FIRST NATIONAL BANK ALASKA
Anchorage, Alaska

FINANCIAL STATEMENTS
December 31, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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, 2021, 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 8, 2022 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.

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.

(Continued)

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 8, 2022

FIRST NATIONAL BANK ALASKA
STATEMENTS OF FINANCIAL CONDITION
December 31, 2021 and 2020
(Dollars in thousands, except per share data)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 531,956	$ 532,379
Securities, available-for-sale	2,842,950	1,870,814
Real estate loans to be sold	8,336	15,818
Loans:		
Commercial and industrial	506,194	657,637
Real estate	1,605,472	1,539,175
Consumer and other	15,605	14,476
Total loans, gross	2,127,271	2,211,288
Less: Allowance for loan losses	22,900	21,550
Total loans, net	2,104,371	2,189,738
Premises and equipment, net	47,042	47,680
Other real estate owned, net	29	461
Other assets	46,656	38,425
Total assets	$ 5,581,340	$ 4,695,315
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$ 2,502,374	$ 1,841,846
Interest bearing:		
Savings	1,024,692	798,139
Business Interest Sweep	135,488	-
NOW	292,223	222,109
Money market	144,944	124,068
Time	117,203	127,007
Total interest bearing	1,714,550	1,271,323
Total deposits	4,216,924	3,113,169
Securities sold under agreements to repurchase	781,700	969,766
Other liabilities	28,186	25,791
Total liabilities	5,026,810	4,108,726
Shareholders' equity:		
Common stock, $10 par value (authorized: 4,000,000 shares) (issued and outstanding: 2021 and 2020 – 3,166,885)	31,669	31,669
Surplus	40,000	40,000
Retained earnings	474,595	466,851
Accumulated other comprehensive income	8,266	48,069
Total shareholders' equity	554,530	586,589
Total liabilities and shareholders' equity	$ 5,581,340	$ 4,695,315

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF INCOME
Years ended December 31, 2021 and 2020
(Dollars in thousands, except per share data)

	2021	2020
Interest income and loan fees:		
Interest and fees on loans:		
Taxable	$ 113,937	$ 115,631
Nontaxable	1,246	1,249
Total interest and fees on loans	115,183	116,880
Interest and dividends on investment securities:		
Taxable	27,393	27,061
Nontaxable	3,903	3,981
Total interest and dividends on investment securities	31,296	31,042
Interest on cash and cash equivalents	703	755
Total interest and loan fee income	147,182	148,677
Interest expense:		
Interest on deposits	1,307	1,894
Interest on federal funds purchased and securities sold under agreements to repurchase	274	1,965
Interest on FHLB advances and other borrowed funds	-	52
Total interest expense	1,581	3,911
Net interest and loan fee income	145,601	144,766
Provision for loan losses	2,427	2,195
Net interest and loan fee income after provision for loan losses	143,174	142,571
Noninterest income:		
Bankcard fees	9,274	7,788
Service charges on deposit accounts	4,036	4,184
Gain on sale of mortgage loans	3,993	5,176
Mortgage loan servicing income	1,840	2,135
Net gains on investment securities	10	524
Gain on sale of other real estate owned	1,546	165
Other noninterest income	6,337	6,188
Total noninterest income	27,036	26,160
Noninterest expense:		
Salaries and employee benefits	63,207	63,306
Occupancy expense, net	6,983	7,518
Furniture and equipment expense	2,338	2,603
Bankcard expenses	2,370	2,220
Other noninterest expense	17,434	15,942
Total noninterest expense	92,332	91,589
Income before taxes	77,878	77,142
Provision for income taxes	19,464	19,607
Net income	$ 58,414	$ 57,535
Earnings per common share	$ 18.45	$ 18.17

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2021 and 2020
(Dollars in thousands)

	2021	2020
Net income	$ 58,414	$ 57,535
Other comprehensive (loss) income –		
Unrealized (losses) gains on securities:		
Unrealized holding (losses) gains arising during the period, net of tax effect of $15,805 and $(12,935) in 2021 and 2020, respectively	(39,796)	32,569
Reclassification adjustment for gains included in net income, net of tax effect of $3 and $149 in 2021 and 2020, respectively	(7)	(375)
Other comprehensive (loss) income	(39,803)	32,194
Comprehensive Income	$ 18,611	$ 89,729

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2021 and 2020
(Dollars in thousands)

	2021	2020
Cash flows from operating activities		
Net income	$ 58,414	$ 57,535
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium on investment securities, net	14,087	6,637
Loss from equity method investment	60	203
Depreciation, accretion and amortization	5,308	5,274
Provision for loan losses	2,427	2,195
Deferred taxes	169	(1,574)
Gain on sale of mortgage loans	(3,993)	(5,176)
Net gain on the sale of other real estate owned	(1,546)	(165)
Valuation adjustment on other real estate owned	20	164
Net loss on the sale of premises and equipment	19	9
Net gain on investment securities	(10)	(524)
Real estate loans to be sold-originated	(161,544)	(276,441)
Real estate loans to be sold-shipped	171,593	279,083
Net increase in other assets	(2,533)	(3,552)
Net (decrease) increase in other liabilities	(46)	1,242
Net cash provided by operating activities	82,425	64,910
Cash flows from investing activities		
Proceeds from calls or maturities of securities, available-for-sale	278,673	786,468
Proceeds from sales of securities, available-for-sale	-	16,172
Purchase of securities, available-for-sale	(1,320,497)	(1,045,866)
Net purchases of Federal Home Loan Bank stock	(1,064)	(66)
Net decrease in loans	321,916	59,468
Purchase of participation loans	(226,812)	(258,528)
Proceeds from sales of premises and equipment	18	5
Purchase of land, premises and equipment	(3,154)	(3,106)
Proceeds from sales of other real estate owned	3,125	434
Net cash used in investing activities	(947,795)	(445,019)

(Continued)

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2021 and 2020
(Dollars in thousands)

	2021	2020
Cash flows from financing activities		
Net increase in total deposits	$1,103,755	$ 725,384
Net (decrease) increase in securities sold under agreements to repurchase	(188,066)	110,341
Proceeds from Federal Home Loan Bank advances	200	30,100
Repayments on Federal Home Loan Bank advances	(200)	(30,100)
Payments on notes and capital leases	(72)	(72)
Dividends paid	(50,670)	(50,670)
Retirement of common stock	-	(152)
Net cash provided by financing activities	864,947	784,831
(Decrease) increase in cash and cash equivalents	(423)	404,722
Cash and cash equivalents, January 1	532,379	127,657
Cash and cash equivalents, December 31	$ 531,956	$ 532,379
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 1,778	$ 4,045
Cash paid during the year for income taxes	21,340	23,064
Noncash investing and financing activities:		
Transfer of loans to other real estate owned	$ 1,167	$ 300
Transfer of bank premises to other real estate owned	-	412
Bank financed sales of other real estate owned	-	1,060
Acquisition of purchased loans and securities via short term payable	13,331	-
Right of use assets obtained in exchange for operating leases	1,463	147

See accompanying notes to financial statements

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2021 and 2020
(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, 2020	$ 31,675	$ 40,000	$ 460,132	$ 15,875	$ 547,682
Net income	-	-	57,535	-	57,535
Other comprehensive income, net of tax	-	-	-	32,194	32,194
Dividends declared - $16.00 per share	-	-	(50,670)	-	(50,670)
Retirement of common stock (625 shares)	(6)	-	(146)	-	(152)
Balance, December 31, 2020	31,669	40,000	466,851	48,069	586,589
Net income	-	-	58,414	-	58,414
Other comprehensive loss, net of tax	-	-	-	(39,803)	(39,803)
Dividends declared - $16.00 per share	-	-	(50,670)	-	(50,670)
Balance, December 31, 2021	$ 31,669	$ 40,000	$ 474,595	$ 8,266	$ 554,530

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 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 8, 2022, which is the date the financial statements were available to be issued.

Risks and Uncertainties**:** A strain of the coronavirus spread around the world with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization. The Bank's operating area experienced periodic closures of business, restrictions on personal contact, and requests by government officials to stay in isolation. The operations and business results of the Bank could be materially adversely effected. Significant estimates as disclosed in Note 1, including the allowance for loan losses and valuation of securities may be materially adversely impacted by national and local events designed to contain the coronavirus.

Estimates: Use of accounting estimates in the preparation of financial statements, in order to conform with U.S. generally accepted accounting principles, 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 and overnight federal funds sold. 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: Securities, available-for-sale are classified at the time of acquisition. The available-for-sale classification includes debt securities which are carried at estimated fair value. Unrealized holding gains or losses on securities, available-for-sale are included in other comprehensive income and 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 computed using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

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 one-to-four family and multifamily real estate loans which are originated pursuant to investor programs. Net unrealized losses, if any, are recognized through a valuation allowance by charges to other noninterest expense.

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 pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

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.

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 Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

The general component is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of non-impaired loans in light of historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. The historical loss experience is determined by portfolio segment and is based on the actual loss history of the Bank over the most recent 3, 5 or 7 years for consumer, commercial and real estate loans, respectively. The actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment.

(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 loans are considered by loan portfolio class as follows:

Commercial and Construction/Development 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.

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.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management does not expect a substantial decline in real estate values and economic conditions in Alaska, a decline in these values or economic activities could have an impact on the value of collateral securing the loans as well as the ability for the repayment of loans resulting in a higher allowance for loan losses in the future.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulty, are considered troubled debt restructurings and classified as impaired.

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Troubled debt restructurings are measured at the net present value of estimated future cash flows or where considered to be collateral dependent, the loan is reported, net, at the fair value of the collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify all individual consumer loans for impairment disclosures.

Reserve for Unfunded Commitments: A reserve is established at a level that is considered adequate by management to provide for probable losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments 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 earnings in the periods they become known. The reserve for unfunded commitments is included in other liabilities in the accompanying statements of condition.

The recorded liability was $1,600 and $1,100 as of December 31, 2021 and 2020, respectively.

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 capital leases is stated at the present value of minimum lease payments. Equipment held under capital 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 Company 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 Company 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 Company 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 Consolidated Balance Sheets.

Federal Reserve Bank: 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 ($2,150 as of December 31, 2021 and 2020). Calculation of the stock requirement is based solely on the capital structure of the Bank.

Federal Home Loan Bank 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 ($5,634 and $4,570 as of December 31, 2021 and 2020, respectively). The minimum stock requirement is calculated based on the Bank's assets or qualifying loans, whichever applies.

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

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.

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.

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.

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.

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 either the cost method or equity method, depending on investment ownership percentage. Under the cost method, the Bank amortizes the excess of the carrying amount of the investment over its estimated residual value during the periods in which tax credits are allocated to the Bank. The amortization is included in other noninterest expense. Under the equity method, the Bank includes its proportionate share of income or loss in other noninterest income or expense.

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 in 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 and 3,166,929 for 2021 and 2020, respectively. 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 has carried a $1,500 litigation reserve and a $1,500 escrow receivable as of December 31, 2021 and 2020 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 2020 financial statement data with the 2021 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

New Accounting Standards:

In June 2016, the FASB amended existing guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. For debt securities with other-than-temporary impairment, the guidance will be applied prospectively. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. These amendments were initially effective for the annual period beginning after December 15, 2021. During 2020, FASB delayed the effective period beginning after December 15, 2022. The Bank has created a CECL implementation team and has been working with an external vendor regarding the development of a CECL-compliant model and gathering of the requisite data. At this time, management is still evaluating the impact of the standard.

(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, 2021:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2021				
U.S. Treasury securities maturities:				
Within 1 year	$ 65,417	$ 468	$ 74	$ 65,811
One to 5 years	889,968	824	12,038	878,754
Five to 10 years	188,863	22	2,546	186,339
Total	1,144,248	1,314	14,658	1,130,904
U.S. government-sponsored enterprises maturities:				
Within 1 year	135,553	1,179	-	136,732
One to 5 years	552,893	10,109	4,103	558,899
Five to 10 years	156,717	4,538	789	160,466
After 10 years	7,270	192	-	7,462
Total	852,433	16,018	4,892	863,559
States and political subdivisions maturities:				
Within 1 year	5,139	40	-	5,179
One to 5 years	36,023	1,288	-	37,311
Five to 10 years	73,238	5,246	-	78,484
After 10 years	55,504	3,654	-	59,158
Total	169,904	10,228	-	180,132
Mortgage-backed securities: residential	341,768	33	2,754	339,047
Mortgage-backed securities: commercial	127,682	2,278	2	129,958
Corporate bonds maturities:				
Within 1 year	49,060	540	-	49,600
One to 5 years	93,370	2,761	80	96,051
Five to 10 years	47,044	837	17	47,864
After 10 years	5,892	-	57	5,835
Total	195,366	4,138	154	199,350
Total securities, available-for-sale	$ 2,831,401	$ 34,009	$ 22,460	$ 2,842,950

(Continued)

(Dollars in thousands except per share data)

NOTE 2 - SECURITIES (Continued)

For the years ended December 31, 2021 and 2020 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, 2021, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2021						
Available-for-sale:						
U.S. Treasury	$ 1,012,589	$ 14,151	$ 25,399	$ 507	$1,037,988	$ 14,658
U.S. government-sponsored enterprises	249,696	3,869	63,088	1,023	312,784	4,892
Corporate bonds	26,134	154	-	-	26,134	154
Mortgage-backed - residential	323,301	2,754	-	-	323,301	2,754
Mortgage-backed - commercial	-	-	4,331	2	4,331	2
Total	$ 1,611,720	$ 20,928	$ 92,818	$ 1,532	$1,704,538	$ 22,460

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, 2021, 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). Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because 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, the Bank does not consider these securities to be other-than-temporarily impaired.

(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, 2020:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2020				
U.S. Treasury securities maturities:				
Within 1 year	$ 69,780	$ 824	$ -	$ 70,604
One to 5 years	276,270	3,128	1	279,397
Total	346,050	3,952	1	350,001
U.S. government-sponsored enterprises maturities:				
Within 1 year	85,186	889	-	86,075
One to 5 years	562,119	15,326	92	577,353
Fiveto10years	209,623	18,681	14	228,290
After 10 years	7,297	633	-	7,930
Total	864,225	35,529	106	899,648
States and political subdivisions maturities:				
One to 5 years	37,894	1,780	-	39,674
Five to 10 years	61,777	5,770	-	67,547
After 10 years	72,788	6,511	-	79,299
Total	172,459	14,061	-	186,520
Mortgage-backed securities: residential	92,417	434	-	92,851
Mortgage-backed securities: commercial	141,075	4,680	97	145,658
Corporate bonds maturities:				
Within 1 year	42,280	179	-	42,459
One to 5 years	128,548	6,608	-	135,156
Five to 10 years	16,600	1,921	-	18,521
Total	187,428	8,708	-	196,136
Total securities, available-for-sale	$ 1,803,654	$ 67,364	$ 204	$ 1,870,814

(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, 2020, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2020						
Available-for-sale:						
U.S. Treasury	$ 26,216	$ 1	$ -	$ -	$ 26,216	$ 1
U.S. government-sponsored enterprises	64,025	106	-	-	64,025	106
Mortgage-backed - commercial	6,559	23	14,805	74	21,364	97
Total	$ 96,800	$ 130	$ 14,805	$ 74	$ 111,605	$ 204

Investment securities with carrying amounts of $1,546,553 and $1,446,592 at December 31, 2021 and 2020, 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 $10 and $524 in 2021 and 2020, respectively. There were no realized losses on the disposition of investment securities for 2021 or 2020.

NOTE 3 - LOANS

The loan portfolio consists of the following at December 31:

	2021	2020
Commercial and industrial	$ 506,194	$ 657,637
Real estate		
Construction and development	289,391	259,636
1-4 and multifamily residential	208,754	223,692
Commercial real estate	1,107,327	1,055,847
Consumer and other	15,605	14,476
Loans, gross	$ 2,127,271	$ 2,211,288

There were unamortized premiums of $1,318 and $1,420 from purchased government guaranteed loans and multifamily real estate loans as of December 31, 2021 and 2020, respectively. The Bank purchased $20,145 and $4,383 of government guaranteed loans in 2021 and 2020, respectively. The government guaranteed loan balances were $106,459 and $105,193 as of December 31, 2021 and 2020, respectively. Government guaranteed loans are included in commercial and industrial loans.

(Dollars in thousands except per share data)

NOTE 3 - LOANS (Continued)

Included in commercial and industrial loans are loans made under the Paycheck Protection Program (PPP), which are guaranteed by the Small Business Administration (SBA). The loans have a term of 24 and 60 months but are eligible for forgiveness by the SBA. The Bank originated a total of $238,302 and $344,662 in PPP loans during 2021 and 2020, respectively. The balance of PPP loans was $131,291 and $273,820 as of December 31, 2021 and 2020, respectively. The Bank recognized $13,427 and $8,539 of net fee income on the PPP loan originations during 2021 and 2020, respectively.

As of December 31, 2021 and 2020 the aggregate indebtedness of all related parties (directors and executive officers of the Bank and their family members) was $14,137 and $23,924, respectively.

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

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

	Commercial and Industrial	Real Estate	Consumer and Other	Total
2021				
Allowance for loan losses:				
Beginning balance, January 1, 2021	$ 6,368	$ 14,884	$ 298	$ 21,550
Provision for loan losses	1,738	714	(25)	2,427
Loans charged-off	(1,767)	(1)	(113)	(1,881)
Recoveries	594	44	166	804
Ending Balance, December 31, 2021	$ 6,933	$ 15,641	$ 326	$ 22,900
2020				
Allowance for loan losses:				
Beginning balance, January 1, 2020	$ 5,500	$ 13,600	$ 400	$ 19,500
Provision for loan losses	1,041	1,230	(76)	2,195
Loans charged-off	(315)	(71)	(189)	(575)
Recoveries	142	125	163	430
Ending Balance, December 31, 2020	$ 6,368	$ 14,884	$ 298	$ 21,550

(Dollars in thousands except per share data)

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (Continued)

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, 2021 and 2020:

	Commercial and Industrial	Real Estate	Consumer and Other	Total
2021				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 4,000	$ 500	$ -	$ 4,500
Collectively evaluated for impairment	2,933	15,141	326	18,400
Total ending allowance balance	$ 6,933	$ 15,641	$ 326	$ 22,900
Loans:				
Individually evaluated for impairment	$ 11,633	$ 12,183	$ 92	$ 23,908
Collectively evaluated for impairment	499,831	1,602,884	15,489	2,118,204
Total loans outstanding balance	$ 511,464	$ 1,615,067	$ 15,581	2,142,112
Deferred loan fees, net				(14,841)
Total loans				$ 2,127,271
2020				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 3,180	$ 620	$ -	$ 3,800
Collectively evaluated for impairment	3,188	14,264	298	17,750
Total ending allowance balance	$ 6,368	$ 14,884	$ 298	$ 21,550
Loans:				
Individually evaluated for impairment	$ 14,615	$ 16,328	$ 136	$ 31,079
Collectively evaluated for impairment	648,798	1,531,446	14,307	2,194,551
Total loans outstanding balance	$ 663,413	$ 1,547,774	$ 14,443	2,225,630
Deferred loan fees, net				(14,342)
Total loans				$ 2,211,288

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table summarizes our nonaccrual loans and loans past due by loan class as of December 31, 2021 and 2020:

	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual
December 31, 2021						
Commercial and industrial	$ 9,303	$ 1	$ 9,304	$ 502,160	$ 511,464	$ 11,198
Real Estate						
Construction and development	543	-	543	291,032	291,575	1,130
1– 4 and multifamily residential	138	120	258	209,669	209,927	1,216
Commercial real estate	-	599	599	1,112,966	1,113,565	4,096
Consumer and other	22	7	29	15,552	15,581	-
Total	$ 10,006	$ 727	$ 10,733	$ 2,131,379	2,142,112	17,640
Deferred loan fees, net					(14,841)	(60)
Total loans					$ 2,127,271	$ 17,580
December 31, 2020						
Commercial and industrial	$ 660	$ 2,307	$ 2,967	$ 660,446	$ 663,413	$ 4,612
Real Estate						
Construction and development	1,866	1,167	3,033	258,558	261,591	1,883
1– 4 and multifamily residential	716	379	1,095	223,490	224,585	1,964
Commercial real estate	180	144	324	1,061,274	1,061,598	5,234
Consumer and other	84	21	105	14,338	14,443	-
Total	$ 3,506	$ 4,018	$ 7,524	$ 2,218,106	2,225,630	13,693
Deferred loan fees, net					(14,342)	(82)
Total loans					$ 2,211,288	$ 13,611

As of December 31, 2021 and 2020, $599 and $0 in loans were greater than 89 days past due and in accrual status.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information related to impaired loans, net of deferred fees, by class of loans as of December 31, 2021:

December 31, 2021	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no allowance recorded:						
Commercial and industrial	$ 2,781	$ 2,081	$ -	$ 2,427	$ 197	$ 198
Real estate						
Construction and other	916	820	-	580	47	48
1-4 and multifamily residential	1,488	1,330	-	1,410	111	114
Commercial real estate	7,231	6,348	-	6,757	439	444
Consumer and other	92	92	-	114	10	10
Subtotal	12,508	10,671	-	11,288	804	814
With an allowance recorded:						
Commercial and industrial	9,662	9,517	4,000	9,632	306	395
Real estate						
Construction and other	392	304	200	338	27	27
1-4 and multifamily residential	1,213	1,077	100	1,160	88	88
Commercial real estate	2,908	2,311	200	2,407	177	177
Consumer and other	-	-	-	-	-	-
Subtotal	14,175	13,209	4,500	13,537	598	687
Total	$ 26,683	$ 23,880	$ 4,500	$ 24,825	$ 1,402	$ 1,501

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

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information related to impaired loans, net of deferred fees, by class of loans as of December 31, 2020:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2020						
With no allowance recorded:						
Commercial and industrial	$ 3,248	$ 2,724	$ -	$ 2,131	$ 225	$ 236
Real estate						
Construction and other	2,134	2,009	-	1,508	113	118
1-4 and multifamily residential	2,396	2,276	-	1,701	147	159
Commercial real estate	8,700	7,283	-	5,749	515	506
Consumer and other	136	136	-	68	4	3
Subtotal	16,614	14,428	-	11,157	1,004	1,022
With an allowance recorded:						
Commercial and industrial	12,036	11,849	3,180	12,151	827	850
Real estate						
Construction and other	432	372	205	403	30	30
1-4 and multifamily residential	1,267	1,188	135	1,152	75	78
Commercial real estate	3,596	3,115	280	3,213	210	211
Consumer and other	-	-	-	-	-	-
Subtotal	17,331	16,524	3,800	16,919	1,142	1,169
Total	$ 33,945	$ 30,952	$ 3,800	$ 28,076	$ 2,146	$ 2,191

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

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ALLOWANCE FOR LOAN 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:

Pass/Watch: Loans classified as pass/watch include current loans performing in accordance with contractual terms, pools of homogenous residential real estate and installment/consumer loans that are not individually risk rated and loans which exhibit certain risk factors that require greater than usual monitoring by management.

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.

The following table summarizes our internal risk rating by loan class based on the most recent analysis performed as of December 31, 2021 and 2020:

	Pass/ Watch	Special Mention	Sub- Standard	Doubtful/ Loss	Total
December 31, 2021					
Commercial and Industrial	$ 491,572	$ 6,865	$ 3,490	$ 9,537	$ 511,464
Real Estate,					
Construction and development	256,217	-	35,358	-	291,575
1-4 and multifamily residential	203,559	1,611	4,757	-	209,927
Commercial real estate	1,044,314	34,483	34,405	363	1,113,565
Consumer and other	15,459	-	122	-	15,581
Total	$ 2,011,121	$ 42,959	$ 78,132	$ 9,900	2,142,112
Deferred loan fees, net					(14,841)
Total					$ 2,127,271

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (Continued)

	Pass/ Watch	Special Mention	Sub- Standard	Doubtful/ Loss	Total
December 31, 2020					
Commercial and Industrial	$ 638,474	$ 2,100	$ 20,590	$ 2,249	$ 663,413
Real Estate,					
Construction and development	256,705	2,048	2,838	-	261,591
1-4 and multifamily residential	216,917	1,134	6,498	36	224,585
Commercial real estate	1,030,370	10,161	20,658	409	1,061,598
Consumer and other	14,269	-	174	-	14,443
Total	$ 2,156,735	$ 15,443	$ 50,758	$ 2,694	2,225,630
Deferred loan fees, net					(14,342)
Total					$ 2,211,288

Management has identified the rental and leasing and hotel and food service industries as the most susceptible to immediate increased credit risk from the impact of COVID-19. The Bank's year-end 2021 total loan in these higher risk sectors totaled $1,081,452, which represents 50.8% of total loans. The at risk sectors include $897,904 in commercial real estate loans, $36,542 in commercial and industrial loans, and $147,006 in commercial construction loans. The Bank's year-end 2020 total loan in these higher risk sectors totaled $1,043,285, which represents 47.2% of total loans. The at risk sectors include $878,763 in commercial real estate loans, $49,868 in commercial and industrial loans, and $114,654 in commercial construction loans. Management continues to specifically monitor credit risk for loans in these industries.

Troubled Debt Restructurings:

At December 31, 2021 and 2020, the Bank had loans of $15,403 and $21,000 classified as troubled debt restructurings, respectively, which are included in impaired loans. These loans had allocated specific reserves of $4,305 and $3,186 at December 31, 2021 and 2020, respectively. The Bank has committed to lend $71 and $66 as of December 31, 2021 and 2020, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

At December 31, 2021 $6,387 of troubled debt restructurings were performing and $9,016 were nonaccrual and impaired. At December 31, 2020, $15,839 of troubled debt restructurings were performing and $5,161 were nonaccrual and impaired.

During the year ended December 31, 2021, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk or a temporary deferral of all or part of the original periodic principal payments.

Commercial loans: There were three restructurings of commercial loans. There was one restructuring of stated interest rate, as well as three maturity date extensions of 16 and 17 months.

There were no restructurings of construction loans, 1-4 and multifamily residential loans, commercial real estate loans, and consumer loans.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (Continued)

During the year ended December 31, 2020, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk or a temporary deferral of all or part of the original periodic principal payments.

Commercial loans: There were three restructurings of commercial loans. There were two restructurings of stated interest rate, as well as three maturity date extensions of 72, 29, and 16 months.

1-4 and multifamily residential loans: There was one restructuring of a 1-4 and multifamily residential loan with a stated interest rate restructuring and maturity date extension of 153 months.

Commercial real estate loans: There were seven restructurings of commercial real estate loans. There were two restructurings of stated interest rate, seven payment restructurings, and four maturity date extensions of 64, 20, 12 and three months.

Consumer loans: There was one restructuring of a consumer loan with a restructuring of stated interest rate and a maturity date extension of 40 months.

There were no restructurings of construction loans.

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ended December 31, 2021 and 2020:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2021 Troubled Debt Restructurings:			
Commercial	3	$ 100	$ 100
Real estate:			
Construction and other	-	-	-
1-4 and multifamily residential	-	-	-
Commercial real estate	-	-	-
Consumer and other	-	-	-
Total	3	$ 100	$ 100
2020 Troubled Debt Restructurings:			
Commercial	3	$ 782	$ 774
Real estate:			
Construction and other	-	-	-
1-4 and multifamily residential	1	141	141
Commercial real estate	7	2,812	2,892
Consumer and other	1	142	142
Total	12	$ 3,877	$ 3,949

The troubled debt restructurings described in the above table had allocated specific reserves of $72 and $8 as of December 31, 2021 and 2020 and resulted in no charge-offs during the years ended December 31, 2021 and 2020.

There were no loans that defaulted (became at least 60 days past due) during December 31, 2021 and 2020 after having been modified as a troubled debt restructuring within the previous 12 months.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (Continued)

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

The Bank worked with borrowers impacted by COVID-19 and providing modifications to include deferral of interest and/or principal payments. Certain borrowers may have an extended deferral period. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of federal banking regulators. As of December 31, 2021, The Bank provided 45 of payment deferrals on loans with a total principal balance of $56,648, or 3%, of total loans. Majority of the modifications are to interest-only payments, making up 80% of total modifications. Modifications remain concentrated in commercial real estate loans to customers in the rental and leasing and hotel and food service industries. The majority of active deferrals expire during first quarter 2022.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2021	2020
Land	$ 13,405	$ 13,405
Bank premises	79,466	78,127
Leasehold improvements	345	276
Furniture and equipment	37,659	36,902
Construction in process	982	887
Total premises and equipment	131,857	129,597
Less: Accumulated depreciation and amortization	84,815	81,917
Premises and equipment, net	$ 47,042	$ 47,680

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2021 and 2020 totaled $3,755 and $4,011, respectively.

In 2020, the Bank transferred $412 out of bank premises to other real estate owned.

(Continued)

(Dollars in thousands except per share data)

NOTE 6 - OTHER REAL ESTATE OWNED

The following is an analysis of the changes in other real estate owned:

	2021	2020
Balance, January 1	$ 461	$ 1,408
Acquired upon foreclosure	1,167	300
Transfers from bank premises	-	412
Dispositions	(1,579)	(1,659)
Balance, December 31	49	461
Less Devaluation Reserves:		
Balance, January 1	-	(65)
Impairments subsequent to foreclosure	(20)	(164)
Dispositions	-	229
Balance, December 31	(20)	-
Other real estate owned, net	$ 29	$ 461

Net gains on sales of other real estate owned included in other noninterest income for the years ended December 31, 2021 and 2020, totaled $1,546 and $165, respectively. Operating expenses, net of rental income totaled $210 and $56 for the years ended December 31, 2021 and 2020, respectively.

NOTE 7 - MORTGAGE SERVICING RIGHTS

Real estate loans serviced for others as of December 31, 2021 and 2020 were $1,285,320 and $1,296,649, respectively. Custodial balances, associated with these loans and held in noninterest bearing demand accounts, amounted to $11,289 and $11,200 as of December 31, 2021 and 2020, respectively.

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

	2021	2020
Balance, January 1,	$ 3,532	$ 2,611
Additions -		
Capitalization of servicing assets	1,426	2,175
Subtractions:		
Amortization	(1,261)	(1,010)
Accelerated amortization due to early payoffs	(281)	(244)
Balance, December 31,	$ 3,416	$ 3,532

Mortgage loan servicing income is comprised of the following:

	2021	2020
Mortgage loan servicing fees	$ 3,382	$ 3,389
Amortization of costs	(1,261)	(1,010)
Accelerated amortization due to early payoffs	(281)	(244)
Mortgage loan servicing income	$ 1,840	$ 2,135

(Continued)

(Dollars in thousands except per share data)

NOTE 7 - MORTGAGE SERVICING RIGHTS (Continued)

Mortgage servicing rights (MSRs) are accounted for under the amortization method. MSRs are included in other assets. 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 2021 and 2020.

NOTE 8 - DEPOSITS

Total deposits by type of depositor as of December 31:

	2021	2020
Deposits of individuals, partnerships, and corporations	$ 3,882,337	$ 3,030,222
Deposits of U.S. government	124	2,367
Deposits of states and political subdivisions	334,419	80,445
Other deposits	44	135
Total deposits	$ 4,216,924	$ 3,113,169

As of December 31, 2021 and 2020 the aggregate deposits of related parties (directors and executive officers of the Bank and their family members) were $13,266 and $10,357, respectively.

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

Maturity:	2021
2022	$ 108,161
2023	3,986
2024	1,746
2025	1,120
2026	2,140
Thereafter	50
Total time deposits	$ 117,203

Time deposits that meet or exceed the FDIC Insurance Limit of $250 were $42,622 and $51,523 as of December 31, 2021 and 2020, respectively.

(Continued)

(Dollars in thousands except per share data)

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 $918,094 and $1,215,467 at December 31, 2021 and 2020, respectively, were pledged to secure securities sold under agreements to repurchase. As of December 31, 2021 all repurchase agreements matured within 1 business day.

As of December 31, 2021 and 2020, aggregate repurchase agreement balances of related parties (directors and executive officers of the Bank and their family members) are zero.

NOTE 10 - 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 $356 and $363 as of December 31, 2021 and 2020, 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, 2021, the Bank has operating lease ROU assets of $2,914 and operating lease liabilities of $2,914.

In 2017, the Bank entered into an obligation for a finance lease covering mail equipment. The gross amount of mail equipment, including installation costs, and related accumulated amortization under the finance lease was $311 and $358 as of December 31, 2021. Amortization of assets held under finance leases is included with depreciation expense.

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, 2021 to the finance lease obligations and operating lease liabilities recorded on the balance sheet.

	Finance Leases	Operating Leases
Year ended December 31:		
2022	$ 12	$ 239
2023	-	241
2024	-	221
2025	-	187
2026	-	173
Thereafter	-	5,186
Total undiscounted lease payments	12	6,247
Less: imputed interest	-	(3,333)
Net finance lease obligations and operating lease liabilities	$ 12	$ 2,914

Finance lease weighted average remaining lease term (years)	1.17
Finance lease weighted average discount rate	0.10%
Operating lease weighted average remaining lease term (years)	37.95
Operating lease weighted average discount rate	4.06%

(Continued)

NOTE 11 - SHAREHOLDERS' 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 original program term expired in August 2009 and has been renewed annually since that period. The existing authority expires April 20, 2022.

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, 2021 and 2020, which is maintained to comply with regulatory requirements. Changes to surplus require regulatory approval.

During 2021, the Bank did not repurchase any common stock. During 2020, the Bank repurchased a total of 625 shares of common stock representing an annual aggregate purchase value of $152 at an average price per share of $243.96. Cumulative shares of 280,705 have been repurchased under the program since inception for a combined purchase total of $45,495.

At the January 27, 2022 Board of Directors meeting, cash dividends of $3.20 per share were declared, payable March 15, 2022 to shareholders of record as of March 1, 2022.

NOTE 12 - 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 2021, the maximum amount that may be deferred by participants is $19.5. 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 $6.5. 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") that do not exceed 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 2021 combined limit of all employee and employer contributions to an individual participant's account is $58.

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 $2,378 and $2,479 for the years ended December 31, 2021 and 2020, respectively.

(Continued)

(Dollars in thousands except per share data)

NOTE 13 - PROVISION FOR INCOME TAXES

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

	2021	2020
Current:		
Federal	$ 14,128	$ 15,282
State	5,167	5,899
Total current	19,295	21,181
Deferred:		
Federal	125	(1,163)
State	44	(411)
Total deferred	169	(1,574)
Provision for income taxes	$ 19,464	$ 19,607

Income tax expense differed from the Federal statutory rate of 21% for 2021 and 2020 for the following reasons:

	2021	%	2020	%
Tax expense at federal statutory rate	$ 16,354	21.00%	$ 16,200	21.00%
Increase (decrease) resulting from:				
State tax, net of Federal tax effect	4,083	5.24	4,002	5.19
Disallowed interest expense	13	0.02	37	0.05
Interest exempt from federal taxation	(1,069)	(1.37)	(1,080)	(1.40)
Low income housing tax credits	-	0.00	(3)	(0.00)
Other items, net	83	0.10	451	0.58
Provision for income taxes	$ 19,464	24.99%	$ 19,607	25.42%

(Continued)

(Dollars in thousands except per share data)

NOTE 13 - 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:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 6,510	$ 6,126
Mortgage servicing rights	-	30
Interest collected on nonperforming loans	759	871
Vacation accrual	1,159	1,387
Accumulated depreciation and amortization	541	498
Other real estate owned valuation reserve	5	17
Low income housing projects	76	397
Lease liability	828	453
Other	1,079	975
Total deferred tax assets	10,957	10,754
Deferred tax liabilities:		
Net unrealized holding gain on securities, available-for-sale	3,283	19,091
Mortgage servicing rights	19	-
Net deferred loan fees	1,807	1,636
Deferred loan costs	595	722
Right of use asset	828	453
Other	1,069	1,135
Total deferred tax liabilities	7,601	23,037
Net deferred tax assets (liabilities)	$ 3,356	$ (12,283)

As of December 31, 2021 the total amount of net deferred tax assets are included in other assets in the statements of financial condition. As of December 31, 2020 the total amount of net deferred tax liabilities are included in other liabilities 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, 2021 and 2020 were immaterial and no amounts are accrued for interest and penalties at December 31, 2021 or 2020.

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 2018.

(Continued)

NOTE 14 - 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, 2021 and 2020. 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 14 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	2021		2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 531,956	$ 531,956	$ 532,379	$ 532,379
Securities, available-for-sale	2,842,950	2,842,950	1,870,814	1,870,814
Real estate loans to be sold	8,336	8,336	15,818	15,894
Loans:				
Commercial and industrial	499,261	499,125	651,269	662,603
Real estate	1,589,831	1,611,204	1,524,296	1,578,309
Consumer and other	15,279	14,968	14,173	14,020
Total loans, net	2,104,371	2,125,297	2,189,738	2,254,932
Federal Reserve Bank stock	2,150	N/A	2,150	N/A
Federal Home Loan Bank stock	5,634	N/A	4,570	N/A
Interest receivable	18,494	18,494	18,110	18,110
Financial liabilities:				
Deposits:				
Non-interest bearing	2,502,374	2,502,374	1,841,846	1,841,846
Interest bearing:				
Savings	1,024,692	1,024,692	798,139	798,139
Business Interest Sweep	135,488	135,488	-	-
NOW	292,223	292,223	222,109	222,109
Money market	144,944	144,944	124,068	124,068
Time	117,203	117,895	127,007	127,776
Total interest bearing	1,714,550	1,715,242	1,271,323	1,272,092
Total deposits	4,216,924	4,217,616	3,113,169	3,113,938
Securities sold under agreements to repurchase	781,700	781,700	969,766	969,766
Interest payable	147	147	344	344

(Continued)

NOTE 14 - 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 14 - 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)
2021				
Securities:				
U.S. Treasury securities	$ 1,130,904	$ 1,130,904	$ -	$ -
U.S. government-sponsored enterprises	863,559	-	863,559	-
States and political subdivisions	180,132	-	180,132	-
Mortgage-backed securities – residential	339,047	-	339,047	-
Mortgage-backed securities – commercial	129,958	-	129,958	-
Corporate bonds	199,350	-	199,350	-
Securities total	$ 2,842,950	$ 1,130,904	$ 1,712,046	$ -
2020				
Securities:				
U.S. Treasury securities	$ 350,001	$ 350,001	$ -	$ -
U.S. government-sponsored enterprises	899,648	-	899,648	-
States and political subdivisions	186,520	-	186,520	-
Mortgage-backed securities – residential	92,851	-	92,851	-
Mortgage-backed securities – commercial	145,658	-	145,658	-
Corporate bonds	196,136	-	196,136	-
Securities total	$ 1,870,814	$ 350,001	$ 1,520,813	$ -

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 2021 and 2020.

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, 2021 the Bank had no investments in Fannie Mae or Freddie Mac common or preferred stock.

(Continued)

(Dollars in thousands except per share data)

NOTE 14 - 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, 2021				
Impaired loans:				
Commercial and Industrial	$ 5,511	$ -	$ -	$ 5,511
Real estate	3,176	-	-	3,176
Total	$ 8,687	$	$	$ 8,687
December 31, 2020				
Impaired loans:				
Commercial and Industrial	$ 8,656	$ -	$ -	$ 8,656
Real estate	4,045	-	-	4,045
Total	$ 12,701	$	$	$ 12,701

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 resulted in an additional provision for loan losses of $748 and $797 for the years ended December 31, 2021 and 2020, respectively.

The fair value of other real estate owned is based upon the current appraised values of the properties. Appraisals are obtained at least annually and reductions in value are recorded as a valuation loss through a charge to expense. Other real estate owned measured at fair value less costs to sell resulted in write-downs of $20 and $0 for the years ended December 31, 2021 and 2020, respectively.

(Continued)

(Dollars in thousands except per share data)

NOTE 14 - 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, 2021 and 2020:

December 31, 2021	Fair value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Loans – Commercial and Industrial	$ 5,511	Sales comparison approach	Adjustment for differences between the comparable sales	-5.40% to -20.17% (-5.52%)
Loans – Real estate	$ 3,176	Sales comparison approach	Adjustment for differences between the comparable sales	-0.12% to -38.75% (-4.22%)

December 31, 2020	Fair value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Loans – Commercial and Industrial	$ 8,656	Sales comparison approach	Adjustment for differences between the comparable sales	-2.27% to -43.16% (-4.09%)
Loans – Real estate	$ 4,045	Sales comparison approach	Adjustment for differences between the comparable sales	-0.15% to -47.32% (-5.03%)

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, 2021. The Bank may adopt this guidance for financial assets and liabilities in the future as permitted under the guidance.

NOTE 15 - CREDIT ARRANGEMENTS

The Bank had a committed line of credit, secured by investment securities and loans, of $242,077 and $97,633 from the Federal Reserve Bank at a rate of 0.25% and 0.25% as of December 31, 2021 and 2020, respectively. The Bank had a line of credit from Federal Home Loan Bank Des Moines, secured by loans, of $489,143 and $451,503 at a rate of 0.30% and 0.29% as of December 31, 2021 and 2020, respectively. There were no outstanding balances against these lines of credit as of December 31, 2021 or 2020.

In addition, the Bank also had federal funds arrangements available from unaffiliated banks totaling $95,000 at a rate estimated at 0.25% – 0.50% as of December 31, 2021 and 2020. There were no outstanding balances against these lines of credit as of December 31, 2021 or 2020.

(Dollars in thousands except per share data)

NOTE 16 - 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 commitments, subscriptions for the purchase of stock in the Federal Reserve Bank, and commitments to purchase and sell securities. 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,

	2021	2020
Loan commitments	$ 707,255	$ 595,225
Bankcard commitments	78,945	73,305
Commitments to fund mortgage loans to be sold	25,249	45,639
Total loan commitments	$ 811,449	$ 714,169
Commitments at fixed interest rates	$ 387,400	$ 366,166
Commitments at variable interest rates	424,049	348,003
Total loan commitments	$ 811,449	$ 714,169
Standby and commercial letters of credit	$ 12,134	$ 12,249
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, 2021, the fixed rate loan commitments have interest rates ranging from 2.5% to 16.5%.

NOTE 17 - 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.

(Continued)

(Dollars in thousands except per share data)

NOTE 17 - REGULATORY MATTERS (Continued)

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, 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, 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 2021 and 2020. To be categorized as well capitalized, the Bank is required to maintain minimum total risk-based, Common Tier I, Tier I risk-based, 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.

The Bank's actual amounts and ratios at December 31, 2021 and 2020 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
2021						
Total capital (to risk-weighted assets)	$ 570,764	20.94%	$286,220	10.50%	$272,590	10.00%
Tier I capital (to risk-weighted assets)	546,264	20.04%	231,702	8.50%	218,072	8.00%
Common Tier I (CET1)	546,264	20.04%	190,813	7.00%	177,184	6.50%
Tier I capital (to average assets)	546,264	9.82%	222,579	4.00%	278,224	5.00%
2020						
Total capital (to risk-weighted assets)	$ 561,710	21.76%	$270,839	10.50%	$257,942	10.00%
Tier I capital (to risk-weighted assets)	538,520	20.88%	219,251	8.50%	206,354	8.00%
Common Tier I (CET1)	538,520	20.88%	180,560	7.00%	167,662	6.50%
Tier I capital (to average assets)	538,520	11.52%	186,965	4.00%	233,706	5.00%

(Continued)

NOTE 17 - REGULATORY MATTERS (Continued)

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, 2021 is $24,626 without OCC approval.