FIRST NATIONAL BANK ALASKA
Anchorage, Alaska

FINANCIAL STATEMENTS
December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Shareholders
First National Bank Alaska
Anchorage, Alaska

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First National Bank Alaska, which comprise the statements of financial condition as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of First National Bank Alaska as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, First National Bank Alaska's internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 12, 2024 expressed an unmodified opinion.

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 First National Bank Alaska 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

As discussed in Note 1 to the consolidated financial statements, First National Bank Alaska changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments - Credit Losses (ASC 326). Our opinion is not modified with respect to this matter.

(Continued)

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about First National Bank Alaska's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

Crowe LLP

Crowe LLP

Oak Brook, Illinois
March 12, 2024

FIRST NATIONAL BANK ALASKA
STATEMENTS OF FINANCIAL CONDITION
December 31, 2023 and 2022
(Dollars in thousands, except per share data)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 923,414	$ 93,547
Securities available-for-sale, at fair value	2,384,951	2,815,357
Real estate loans to be sold	6,193	1,728
Loans, net of allowance for credit losses of $17,750 and $18,800 as of December 31, 2023 and 2022, respectively	2,255,561	2,208,247
Premises and equipment, net	50,532	52,335
Due from brokers	-	45,000
Deferred taxes, net	39,538	60,825
Other assets	70,646	60,698
Total assets	$ 5,730,835	$ 5,337,737
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$ 1,932,290	$ 2,368,659
Interest bearing:		
Savings	738,785	1,023,024
Business interest checking	97,671	124,357
Business interest sweep	451,495	278,553
NOW	140,661	159,929
Money market	107,033	147,026
Time	312,083	123,309
Total interest bearing	1,847,728	1,856,198
Total deposits	3,780,018	4,224,857
Securities sold under agreements to repurchase	629,280	670,974
Federal Reserve Bank advances	780,000	-
Federal Home Loan Bank advances	15,000	-
Other liabilities	61,746	34,356
Total liabilities	5,266,044	4,930,187
Shareholders' equity:		
Common stock, $10 par value (authorized: 4,000,000 shares) (issued and outstanding: 2023 and 2022 - 3,166,885)	31,669	31,669
Surplus	40,000	40,000
Retained earnings	491,500	482,160
Accumulated other comprehensive loss	(98,378)	(146,279)
Total shareholders' equity	464,791	407,550
Total liabilities and shareholders' equity	$ 5,730,835	$ 5,337,737

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF INCOME
Years ended December 31, 2023 and 2022
(Dollars in thousands, except per share data)

	2023	2022
Interest income and loan fees:		
Interest and fees on loans:		
Taxable	$ 142,418	$ 111,692
Nontaxable	606	867
Total interest and fees on loans	143,024	112,559
Interest and dividends on investment securities:		
Taxable	40,994	38,431
Nontaxable	3,677	3,800
Total interest and dividends on investment securities:	44,671	42,231
Interest on cash and cash equivalents	26,823	5,232
Total interest and loan fee income	214,518	160,022
Interest expense:		
Deposits	18,850	3,892
Federal fund purchased and securities sold under agreements to repurchase	22,350	8,141
FHLB advances and other borrowed funds	18,839	2,619
Total interest expense	60,039	14,652
Net interest and loan fee income	154,479	145,370
Credit loss expense - loans	(855)	(1,249)
Credit loss expense - off-balance sheet credit exposures	(75)	-
Credit loss expense	(930)	(1,249)
Net interest and loan fee income after provision for credit loss expense	155,409	146,619
Noninterest income:		
Bankcard fees	10,693	10,391
Service charges on deposit accounts	5,487	5,056
Gain on sale of mortgage loans	757	1,417
Mortgage loan servicing income	2,107	1,872
Other noninterest income	6,682	5,936
Total noninterest income	25,726	24,672
Noninterest expense:		
Salaries and employee benefits	63,652	60,741
Occupancy expense, net	7,323	7,006
Furniture and equipment expense	2,909	2,664
Bankcard expenses	2,839	2,656
Losses on investment securities, net	300	64
Other noninterest expense	21,445	20,008
Total noninterest expense	98,468	93,139
Income before taxes	82,667	78,152
Provision for income taxes	22,657	19,917
Net income	$ 60,010	$ 58,235
Earnings per common share	$ 18.95	$ 18.39

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022
(Dollars in thousands)

	2023	2022
Net income	$ 60,010	$ 58,235
Other comprehensive income (loss) -		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period, net of tax effect of ($18,939) and $61,397 in 2023 and 2022, respectively	47,686	(154,591)
Reclassification adjustment for losses included in net income, net of tax effect of ($85) and ($18) in 2023 and 2022, respectively	215	46
Other comprehensive income (loss)	47,901	(154,545)
Comprehensive income (loss)	$ 107,911	$ (96,310)

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022
(Dollars in thousands)

	2023	2022
Cash flows from operating activities		
Net Income	$ 60,010	$ 58,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium on investment securities, net	5,337	10,950
(Gain) loss from equity method investments	(155)	467
Loss on mortgage servicing rights	297	316
Depreciation, accretion, and amortization	5,174	5,156
Credit loss expense	(930)	(1,249)
Deferred taxes	2,263	3,910
Gain on sale of mortgage loans	(757)	(1,417)
Net loss on the sale of premises and equipment	3	142
Net loss on investment securities	300	64
Real estate loans to be sold-originated	(66,900)	(84,330)
Real estate loans to be sold-shipped	62,692	91,502
Net increase in other assets	(1,305)	(2,425)
Net decrease (increase) in other liabilities	21,230	(790)
Net cash provided by operating activities	87,259	80,531
Cash flows from investing activities		
Proceeds from calls or maturities of securities, available-for-sale	496,355	243,804
Proceeds from sales of securities, available-for-sale	187,736	235,335
Purchase of securities, available-for-sale	(147,422)	(723,486)
Net sale (purchase) of Federal Home Loan Bank stock	2,820	(1,063)
Net decrease in loans	285,144	100,777
Purchase of participation loans	(335,386)	(211,599)
Proceeds from sales of premises and equipment	-	11
Purchase of land, premises and equipment	(2,417)	(8,236)
Net cash provided (used) by investing activities	486,830	(364,457)

(Continued)

(Dollars in thousands)

	2023	2022
Cash flows from financing activities		
Net (decrease) increase in total deposits	$ (444,839)	$ 7,933
Net decrease in securities sold under agreement to repurchase	(41,694)	(110,726)
Proceeds from Federal Home Loan Bank advances	215,000	2,400,000
Repayments on Federal Home Loan Bank advances	(200,000)	(2,400,000)
Proceeds from Federal Reserve Bank advances	780,000	-
Payments on notes payable and finance lease	(2,019)	(1,020)
Dividends paid	(50,670)	(50,670)
Net cash provided (used) by financing activities	255,778	(154,483)
Increase (decrease) in cash and cash equivalents	829,867	(438,409)
Cash and cash equivalents, January 1	93,547	531,956
Cash and cash equivalents, December 31	$ 923,414	$ 93,547
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 38,440	$ 14,596
Cash paid during the year for income taxes	21,280	11,551
Noncash investing and financing activities:		
Bank financed sales of other real estate owned	$ -	$ 29
Purchase of copier equipment under finance lease obligation	-	1,164
Commitments for investments in qualified affordable housing projects	12,000	15,000
Settlement of purchased loans and securities via short-term payable	(4,133)	(8,225)
Due from brokers for security maturities	-	(45,000)

See accompanying notes to financial statements

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2023 and 2022
(Dollars in thousands, except per share data)

	Common Stock ($10 Par Value)	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2022	$ 31,669	$ 40,000	$ 474,595	$ 8,266	$ 554,530
Net income	-	-	58,235	-	58,235
Other comprehensive loss, net of tax	-	-	-	(154,545)	(154,545)
Dividends declared - $16.00 per share	-	-	(50,670)	-	(50,670)
Balance, December 31, 2022	31,669	40,000	482,160	(146,279)	407,550
Net income	-	-	60,010	-	60,010
Other comprehensive gain, net of tax	-	-	-	47,901	47,901
Dividends declared - $16.00 per share	-	-	(50,670)	-	(50,670)
Balance, December 31, 2023	$ 31,669	$ 40,000	$ 491,500	$ (98,378)	$ 464,791

See accompanying notes to financial statements

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

First National Bank Alaska (the Bank) is a full service commercial bank operated as a single segment, and as such, its principal activities include the receiving and lending of money. Additionally, the Bank provides trust banking services, escrow and contract collection services, bankcard services, and safe deposit box facilities. These services are for business, industry, and individuals primarily within the State of Alaska. Banking services are provided from 27 branches throughout Alaska. The accounting and reporting policies of the Bank conform with U.S. generally accepted accounting principles (GAAP) and the prevailing practices within the banking industry. Significant accounting and reporting policies are summarized below.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 12, 2024, which is the date the financial statements were available to be issued.

Estimates: Use of accounting estimates in the preparation of financial statements, in order to conform with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash and due from banks, overnight federal funds sold, and securities with original maturities of 90 days or less. Net cash flows are reported for customer loan and deposit transactions, securities sold under agreements to repurchase and federal funds purchased.

Securities, Available-for-Sale: Debt securities are classified as available-for-sale at the time of acquisition. Available-for-sale security classification provides for sales in advance of maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains or losses reported in other comprehensive income, net of tax, as a separate component of shareholders' equity. Amortization of premiums and accretion of discounts are recognized using the level-yield method. Realized gains and losses on sales of securities are recorded on the trade date and determined using the specific identification method.

Allowance for Credit Losses – Available-for-Sale Securities: For available-for-sale debt 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 debt securities available-for-sale that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of the cash flows expected to be collected from the security are compared to the amortized costs basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Accrued interest receivable on available-for-sale debt securities totaled $10,892 at December 31, 2023 and is excluded from the estimate of credit losses.

Equity securities: Equity investments include our Visa Class B shares recorded with no book value as of December 31, 2023.

Real Estate Loans to be Sold: Real estate loans to be sold are carried at the lower of cost or fair value in the aggregate. The Bank records and holds for sale 1-4 family and multifamily residential real estate loans which are originated pursuant to investor programs. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loans: The Bank grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout Alaska. The ability of the Bank's debtors to honor their contracts is dependent upon real estate and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred loan fees and costs. Accrued interest receivable totaled $11,801 at December 31, 2023, is reported in other assets on the statements of financial condition, and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

The accrual of interest on all classes of real estate and commercial loans is normally discontinued at the time a loan is 90 days delinquent. Past due status is based on the contractual terms of the loan. All classes within consumer and other loans are typically charged off no later than 120 days delinquent. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Loans are typically placed on nonaccrual prior to being classified as collateral-dependent.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank identified the following portfolio segments with similar risk characteristics: commercial and industrial, real estate construction and development, real estate 1-4 and multifamily residential, real estate commercial, and consumer.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Management considers the following when assessing the risk of the loan portfolio segments:

Commercial and industrial loans – are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases, to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. At the time of origination, financial information is obtained from the borrower to evaluate ability to repay the loans.

Real estate construction and development loans and Real estate commercial loans – are dependent on the industries tied to these loans as well as the local real estate market. The loans are secured by the real estate, appraisals or other external valuations are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination.

Real estate 1-4 and multifamily residential loans – are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of credit scores and debt to income ratios. Appraisals or other external valuations are obtained to support the loan amount. Multifamily real estate loans are dependent on the industries tied to these loans as well as the local real estate market for the particular property segments. Appraisals or other external valuations are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination.

Consumer and other loans – are dependent on local economies. Consumer loans are generally secured by consumer assets, but may be unsecured. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.

The Bank measures the allowance for credit losses on collective loans using the discounted cash flow method over the contractual term of each loan. The contractual term of a loan excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date a modification will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

The Bank utilizes complex models to obtain reasonable and supportable forecasts to calculate two predictive metrics, the probability of default and loss given default. Under the discounted cash flow method the combination of the forecast and timing expectations, such as prepayment, curtailment, and funding rates, results in a calculation of an expected cash flow stream for each loan. Expected cash flows are then discounted at the effective yield to produce a loan net present value of expected cash flows. An expected credit loss is measured as the difference between the loan's net present value and amortized cost.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. The national unemployment forecast is used for all loan portfolio segments, with the exception of consumer and other loans, which use the real gross domestic product forecast. Peer historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as changes in lending policies and procedures, the nature and volume of the loan portfolio, the volume and severity of past due loans, the existence and effect of concentrations of credit, the quality of loan review, as well as for changes in environmental conditions, such as changes in unemployment rates, gross domestic product rates, property values or other relevant economic factors.

The Bank uses reasonable and supportable forecasts to model expected credit losses under conditions which include a decline in economic conditions, an increase in the unemployment rate, and the level and trend of delinquencies over the next three years. The Bank has elected to forecast the first four quarters of the credit loss estimate and revert on a straight-line basis over the following eight quarters. Management adjusted the historical loss experience for these expectations. The actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective (pool) evaluation. These loans can be accruing and evaluated individually without being considered collateral-dependent. The expected credit loss reserve for individually analyzed loans considers a collateral valuation, a present value of expected future cash flow valuation, a comparable sale valuation, or a recorded investment valuation, which is the amortized cost plus unamortized premiums or discounts. The expected credit loss amount for individually analyzed loans is based on the highest valuation technique for each loan.

Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulty, are considered in financial difficulty modification status, classified as impaired, measured at amortized cost and individually analyzed for expected credit losses.

<u>Allowance for Credit Losses - Off-Balance Sheet Credit Exposure</u>: A reserve is established at a level that is considered adequate by management to provide for expected losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for off-balance sheet credit exposure by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates, and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in credit loss expense in the periods they become known. The reserve for off-balance sheet credit exposure is included in other liabilities in the statements of financial condition.

The recorded liability was $1,575 as of December 31, 2023.

<u>Due From Broker:</u> Due from broker balances were $0 and $45,000 as of December 31, 2023 and 2022, respectively. The prior year balance is related to three securities that matured on December 31, 2022 and funds were received in 2023.

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Premises and Equipment: Premises and equipment, including leasehold improvements and software, are stated at cost less accumulated depreciation and amortization. Depreciation on premises and equipment is calculated on a declining balance basis over the estimated useful lives of the assets. The estimated useful life of buildings is 39 years, with some external elements using 15 years. The estimated useful life of software is 3 years and furniture and equipment is 5 to 7 years. Equipment under a finance leases is stated at the present value of minimum lease payments. Equipment held under finance leases and leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset. Maintenance and repairs are expensed as incurred, while improvements and construction costs are capitalized.

Leases: At contract inception, the Bank determines whether the arrangement is or contains a lease and determines the lease classification. The lease term is determined based on the non-cancellable term of the lease adjusted to the extent optional renewal terms and termination rights are reasonably certain. Lease expense is recognized evenly over the lease term. Variable lease payments are recognized as period costs. The present value of remaining lease payments is recognized as a liability on the balance sheet with a corresponding right-of-use asset adjusted for prepaid or accrued lease payments. The Bank uses the Federal Home Loan Bank fixed advance rate as of the lease inception date that most closely resembles the remaining term of the lease as the incremental borrowing rate, unless the interest rate implicit in the lease contract is readily determinable. The Bank has elected to exclude short-term leases as well as all non-lease items, such as common area maintenance, from being included in the lease liability on the statements of financial condition.

Federal Reserve Bank Stock: This stock is a required holding of capital stock of the Federal Reserve Bank and is carried in other assets in the accompanying statements of condition at cost and periodically evaluated for impairment based on ultimate recovery of par value. The Bank held stock of $2,150 as of December 31, 2023 and 2022. Calculation of the stock requirement is based solely on the capital structure of the Bank. Both cash and stock dividends are reported as income.

Federal Home Loan Bank (FHLB) Stock: This is a required stock holding of the Federal Home Loan Bank of Des Moines and is carried in other assets in the accompanying statements of condition at cost and periodically evaluated for impairment based on ultimate recovery of par value. The Bank held stock of $3,878 and $6,698 as of December 31, 2023 and 2022, respectively. The minimum stock requirement is calculated based on the Bank's assets or qualifying loans, whichever applies. Both cash and stock dividends are reported as income.

Other Real Estate Owned (OREO): OREO consists of properties acquired through foreclosure and is carried at the lower of fair value at acquisition date or current estimated fair value net of disposal costs. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or a similar legal agreement. At the time the property is acquired, it is recorded at estimated fair value less costs to sell, with any difference between this value and the outstanding balance on the loan charged against the allowance for loan losses. Subsequent to foreclosure, costs associated with holding the property are charged to expense as incurred. Subsequent write-downs and gains and losses recognized on the sale of these properties are included in noninterest expense. Other real estate owned also includes bank premises that were transferred to other real estate owned due to no longer using the premises for Bank purposes and related regulatory requirements for these types of assets. These transfers from premises and equipment are made at the lower of cost or fair value. At December 31, 2023 and 2022 the Bank held no OREO properties.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Loan Commitments and Related Financial Instruments: This includes off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets: These are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, 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 the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Originated Mortgage Servicing Rights (OMSRs): OMSRs are capitalized based on their fair value when the corresponding loans are sold. The purchased or originated rights to service loans are amortized in relation to the estimated period of net servicing income. The carrying value of mortgage servicing rights (MSRs) is evaluated on a disaggregated basis relative to loans originated in a given quarter for impairment if there are changes in market conditions, payoffs or loan delinquencies. Impairment of MSRs is recognized through a charge to noninterest income when the MSRs' carrying amount exceeds its current fair value. MSRs are included in other assets in the accompanying statements of condition and are amortized into mortgage loan servicing income.

Mortgage Loan Servicing Fees: These are based on a percentage of the interest collected and are included in income as related loan payments from mortgagors are collected offset by the amortization of the servicing rights.

Investments in Limited Partnerships: Investments where the underlying assets are qualified affordable housing projects are accounted for using the proportional amortization accounting method. Under this method, the bank amortizes the investment in tax expense over the period during which tax benefits are received.

Federal Reserve Bank Advances: The Federal Reserve Bank introduced the Bank Term Funding Program (BTFP) in 2023 allowing any U.S. federally insured deposit institution to borrow funds secured by eligible collateral. The Bank held three advances totaling $780,000 from the BTFP with fixed rates from 4.37% to 4.85% as of December 31, 2023, which will mature during 2024. These advances are secured by available-for-sale debt securities, and are payable at maturity date with no prepayment penalty.

Federal Home Loan Bank (FHLB) Advances: The Bank held an advance of $15,000 from the FHLB at a fixed rate of 4.19% as of December 31, 2023, which will mature in 2028. The advance is secured by 1-4 family, multi-family, and commercial real estate loans, and is payable at its maturity date, or with a prepayment penalty if paid prior to maturity. Based on the real estate collateral and the Bank's holdings of FHLB stock, the Bank is eligible to borrow up to a total of $546,612 at year-end 2023.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

A description of the Bank's revenue streams accounted for under ASC 606 follows:

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

Bankcard Fees: The Bank earns interchange fees from debit/credit cardholder transactions conducted through the MasterCard 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. Bankcard fees include income from interchange fees on both credit and debit cards, merchant fees earned on credit transactions, and miscellaneous set up and equipment rental fees. The Bank recognizes fee revenue as it is earned and collectability is reasonably assured. Expenses related to rebate reward programs are recorded when earned by cardholders.

Wealth Management Fees: The Bank earns wealth management fees from services provided for trusts and investment management accounts for customers to manage assets for investment. These fees are primarily earned over time as the Bank provides monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management at month-end.

Gains/Losses on Sales of OREO: The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of OREO 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 OREO asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Income Taxes: Income taxes are accounted for in accordance with Accounting Standards Codification (ASC) Topic 740. A current income tax asset or liability is recognized for estimated taxes payable or refundable on current year income tax returns. A deferred tax asset or liability is recognized for future tax effects attributable to temporary differences arising between the tax bases of assets or liabilities and their reported amounts in the financial statements. The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax law. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. In the event the Bank does not expect to realize future tax benefits, a valuation allowance would be established to reduce the amount of deferred tax assets.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Earnings Per Common Share: These are computed on the basis of the weighted average number of shares outstanding. The weighted average number of shares outstanding were 3,166,885 for 2023 and 2022. The Bank does not have any potentially dilutive securities.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. From time to time in the normal course of business, various claims are asserted against the Bank. The Bank carried a $341 litigation reserve and escrow receivable as of December 31, 2023 related to potential exposure related to a merchant service settlement. Management and legal counsel are of the opinion that ultimate resolution of the matters presently known to exist will not have a material effect on the Bank’s financial statements.

Fair Values of Financial Instruments: These are estimated using relevant market information and other assumptions, as more fully disclosed in estimated fair value of financial instruments footnote. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications: Reclassifications have been made to conform 2022 financial statement data with the 2023 presentation. Reclassifications had no effect on prior year net income or shareholders’ equity.

Adoption of New Accounting Standards: On January 1, 2023, the Bank adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also apples to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

(Continued)

(Dollars in thousands except per share data)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

The effective interest rate used to discount expected cash flows considers the timing of expected cash flows resulting from expected prepayments for troubled debt restructurings that existed at January 1, 2023. The prepayment-adjusted effective interest rate uses the original contractual rate and prepayment assumptions at January 1, 2023.

The following table illustrates the impact of ASC 326.

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
Commercial and industrial	$ 2,333	$ 3,920	$ (1,587)
Real estate			
Construction and development	5,771	4,039	1,732
1-4 and multifamily residential	1,779	1,234	545
Commercial real estate	8,414	9,342	(928)
Consumer and other	153	265	(112)
Allowance for credit losses on loans	$ 18,450	$ 18,800	$ (350)
Liabilities:			
Allowance for credit losses on off-balance-sheet credit exposures	$ 1,650	$ 1,300	$ 350

(Dollars in thousands except per share data)

NOTE 2 - SECURITIES

The amortized cost and fair value of securities, available-for-sale are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Amortized cost and fair values of securities, available-for-sale by maturity date, as of December 31, 2023:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2023				
U.S. Treasury securities maturities:				
Within 1 year	$ 360,001	$ 25	$ 5,370	$ 354,656
One to 5 years	908,035	-	59,884	848,151
Total	1,268,036	25	65,254	1,202,807
U.S. Government-sponsored enterprises maturities:				
Within 1 year	73,205	-	1,098	72,107
One to 5 years	456,356	24	26,562	429,818
Five to 10 years	74,557	73	6,480	68,150
Total	604,118	97	34,140	570,075
States and political subdivisions maturities:				
Within 1 year	20,947	-	93	20,854
One to 5 years	41,305	10	441	40,874
Five to 10 years	56,167	23	782	55,408
After 10 years	37,387	11	1,300	36,098
Total	155,806	44	2,616	153,234
Mortgage-backed securities: residential	273,583	-	28,035	245,548
Mortgage-backed securities: commercial	85,685	135	894	84,926
Corporate bonds maturities:				
Within 1 year	14,773	-	118	14,655
One to 5 years	110,675	303	5,276	105,702
Five to 10 years	9,749	-	1,745	8,004
Total	135,197	303	7,139	128,361
Total securities, available-for-sale	$ 2,522,425	$ 604	$ 138,078	$ 2,384,951

(Continued)

(Dollars in thousands except per share data)

NOTE 2 - SECURITIES (Continued)

For the years ended December 31, 2023 and 2022 there were no holdings of securities of any one issuer, other than U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2023						
Available-for-sale:						
U.S. Treasury	$ -	$ -	$ 1,055,093	$ 65,254	$ 1,055,093	$ 65,254
U.S. government-sponsored enterprises	-	-	564,026	34,140	564,026	34,140
State and political subdivisions	-	-	132,393	2,616	132,393	2,616
Corporate bonds	-	-	114,086	7,139	114,086	7,139
Mortgage-backed						
residential	-	-	245,548	28,035	245,548	28,035
commercial	2,402	-	61,796	894	64,198	894
Total	$ 2,402	$ -	$ 2,172,942	$ 138,078	$ 2,175,344	$ 138,078

Management believes the unrealized holding losses on investments are the result of interest rate changes and not a result of credit quality issues. The contractual terms of these investments do not permit the issuer to redeem the securities at a price less than par, or at a time in which the securities amortized cost would be less than par. Unrealized losses on U.S. Treasury, U.S. government-sponsored enterprises, states and political subdivisions and corporate bonds have not been recognized into income because the issuer(s) bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

At December 31, 2023, all of the mortgage-backed securities held by the Bank were issued or guaranteed by U.S. government corporations (Ginnie Mae and SBA) or U.S. government-sponsored entities (Fannie Mae and Freddie Mac). Any decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and the Bank does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

As of December 31, 2023 the Bank holds no allowance for credit losses on available-for-sale securities.

(Continued)

(Dollars in thousands except per share data)

NOTE 2 - SECURITIES (Continued)

The amortized cost and fair value of securities, available-for-sale are shown by contractual maturity. Amortized cost and fair values of securities, available-for-sale by maturity date, as of December 31, 2022:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2022				
U.S. Treasury securities maturities:				
Within 1 year	$ 271,148	$ -	$ 1,774	$ 269,374
One to 5 years	1,092,965	-	92,697	1,000,268
Five to 10 years	27,919	-	3,820	24,099
Total	1,392,032	-	98,291	1,293,741
U.S. Government-sponsored enterprises maturities:				
Within 1 year	210,749	-	4,921	205,828
One to 5 years	448,712	-	31,721	416,991
Five to 10 years	154,409	50	15,130	139,329
After 10 years	2,072	-	363	1,709
Total	815,942	50	52,135	763,857
States and political subdivisions maturities:				
Within 1 year	4,132	-	25	4,107
One to 5 years	41,742	3	596	41,149
Five to 10 years	73,764	27	1,514	72,277
After 10 years	42,676	-	3,019	39,657
Total	162,314	30	5,154	157,190
Mortgage-backed securities: residential	318,683	-	36,253	282,430
Mortgage-backed securities: commercial	130,552	201	2,324	128,429
Corporate bonds maturities:				
Within 1 year	54,189	-	465	53,724
One to 5 years	115,273	143	8,460	106,956
Five to 10 years	24,777	-	1,609	23,168
After 10 years	5,970	-	108	5,862
Total	200,209	143	10,642	189,710
Total securities, available-for-sale	$ 3,019,732	$ 424	$ 204,799	$ 2,815,357

(Continued)

(Dollars in thousands except per share data)

NOTE 2 - SECURITIES (Continued)

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2022						
Available-for-sale:						
U.S. Treasury	$ 447,883	$ 14,963	$ 845,858	$ 83,328	$ 1,293,741	$ 98,291
U.S. government-sponsored enterprises	496,649	30,912	263,954	21,223	760,603	52,135
State and political subdivisions	146,170	5,154	-	-	146,170	5,154
Corporate bonds	156,529	8,422	23,996	2,220	180,525	10,642
Mortgage-backed						
residential	39,451	1,884	242,979	34,369	282,430	36,253
commercial	107,439	2,324	-	-	107,439	2,324
Total	$1,394,121	$ 63,659	$ 1,376,787	$ 141,140	$ 2,770,908	$ 204,799

Investment securities with carrying amounts of $2,123,774 and $1,509,818 at December 31, 2023 and 2022, respectively, were pledged to secure public and trust deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

Realized gains on the disposition of investment securities totaled $44 and $85 in 2023 and 2022, respectively. Realized losses on the disposition of investment securities totaled $344 and $9,823 for 2023 and 2022, respectively.

The Bank, as a member of Visa USA, received 83,987 unrestricted shares of Visa, Inc. Class B common stock in connection with Visa, Inc.'s initial public offering in 2007. The retroactive responsibility plan obligates all former Visa USA members to indemnify Visa USA, in proportion to their equity interests in Visa USA, for certain litigation losses and expenses, including settlement expenses, for the lawsuits covered by the retrospective responsibility plan. Due to the restrictions that the retrospective responsibility plan imposes on the Bank's Visa, Inc. Class B shares, the Bank has not recorded the Class B shares as an asset.

The Bank sold 42,000 shares of Visa Class B common stock in the fourth quarter of 2022 and recorded a gain of $9,674, which was included within losses on investment securities, net on the statements of income.

Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the remaining 41,987 Visa Class B shares that the Bank owns as of December 31, 2023 are carried at zero.

(Dollars in thousands except per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

The loan portfolio consists of the following at December 31:

	2023	2022
Commercial and industrial	$ 490,593	$ 454,235
Real estate		
Construction and development	387,939	383,304
1-4 and multifamily residential	280,466	265,890
Commercial real estate	1,105,982	1,119,463
Consumer and other	20,324	16,322
Total	2,285,304	2,239,214
Less: Net deferred loan fees	11,993	12,167
Total loans, gross	2,273,311	2,227,047
Less: Allowance for credit losses	17,750	18,800
Total loans, net	$ 2,255,561	$ 2,208,247

There were unamortized premiums of $76 and $151 from purchased government guaranteed loans and multifamily real estate loans as of December 31, 2023 and 2022, respectively. The Bank purchased $73,205 and $77,397 of government guaranteed loans in 2023 and 2022, respectively. The government guaranteed loan balances were $161,274 and $153,454 as of December 31, 2023 and 2022, respectively. Government guaranteed loans are included in commercial and industrial loans.

As of December 31, 2023 and 2022 the aggregate indebtedness of all related parties (directors and executive officers of the Bank and their family members) was $14,508 and $10,831, respectively.

(Dollars in thousands except per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following is an analysis of the changes in the allowance for credit losses by portfolio segment for the period ended:

	Commercial and Industrial	Real Estate	Consumer and Other	Total
December 31, 2023				
Allowance for credit losses:				
Beginning balance, prior to adoption of ASC 326	$ 3,920	$ 14,615	$ 265	$ 18,800
Impact of adopting ASC 326	(1,587)	1,349	(112)	(350)
Credit loss expense	55	(1,128)	218	(855)
Loans charged-off	(11)	(1)	(287)	(299)
Recoveries	291	18	145	454
Total ending allowance balance	$ 2,668	$ 14,853	$ 229	$ 17,750
December 31, 2022				
Allowance for loan losses:				
Beginning balance	$ 6,933	$ 15,641	$ 326	$ 22,900
Provision for loan losses	(84)	(1,041)	(124)	(1,249)
Loans charged-off	(4,305)	-	(198)	(4,503)
Recoveries	1,376	15	261	1,652
Total ending allowance balance	$ 3,920	$ 14,615	$ 265	$ 18,800

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022:

	Commercial and Industrial	Real Estate	Consumer and Other	Total
2022				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 50	$ 250	$ -	$ 300
Collectively evaluated for impairment	3,870	14,365	265	18,500
Total ending allowance balance	$ 3,920	$ 14,615	$ 265	$ 18,800
Loans:				
Individually evaluated for impairment	964	9,614	44	10,622
Collectively evaluated for impairment	453,271	1,759,043	16,278	2,228,592
Total loans outstanding balance	$ 454,235	$1,768,657	$ 16,322	$ 2,239,214
Deferred loan fees, net				(12,167)
Total loans				$ 2,227,047

(Continued)

(Dollars in thousands except per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table summarizes our nonaccrual loans and loans past due by loan class as of December 31, 2023 and 2022:

	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total Loans	Non-Accrual
December 31, 2023						
Commercial and industrial	$ 251	$ 878	$ 1,129	$ 489,464	$ 490,593	$ 1,406
Real Estate						
Construction and development	196	-	196	387,743	387,939	340
1 - 4 and multifamily residential	449	-	449	280,017	280,466	395
Commercial real estate	530	-	530	1,105,452	1,105,982	2,525
Consumer and other	-	9	9	20,315	20,324	-
Total	$ 1,426	$ 887	$ 2,313	$ 2,282,991	$ 2,285,304	$ 4,666
Deferred loan fees, net					(11,993)	(55)
Total loans					$ 2,273,311	$ 4,611
December 31, 2022						
Commercial and industrial	$ 50	$ 3	$ 53	$ 454,182	$ 454,235	$ 904
Real Estate						
Construction and development	1,181	199	1,380	381,924	383,304	463
1 - 4 and multifamily residential	622	265	887	265,003	265,890	1,075
Commercial real estate	1,649	111	1,760	1,117,703	1,119,463	3,303
Consumer and other	390	23	413	15,909	16,322	-
Total	$ 3,892	$ 601	$ 4,493	$ 2,234,721	$ 2,239,214	$ 5,745
Deferred loan fees, net					(12,167)	(48)
Total loans					$ 2,227,047	$ 5,697

As of December 31, 2023 and 2022, $9 and $222 in loans were greater than 89 days past due and in accrual status.

Loans in nonaccrual status with no allowance for credit loss reserve totaled $234 as of December 31, 2023. The Bank recognized $145 of interest income on nonaccrual loans during the year ended December 31, 2023.

(Continued)

(Dollars in thousands except per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the balance of collateral-dependent loans by loan class as of December 31, 2023:

	Business Assets	Real Estate
December 31, 2023		
Commercial and industrial	$ 1,286	$ -
Real Estate		
Construction and development	-	245
1 - 4 and multifamily residential	-	396
Commercial real estate	-	733
Consumer and other	-	-
Total	$ 1,286	$ 1,374
Deferred loan fees, net	(25)	(19)
Total loans	$ 1,261	$ 1,355

(Continued)

(Dollars in thousands except per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents information related to impaired loans, net of deferred fees, by class of loans as of December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2022						
With no allowance recorded:						
Commercial and industrial	$ 1,685	$ 888	$ -	$ 1,174	$ 121	$ 121
Real Estate						
Construction and development	334	215	-	245	24	24
1 - 4 and multifamily residential	1,739	1,479	-	1,262	120	121
Commercial real estate	7,239	6,480	-	6,600	491	491
Consumer and other	44	44	-	68	6	6
Subtotal	11,041	9,106	-	9,349	762	763
With an allowance recorded:						
Commercial and industrial	55	47	50	77	7	7
Real Estate						
Construction and development	351	243	130	274	21	21
1 - 4 and multifamily residential	-	-	-	-	-	-
Commercial real estate	1,872	1,148	120	1,243	127	127
Consumer and other	-	-	-	-	-	-
Subtotal	2,278	1,438	300	1,594	155	155
Total	$ 13,319	$ 10,544	$ 300	$ 10,943	$ 917	$ 918

The recorded investment in loans excludes accrued interest receivable and loan origination fees.

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying loans as to credit risk. Formal analysis of classified loans is performed quarterly, including all loans 60 days delinquent. Ongoing evaluation of certain performing loans is conducted through internal credit examinations and loan committee reviews.

The Bank uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful/Loss: Loans classified as doubtful/loss have all the weaknesses inherent in those 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.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. Loans listed as not rated are either current loans performing in accordance with contractual terms or are included in groups of homogenous loans.

(Dollars in thousands except per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table summarizes our internal risk rating by loan class based on the most recent analysis performed as of December 31, 2023 and 2022:

	Pass	Special Mention	Sub-Standard	Doubtful/ Loss	Total
December 31, 2023					
Commercial and industrial	$ 476,270	$ 4,618	$ 9,702	$ 3	$ 490,593
Real Estate					
Construction and development	376,919	271	10,749	-	387,939
1 - 4 and multifamily residential	279,473	41	952	-	280,466
Commercial real estate	1,088,053	4,542	13,038	349	1,105,982
Consumer and other	20,315	-	9	-	20,324
Total	$ 2,241,030	$ 9,472	$ 34,450	$ 352	$ 2,285,304
Deferred loan fees, net					(11,993)
Total loans					$ 2,273,311

	Pass	Special Mention	Sub-Standard	Doubtful/ Loss	Total
December 31, 2022					
Commercial and industrial	$ 449,283	$ 3,996	$ 902	$ 54	$ 454,235
Real Estate					
Construction and development	339,593	17,918	25,793	-	383,304
1 - 4 and multifamily residential	263,319	694	1,877	-	265,890
Commercial real estate	1,053,981	5,785	59,379	318	1,119,463
Consumer and other	16,234	22	66	-	16,322
Total	$ 2,122,410	$ 28,415	$ 88,017	$ 372	$ 2,239,214
Deferred loan fees, net					(12,167)
Total loans					$ 2,227,047

Financial difficulty modification status:

Occasionally, the Bank modifies loans to borrowers in financial distress by providing term extension, other-than-insignificant payment delay, or interest rate changes. In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as interest rate change, may be granted. For the loans experiencing financial difficulty, multiple types of modifications have been made on the same loan within the current reporting period. For 2023 at least two of the following modifications were made: a term extension, an other-than-insignificant payment delay and/or an interest rate change.

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023 is $1,393. Both loans are included in the Commercial and Industrial category. The amortized cost basis of loans at December 31, 2023 that were modified by payment delay was $1,206 and the amortized cost basis of loans modified by combination interest rate change and term extension was $187.

The Bank has not committed to lend additional amounts to the borrowers included in the financial difficulty modification status for the year ended December 31, 2023.

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. That Bank has no loans in financial difficulty modification status that are past due.

Upon the Bank’s determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. For the year ended December 31, 2023, no modified loans were written off.

Troubled Debt Restructurings:

At December 31, 2022, the Bank had loans of $7,813 classified as troubled debt restructurings included in impaired loans. These loans had allocated specific reserves of $168 December 31, 2022. The Bank has committed to lend $29 as of December 31, 2022 to customers with outstanding loans that are classified as troubled debt restructurings. At December 31, 2022 $4,847 of troubled debt restructurings were performing and $2,798 were nonaccrual and impaired. During the year ended December 31, 2022, no loans were modified as troubled debt restructurings.

The troubled debt restructurings described above had allocated specific reserves of zero as of December 31, 2022 and resulted in no charge-offs during the year ended December 31, 2022. There were no loans that defaulted (became at least 60 days past due) during December 31, 2022 after having been modified as a troubled debt restructuring within the previous 12 months.

NOTE 4 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires disclosure of the estimated fair values of certain financial assets and liabilities, both on and off-balance sheet, for which it is practical to estimate the fair value. Because the estimated fair values provided herein exclude disclosure of the fair value of certain other financial instruments and all non-financial instruments, any aggregation of the estimated fair value amounts presented would not represent the underlying value of the Bank. Examples of non-financial instruments having significant value include the future earnings potential of significant customer relationships and the value of the Bank's trust department operations and other fee-generating businesses. In addition, other significant assets including property, plant, and equipment and mortgage servicing rights for portfolio loans are not considered financial instruments and, therefore, have not been valued.

Various methodologies and assumptions have been utilized in management's determination of the estimated fair value of the Bank's financial instruments, which are detailed below. The fair value estimates are made at a discrete point in time based on relevant market information. Because no market exists for a significant portion of these financial instruments, fair value estimates are based on judgments regarding future expected economic conditions, loss experience, and risk characteristics of the financial instruments. These estimates are subjective, involve uncertainties, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2023 and 2022. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Amounts and estimated fair value of financial instruments as of December 31,

	2023		2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 923,414	$ 923,414	$ 93,547	$ 93,547
Securities, available-for-sale	2,384,951	2,384,951	2,815,357	2,815,357
Real estate loans to be sold	6,193	6,193	1,728	1,728
Loans:				
Commercial and industrial	486,106	480,966	448,504	441,886
Real estate	1,749,331	1,719,668	1,743,668	1,699,917
Consumer and other	20,124	19,605	16,075	15,812
Total loans, net	2,255,561	2,220,239	2,208,247	2,157,615
Federal Reserve Bank stock	2,150	N/A	2,150	N/A
Federal Home Loan Bank stock	3,878	N/A	6,698	N/A
Interest receivable	22,693	22,693	24,012	24,012
Financial liabilities:				
Deposits:				
Non-interest bearing	$ 1,932,290	$ 1,932,290	$ 2,368,659	$ 2,368,659
Interest bearing:				
Savings	738,785	738,785	1,023,024	1,023,024
Business Interest Checking	97,671	97,671	124,357	124,357
Business Interest Sweep	451,495	451,495	278,553	278,553
NOW	140,661	140,661	159,929	159,929
Money Market	107,033	107,033	147,026	147,026
Time	312,083	316,401	123,309	124,032
Total interest bearing	1,847,728	1,852,046	1,856,198	1,856,921
Total deposits	3,780,018	3,784,336	4,224,857	4,225,580
Securities sold under agreements to repurchase	629,280	629,280	670,974	670,974
Finance lease obligation	747	747	969	969
Interest payable	21,802	21,802	203	203

(Continued)

NOTE 4 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

In accordance with ASC Topic 820, we measure some of the financial assets and financial liabilities disclosed in the following tables at fair value in three levels based on the markets in which the assets and liabilities are traded and reliability of the assumptions used to determine fair value. The levels are:

Level 1 Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets, liabilities, or funds. Level 1 includes U.S. Treasury Securities.

Level 2 Valuations for assets and liabilities traded in less active dealer, or broker markets, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active. Level 2 includes U.S. government-sponsored enterprises, securities of state and political subdivisions, residential mortgage-backed securities, and corporate bonds. Valuations are usually obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, such as option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a recurring basis:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023				
Securities:				
U.S. Treasury	$ 1,202,807	$ 1,202,807	$ -	$ -
U.S. government-sponsored enterprises	570,075	-	570,075	-
States and political subdivisions	153,234	-	153,234	-
Mortgage-backed - residential	245,548	-	245,548	-
Mortgage-backed - commercial	84,926	-	84,926	-
Corporate bonds	128,361	-	128,361	-
Total securities	$ 2,384,951	$ 1,202,807	$ 1,182,144	$ -
2022				
Securities:				
U.S. Treasury	$ 1,293,741	$ 1,293,741	$ -	$ -
U.S. government-sponsored enterprises	763,857	-	763,857	-
States and political subdivisions	157,190	-	157,190	-
Mortgage-backed - residential	282,430	-	282,430	-
Mortgage-backed - commercial	128,429	-	128,429	-
Corporate bonds	189,710	-	189,710	-
Total securities	$ 2,815,357	$ 1,293,741	$ 1,521,616	$ -

For investment securities, where quoted prices are available in an active market for identical securities they are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics and securities are classified as Level 2.

Where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. No securities were classified as Level 3 during 2023 and 2022.

The majority of the Bank's investments are in high-quality short term U.S. Treasury, U.S. government-sponsored enterprise bonds where the fair values are determined by the Bank's pricing service using quoted prices of similar securities. As of December 31, 2023 the Bank had no investments in Fannie Mae or Freddie Mac common or preferred stock.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a nonrecurring basis:

	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Collateral dependent loans:				
Real estate	$ 1,646	$ -	$ -	$ 1,646
Total collateral dependent loans	$ 1,646	$ -	$ -	$ 1,646

The fair value of collateral dependent loans is based on the value of the collateral securing those loans and is determined using the sale or market comparison. The market comparison evaluates the sales price of similar properties or assets in the same market area. The amortized cost of collateral dependent loans measured for impairment using the fair value of the collateral for collateral dependent loans was $1,835 for the year ended December 31, 2023. An allowance of $267 was applied which resulted in an increase to allowance for credit losses of $32 for the year ended December 31, 2023.

	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Impaired loans:				
Real estate	$ 1,141	$ -	$ -	$ 1,141
Total impaired loans	$ 1,141	$ -	$ -	$ 1,141

The fair value of impaired loans is based on the value of the collateral securing those loans and is determined using the sale or market comparison. The market comparison evaluates the sales price of similar properties or assets in the same market area. Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans was $1,438 for the year ended December 31, 2022. An allowance of $300 was applied which resulted in a reduction to provision for loan losses of $125 for the year ended December 31, 2022.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2023 and 2022:

	Fair value	Valuation Technique	Unobservable Input	Range (Weighted Average)
December 31, 2023				
Collateral Dependent Loans - real estate	$ 1,646	Sales comparison approach	Adjustment for differences between the comparable sales	-7.37% to -55.54% (-16.22%)
December 31, 2022				
Impaired Loans - real estate	$ 1,141	Sales comparison approach	Adjustment for differences between the comparable sales	-1.99% to -30.85% (-9.12%)

ASC Topic 825 provides an option to selectively report financial assets and financial liabilities at fair value and establishes presentation and disclosure requirements. The Bank did not elect the fair value option for any additional financial assets or liabilities as of December 31, 2023. The Bank may adopt this guidance for financial assets and liabilities in the future as permitted under the guidance.

(Dollars in thousands except per share data)

NOTE 5 - MORTGAGE SERVICING RIGHTS

Real estate loans serviced for others as of December 31, 2023 and 2022 were $1,403,218 and $1,341,393, respectively. Custodial balances, associated with these loans and held in noninterest bearing demand accounts, amounted to $12,737 and $12,586 as of December 31, 2023 and 2022, respectively.

The following is an analysis of the changes in mortgage servicing rights:

	2023	2022
Balance, January 1	$ 2,806	$ 3,416
Additions:		
Capitalization of servicing assets	499	854
Subtractions:		
Amortization	(919)	(1,148)
Accelerated amortization due to early payoffs	(297)	(316)
Balance December 31	$ 2,089	$ 2,806

Mortgage loan servicing income is comprised of the following:

	2023	2022
Mortgage loan servicing fees	3,323	3,336
Amortization of costs	(919)	(1,148)
Accelerated amortization due to early payoffs	(297)	(316)
Mortgage loan servicing income	$ 2,107	$ 1,872

Mortgage servicing rights (MSRs) are accounted for under the amortization method. MSRs are included in other assets on the statements of financial condition. MSRs are initially recorded at estimated fair value and are then amortized in proportion to and over the period of estimated net servicing income. The fair value of MSRs is estimated at the present value of the estimated expected future cash flows using a discount rate equivalent with the risks involved. MSRs are amortized against mortgage loan servicing income over seven years based upon prepayment assumptions. Those prepayment assumptions predict mortgages will pay off or refinance at lower levels during the first 30 months and at a constant level over the remaining 54 months. Accordingly, MSRs are amortized against mortgage loan servicing income at higher levels during the initial 30 months. If actual payments received exceed the prepayment assumptions, an impairment is recorded. Fair value of MSRs exceed amortized cost for each individual stratum. Accordingly, there has been no impairment for 2023 and 2022.

(Dollars in thousands except per share data)

NOTE 6 - PREMISES AND EQUIPMENT

The following is a summary of the major components of premises and equipment as of December 31:

	2023	2022
Land	$ 13,405	$ 13,405
Bank premises	84,912	83,307
Leasehold improvements	345	345
Furniture and equipment	37,947	41,159
Construction in process	1,762	2,067
Total premises and equipment	138,371	140,283
Less: Accumulated depreciation and amortization	87,839	87,948
Premises and equipment, net	$ 50,532	$ 52,335

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2023 and 2022 totaled $4,217 and $3,955, respectively.

NOTE 7 - LEASES

The Bank is party to various operating leases for the rental of premises and equipment. Total rental expenses for Bank premises and equipment were $460 and $448 as of December 31, 2023 and 2022, respectively.

The Bank has lease agreements for land and office facilities that it occupies to operate several retail branch locations that are classified as operating leases and are recognized on the balance sheet as right-of-use ("ROU") assets and lease liabilities. The Bank uses the rate implicit in each lease as the discount rate to determine the lease liability, which is the present value of lease payments not yet paid at the lease commencement date. If the rate implicit in each lease it not readily determinable, the Bank uses its incremental borrowing rate as of the lease commencement date as the discount rate. As of December 31, 2023, the Bank has operating lease ROU assets of $2,593 and operating lease liabilities of $2,593.

In 2022, the Bank entered into an obligation for a finance lease covering copy equipment. The gross amount of copy equipment, including installation costs, and related accumulated amortization under the finance lease was $1,164 and $446 as of December 31, 2023. Amortization of assets held under finance leases is included with depreciation expense.

(Continued)

(Dollars in thousands except per share data)

NOTE 7 - LEASES (Continued)

The table below reconciles future undiscounted cash flows for finance and operating leases with initial terms of one year or more as of December 31, 2023 to the finance lease obligations and operating lease liabilities recorded on the balance sheet.

	Finance Leases	Operating Leases
Year ended December 31:		
2024	$ 232	$ 264
2025	242	238
2026	252	201
2027	21	176
2028	-	176
Thereafter	-	5,642
Total undiscounted lease payments	747	6,697
Less: imputed interest	-	(4,104)
Net finance lease obligations and operating lease liabilities	$ 747	$ 2,593

Finance lease weighted average remaining lease term (years)	3.08
Finance lease weighted average discount rate	4.25%
Operating lease weighted average remaining lease term (years)	44.98
Operating lease weighted average discount rate	4.13%

NOTE 8 - DEPOSITS

Total deposits by type of depositor as of December 31:

	2023	2022
Deposits of individuals, partnerships, and corporations	$ 3,369,326	$ 3,790,353
Deposits of U.S. government	108	124
Deposits of states and political subdivisions	410,564	434,367
Other deposits	20	13
Total deposits	$ 3,780,018	$ 4,224,857

As of December 31, 2023 and 2022 the aggregate deposits of related parties (directors and executive officers of the Bank and their family members) were $14,369 and $13,207, respectively.

(Continued)

(Dollars in thousands except per share data)

NOTE 8 - DEPOSITS (Continued)

Time deposits have aggregate maturities as of December 31 as follows:

	2023
Maturity:	
2024	$ 305,143
2025	1,624
2026	2,669
2027	2,007
2028	390
Thereafter	250
Total time deposits	$ 312,083

Time deposits that meet or exceed the FDIC Insurance Limit of $250 were $133,264 and $49,290 as of December 31, 2023 and 2022, respectively.

NOTE 9 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Investment securities, primarily including U.S. Treasuries and U.S. government-sponsored enterprises, with carrying amounts of $735,034 and $752,697 at December 31, 2023 and 2022, respectively, were pledged to secure securities sold under agreements to repurchase. As of December 31, 2023 all repurchase agreements matured within 1 business day.

As of December 31, 2023 and 2022, aggregate repurchase agreement balances of related parties (directors and executive officers of the Bank and their family members) are zero.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Bank offers a 401(k) plan for all employees whom have attained 18 years of age. Participants are allowed to make voluntary salary deferral of up to 50% of their eligible pay subject to certain limitations. For 2023, the maximum amount that may be deferred by participants is $22.5. Additionally, participants who reach the age of 50 by the end of the calendar year are eligible to make a “catch-up contribution” in an amount up to $7.5. The participant’s salary deferral plus any earnings they generate are 100% vested.

The Bank will make matching contributions equal to 100% of the portion of each participant’s before-tax contributions (excluding “catch-up contributions”) up to 6.0% of the participant’s eligible pay. Matching contributions made by the Bank, including any earnings generated, are vested beginning at 20% after completion of one full year of service, increasing 20% each year until fully vested at five years of service. The 2023 combined limit of all employee and employer contributions to an individual participant’s account is $66.

The Bank has a qualified non-contributory profit sharing plan for all employees. The annual profit sharing contribution can be made only from profits and the amount is determined by the Board of Directors.

The contribution to the profit sharing and 401(k) plan was $2,634 and $2,418 for the years ended December 31, 2023 and 2022, respectively.

(Dollars in thousands except per share data)

NOTE 11 - PROVISION FOR INCOME TAXES

The provision for income taxes is comprised of the following as of December 31:

	2023	2022
Current:		
Federal	$ 13,618	$ 11,849
State	6,776	4,158
Total current	20,394	16,007
Deferred:		
Federal	1,526	2,614
State	737	1,296
Total deferred	2,263	3,910
Provision for income taxes	$ 22,657	$ 19,917

Income tax expense differed from the Federal statutory rate of 21% for 2023 and 2022 for the following reasons:

	2023	%	2022	%
Tax expense at federal statutory rate	$ 17,360	21.00%	$ 16,412	21.00%
Increase (decrease) resulting from:				
State tax, net of Federal tax effect	5,867	7.10%	4,321	5.53%
Disallowed interest expense	387	0.47%	101	0.13%
Interest exempt from federal taxation	(894)	-1.08%	(971)	-1.24%
Low income housing tax credits	(645)	-0.78%	(6)	-0.01%
Other items, net	582	0.70%	60	0.07%
Provision for income taxes	$ 22,657	27.41%	$ 19,917	25.48%

(Continued)

(Dollars in thousands except per share data)

NOTE 11 - PROVISION FOR INCOME TAXES (Continued)

The tax effect of temporary differences that give rise to the Bank's deferred tax assets and deferred tax liabilities are comprised of the following:

	2023	2022
Deferred tax assets:		
Net unrealized loss on available-for-sale securities	$ 39,072	$ 58,096
Allowance for credit losses	5,045	5,345
Vacation accrual	1,085	1,114
Interest collected on nonperforming loans	811	827
Lease liability	738	782
Accumulated depreciation and amortization	417	222
Mortgage servicing rights	377	181
Low income housing projects	-	65
Other	769	823
Total deferred tax assets	48,314	67,455
Deferred tax liabilities:		
Net deferred loan fees	3,240	2,850
Right of use asset	738	782
Low income housing projects	736	-
Deferred loan costs	451	463
Other	3,611	2,535
Total deferred tax liabilities	8,776	6,630
Net deferred tax assets	$ 39,538	$ 60,825

As of December 31, 2023 and 2022 the total amount of net deferred tax assets are included in other assets in the statements of financial condition.

The Bank believes that it is more likely than not that the previous taxes paid and results of future operations will generate sufficient taxable income to realize deferred tax assets.

The Bank does not have any material uncertain tax positions or unrecognized tax benefits for additional disclosure in the financial statements.

The total amount of interest and penalties recorded in the income statement for the years ended December 31, 2023 and 2022 were immaterial and no amounts are accrued for interest and penalties at December 31, 2023 or 2022.

The Bank is subject to U.S. federal income tax as well as income tax for the state of Alaska and various other state income and franchise taxes. The Bank is no longer subject to examination by taxing authorities for years before 2020.

NOTE 12 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possible additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

The directors of the Bank may declare and pay dividends as frequently and of such amount of undivided profits as they judge prudent, subject to certain restrictions on capital accounts as defined in Federal banking regulations.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Under Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital rules. The capital conservation buffer is 2.5%.

The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notifications from the Comptroller of the Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action for both 2023 and 2022. To be categorized as well capitalized, the Bank is required to maintain minimum total risk-based, Tier 1 risk based, Common Tier I, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

(Continued)

(Dollars in thousands except per share data)

NOTE 12 - REGULATORY MATTERS (Continued)

The Bank's actual amounts and ratios at December 31, 2023 and 2022 are as follows:

	Actual		Minimum Requirement for Capital Adequacy Purposes Plus Fully Phased In Capital Conservation Buffer		Minimum Requirement to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2023						
Total capital (to risk-weighted assets)	$ 582,494	20.45%	$ 299,075	10.50%	$ 284,833	10.00%
Tier I capital (to risk-weighted assets)	563,169	19.77%	242,108	8.50%	227,867	8.00%
Common Tier 1 (CET1)	563,169	19.77%	199,383	7.00%	185,142	6.50%
Tier I capital (to average assets)	563,169	9.85%	228,590	4.00%	285,737	5.00%
2022						
Total capital (to risk-weighted assets)	$ 573,929	19.24%	$ 313,220	10.50%	$ 298,305	10.00%
Tier I capital (to risk-weighted assets)	553,829	18.57%	253,559	8.50%	238,644	8.00%
Common Tier 1 (CET1)	553,829	18.57%	208,813	7.00%	193,898	6.50%
Tier I capital (to average assets)	553,829	9.64%	229,743	4.00%	287,179	5.00%

The Bank's principal source of funds for dividend payments is net income and cash provided by operations. Banking regulations limit the amount of dividends that may be paid without prior approval of the OCC. Under these regulations, the amount of dividends that may be paid in any calendar year is subject to the current year's net profits (net income less dividends paid), combined with the retained net profits of the preceding two years, subject to the minimum requirements for capital adequacy in the table above. The maximum dividend that can be paid as of December 31, 2023 is $16,905 without OCC approval.

(Dollars in thousands except per share data)

NOTE 13 - CREDIT ARRANGEMENTS

The Bank had a committed line of credit, secured by investment securities and loans, of $147,355 and $244,347 from the Federal Reserve Bank at a rate of 5.50% and 4.50% as of December 31, 2023 and 2022, respectively. The Bank had a line of credit from Federal Home Loan Bank Des Moines, secured by loans, of $561,612 and $582,728 at a rate of 5.64% and 4.60% as of December 31, 2023 and 2022, respectively.

In addition, the Bank also had federal funds arrangements available from unaffiliated banks totaling $10,000 at a rate estimated at 5.50% as of December 31, 2023. The Bank had federal funds arrangements available from unaffiliated banks totaling $10,000 at a rate estimated at 4.25% - 4.50% as of December 31, 2022. There were no outstanding balances against these lines of credit as of December 31, 2023 or 2022.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments include standby letters of credit, loan and bankcard commitments, subscriptions for the purchase of stock in the Federal Reserve Bank, and commitments to fund mortgage loans to be sold. The credit and market risks involved in issuing letters of credit and loan commitments are essentially the same as those involved in extending loans to customers. Such transactions are made under the same terms, including interest rates and collateral, as those prevailing at the same time for comparable on-balance-sheet transactions.

To reduce credit risk, related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. Collateral varies but may include cash, securities, accounts receivable, inventory, premises and equipment, and real estate.

Amounts of off-balance-sheet commitments as of December 31,

	2023	2022
Loan commitments	$540,743	$ 607,273
Bankcard commitments	77,836	76,539
Commitments to fund mortgage loans to be sold	7,810	2,183
Total loan commitments	$ 626,389	$ 685,995
Commitments at fixed interest rates	241,082	321,518
Commitments at variable interest rates	385,307	364,477
Total loan commitments	$ 626,389	$ 685,995
Standby and commercial letters of credit	$ 15,586	$ 12,374
Subscriptions to purchase Federal Reserve Bank stock	2,150	2,150

Commitments to make loans are generally made for periods of 90 days or less. At December 31, 2023, the fixed rate loan commitments have interest rates ranging from 2.2% to 16.5%.

NOTE 15 – SHAREHOLDER EQUITY

Since November 2008, the Bank has been authorized to repurchase up to a value of $100,000 of its outstanding common stock on the open market and through privately negotiated transactions. The authorization has been renewed annually, and the existing authority expires April 24, 2024.

Repurchase transactions are accounted for as a reduction in common stock and retained earnings. Repurchases are funded from available capital and retired. These transactions have not impacted the surplus balance of $40,000 as of December 31, 2023 and 2022, which is maintained to comply with regulatory requirements. Changes to surplus require regulatory approval.

During 2023, the Bank did not repurchase any common stock. Cumulative shares of 280,705 have been repurchased under the program since inception for a combined purchase total of $45,495.

At the January 25, 2024 Board of Directors meeting, cash dividends of $3.20 per share were declared, payable March 15, 2024 to shareholders of record as of March 1, 2024.

NOTE 16 – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Bank invests in qualified affordable housing projects. At December 31, 2023 and 2022, the balances of the investment for qualified affordable housing projects were $26,546 and $14,997. These balances are reflected in other assets on the statements of financial condition. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $24,469 and $14,229 at December 31, 2023 and 2022. These balances are reflected as liabilities in the other liabilities line on the statements of financial condition. The Bank expects to fulfill these commitments during the year ending 2034.

During the year ended December 31, 2023 the Bank recognized amortization expense of $452, which was included within income tax expense on the statements of income.

During the year ended December 31, 2023 and 2022, the Bank recognized (income) expense of ($155) and $467, respectively, which was included within other noninterest expense on the statements of income.

Additionally, during the years ended December 31, 2023 and 2022, the Bank recognized tax credits and other benefits from its investment in affordable housing tax credits of $645 and $6, respectively.