	(534)
	$ -	$ -	$ 17,597	$ (1,690)	$ 17,597	$ (1,690)
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)

Management evaluates available-for-sale debt securities in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to the extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Trading securities consist of U.S. Treasury securities and municipal bonds. Unrealized net holding gains on trading securities as of December 31, 2023 and 2022 were $51,641 and $92,670, respectively.

At December 31, 2023 and 2022, securities with fair values of approximately $50.8 million and $50.6 million, respectively, were pledged to secure available borrowings and public deposits, as required or permitted by law.

The Bank sold available-for-sale securities totaling $3.2 million for a loss of $144,545 during the year ended December 31, 2023. The Bank sold available-for-sale securities totaling $3.5 million for a loss of $68,409 during the year ended December 31, 2022.

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities by contractual maturity at December 31, 2023, 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 ($ in thousands).

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 466	$ 470	$ 7,632	$ 7,541
Due after one year through five years	4,383	4,066	4,141	4,005
Due after five years through ten years	13,029	11,907	16,579	15,119
Due after ten years	74,142	66,785	538	542
Allowance for credit losses	-	-	(99)	(99)
	$ 92,020	$ 83,228	$ 28,791	$ 27,108

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.

At December 31, 2023 and 2022, the Bank held 11 and 72 securities in its investment portfolio, respectively, that had unrealized losses that have been in a loss position for less than twelve months. At December 31, 2023 and 2022, the Bank held 92 and 43 securities in its investment portfolio, respectively, that had unrealized losses and have been in a loss position for more than twelve months. Management does not have the intent to sell any of these securities and believes it is more likely than not that the Bank will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of December 31, 2023, management believes that the unrealized losses on investment securities are due to noncredit-related factors, and therefore no lossess have been recognized in the Bank's Consolidated Statements of Income. For held to maturity securities, there have been no current period lossess since the adoption of ASC 326. An estimate for expected credit losses on held to maturity securities is calculated as described in the summary for significant accounting policies.

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

Loans consisted of the following at December 31 ($ in thousands):

	2023	2022
Commercial	$ 126,740	$ 147,420
Commercial real estate	85,062	85,182
Consumer	47,786	50,896
Residential	84,013	74,033
Total loans	343,601	357,531
Allowance for credit losses	(6,256)	(5,935)
Deferred loan fees and costs, net	(946)	(813)
Loans, net	$ 336,399	$ 350,783

Loans pledged to secure borrowings were approximately $77.6 million and $72.2 million as of December 31, 2023 and 2022, 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, 2023 and 2022, the Bank serviced mortgage loans of $232.4 million and $229.4 million, respectively, which had been sold to these investors. The estimated fair value of mortgage servicing rights is less than material to the financial statements.

Note 4 – Allowance for Credit Losses

The following tables display the allocation of, and activity within, the allowance for credit losses to significant segments of the loan portfolio as of and for the years ended December 31, 2023 and 2022 ($ in thousands):

	2023				
	Commercial	Commercial Real Estate	Consumer	Residential	Totals
Allowance					
Balance, beginning of the period	$ 2,959	$ 1,275	$ 987	$ 714	$ 5,935
Impact of adopting ASC 326	44	186	(437)	131	(76)
Charge-offs	(978)	-	(67)	-	(1,045)
Recoveries	18	-	47	-	65
Provision for credit losses	1,092	126	(31)	190	1,377
Balance, end of the period	$ 3,135	$ 1,587	$ 499	$ 1,035	$ 6,256

	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

Credit quality indicators

The Bank's risk rating methodology assigns risk ratings ranging from one to nine, 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 nine 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 ($ in thousands):

	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

The following table presents the Bank's portfolio of risk-rated loans by grade and by year of origination at December 31, 2023. Management considers the guidance in ASC 310-20 when determining whether a modification, extension or renewal of a loan constitutes a current period origination. Generally, current period renewals of credit are re-underwritten at the point of renewal and considered current period originations for the purposes of the table below ($ in thousands).

Commercial	2023	2022	2021	Prior	Total
Risk Rating					
Low Risk	$ 292	$ 18,429	$ 36	$ 106	$ 18,863
Average Risk	156	5,603	862	10,032	16,653
Acceptable Risk	7,774	24,051	28,639	11,493	71,957
Watch	1,059	2,592	8,910	2,907	15,468
Substandard	-	-	997	2,802	3,799
Total commercial	9,281	50,675	39,444	27,340	126,740
Commercial - current period write offs	-	247	731	-	978
Commercial Real Estate					
Risk Rating					
Low Risk	-	-	-	881	881
Average Risk	873	3,962	3,590	3,745	12,170
Acceptable Risk	11,304	25,976	7,521	24,328	69,129
Watch	-	-	442	2,407	2,849
Substandard	-	-	-	33	33
Total commercial real estate	12,177	29,938	11,553	31,394	85,062
Consumer					
Risk Rating					
Low Risk	-	212	473	74	759
Acceptable Risk	12,168	16,632	9,337	8,840	46,977
Substandard	-	-	50	-	50
Total consumer	12,168	16,844	9,860	8,914	47,786
Consumer - current period write offs	7	47	5	8	67
Residential					
Risk Rating					
Low Risk	1,481	2,081	1,992	1,430	6,984
Average Risk	700	114	1,534	931	3,279
Acceptable Risk	26,416	25,607	10,849	10,338	73,210
Watch	403	-	-	64	467
Substandard	-	-	-	73	73
Total residential	29,000	27,802	14,375	12,836	84,013
All Loans - Risk Rating					
Low Risk	1,773	20,722	2,501	2,491	27,487
Average Risk	1,729	9,679	5,986	14,708	32,102
Acceptable Risk	57,662	92,266	56,346	54,999	261,273
Watch	1,462	2,592	9,352	5,378	18,784
Substandard	-	-	1,047	2,908	3,955
Total loans	$ 62,626	$ 125,259	$ 75,232	$ 80,484	$ 343,601
Total current period write offs	$ 7	$ 294	$ 736	$ 8	$ 1,045

The following table shows the age analysis of past due and nonaccrual loans as of December 31, 2023 and 2022 ($ in thousands):

	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, 2023							
Commercial	$ 148	$ -	$ 3	$ 151	$ 1,503	$ 125,086	$ 126,740
Commercial real estate	6,630	-	-	6,630	1,298	77,134	85,062
Consumer	87	16	-	103	50	47,633	47,786
Residential	379	-	-	379	73	83,561	84,013
	$ 7,244	$ 16	$ 3	$ 7,263	$ 2,924	$ 333,414	$ 343,601

	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 real estate	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

The following table presents the balance of non-accrual loans and corresponding allowance for credit losses as of December 31, 2023 ($ in thousands):

	Without Allowance for Credit Losses	With Allowance for Credit Losses	Total Non-accrual Loans	Allowance for Credit Losses
Commercial	$ -	$ 1,503	$ 1,503	$ 651
Commercial real estate	1,298	-	1,298	-
Consumer	50	-	50	-
Residential	73	-	73	-
	$ 1,421	$ 1,503	$ 2,924	$ 651

The following table presents the balance of collateral-dependent loans by class of loans and the corresponding allowance for credit losses as of December 31, 2023 ($ in thousands):

	2023	Allowance for Credit Losses
Commercial real estate	$ 1,298	$ -
Consumer	50	-
Residential	73	-
Total	$ 1,421	$ -

The following table discloses information related to impaired loans for the year ended December 31, 2022 ($ in thousands):

	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	-
Consumer	2	2	-	4	-
Residential	31	31	-	71	-
	2,337	2,337	-	2,365	32
With an allowance recorded					
Commercial	4,169	4,169	603	4,153	236
Commercial real estate	-	-	-	-	-
Consumer	34	34	2	18	-
Residential	243	243	11	284	14
	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	-
Consumer	36	36	2	22	-
Residential	274	274	11	355	14
	$ 6,783	$ 6,783	$ 616	$ 6,820	$ 282

As of December 31, 2022, the Bank’s troubled debt restructurings totaled approximately $296,000. There were no loans modified as troubled debt restructurings during the year ended December 31, 2022, nor were there any lending commitments outstanding for troubled debt restructurings.

Loan Modifications

The Bank may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-insignificant payment delay, term extension, interest rate modification, or a combination thereof.

The table below summarizes the amortized cost of loans as of December 31, 2023, that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification ($ in thousands):

	Payment Delay	Term Extension	Total	% of Total Loan Class
Commercial	$ 997	$ 1,156	$ 2,153	1.70%

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The loans that were modified in the last twelve months are current in their payments as of December 31, 2023.

For commercial loans that were modified by way of payment delay, the financial effect is the postponement of interest payments for four quarters. The financial effect of commercial loans with term extension is a two-year maturity extension.

Note 5 – Premises, Equipment, and Leasehold Improvements

The composition of premises, equipment, and leasehold improvements at December 31 are summarized as follows ($ in thousands):

	2023	2022
Buildings and leasehold improvements	$ 10,696	$ 10,357
Equipment	7,270	7,115
Land	708	708
Construction in progress	-	20
	18,674	18,200
Less: accumulated depreciation and amortization	(13,837)	(13,328)
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	$ 4,837	$ 4,872

Depreciation and amortization expense totaled $513,950 and $540,835 for 2023 and 2022, respectively.

Note 6 – Time Deposits

Time certificates of deposit of $250,000 and over totaled $27.2 million and $10.3 million at December 31, 2023 and 2022, respectively.

As of December 31, 2023, the scheduled maturities for all time deposits were as follows ($ in thousands):

Years ending December 31,	2024	$ 77,357
	2025	5,728
	2026	695
	2027	247
	2028	138
		$ 84,165

Note 7 – Borrowings and Subordinated Debt

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, 2023 and 2022 available borrowings were approximately $43.9 million and $44.1 million, respectively. Borrowings outstanding as of December 31, 2023 totaled $14.6 million, consisting of an overnight borrowing of $9.6 million at 5.64%, and $5.0 million maturing July 21, 2025 at 5.03%. Borrowings of $21.6 million under this agreement as of December 31, 2022 were fully paid in 2023.

Bank Term Funding Program

The Bank entered into the Bank Term Funding Program in 2023. The Bank Term Funding Program is a federal credit facility that provides credit to financial institutions. Under the Program, the Bank is required to post investment securities as collateral. Borrowings may be prepaid at any time without penalty. At December 31, 2023, outstanding borrowings totaled $7.0 million at 4.95%, maturing April 17, 2024.

Federal funds lines of credit and other borrowing arrangements

The Bank has obtained federal funds lines of credit totaling $21.5 million with three correspondent banks. These lines of credit will expire upon consent of both parties. The Bank also has a borrowing line of $2.7 million 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, 2023 and 2022.

Subordinated debt

On August 22, 2022, the Company issued $7.0 million 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 $10.0 million 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 ($ in thousands):

	2023	2022
Current tax expense		
Federal	$ 1,708	$ 1,500
State	891	675
	2,599	2,175
Deferred tax benefit		
Federal	(80)	(285)
State	(28)	(101)
	(108)	(386)
Provision for income taxes	$ 2,491	$ 1,789

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

	2023		2022	
Statutory Federal income tax rate	$ 2,123	21.0%	$ 1,620	21.0%
State tax, net of Federal benefit	751	7.4%	573	7.4%
Tax exempt interest and non-taxable income	(368)	-3.6%	(380)	-4.9%
Other, net	(15)	-0.2%	(24)	-0.3%
	$ 2,491	24.6%	$ 1,789	23.2%

Deferred income taxes, recorded as other assets at December 31, 2023 and 2022, 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 ($ in thousands):

	2023	2022
Deferred tax assets		
Unrealized losses on securities available-for-sale	$ 2,499	$ 2,736
Excess of provision for loan losses over deduction	1,605	1,512
Deferred compensation	680	593
Lease liability	75	67
Accrued leave	103	106
Nonaccrual interest income	213	107
Other reserves	69	27
Total deferred tax assets	5,244	5,148
Deferred tax liabilities		
Accelerated depreciation	(387)	(130)
Right-of-use asset	(75)	(67)
Prepaids	(91)	(132)
Deferred loan costs	(90)	(89)
Total deferred tax liabilities	(643)	(418)
Net deferred tax assets	$ 4,601	$ 4,730

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, 2023 and 2022, the Company recognized no interest and penalties related to taxes. As of December 31, 2023 and 2022, the Company had no unrecognized tax benefits. Management does not anticipate that the amount of unrecognized tax benefits will significantly change in the next twelve 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, 2023, 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 ($ in thousands):

Commercial lines of credit	$ 22,839
Commitments to extend credit	13,964
Home equity lines	9,253
Other unused commitments	2,736
Total commitments	$ 48,792

The allowance for credit losses on outstanding commitments is reported as a liability and at December 31, 2023 is $74,689.

Note 10 – Leases

The Bank, as lessee, leases three branch facilities under operating lease agreements that will expire between 2024 and 2025. In addition, the Bank, 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 ($ in thousands):

	Balance Sheet Classification	2023	2022
Right-of-use asset:			
Operating leases	Other assets	$ 263	$ 237
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 263	$ 237

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

	2023	2022
Operating lease expense:		
Operating leases (1)	$ 199	$ 196
Less: operating lease income	(160)	(161)
Total operating lease expense, net	$ 39	$ 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 ($ in thousands):

	Operating Leases	
	As Lessee	As Lessor
2024	$ 173	$ 158
2025	36	158
2026	36	148
2027	36	137
Total undiscounted lease payments and receipts	281	$ 601
Less: imputed interest	(18)	
Net lease liabilities	$ 263	

Supplemental Lease information

For the year ended December 31:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 145	$ 158
Operating lease weighted average remaining lease term (years)	3.5	2.5
Operating lease weighted average discount rate	5.48%	5.46%

There were no new right-of-use assets obtained in exchange for new operating lease liabilities during the year ended December 31, 2023.

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 $1.0 million 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 ($ in thousands):

	2023	2022
Balance, beginning of year	$ 739	$ 899
Principal advanced	120	325
Principal repaid	(96)	(81)
Reclassification of loans out	-	(404)
Balance, end of year	$ 763	$ 739

As of December 31, 2023 and 2022, funds on deposit with the Bank from directors, principal stockholders, their related interests, and principal officers totaled $17.1 million and $21.1 million, 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 twelve-month period preceding the issuance.

During the years ended December 31, 2023 and 2022, the Company issued directors 9,265 shares at $13 per share and 9,395 shares at $11.50 per share, respectively, as compensation for attending board meetings.

Note 13 – Employee Benefit Plans

401(k) pension and profit sharing plans

The Bank 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 Bank contributes a three percent non-elective safe harbor election, and also elected a two percent Bank match for all eligible employees contributing to the 401(k) plan. The Bank contributed $336,928 and $332,516 to this plan in 2023 and 2022, respectively. The Bank 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. Bank profit sharing contributions to the 401(k) plan were $520,000 and $472,000 for the years ended December 31, 2023 and 2022, respectively.

Supplemental executive retirement and deferred compensation plans

A supplemental executive retirement plan was established in 1996 to cover certain executive employees. The Bank may make contributions to the plan at the discretion of the Board of Directors. However, the Bank made no contributions to the plan during either 2023 or 2022. The total recorded plan obligation was $32,973 and $30,921 for the years ended December 31, 2023 and 2022, respectively. Contributions are held in a trust account for the benefit of the participants, with an offsetting liability account maintained to recognize the Bank'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 percent 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 fifteen years. As of December 31, 2023 and 2022, the liability associated with this plan was $2.4 million and $2.0 million respectively, and the Bank recorded expense in the statement of income for the years ended December 31, 2023 and 2022, of $344,179 and $342,552 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 Bank'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 Bank to determine such fair value ($ in thousands):

		Fair Value Measurements		
	Fair Value	(Level 1)	(Level 2)	(Level 3)
December 31, 2023				
Recurring items				
Trading securities	$ 4,579	$ 4,579	$ -	$ -
Mortgage-backed securities	51,923	-	51,923	-
Obligations of states and political subdivisions	24,923	-	24,923	-
Obligations of U.S. government corporations and agencies	6,382	-	6,382	-
	$ 87,807	$ 4,579	$ 83,228	$ -
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

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.

In 2023, the fair value of collateral-dependent loans in Level 3 is generally based on the lower of the loan balance or the collateral's appraised value. Real estate appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Non-real estate collateral may be valued using an appraisal, net book value based on the borrower's financial statements or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation and management's expertise and knowledge of the customer and customer's business (Level 3). If applicable, the fair value may reflect an allowance for credit losses.

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

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

The Bank did not change the methodology used to determine fair value for any financial instruments during the years ended December 31, 2023 and 2022. Nor did the Bank 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 Bank's financial assets and liabilities ($ in thousands):

	Carrying Value	Fair Value at December 31, 2023			
		Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 3,953	$ 3,953	$ 3,953	$ -	$ -
Interest-bearing deposits in other financial institutions	2,939	2,939	2,939	-	-
Trading securities	4,579	4,579	4,579	-	-
Securities available-for-sale	83,228	83,228	-	83,228	-
Securities held-to-maturity	28,791	27,207	-	27,207	-
Loans held-for-sale	4,824	4,824	-	4,824	-
Loans	343,601	337,345	-	-	337,345
Accrued interest receivable	2,238	2,238	-	2,238	-
Federal Home Loan Bank stock	962	962	-	962	-
Financial liabilities					
Noninterest-bearing demand deposits	170,293	170,293	170,293	-	-
Interest-bearing demand deposits	56,983	56,983	56,983	-	-
Savings	94,280	94,280	94,280	-	-
Time deposits	84,165	85,659	-	85,659	-
Subordinated notes	17,000	17,000	-	17,000	-
Other borrowings	7,000	7,245	-	7,245	-

	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	-

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, 2023 and 2022, 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 ($ in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Total risk-based capital (to risk-weighted assets)	$61,735	16.2%	$30,444	8.0%	$ 38,055	10.0%
Tier 1 capital (to risk-weighted assets)	$56,957	15.0%	$22,833	6.0%	$ 30,444	8.0%
Common equity tier 1 (to risk-weighted assets)	$56,957	15.0%	$17,125	4.5%	$ 24,736	6.5%
Tier 1 capital (to average total assets)	$56,957	11.3%	$20,112	4.0%	$ 25,140	5.0%
December 31, 2022						
Total risk-based capital (to risk-weighted assets)	$56,671	14.2%	$32,037	8.0%	$ 40,046	10.0%
Tier 1 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 1 capital (to average total assets)	$51,654	10.1%	$20,529	4.0%	$ 25,661	5.0%

The Bank is required to maintain a common equity Tier 1 capital capital conservation buffer of greater than 2.5 percent 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 Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Bank's sources of non-interest income for the twelve months ended December 31 ($ in thousands):

	2023	2022
Non-interest income		
Service charges and other fees		
Interchange income, net	$ 862	$ 836
Loan servicing income (1)	708	636
Service charges on deposits	568	558
Other income (1)	266	199
Total service charges and fees	2,404	2,229
Net gain on sale of loans (1)	446	942
Increase in value of bank-owned life insurance (1)	232	149
Net gains (losses) on trading securities (1)	153	(200)
Net losses on sale of investment securities (1)	(144)	(68)
Total non-interest income	$ 3,091	$ 3,052

(1) Not within the scope of ASC 606