Baker Boyer Bancorp and Subsidiary Consolidated Financial Report and Report of Independent Auditors
December 31, 2023 and 2022

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The accompanying notes are an integral part of these consolidated financial statements.

MOSSADAMS

Report of Independent Auditors

The Board of Directors
Baker Boyer Bancorp and Subsidiary

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Baker Boyer Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, shareholders equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audit 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 Baker Boyer Bancorp and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter- Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, Baker Boyer Bancorp and Subsidiary adopted new accounting guidance Accounting Standards Codification Topic 326 Financial Instruments - Credit Losses. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

(continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

Spokane, Washington
February 23, 2024

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets
Dollars in thousands, except per share amounts

December 31,	2023	2022
Assets		
Cash and cash equivalents	$4,109	$4,995
Interest-bearing deposits at other financial institutions	22,257	34,223
Debt securities available for sale, at fair value (amortized cost $296,153 and $367,976, net of allowance for credit losses of $0 and $0)	278,119	339,308
Debt securities held-to-maturity, net of allowance for credit losses of $0 and $0, (fair value $480 and $1,318)	491	1,338
Other restricted stock, at cost	1,634	2,025
Loans	372,884	351,437
Allowance for credit losses	(3,304)	(3,418)
Net Loans	**369,580**	**348,019**
Premises and equipment, net	20,231	20,849
Other real estate owned, net	338	1,345
Accrued interest receivable	2,963	3,249
Deferred tax assets, net	4,151	6,229
Other assets	5,504	3,019
Total Assets	**$709,377**	**$764,599**
Liabilities and Shareholders' Equity		
Deposits:		
Demand, non-interest-bearing	$236,429	$272,812
Savings and interest-bearing demand	315,724	390,950
Time	68,043	24,835
Total Deposits	**620,196**	**688,597**
Accrued interest payable	265	10
Securities sold under agreements to repurchase	23,873	14,043
Other borrowed funds	14,300	19,500
Other liabilities	1,041	1,010
Total Liabilities	**659,675**	**723,160**
Commitments and Contingencies (Note 11)		
Shareholders' Equity		
Common stock (no par value, stated value $3.125 per share); authorized 4,000,000 shares; issued and outstanding: 2023 - 1,306,060 shares issued and outstanding; 2022 - 1,303,939 shares issued and outstanding;	4,086	4,079
Additional paid-in capital	963	837
Retained earnings	58,900	59,171
Accumulated other comprehensive income (loss) , net of tax	(14,247)	(22,648)
Total Shareholders' Equity	**49,702**	**41,439**
Total Liabilities and Shareholders' Equity	**$709,377**	**$764,599**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Financial Statements

Baker Boyer Bancorp and Subsidiary

Consolidated Statements of Income

Dollars in thousands, except per share amounts

Years Ended December 31,	2023	2022
Interest and dividend income		
Loans, including fees	$18,810	$16,052
Taxable securities	3,539	3,132
Tax-exempt securities	1,066	1,361
Other investment income and dividends	100	68
Interest-bearing deposits at other financial institutions	621	839
Total interest income	24,136	21,452
Interest expense		
Deposits	2,182	217
Security repurchase agreements and other borrowings	1,470	79
Total interest expense	3,652	296
Net interest income	**20,484**	**21,156**
Recapture for credit losses-loans	0	(3,875)
Provision for credit losses-off balance sheet credit exposures	85	0
Net interest income after credit loss expense	**20,399**	**25,031**
Non-interest income		
Trust and investment management fees	11,347	11,315
Service charges on deposit accounts	476	576
Other service charges and fees	1,367	1,362
Other operating income	970	800
Total non-interest income	**14,160**	**14,053**
Non-interest expense		
Salaries and employee benefits	20,417	19,752
Occupancy and equipment	2,136	2,232
Professional services	1,626	1,761
Information systems and data processing	2,913	2,719
Marketing & charitable contributions	504	522
Business and federal deposit insurance	832	717
ATM and debit card expense	549	518
Other operating expenses	2,011	1,695
Total non-interest expense	**30,988**	**29,916**
Income before provision for income taxes	**3,571**	**9,168**
Provision for income taxes	399	1,616
Net income	**$3,172**	**$7,552**
Basic earnings per share	$2.43	$5.80
Diluted earnings per share	$2.41	$5.76
Basic weighted average number of shares outstanding	1,285,864	1,285,195
Diluted weighted average number of shares outstanding	1,296,222	1,294,788

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income (Loss)

Dollars in thousands

Years ended December 31,	**2023**	**2022**
Net Income	$3,172	$7,552
Other comprehensive income/(loss):		
Unrealized holding gain/(loss) on securities available for sale net of tax of $2,233 and ($5,689), respectively	8,390	(21,406)
Reclassification adjustment for loss on sale of securities available for sale included in net income, net of tax $3 and $1, respectively	11	4
Total other comprehensive income/(loss)	8,401	(21,402)
Comprehensive income/(loss)	**$11,573**	**($13,850)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Dollars in thousands, except share amounts

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
Balance at December 31, 2021	**1,282,460**	**$4,062**	**$476**	**$55,894**	**($1,246)**	**$59,186**
Net income				7,552		7,552
Other comprehensive loss					(21,402)	(21,402)
Cash dividends paid ($3.28 per share)				(4,275)		(4,275)
Stock issued to directors in lieu of compensation	1,715	5	116			121
Net restricted stock activity to officers under stock incentive plan	19,764	12	(12)			0 0
Stock-based compensation expense			257			257
Balance at December 31, 2022	**1,303,939**	**$4,079**	**$837**	**$59,171**	**($22,648)**	**$41,439**
Net income				3,172		3,172
Other comprehensive income					8,401	8,401
Cash dividends paid ($2.64 per share)				(3,443)		(3,443)
Stock issued to directors in lieu of compensation	1,419	4	92			96
Net restricted stock activity to officers under stock incentive plan	3,572	12	(12)			0 0
Stock-based compensation expense			237			237
Repurchases of common stock	(2,870)	(9)	(191)			(200)
Balance at December 31, 2023	**1,306,060**	**$4,086**	**$963**	**$58,900**	**($14,247)**	**$49,702**

The accompanying notes are an integral part of these consolidated financial statements.

Statements of Cash Flows
Dollars in thousands

Years ended December 31,	**2023**	**2022**
Cash Flows from Operating Activities		
Net income	$3,172	$7,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Recapture of credit losses-loans	0	(3,875)
Provision for credit losses-off balance sheet credit exposures	85	0
Depreciation and amortization	1,122	1,121
(Gain) loss on disposal of assets	(8)	1
Restricted stock compensation expense	237	257
Director's stock issued in lieu of compensation	96	121
Amortization (accretion) of net deferred loan fees and costs	470	(728)
Net investment amortization	2,324	3,243
Deferred income tax (benefit) expense	(155)	765
Mortgage servicing rights amortization	95	87
Impairment (recovery) mortgage servicing rights	1	(63)
Origination of loans held for sale	(2,394)	(1,238)
Proceeds from sale of loans held for sale	2,376	1,232
Net gain on sales of loans	(10)	(10)
Net loss on other real estate owned	99	0
Decrease (increase) in interest receivable	286	(463)
Increase (decrease) in accrued interest payable	255	(2)
Other - net	(642)	370
Net cash provided by operating activities	**7,409**	**8,370**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Maturities, prepayments, and calls	53,351	32,510
Purchases	0	(98,718)
Sales	14,047	5,031
Principal repayments and maturities of securities held-to-maturity	855	0
Redemption (purchase) of Federal Reserve Bank Stock	1	(5)
Redemption (purchase) of Federal Home Loan Bank stock	422	(505)
Decrease in interest-bearing deposits at other financial institutions, net	11,966	98,680
Increase in loans made to customers, net of principal collections	(22,031)	(10,155)
Proceeds from sale of other real estate owned	908	0
Purchases of premises and equipment, net	(400)	(779)
Net cash provided by investing activities	**59,119**	**26,059**

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows *(concluded)*
Dollars in thousands

	2023	2022
Cash Flows from Financing Activities		
Net decrease in deposits	(68,401)	(36,191)
Proceeds of Federal Home Loan Bank advances-long term	1,000	0
Net (repayments) proceeds from other borrowed funds	(6,200)	19,500
Net increase (decrease) in security repurchase agreements	9,830	(13,942)
Cash dividends paid	(3,443)	(4,275)
Repurchases of common stock	(200)	0
Net cash used by financing activities	**(67,414)**	**(34,908)**
Net decrease in cash and cash equivalents	**(886)**	**(479)**
Cash and Cash Equivalents		
Beginning of year	4,995	5,474
End of year	**$4,109**	**$4,995**
Supplemental Disclosures of Cash Flow Information		
Interest paid	$3,652	$296
Income taxes paid	$598	$882
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Fair value holding gain (loss) of securities available for sale	$10,635	($27,092)
Retention of mortgage servicing rights from loan sales	($28)	($16)

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Baker Boyer Bancorp (the Company) and its wholly owned subsidiary, Baker Boyer National Bank (the Bank), provide banking services primarily to the greater Walla Walla, Columbia Valley, and Yakima area of southeastern Washington and northeastern Oregon. Services are marketed primarily to individuals, small businesses, and the agricultural industry. The Company and its subsidiary are subject to competition from other financial institutions, as well as non-financial intermediaries. Primary sources of revenue are loans, investment securities, and wealth management services. The Company and its subsidiary are also subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

Principles of Consolidation

The consolidated financial statements include the amounts of the parent company and its wholly owned subsidiary. All significant intercompany transactions and balances have been eliminated.

Segment Reporting

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Company-wide basis. All services and products are considered but not evaluated separately. Accordingly, all the financial service operations are considered by management to be aggregated in one reporting operating segment.

Use of Estimates

In preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for credit losses.

Subsequent Events

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

The Company has evaluated subsequent events through February 22, 2024, the date on which the consolidated financial statements were available to be issued.

Cash and Cash Equivalents

Cash and cash equivalents include amounts due from banks and federal funds sold. The Company maintains balances in depository institutions, which at any time may exceed federally insured limits. Federal funds sold generally mature in one day.

Interest Bearing Deposits at Other Financial Institutions

Interest bearing deposits at other financial institutions mature within five years, are carried at cost, and may at times exceed federally insured limits.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Debt Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become <90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. There was no accrued interest reversed against interest income for the years ended December 31, 2023 and 2022, respectively.

Allowance for Credit Losses – Held-to-Maturity Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled $2,000 and $5,000 at December 31, 2023 and 2022, respectively and is excluded from the estimate of credit losses.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Allowance for Credit Losses – Available for Sale

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or if is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the afore-mentioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

Accrued interest receivable on available-for-sale debt securities totaled $1,267,000 and $1,653,000 at December 31, 2023 and 2022, respectively and is excluded from the estimate of credit losses.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Equity Securities
Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. During the year 2023, the Company sold class B Visa stock, without a readily determinable fair value, for a recognized gain of $821,000.

Other Restricted Stock
The Company is a member of the Federal Home Loan Bank of Des Moines (FHLB) and as a member is required to maintain a minimum level of investment in FHLB stock based on its outstanding FHLB borrowings. The Company's investment in FHLB stock is restricted and has no quoted market value and is carried at par value ($100 per share). Management periodically evaluates FHLB stock for impairment. The securities were not considered to be impaired at December 31, 2023 or 2022.

The Company also holds Pacific Coast Bankers' Bancshares (PCBB) stock and Federal Reserve Bank (FRB) Stock. No ready market exists for PCBB and FRB stock, and it has no quoted market value. These restricted securities are carried at cost.

Loans Held for Sale
Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. Net unrealized losses, if any, are recognized through a charge to earnings. There were no loans held for sale December 31, 2023 and 2022.

Mortgage loans are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains or losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loans sold.

Adoption of New Accounting Standards

Financial Instruments – Credit Losses (Topic 326)
On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Financial Instruments – Credit Losses (Topic 326) *(concluded)*
The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available for sale securities was not deemed material.

Loans and Allowance for Credit Losses
Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

Interest income on loans is accrued over the term of the loans based upon the principal outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, generally once a loan becomes 90 days delinquent. Past due status is based on contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower has the ability to make contractual interest and principal payments, in which case the loan is returned to accrual status.

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of the loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. The allowance for credit losses (ACL) is an estimate of the expected credit losses on financial assets measured at amortized cost, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets.

The formula portion of the allowance for credit losses is generally established by applying an appropriate methodology to a segmented loan portfolio. The loan portfolio segmentation is largely based on the idea of grouping loans with similar risk characteristics. Once the loan portfolio is segmented in this manner an appropriate methodology is elected to assess the reserve amount for each respective segment. A key component to selecting the methodology is the data available to analyze. The Company determined methodology used based on historical data available.

One of the key components of CECL is the requirement for forward looking information. CECL is forward-looking and broadens the range of data that must be considered in the estimation of credit losses. More specifically, CECL requires consideration of not only past events and current conditions, but also reasonable and supportable forecasts that affect expected collectability. The Company must revert to historical credit loss experience for those periods of the contractual term of financial assets beyond which the Company is able to make or obtain reasonable and supportable forecasts of expected credit losses.

Qualitative Adjustment Factors, or Q factors provide the bank flexibility in how to estimate expected credit losses. These Q factors can be stand-alone adjustments, adjustments to individual inputs within a model or a combination of the two. With the Q factor, The Company may take into consideration, the volume and severity of past due financial assets, volume of nonaccrual assets, and the volume of adversely classified or graded assets. Q factors can also change over time as risk profiles change.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Loans and Allowance for Credit Losses *(concluded)*

Estimating an appropriate ACL does involve a high degree of management judgment and is inherently imprecise. The bank's process for determining an appropriate ACL may result in in a range of estimates for credit losses. The Company supports and records the best estimate within the range of expected credit losses.

Regulatory agencies, as an integral part of their examination process, periodically review the Company's ACL and may require the bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The company's loan portfolio is segmented into 1-4 family loans with primary liens, 1-4 family loans with junior liens, HELOCs, agriculture lines of credit, agriculture term loans, agricultural farmland loans, C&I lines of credit, C&I term loans, dealer flooring, non-owner occupied CRE, owner occupied CRE, 1-4 family construction, CRE construction, other construction projects, auto loans, other consumer loans, overdraft protection, financial institution loans, multifamily loans, municipal loans and finally purchased C&I Loans.

Loans risk rated special mention, substandard, and doubtful loans are individually evaluated for impairment and are not included in the collective evaluation as previously described. When the primary and/or expected source of repayment of a specific loan is believed to be the future liquidation of available collateral, impairment will generally be measured based upon expected future collateral proceeds, net of selling costs.

The company has elected the probability of default/loss given default (PD/LGD) for longer term loans (generally longer than 5 years). And a variation of a vintage analysis, the static pool method for loans with shorter maturity dates (generally 5 years or less).

The PD/LGD methodology incorporates a loss likelihood (PD) and loss severity (LGD) to arrive at an overall estimated loss factor. PD calculations essentially review historical loan portfolios to determine a probability that a loan segment will default in the near future. The LGD reviews the collateral position to determine what the expected loss will be in a loan defaults situation.

The static pool method resembles a charge off ratio, in which a loss rate is obtained by summing up all losses incurred over a historical look-back period and dividing by the average portfolio balance over that period. The loss rate is obtained by isolating a historical pool of loans and tracking its loss behavior over the remainder of its life. When economic conditions are not the same as the historical pool, the company may adjust the loss rate for current economic conditions and supportable forecasts.

In addition to the pool methodologies described, management also includes qualitative factors (Q factors) that include relevant internal loan information and trends, external sources that provide guidance for current economic conditions, and a forward forecast that is applied to all loan segmentations. Our internal loan information includes levels and trends in delinquencies and impaired loans, our external information includes local, regional, and national and industry economic trends and conditions.

Allowance for Credit Losses on Unfunded Commitments. The estimate uses essentially the same factors and assumptions as used for the allowance for credit losses on loans in the respective segmentation pools. The likelihood to fund is calculated using historical average balances in loan segments over the prior 12 months and comparing the current segment balance to determine the likelihood of funding in the future.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

The following table illustrates the impact of ASC 326 *(dollars in thousands)*

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	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Allowance for credit losses on debt securities held-to-maturity			
Other	$0	$0	$0
Loans			
Commercial	634	768	(134)
Commercial Real Estate	1,579	1,322	257
Residential Real Estate	1,107	1,120	(13)
Consumer, Installment, and other	98	174	(76)
Unallocated	0	34	(34)
Allowance for credit losses on loans	**$3,418**	**$3,418**	**$0**

Premises and Equipment

Premises and equipment are recorded at cost. Depreciation is computed on the straight-line method over the following estimated useful lives: building and improvements - up to forty years; software, furniture, and equipment - three to seven years; and automobiles - five years. Amortization of leasehold improvements is calculated on the straight-line method over the shorter of the estimated useful lives of the assets or corresponding contractual lease term, which does not generally include renewal options. These assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists, the asset is reduced with an offsetting charge to expense. The cost of maintenance and repairs is charged to expense as incurred. Gains and losses on dispositions are reflected in earnings.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Other Real Estate Owned

Real estate properties no longer used by the Bank or acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at the fair value of the properties less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for credit losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by their current fair values. Any subsequent reductions in carrying values and revenues and expenses from the operations of properties are charged to operations. The Company had no foreclosed real estate at December 31, 2023 and 2022. Other real estate owned from bank owned premises measured at fair value less costs to sell $338,000 and $1,345,000 at December 31, 2023 and 2022, respectively.

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

Servicing Assets

Servicing assets are recognized when rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company has elected to subsequently measure the servicing rights using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. Each class of servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent the fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial recognition of impairment. Changes in valuation allowances are reported with other income on the consolidated statement of income. Fair value in excess of the carrying amount of servicing asset for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Trust Assets

Assets held by the Company in a fiduciary or agency capacity for trust department customers are not included in the consolidated financial statements because such items are not assets of the Company or its subsidiary. Assets totaling $1,528,711,000 and $1,432,443,000 were held in trust as of December 31, 2023 and 2022, respectively.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Transfers of Financial Assets

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $173,000 and $149,000 for the years ending December 31, 2023 and 2022, respectively.

Income Taxes

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Financial Accounting Standards Board (FASB) ASC 740-10, *Income Taxes*, requires recognition and measurement of uncertain tax positions using a “more-likely-than-not” approach. The Company’s approach to FASB ASC 740-10 consisted of an examination of its financial statements, its income tax provision, and its federal and state income tax returns. The Company analyzed its tax positions including the permanent and temporary differences as well as the major components of income and expense. As of December 31, 2023 the Company did not believe that it had any uncertain tax positions that would rise to the level of having a material effect on its financial statements. In addition, the Company had no accrued interest or penalties as of December 31, 2023. It is the Company’s policy to record interest and penalties as a component of income tax expense.

Deposit service charges

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

Debit and ATM interchange fee income and expenses

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

(continued)

Note 1 - Summary of Significant Accounting Policies *(concluded)*

Trust and Investment Management Fees and Brokerage revenue

Trust and Investment Management and Brokerage fees consist of transaction fees earned from asset management, trade execution, and administrative fees from investments. Asset Management fees are variable, since they are based on the underlying portfolio value, which is subject to market conditions and amounts invested by clients. Asset management fees are recognized over the period that services are provided, and when the portfolio values are known or can be estimated at the end of each quarter. Brokerage transaction fees are fixed and determinable, based on security type and trade volume, and are recognized upon trade execution. In addition, revenues are earned from selling insurance and annuity policies. The amount of revenue earned is determined by the value and type of each instrument sold and is recognized when the policy is in force.

Earnings Per Common Share

Basic and diluted earnings per common share are calculated using a two-class method. Under the two-class method, basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards. Diluted earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding determined for the basic earnings per share calculation plus the dilutive effect of unvested restricted shares and options of common stock using the treasury stock method.

Stock-Based Compensation

The Company records compensation expense in the accompanying consolidated statements of income related to restricted stock awards by recognizing the grant date fair value of such awards. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are components of comprehensive income and are reported in a separate statement following the statements of income, along with net income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. 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.

Note 2 - Restricted Assets

Federal Reserve Board regulations often require that the Company maintain reserves in the form of cash and deposit balances with the Federal Reserve Bank, based on a percentage of deposits. For years ended December 31, 2023 and 2022, no reserves were required.

Note 3 - Debt and Equity Securities

Debt securities have been classified according to management's intent. The amortized cost of securities, allowance for credit losses, and approximate fair values and credit losses were as follows (*dollars in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Values
Available for Sale:					
December 31, 2023					
U.S. Government and agency obligations	$155,764	$11	$9,318	$0	$146,457
Municipal bonds	140,389	74	8,801	0	131,662
Total	**$296,153**	**$85**	**$18,119**	**$0**	**$278,119**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Values
Held-to-Maturity:					
December 31, 2023					
Municipal bonds	**$491**	**$0**	**$11**	**$0**	**$480**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Available for Sale:				
December 31, 2022				
U.S. Government and agency obligations	$193,271	$0	$14,981	$178,290
Municipal bonds	174,705	50	13,737	161,018
Total	**$367,976**	**$50**	**$28,718**	**$339,308**

Held-to-Maturity:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
December 31, 2022				
Municipal bonds	**$1,338**	**$0**	**$20**	**$1,318**

The Company did not transfer securities from available for sale to held-to-maturity.

(continued)

Note 3 – Debt and Equity Securities *(continued)*

The Company monitors the credit quality of debt securities held-to-maturity through the use of credit ratings which are reviewed and updated quarterly. The Company had no debt securities held-to-maturity past due 90 days. The Company's non-rated held-to-maturity debt securities are unlimited general obligation municipal debt of the state of Washington, carrying minimal to no credit risk. Total held-to-maturity securities were approximately $491,000 and $1,338,000 on December 31, 2023 and 2022, respectively.

At year-end 2023, 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.

The following table summarizes debt securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023 and 2022, aggregated by major security type and length of time in a continuous unrealized loss position as of December 31 are as follows (*dollars in thousands*):

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses
Available for Sale:						
December 31, 2023						
U.S. Government and agency obligations	$500	$1	$144,946	$9,317	$145,446	$9,318
Municipal bonds	6,320	32	117,741	8,769	124,061	8,801
Total available-for-sale	**$6,820**	**$33**	**$262,687**	**$18,086**	**$269,507**	**$18,119**
December 31, 2022						
U.S. Government and agency obligations	$47,276	$1,473	$131,014	$13,508	$178,290	$14,981
Municipal bonds	49,664	1,738	102,046	11,999	151,710	13,737
Total available-for-sale	**$96,940**	**$3,211**	**$233,060**	**$25,507**	**$330,000**	**$28,718**

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses	Fair Values	Unrealized Losses
Held-to-Maturity						
December 31, 2023						
Municipal bonds	**$0**	**$0**	**$480**	**$11**	**$480**	**$11**
December 31, 2022						
Municipal bonds	**$1,318**	**$20**	**$0**	**$0**	**$1,318**	**$20**

(continued)

Note 3 – Debt and Equity Securities *(concluded)*

As of December 31, 2023, and 2022, there were 21 and 198 securities available for sale, respectively, in an unrealized loss position less than one year. As of December 31, 2023, and 2022, there were 493 and 462 securities available for sale, respectively, in an unrealized loss position more than one year. The unrealized losses associated with these securities are believed to be caused by changing market conditions that are considered to be temporary and the Company does not intend to sell the securities, and it is not likely to be required to sell these securities prior to maturity. Management monitors the published credit ratings of the issuers of the debt securities for material ratings or outlook changes quarterly. The vast majority of the Company's municipal securities portfolio consists of obligations from states and political subdivisions within the Company's geographic footprint, which are subject to annual financial reviews.

As of December 31, 2023, and 2022, there were 0 and 2 securities held-to-maturity, respectively, in an unrealized loss position less than one year. As of December 31, 2023, and 2022, there were 1 and 0 securities held-to-maturity, respectively in an unrealized loss position more than one year.

The contractual maturities of debt securities available for sale and held-to-maturity at December 31, 2023, are as follows (*dollars in thousands*):

	Available for Sale		**Held-to-Maturity**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year of less	$61,851	$60,528	$0	$0
Due from one year to five years	182,814	170,335	491	480
Due from five to ten years	40,103	36,679	0	0
Due after ten years	11,385	10,577	0	0
Total	**$296,153**	**$278,119**	**$491**	**$480**

There were $35,000 and $4,000 in gross gains and $49,000 and $9,000 in gross losses realized on sales of securities in 2023 or 2022, respectively.

During the year 2023, the Company sold class B Visa stock, without a readily determinable fair value, for a recognized gain of $821,000.

Securities, carried at approximately $71,858,000 at December 31, 2023, and $69,942,000 at December 31, 2022, were pledged to secure repurchase agreements, public and trust deposits, and for other purposes required or permitted by law.

Note 4 -Loans and Allowance for Credit Losses

Major classifications of loans at December 31 consist of the following (*dollars in thousands*):

	2023	2022
Commercial	$81,098	$77,833
Commercial Real Estate	160,086	139,933
Residential Real Estate	122,616	123,916
Consumer, Installment, and other	9,330	9,659
	373,130	**351,341**
Less net deferred loan origination (fees) costs	($246)	$96
Total loans	**$372,884**	**$351,437**

The following tables presents the activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2023 and 2022 (*dollars in thousands*):

	December 31, 2023				
	Commercial	Commercial Real Estate	Consumer, Installment, and other	Real Estate Residential	Total
Allowance for credit losses:					
Beginning balance, prior to adoption of ASC 326	$768	$1,322	$208	$1,120	$3,418
Impact of adopting ASC 326	(134)	257	(110)	(13)	0
Credit loss expense (recapture)	412	(289)	29	(152)	0
Loans charged-off	(165)	0	(18)	0	(183)
Recoveries collected	35	0	20	14	69
Total ending allowance balance	**$916**	**$1,290**	**$129**	**$969**	**$3,304**

(continued)

Note 4 -Loans and Allowance for Credit Losses *(continued)*

	December 31, 2022					
	Commercial	**Commercial Real Estate**	**Consumer, Installment, and other**	**Real Estate Residential**	**Unallocated**	**Total**
Allowance for credit losses						
Beginning balance	$624	$1,050	$142	$1,016	$3,700	$6,532
Charge-offs	(66)	(11)	(39)	0		(116)
Recoveries	589	170	118	0		877
Provision (recapture)	(379)	113	(47)	104	(3,666)	(3,875)
Ending balance	**$768**	**$1,322**	**$174**	**$1,120**	**$34**	**$3,418**
Ending balance: individually evaluated for impairment	$0	$19	$2	$0		$21
Ending balance: collectively evaluated for impairment	**$768**	**$1,303**	**$172**	**$1,120**	**$34**	**$3,397**
Loans:						
Ending Balance	$77,833	$139,933	$9,659	$123,916		$351,341
Ending balance: individually evaluated for impairment	$0	$783	$86	$0		$869
Ending balance: collectively evaluated for impairment	**$77,833**	**$139,150**	**$9,573**	**$123,916**		**$350,472**

(continued)

Note 4 -Loans and Allowance for Credit Losses *(continued)*

Prior to the adoption of Financial Instruments-Credit Losses (Topic 326) on January 1, 2023, a loan was considered impaired when, based on current information, the Company determined it was probable that it would be unable to collect all amounts due according to the contractual terms of the loan agreement.

The following tables summarize impaired loans by class as of December 31, 2022 *(dollars in thousands):*

	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial - Business	$--	$--	$--	$--	$--
Commercial - Agriculture	--	--	--	--	--
Commercial Real Estate - Owner	--	--	--	--	--
Occupied	--	--	--	--	--
Commercial Real Estate - Non-Owner	--	--	--	--	--
Occupied	--	--	--	--	--
Consumer - credit card	--	--	--	--	--
Consumer - other	--	--	--	--	--
Consumer - auto	--	--	--	--	--
Residential	--	--	--	--	--
With an allowance recorded					
Commercial - Business	$ --	$ --	$ --	$ --	$--
Commercial - Agriculture	--	--	--	--	--
Commercial Real Estate - Owner					--
Occupied	783	783	19	793	--
Commercial Real Estate - Non-Owner					--
Occupied	--	--	--	117	--
Consumer - credit card	--	--	--	--	--
Consumer - other	86	101	2	94	--
Consumer - auto	--	--	--	--	--
Residential	--	--	--	7	--
Total					
Commercial	**$0**	**$0**	**$0**	**$0**	**$--**
Commercial Real Estate	**783**	**783**	**19**	**910**	**--**
Consumer, Installment, and Other	**86**	**101**	**2**	**94**	**--**
Residential Real Estate	**0**	**0**	**0**	**7**	**--**
Total	**$869**	**$884**	**$21**	**$1,011**	**$--**

(continued)

Note 4 -Loans and Allowance for Credit Losses *(continued)*

The following table is an aging analysis of the recorded investment in loans receivable by loan class at December 31, *(dollars in thousands):*

	2023					
	30-59 Past Due	60-89 Past Due	90 Days or greater	Total Past Due	Current	Total Loans
Commercial						
Business	$0	$0	$0	$0	$63,366	$63,366
Agriculture	0	0	0	0	17,732	17,732
Commercial Real Estate						
Owner Occupied	0	0	0	0	49,445	49,445
Non-owner Occupied	809	0	0	809	109,832	110,641
Consumer						
Consumer - other	149	0	84	233	8,831	9,064
Consumer - auto	0	0	0	0	266	266
Residential	289	78	123	490	122,126	122,616
Total	**$1,247**	**$78**	**$207**	**$1,532**	**$371,598**	**$373,130**

	2022					
	30-59 Past Due	60-89 Past Due	90 Days or greater	Total Past Due	Current	Total Loans
Commercial						
Business	$0	$0	$0	$0	$62,010	$62,010
Agriculture	0	0	0	0	15,823	15,823
Commercial Real Estate						
Owner Occupied	515	0	783	1,298	39,221	40,519
Non-owner Occupied	0	0	0	0	99,414	99,414
Consumer						
Consumer - other	4	0	86	90	9,292	9,382
Consumer - auto	0	0	0	0	277	277
Residential	221	0	0	221	123,695	123,916
Total	**$740**	**$0**	**$869**	**$1,609**	**$349,732**	**$351,341**

There were no loans 90 days or more past due and still accruing interest at December 31, 2023 and 2022, respectively.

(continued)

Note 4 -Loans and Allowance for Credit Losses *(continued)*

Modified Loans. Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

There were no loans modified during 2023 and 2022. At December 31, 2023 and 2022, there were no commitments to lend additional funds to borrowers whose loans have been modified.

Credit Quality Indicators. The Company 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 Company analyzes loans individually to classify the loans as to the credit risk. The Company uses the following definitions for risk ratings:

> **Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. The weaknesses to be corrected should be identified and corrected within the timeframe of a specific action plan (generally no longer than one year). If the correction does not take place within the framework of the plan, further downgrade may be warranted. All special mention loans will be monitored for improvement or deterioration of the borrower's financial condition.

> **Substandard.** Loans classified as substandard may be inadequately protected by current net worth and paying capacity of the obligor 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.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. Consumer auto and other loans are evaluated based upon the past due status of the loan. Loans that are 90 days or more past due are classified as non-performing.

(continued)

Note 4 -Loans and Allowance for Credit Losses *(continued)*

The following credit quality indicators are based on management's most recent analysis and vary by loan type. At December 31 they were as follows *(dollars in thousands)*:

	Term Loans Amortized Cost Basis by Origination Year						
	2023	**2022**	**2021**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted to Term**	**Total**
As of December 31, 2023							
Commercial:							
Risk rating							
Pass	$12,361	$2,495	$665	$13,354	$44,220	$0	$73,095
Special mention	0	0	0	1,325	519	0	1,844
Substandard	18	222	0	629	5,290	0	6,159
Doubtful	0	0	0	0	0	0	0
Total commercial loans	**$12,379**	**$2,717**	**$665**	**$15,308**	**$50,029**	**$0**	**$81,098**
Commercial loans:							
Current period gross write offs	$0	$74	$5	$86	$0	$0	$165

	2023	**2022**	**2021**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted to Term**	**Total**
As of December 31, 2023							
Commercial Real Estate:							
Risk rating							
Pass	$21,990	$23,723	$27,076	$71,371	$0	$0	$144,160
Special mention	0	1,394	4,936	1,929	0	0	8,259
Substandard	1,157	840	0	5,670	0	0	7,667
Doubtful	0	0	0	0	0	0	0
Total commercial loans	**$23,147**	**$25,957**	**$32,012**	**$78,970**	**$0**	**$0**	**$160,086**
Commercial real estate loans:							
Current period gross write offs	$0	$0	$0	$0	$0	$0	$0

(continued)

Note 4 -Loans and Allowance for Credit Losses *(continued)*

	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of December 31, 2023							
Consumer-auto-other:							
Payment performance							
Performing	$904	$1,665	$763	$919	$4,995	$0	$9,246
Nonperforming	0	0	0	84	0	0	84
Total consumer-auto-other loans	**$904**	**$1,665**	**$763**	**$1,003**	**$4,995**	**$0**	**$9,330**
Consumer-auto-other:							
Current period gross write offs	$0	$0	$0	$18	$0	$0	$18

	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of December 31, 2023							
Residential real estate:							
Risk rating							
Pass	$12,792	$14,693	$36,255	$54,663	$0	$0	$118,403
Special mention	0	0	0	1,275	0	0	1,275
Substandard	50	487	943	1,458	0	0	2,938
Doubtful	0	0	0	0	0	0	0
Total commercial loans	**$12,842**	**$15,180**	**$37,198**	**$57,396**	**$0**	**$0**	**$122,616**
Residential real estate:							
Current period gross write offs	$0	$0	$0	$0	$0	$0	$0

(continued)

Note 4 -Loans and Allowance for Credit Losses *(continued)*

The following credit quality indicators are based on management's analysis and vary by loan type at December 31, 2022 *(dollars in thousands*:

	Commercial		Commercial Real Estate	
	Business	Agriculture	Owner Occupied	Non-Owner Occupied
A	$809	$0	$51	$292
B	3,646	1,147	4,727	1,029
C	44,366	11,689	31,267	90,005
W	9,387	501	1,273	5,703
Special Mention	2,261	0	0	786
Substandard	1,541	2,486	3,201	1,599
Doubtful	0	0	0	0
Total	**$62,010**	**$15,823**	**$40,519**	**$99,414**

	Residential Real Estate
Grade:	
Pass (A-C)	$122,811
Special Mention	505
Substandard	600
Total	**$123,916**

	Consumer - Other	Consumer - Auto
Performing	$9,296	$277
Nonperforming	86	0
Total	**$9,382**	**$277**

(continued)

Note 4 -Loans and Allowance for Credit Losses *(continued)*

The following table present the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2023 *(dollars in thousands):*

	2023		
	Nonaccrual With No Allowance for Credit Losses	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial			
Business	$0	$0	$0
Agriculture	0	0	0
Commercial Real Estate			
Owner Occupied	465	0	0
Non-owner Occupied	0	0	0
Consumer			
Consumer - other	84	0	0
Consumer - auto	0	0	0
Residential	123	0	0
Total	**$672**	**$0**	**$0**

The Company did not recognize interest income on nonaccrual loans during the years ended December 31, 2023.

The following table presents the amortized cost basis of collateral dependent loans by class of loans as of December 31, 2023:

	December 31, 2023		
	Real Estate	Equipment	Total
Commercial	$1,432	$56	$1,488
Commercial Real Estate	12,829	0	12,829
Residential Real Estate	6,177	0	6,177
Consumer, Installment, and other	84	0	84
Total	**$20,522**	**$56**	**$20,578**

(continued)

Note 4 -Loans and Allowance for Credit Losses *(concluded)*

The following table presents loans purchased and/or sold during the year by portfolio segment *(dollars in thousands)*:

	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Total
December 31, 2023					
Purchases	$8,085	$1,742	$0	$0	$9,827
Sales	$0	$2,965	$0	$2,404	$5,369

Purchased Credit Deteriorated Loans. The Company has not purchased loans, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination.

Related Parties. Certain related parties of the Company, principally Company directors and their associates, were loan customers of the Company in the ordinary course of business during 2023 and 2022. Total loans outstanding at December 31, 2023 and 2022, to key officers and directors were $4,330,000 and $3,927,000, respectively. During 2023, loan advances totaled $3,806,000 and loan repayments totaled $3,403,000 on these loans. During 2022, loan advances totaled $2,931,000 and loan repayments totaled $2,277,000 on these loans.

Note 5 – Servicing Assets

Mortgage loans serviced for others are not included on the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were approximately $57,412,000 and $61,907,000 at December 31, 2023 and 2022, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in deposits, were approximately $572,000 and $532,000 at December 31, 2023 and 2022, respectively.

The activity pertaining to mortgage servicing rights and the related valuation allowance for the years ended December 31 is as follows (*dollars in thousands*):

	2023	**2022**
Balance, beginning of year	$252	$260
Additions	28	16
Impairments	(1)	0
Recovery	0	63
Amortization of servicing rights	(95)	(87)
Balance, end of year	**$184**	**$252**
Fair Value	**$655**	**$699**

Valuation Allowance:	**2023**	**2022**
Balance, at beginning of year	($121)	($184)
Additions	$0	$63
Reductions	(1)	0
Balance, end of year	**($122)**	**($121)**

The fair value of servicing rights was determined using a discount rate of 10.0% and 9.5% at December 31, 2023 and 2022, respectively. Prepayment speeds ranging from 6.0% to 10.94% and 6.55% to 18.76% December 31, 2023 and 2022, respectively, constant prepayment rate (CPR), depending on the specific characteristics of each loan.

The most significant assumption in valuing the servicing rights is the change in prepayment speed that results from shifts in mortgage interest rates. The Company assumed weighted-average years to payoff to range from 0.9 to 9.9 years and 1.2 to 9.1 years at December 31, 2023 and 2022, respectively, depending on loan type and interest rates.

Servicing rights are included in other assets on the consolidated balance sheet.

Note 6 - Premises and Equipment

The components of premises and equipment at December 31 are as follows (*dollars in thousands*):

	2023	**2022**
Land	$1,860	$1,860
Buildings	26,074	24,907
Furniture and equipment	4,686	4,718
	32,620	**31,485**
Construction in process	51	858
Less accumulated depreciation	12,440	11,494
Total premises and equipment, net	**$20,231**	**$20,849**

The total depreciation expense for years ending December 31, 2023 and 2022, was $1,026,000 and $1,047,000, respectively.

Rental expense of month to month leased premises and equipment totaled $6,000 and $6,000 in 2023 and 2022, which are included in occupancy and furniture and equipment expense.

Note 7 – Deposits

The aggregate amount of certificates of deposit with balances of $250,000 or more was approximately $33,241,000 and $2,671,000 at December 31, 2023 and 2022, respectively.

Scheduled maturities of certificates of deposit for future years ending December 31 are as follows *(dollars in thousands)*:

2024	$61,569
2025	2,549
2026	1,729
2027	882
2028	1,299
Thereafter	15
Total	**$68,043**

Certain related parties of the Company, principally Company directors and their associates, have deposit accounts with the Company. Total related party Company deposits were $5,773,000 and $5,504,000 at December 31, 2023 and 2022, respectively.

Note 8 - Security Repurchase Agreements

The following table presents information regarding securities sold under agreements to repurchase for the years ended December 31 *(dollars in thousands)*:

	2023	2022
Average balance during the year	$20,390	$22,928
Average interest rate during the year	1.93%	0.04%
Maximum month-end balance during the year	$27,686	$34,210
Balance outstanding at year-end	$23,873	$14,043
Average interest rate at year-end	3.47%	0.18%

Investment securities are pledged as collateral in an amount equal to or greater than the repurchase agreements. The carrying amount of securities pledged as collateral for repurchase agreements at December 31, 2023 and 2022, were $32,019,000 and $37,632,000, respectively.

Note 9 - Employee Benefits

401(k) Profit Sharing Plan

The Company has a profit-sharing 401(k) plan, with cash or deferred arrangements permitted by Internal Revenue Code subsection 401(k). New employees are immediately eligible for immediate deferrals to their 401k before they are eligible for the Company's contribution. Requirements for the Company contributions are six months of service and attainment of age 18, with plan entry the following January 1 or July 1. The Company's profit-sharing contribution is 6% of eligible compensation. The Company's safe-harbor matching contribution is 100% of the first 6% of a participant's eligible compensation per payroll period deferred as 401(k) contributions. Under the 401(k) savings aspect of the plan, employees may contribute up to the regulatory or statutory dollar limitation for deferrals, plus the catch-up dollar limitation. The safe harbor matching contribution does not have an hour of service or employment on the last day of the plan year accrual requirement. The profit-sharing contribution has a greater than 500 hours of service accrual requirement if not employed on the last day of the plan year. There is no hour of service accrual requirement if employed on the last day of the plan year, the employee dies, becomes disabled, or attains the plan's normal retirement age. Total employer contribution expenses were $1,675,000 and $1,561,000 for 2023 and 2022, respectively.

Outside Directors' Nonqualified Deferred Compensation Plan

The Company has an outside directors' nonqualified deferred compensation plan. Under the terms of the plan, an outside director (a non-employee director) may participate in the plan. The participant may elect to defer a portion of his or her directors' fees as designated at the beginning of each plan year. The Company does not make nonelective contributions to the plan. Payments begin after termination of service for any reason. Payments may begin prior to termination of service for an unforeseeable emergency. There are currently four participants in the plan. Balances include total deferrals plus earnings and were $936,000 and $1,096,000 at December 31, 2023 and 2022, respectively. There were no expenses incurred related to the administration of the plan for 2023 and 2022, respectively.

(continued)

Note 9 - Employee Benefits *(concluded)*

Stock Incentive Plan

The Company adopted a restricted stock purchase/bonus incentive plan for the benefit of key employees. The objective of the plan is to retain personnel of experience and ability in key positions by providing them with a proprietary interest in the Company. The plan is also expected to enhance the ability of the Company to attract and retain key employees. The Company's plan is administered by its board of directors' Executive Compensation Committee. Members of this committee consist only of the Chair of the Board and other Board members.

The plan allows for the issuance to participants of up to 240,800 shares of the Company's common stock. As of December 31, 2023, shares remaining in reserve for issuance under the plan were 27,400.

The restricted stock is awarded to employees at the end of a five-year vesting period. During this five-year period the employees have voting and dividend rights. Compensation expense in the amount of the fair value of the common stock at the date of the grant to the plan participants will be recognized straight line over the five-year vesting period. Compensation expense related to the plan was $237,000 and $257,000 for the years ended December 31, 2023 and 2022, respectively. The tax benefit recognized on this compensation was $50,000 and $41,000 for the years ending December 31, 2023 and 2022, respectively. At December 31, 2023, unrecognized compensation expense related to nonvested restricted stock awards was $664,000 and is expected to be recognized as follows *(dollars in thousands):*

	Stock-Based Compensation Expense
2024	$246
2025	202
2026	136
2027	64
2028	16
Total	**$664**

The following summarizes activity under the restricted stock plan for the years ended December 31 *(dollars in thousands)*:

	Shares	**Aggregate Intrinsic Value**	**Weighted Average Grant Date Fair Value**
Restricted stock grants unvested at December 31, 2021	**16,060**	**$13,002**	**$69.19**
Granted	3,704		72.94
Vested	(2,300)		68.82
Restricted stock grants unvested at December 31, 2022	**17,464**	**$8,046**	**$70.04**
Granted	3,695		62.44
Forfeited	(123)		73.26
Vested	(1,717)		66.81
Restricted stock grants unvested at December 31, 2023	**19,319**	**$0**	**$68.85**

Note 10 - Income Taxes

Income taxes are comprised of the following for the years ended December 31 *(dollars in thousands):*

	2023	2022
Current tax expense		
Federal	$543	$832
State	11	19
Total current tax expense	554	851
Deferred tax		
Federal (benefit) expense	(153)	753
State (benefit) expense	(2)	12
Total deferred (benefit) expense	(155)	765
Provision for income taxes	**$399**	**$1,616**

The following is reconciliation between the statutory and the effective federal income tax rate for the years ended December 31 *(dollars in thousands)*:

	2023		2022	
	Amount	**Percent of Pretax Income**	**Amount**	**Percent of Pretax Income**
Income tax at statutory rates	$750	21.0%	$1,925	21.0%
Increase (decrease) resulting from:				
Tax-exempt income	(225)	(6.3)	(336)	(3.7)
Other	(126)	(3.5)	27	0.3
Total tax expense	**$399**	**11.2%**	**$1,616**	**17.6%**

Tax effects of temporary differences that give rise to significant portions of deferred tax assets (liabilities) at December 31 are as follows *(dollars in thousands)*:

	2023	2022
Deferred Tax Assets		
Allowance for credit losses	$721	$727
Deferred compensation	199	232
Stock-based compensation	98	121
Unrealized loss on securities available for sale	3,787	6,020
Other	100	86
Total deferred tax assets	**4,905**	**7,186**
Deferred Tax Liabilities		
Accumulated depreciation and amortization	(561)	(722)
Prepaid expenses	(112)	(171)
Mortgage servicing rights	(39)	(54)
Other	(42)	(10)
Total deferred tax liabilities	**(754)**	**(957)**
Net deferred tax assets	**$4,151**	**$6,229**

The Company files income tax returns in the U.S. federal jurisdiction and Oregon. The Company does not have any uncertain tax positions. As of December 31, 2023, there was no accrued interest or penalties recorded in the financial statements.

Note 11 - Commitments and Contingencies

The Company 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 financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of the Company's commitments at December 31 is as follows *(dollars in thousands)*:

	2023	**2022**
Commitments to extend credit	$109,496	$101,998
Standby letters of credit	$530	$752

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that approximately 41% of loan commitments are drawn upon by customers. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances where the Company deems necessary.

The Company has agreements with commercial banks for lines of credit totaling $20,000,000, none of which were used at December 31, 2023, or 2022. The Company has a short-term borrowing line with the Federal Reserve Bank Discount Window. As of December 31, 2023, the Company has $25,600,000 of securities pledged with the Discount Window with the same borrowing capacity, of which $3,300,000 was drawn on at December 31, 2023. The Company is a member of the Federal Home Loan Bank (FHLB) of Des Moines, which entitles it to certain benefits including a variety of borrowing options consisting of a secured line that allows both fixed and variable rate advances. Credit capacity is primarily determined by the value of assets collateralized at the FHLB. As of December 31, 2023, the Company had $116,173,000 of loans pledged with FHLB with a borrowing capacity of $71,934,000.

At December 31, advances from FHLB were as follows *(dollars in thousands)*:

2023	**2022**
$11,000	$10,000

Scheduled maturities of FHLB advances are as follows *(dollars in thousands):*

	Balances	**Interest Rates**
2024	$10,000	5.64%
2025	$1,000	4.24%
Total	**$11,000**	

(continued)

Note 11 - Commitments and Contingencies *(concluded)*

Because of the nature of its activities, the Company is subject to various pending and threatened legal actions, which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

Note 12 - Significant Concentrations of Credit Risk

Most of the Company's loans, commitments, and standby letters of credit have been granted to customers and/or are secured by collateral located in the Company's market areas, which include Washington and northeastern Oregon. As such, significant changes in economic conditions in these areas or with its primary industries could adversely affect the Company's ability to collect loans. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Loans are generally limited, by federal banking regulations, to 15% of the Company's shareholders' equity, excluding accumulated other comprehensive income.

Investments in state and political debt securities involve governmental entities primarily in the state of Washington. Significant changes in economic conditions in these municipalities could adversely affect the issuers of these securities to repay their debt. The Company primarily focuses on municipality debt that is guaranteed by the taxing base of the issuer. Furthermore, the Company performs detailed reviews of the majority of bonds, which it purchases from issuers in Washington, Oregon, and Idaho.

The Company places its cash with well capitalized financial institutions. The amount on deposit fluctuates and typically exceeds the insured limits of the Federal Deposit Insurance Corporation, and the Company is therefore exposed to credit risk.

Note 13 - Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory -- and possibly additional discretionary -- actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

As of December 31, 2023, the most recent notification from the Bank's regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(continued)

Note 13 - Regulatory Matters *(continued)*

The Company's and the Bank's actual capital amounts and ratios are also presented in the following table. Management believes, as of December 31, 2023, that the Company and the Bank meet all capital requirements to which they are subject (*dollars in thousands*):

	Actual		Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2023						
Tier 1 capital (to average assets):						
Company	$63,949	8.8%	$29,182	4.0%	N/A	N/A
Bank	61,314	8.3	29,391	4.0	$36,738	5.0%
Common equity tier 1 capital ratio:						
Company	63,949	14.9	19,283	4.5	N/A	N/A
Bank	61,314	14.3	19,283	4.5	27,853	6.5
Tier 1 capital ratio:						
Company	63,949	14.9	25,710	6.0	N/A	N/A
Bank	61,314	14.3	25,710	6.0	34,280	8.0
Total capital ratio:						
Company	67,338	15.7	34,280	8.0	N/A	N/A
Bank	64,703	15.1	34,280	8.0	42,850	10.0
December 31, 2022						
Tier 1 capital (to average assets):						
Company	$64,087	8.1%	$31,835	4.0%	N/A	N/A
Bank	61,061	7.7	31,833	4.0	$39,792	5.0%
Common equity tier 1 capital ratio:						
Company	64,087	15.5	18,657	4.5	N/A	N/A
Bank	61,061	14.7	18,657	4.5	26,950	6.5
Tier 1 capital ratio:						
Company	64,087	15.5	24,877	6.0	N/A	N/A
Bank	61,061	14.7	24,877	6.0	33,169	8.0
Total capital ratio:						
Company	67,505	16.3	33,169	8.0	N/A	N/A
Bank	64,479	15.6	33,169	8.0	41,461	10.0

Common equity Tier 1 capital generally consists of retained earnings and common stock (subject to certain adjustments) as well as accumulated other comprehensive income (AOCI), except to the extent that the Bank elected to make a one-time irrevocable option to exclude certain components of AOCI as of March 31, 2016. The Bank is required to establish a "conservation buffer," consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The prompt corrective action rules are modified to include the common equity Tier 1 capital ratio and to increase the Tier 1 capital ratio requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the rules are a 5.0% leverage ratio, a 6.5% common equity Tier 1 capital ratio, an 8.0% Tier 1 capital ratio, and a 10.0% total capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0%, and 8.0%, respectively.

(continued)

Note 13 - Regulatory Matters *(concluded)*

The rules modified the manner in which certain capital elements are determined. The rules make changes to the methods of calculating the risk-weighting of certain assets, which in turn affects the calculation of the risk-weighted capital ratios. Higher risk weights are assigned to various categories of assets, including commercial real estate loans, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credit that are 90 days past due or are nonaccrual, securitization exposures, and in certain cases mortgage servicing rights and deferred tax assets.

Note 14 - Condensed Financial Information - Parent Company Only

Condensed Balance Sheets
Dollars in thousands

Year ended December 31,	**2023**	**2022**
Assets		
Cash	$1,874	$2,249
Interest bearing deposits at other financial institutions	1	26
Investment in Bank	47,067	38,413
Other assets	760	752
Total Assets	**$49,702**	**$41,440**
Liabilities	0	1
Shareholders' Equity	49,702	41,439
Total liabilities and shareholders' equity	**$49,702**	**$41,440**

Condensed Statement of Income
Dollars in Thousands

Year ended December 31,	**2023**	**2022**
Revenue		
Dividend Income from the Bank	$3,011	$6,200
Miscellaneous Income	1	0
Total Revenue	**3,012**	**6,200**
Expenses	117	102
Income before income taxes and equity in undistributed income of the Bank	**2,895**	**6,098**
Income Tax Benefit	24	22
Income before undistributed income of the Bank	**2,919**	**6,120**
Equity in undistributed income of the Bank	253	1,432
Net Income	**$3,172**	**$7,552**

(continued)

Note 14 - Condensed Financial Information - Parent Company Only *(concluded)*

Condensed Statements of Cash Flows
Dollars in thousands

December 31,	**2023**	**2022**
Cash Flows from Operating Activities		
Net income	$3,172	$7,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of the Bank	(253)	(1,432)
Restricted stock compensation expense	237	257
Stock issued to directors in lieu of compensation	96	121
Decrease (increase) in interest bearing accounts	24	(26)
Other - net	(8)	(39)
Net cash provided by operating activities	**3,268**	**6,433**
Cash Flows from Financing Activities		
Cash dividends paid	(3,443)	(4,275)
Repurchase of common stock	(200)	0
Net cash used in financing activities	**(3,643)**	**(4,275)**
(Decrease) increase in cash	**(375)**	**2,158**
Cash		
Beginning of year	2,249	91
End of year	**$1,874**	**$2,249**

Note 15 - Fair Value of Financial Instruments

The fair value estimates that follow are subjective in nature and involve uncertainties and matters of judgment; therefore, they are not necessarily indicative of the amounts the Company could realize in current market exchange. The Company has not included certain material items in its disclosure, such as the value of the long-term relationships with the Company's lending and deposit clients, since this is an intangible and not a financial instrument. Additionally, the estimates do not include any tax ramifications. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows that could materially affect the results. For all the reasons, the aggregation of the fair value calculations presented herein do not represent and should not be construed to represent the underlying value of the Company.

(continued)

Note 15 - Fair Value of Financial Instruments *(continued)*

The following presents the carrying amount, estimated fair value, and placement in the fair value hierarchy of the company's financial instruments at December 31, 2023 and 2022 *(dollars in thousands):*

	2023				
	Carrying Amounts	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets					
Cash and cash equivalents	$4,109	$4,109	$4,109	$0	$0
Interest bearing deposits at other financial institutions	22,257	21,820	6,965	0	14,855
Securities available for sale	278,119	278,119	70,697	207,422	0
Securities held to maturity	491	480	0	480	0
Other investments	1,634	1,634	79	1,555	0
Loans receivable	372,884	338,942	0	0	338,942
Mortgage servicing rights	184	655	0	0	655
Financial Liabilities					
Deposits	$620,196	$619,812	$552,153	$0	$67,659
Securities sold under agreements to repurchase	23,873	23,873	23,873	0	0
Other borrowed funds	14,300	14,300	14,300	0	0

	2022				
	Carrying Amounts	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets					
Cash and cash equivalents	$4,995	$4,995	$4,995	$0	$0
Interest bearing deposits at other financial institutions	34,223	34,223	34,223	0	0
Securities available for sale	339,308	339,308	102,149	237,159	0
Securities held to maturity	1,338	1,318	0	1,318	0
Other investments	2,025	2,025	46	1,979	0
Loans receivable	351,437	310,465	0	0	310,465
Mortgage servicing rights	252	699	0	0	699
Financial Liabilities					
Deposits	$688,597	$688,225	$663,763	$0	$24,462
Securities sold under agreements to repurchase	14,043	14,043	14,043	0	0
Other borrowed funds	19,500	19,500	19,500	0	0

(continued)

Note 15 - Fair Value of Financial Instruments *(continued)*

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change, and that change may either be favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk.

However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits, and by investing in securities with terms that mitigate the Company's overall interest rate risk.

ASC 820-10, *Fair Value Measurements and Disclosures,* provides enhanced guidance for measuring assets and liabilities using fair value and applies to situations where other standards require or permit assets or liabilities to be measured at fair value. It also requires expanded disclosure of items that are measured at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings.

Valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about market value. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.
Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.
Level 3 – Instruments whose significant value drivers are unobservable.

The following table summarizes the Company's financial instruments that were measured at fair value at December 31 *(dollars in thousands)*:

	Fair Value Measurements Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2023				
Assets Measured at Fair Value on a Recurring Basis				
Securities available-for-sale				
U.S. Government and agency securities	$146,456	$70,697	$75,759	$0
State and political debt securities	131,663	0	131,663	0
Total	**$278,119**	**$70,697**	**$207,422**	**$0**
Assets Measured at Fair Value on a Nonrecurring Basis				
Loans individually evaluated	$0	$0	$0	$0
Total	**$0**	**$0**	**$0**	**$0**

(continued)

Note 15 - Fair Value of Financial Instruments *(concluded)*

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2022				
Assets Measured at Fair Value on a Recurring Basis				
Securities available-for-sale				
U.S. Government and agency securities	$178,290	$102,149	$76,141	$0
State and political debt securities	161,018	0	161,018	0
Total	**$339,308**	**$102,149**	**$237,159**	**$0**
Assets Measured at Fair Value on a Nonrecurring Basis				
Loans individually evaluated	$0	$0	$0	$0
Total	**$0**	**$0**	**$0**	**$0**

The Company uses the following methods and significant assumptions to estimate fair value. The Company's U.S. equity securities trade in a very active market of identical instruments and their valuation is therefore included under Level 1. The Company's securities available-for-sale at December 31, 2023, primarily consisted of U.S. Government and Agency obligations and state and political debt securities that trade in active markets. U.S. Treasuries trade in a very active market and their valuation is therefore included under Level 1. Other U.S. Government and Agency obligations securities are included under Level 2 because there may or may not be daily trades in each of the individual securities and because the valuation of these securities may be based on instruments that are not exactly identical to those owned by the Company. If quoted market prices are not available, the fair values are estimated using pricing models from investment service based upon the securities relationship to other benchmark quoted securities. Temporary changes in the valuation of securities available-for-sale do not affect current income; instead, unrealized gains or losses on available-for-sale securities are reported as a net amount in accumulated comprehensive income. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. No such write-downs have occurred during the periods presented.

Impaired loans represent collateral dependent impaired loans that have been adjusted to fair value. Losses represent charge offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. Impaired loans are individually reviewed to determine the amount of each loan considered to be at risk of non-collection. In determining the amount of each loan at risk, the Company reviews real property appraisals, equipment valuations, accounts receivable and payable listings and other financial information. As of December 31, 2023, the Company did not have Level 3 impaired instruments.

Note 16 – Earnings Per Share

Nonvested share-based payment awards that contain non forfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested restricted stock awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method, based on their rights to receive dividends, participate in earnings, or absorb losses. Basic earnings per common share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding determined for the basic earnings per share calculation plus the dilutive effect of stock compensation using the treasury stock method.

The following table presents the computation of basic and diluted earnings per share for the periods indicated *(in thousands, except share and per share data):*

December 31,	**2023**	**2022**
Net Income	$3,172	$7,552
Allocated to participating securities	($45)	($97)
Net income available to common shareholders	**$3,127**	**$7,455**
Weighted average common shares outstanding	1,285,864	1,285,195
Net effect of dilutive shares	10,358	9,593
Diluted weighted average shares outstanding	1,296,222	1,294,788
Earnings per common share		
Basic	$2.43	$5.80
Diluted	$2.41	$5.76