REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

MOUNTAIN PACIFIC BANCORP, INC., AND SUBSIDIARIES

December 31, 2022 and 2021

Table of Contents

NOTE: This annual report serves as Mountain Pacific Bank's annual disclosure statement under the requirements of the Federal Deposit Insurance Corporation (FDIC). This statement has not been reviewed or confirmed for accuracy or relevance by the FDIC.

MOSSADAMS

Report of Independent Auditors

To the Board of Directors and Stockholders
Mountain Pacific Bancorp, Inc., and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Mountain Pacific Bancorp, Inc., and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mountain Pacific Bancorp, Inc., and Subsidiaries' 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

Everett, Washington
February 28, 2023

ASSETS

	December 31, 2022	December 31, 2021
Cash and due from banks	6,965,943	4,960,700
Federal funds sold and excess balance account	47,449,274	95,732,000
Total cash and cash equivalents	54,415,217	100,692,700
Interest-bearing deposits in banks	10,000,000	16,001,444
Investment securities available-for-sale	15,686,352	19,055,020
Investment securities held-to-maturity	1,001,549	1,002,892
Loans held-for-sale	4,320,000	-
Loans	469,284,201	469,409,617
Less allowance for loan losses	9,721,837	8,695,997
Total loans, net	459,562,364	460,713,620
Premises and equipment, net	10,223,067	10,405,891
Right-of-use assets	1,581,871	1,858,165
Accrued interest receivable	1,686,470	1,442,941
Federal Home Loan Bank (FHLB) stock and Pacific Coast Bankers' Bank (PCBB) stock, at cost	925,100	1,782,500
Deferred tax asset, net	3,326,502	2,579,150
Other assets	1,655,313	2,032,720
Total assets	564,383,805	617,567,043

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2022	December 31, 2021
Deposits		
Noninterest-bearing	136,647,818	137,761,426
Interest-bearing	354,101,030	388,233,533
Total deposits	490,748,848	525,994,959
Borrowings	-	24,500,000
Subordinated notes	12,500,000	12,500,000
Accrued interest payable	244,772	154,271
Lease liabilities	1,858,410	2,149,088
Other liabilities	2,668,367	2,835,740
Total liabilities	508,020,397	568,134,058
Stockholders' equity		
Common stock, $1 par value, 50,000,000 shares authorized; 6,695,766 and 6,602,716 issued and outstanding at December 31, 2022 and 2021, respectively	6,695,766	6,602,716
Additional paid-in capital	30,233,943	29,243,570
Retained earnings	21,252,699	13,637,699
Accumulated other comprehensive loss, net of tax	(1,819,000)	(51,000)
Total stockholders' equity	56,363,408	49,432,985
Total liabilities and stockholder's equity	564,383,805	617,567,043

See accompanying notes.

	Years Ended December 31, 2022	2021
INTEREST AND DIVIDEND INCOME		
Loans, including fees	24,408,969	$ 23,083,159
Federal funds sold and excess balance account - Federal Reserve Bank and interest-bearing deposits in banks	1,096,947	78,619
Investment securities	314,182	189,926
Dividends from FHLB stock and PCBB stock	54,913	78,312
Total interest and dividend income	25,875,011	23,430,016
INTEREST EXPENSE		
Deposits	2,214,839	2,374,533
Borrowings	129,264	428,960
Subordinated notes	737,500	737,500
Total interest expense	3,081,603	3,540,993
Net interest income	22,793,408	19,889,023
PROVISION FOR LOAN LOSSES	1,750,000	2,400,000
Net interest income after provision for loan losses	21,043,408	17,489,023
NONINTEREST INCOME		
Service fees	1,849,758	1,658,688
Insurance Income	79,057	42,176
Rental income	386,922	414,449
Gain on sale of OREO, net	-	190,089
Gain on sale of loans, net	1,309,641	2,705,736
Total noninterest income	3,625,378	5,011,138
NONINTEREST EXPENSES		
Salaries and employee benefits	9,286,154	7,674,123
Occupancy and equipment	1,100,720	1,157,677
Data processing	699,387	656,317
Advertising and business development	344,640	287,168
Professional fees and state taxes	926,239	1,037,227
Regulatory assessments	476,719	455,743
Other real estate owned, net	-	43,207
Other	2,199,927	2,198,699
Total noninterest expenses	15,033,786	13,510,161
NET INCOME BEFORE PROVISION FOR INCOME TAXES	9,635,000	8,990,000
PROVISION FOR INCOME TAXES	2,020,000	1,915,000
NET INCOME	7,615,000	$ 7,075,000

	Years Ended December 31, 2022	Years Ended December 31, 2021
NET INCOME	$ 7,615,000	$ 7,075,000
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized holding (loss) gain on securities		
Unrealized holding loss	(2,235,000)	(202,000)
Tax benefit on unrealized holding loss	467,000	44,000
Other comprehensive loss	(1,768,000)	(158,000)
COMPREHENSIVE INCOME	$ 5,847,000	$ 6,917,000

See accompanying notes.

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Earnings	(Loss) Income	Equity
BALANCE, December 31, 2020	6,549,841	$ 6,549,841	$ 28,615,879	$ 6,562,699	$ 107,000	$ 41,835,419
Net income	-	-	-	7,075,000	-	7,075,000
Other comprehensive loss, net	-	-	-	-	(158,000)	(158,000)
Restricted stock awards vested	20,625	20,625	(20,625)	-	-	-
Stock options exercised	32,250	32,250	86,956	-	-	119,206
Stock-based compensation expense	-	-	561,360	-	-	561,360
BALANCE, December 31, 2021	6,602,716	6,602,716	29,243,570	13,637,699	(51,000)	49,432,985
Net income	-	-	-	7,615,000	-	7,615,000
Other comprehensive loss, net	-	-	-	-	(1,768,000)	(1,768,000)
Restricted stock awards vested	20,625	20,625	(20,625)	-	-	-
Stock options exercised	72,425	72,425	237,288	-	-	309,713
Stock-based compensation expense	-	-	773,710	-	-	773,710
BALANCE, December 31, 2022	6,695,766	$ 6,695,766	$ 30,233,943	$ 21,252,699	$ (1,819,000)	$ 56,363,408

	Years Ended December 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,615,000	$ 7,075,000
Adjustments to reconcile net income to net cash flows from operating activities		
Provision for loan losses	1,750,000	2,400,000
Stock-based compensation expense	773,710	561,360
Depreciation and amortization	362,572	334,697
Amortization on investment securities	109,391	82,916
Amortization of right-of-use assets	276,294	274,208
Change in lease liabilities	(290,678)	(279,880)
Gain on sale of loans, net	(1,309,641)	(2,705,736)
Proceeds from sale of loans	27,377,394	28,103,930
Originations of loans held-for-sale	(30,387,753)	(23,964,553)
Gain on sale of OREO, net	-	(190,089)
Deferred federal income taxes	(280,352)	(458,150)
Changes in operating assets and liabilities		
Accrued interest receivable	(243,529)	380,814
Other assets	377,408	(602,990)
Accrued interest payable	90,501	(362,833)
Other liabilities	(167,373)	951,593
Net cash from operating activities	6,052,944	11,600,287
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing deposits in banks	6,001,444	5,246,904
Net change in loans made to customers	(598,744)	(37,440,297)
Purchases of investment securities available-for-sale	(1,593,573)	(16,399,838)
Proceeds from principal paydowns of mortgage-backed securities	2,619,192	2,132,741
Proceeds from maturities and calls for investments available-for-sale	-	1,000,000
Proceeds from sales of other real estate owned	-	1,238,017
Redemption and Purchase of FHLB stock	857,400	(174,500)
Change in premises and equipment, net	(179,747)	(115,346)
Net cash from (used in) investing activities	7,105,972	(44,512,319)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	(35,246,112)	118,395,679
Proceeds from exercise of stock options	309,713	119,206
Repayment of borrowings	(24,500,000)	(20,378,009)
Net cash from (used in) financing activities	(59,436,399)	98,136,876
NET CHANGE IN CASH AND CASH EQUIVALENTS	(46,277,483)	65,224,844
CASH AND CASH EQUIVALENTS, beginning of year	100,692,700	35,467,856
CASH AND CASH EQUIVALENTS, end of year	$ 54,415,217	$ 100,692,700
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 2,256,581	$ 3,217,019
Cash paid during the period for federal income taxes, net of refund	$ 2,685,000	$ 2,013,196
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS		
Unrealized loss on securities	$ (2,235,000)	$ (202,000)

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of operations – Mountain Pacific Bancorp, Inc., a bank holding company, was issued a certificate of incorporation in the state of Washington on April 12, 2018. On June 9, 2018, the Federal Reserve Board granted authority to Mountain Pacific Bancorp, Inc. to become a bank holding company through a reorganization of the ownership interests of Mountain Pacific Bank. Washington Department of Financial Institutions Divisions of Banks approved the articles of share exchange and plan of share exchange and issued a certificate of reorganization on June 29, 2018.

Mountain Pacific Bancorp, Inc.'s (the Company), principal activity is the ownership and management of its wholly owned subsidiary, Mountain Pacific Bank (the Bank). The Bank provides a full range of banking services to individual and corporate customers through its headquarters in Everett, and full-service branches in Lynnwood, the Ballard neighborhood of Seattle and Burlington.

During 2019, the Company formed Mountain Pacific Insurance Services, Inc., which is a specialty surplus lines insurance broker for Bank related insurance products and is licensed to operate in all 50 states. Insurance coverage is underwritten on a brokerage basis.

At periodic intervals, various banking regulatory agencies routinely examine the Company's consolidated financial statements as part of their legally prescribed oversight of the banking system. Based on these examinations, the regulators can direct the Company's consolidated financial statements to be adjusted in accordance with their findings.

Principles of consolidation – The consolidated financial statements include the accounts and transactions of the Company and subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Operating segments – The Company and the Bank are managed as a legal entity and not by lines of business. The Bank's operations include commercial banking services, such as lending activities, deposit products, and other cash management services.

Financial statement presentation and use of estimates – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reporting practices applicable to the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets, and revenues and expenses for the period. Actual results could differ from estimated amounts. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of impaired loans, fair value of financial instruments, and deferred tax assets and liabilities.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before 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 sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are available to be issued. The Company has evaluated subsequent events through February 28, 2023, which is the date the consolidated financial statements are issued.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks, federal funds sold, and the excess balance account at the Federal Reserve Bank (FRB) and IntraFi, all with original maturities of three months or less. Generally, federal funds are purchased and sold for one-day periods. The amounts on deposit fluctuate and, at times, may exceed the insured limit by the Federal Deposit Insurance Corporation (FDIC), which potentially subjects the Company to credit risk. Investments in federal funds sold are made with correspondent banks as approved by the Board of Directors.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Interest-bearing deposits in banks – Interest-bearing deposits in banks mature within one year and are carried at cost. The amounts on deposit fluctuate and, at times, may exceed the insured limit by the FDIC, which potentially subjects the Company to credit risk.

Investment securities – Debt securities are classified into one of three categories: (1) held-to-maturity, (2) available-for-sale, or (3) trading. There were no trading securities at December 31, 2022 or 2021. Debt securities are categorized as held-to-maturity when management has the positive intent and ability to hold those securities to maturity. Securities that are held-to-maturity are stated at cost and adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income. Interest income includes amortization of premiums and discounts. Premiums and discounts are recognized in interest income using the interest method over the period to call date and maturity, respectively.

Debt securities categorized as available-for-sale are generally held for investment purposes (to maturity), although unanticipated future events may result in the sale of some securities. Available-for-sale securities are recorded at estimated fair value, with the net unrealized gain or loss reported as “accumulated other comprehensive gain (loss)” within the statements of changes in stockholders’ equity. Realized gains or losses on dispositions are based on the net proceeds and the adjusted carrying amount of securities sold, using the specific identification method, and are included in earnings.

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

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Significant concentrations of credit risk – Most of the Bank's business activity is with customers located within Snohomish, King, and Skagit Counties, Washington. The Bank originates commercial, real estate, construction, and consumer loans. Generally, loans are secured by accounts receivable, inventory, deposit accounts, personal property, or real estate. Rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers' ability to meet the stated repayment terms. Approximately 82% of the Bank's loan portfolio is secured by real estate (Note 3). The Bank does not have any significant concentrations to one customer.

Allowance for loan losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the loan portfolio and is evaluated on a regular basis by management. The allowance is provided based upon management's continuing analysis of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions, and detailed analysis of individual loans for which full collectability may not be ensured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For such loans classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriateness of the allowance for loan losses is estimated based upon these factors and trends identified by management at the time the consolidated financial statements are prepared. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, if the loan is collateral-dependent. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller-balance loans are excluded from this analysis and collectively evaluated for impairment.

A troubled debt restructuring is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Bank is granting the borrower a concession of some kind. The Bank has granted a variety of concessions to borrowers in the form of loan modifications. Troubled debt restructurings are included in the impaired loan disclosures.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

In conjunction with the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under GAAP related to Troubled Debt Restructurings (TDRs) for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the Pandemic). As a result, the Bank has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired, or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest only periods. The Bank accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. When payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. Accrued interest balances are assessed for collectability on a periodic basis.

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 Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loan sales recognition – The Bank originates loans through the Small Business Administration (SBA) and sometimes sells the guaranteed portion. Loans held for sale consist of the guaranteed portion of SBA loans the Bank intends to sell after origination and are reflected at the lower of aggregate cost of fair value. The Bank retains the servicing on the sold guaranteed portion of SBA loans. The Bank receives a fee for servicing the loan. The Bank recognizes a sale on loans if the transferred portion (or portions) and any portion that continues to be held by the transferor are participating interests.

To determine the gain or loss on sale of loans, the Bank's investment in the loan is allocated among the retained portion of the loan, the servicing retained, and the sold portion of the loan, based on the relative fair market value of each portion. The gain or loss on the sold portion of the loan is based on the difference between the sale proceeds and the allocated investment in the sold portion of the loan. A discount is recorded against the carrying value of the retained portion of the loan to offset the fair value allocation of the retained portion.

SBA servicing assets – The Bank accounts for SBA servicing rights as separately recognized servicing rights and initially measures them at fair value. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Bank subsequently measures each SBA servicing asset using the amortization method. Under the amortization method, servicing assets are amortized into noninterest income in proportion to, and over the period of, estimated net servicing income. The amortized assets are assessed for impairment or increased obligation, at the loan level, based on the fair value at each reporting date. As of December 31, 2022 and 2021, SBA servicing assets are included in other assets on the consolidated balance sheets.

Federal Home Loan Bank (FHLB) stock – As a member of the FHLB system, the Bank is required to maintain a minimum investment level in FHLB stock based on specific percentages of the Bank's outstanding loans, total assets, or FHLB advances. This security is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Management determined there was no impairment at December 31, 2022 and 2021. The Bank had $735,100 and $1,592,500 of FHLB stock at December 31, 2022 and 2021, respectively.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Pacific Coast Bankers' Bank (PCBB) stock – PCBB stock represents an investment by the Bank in the capital stock of PCBB of $190,000 at both December 31, 2022 and 2021, and is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Both cash and stock dividends are reported as income.

Premises and equipment – Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation or amortization, which is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 39 years. 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.

Other real estate owned – Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at the lower of cost or estimated fair value at the date of foreclosure. Losses arising from the acquisition of property, in full or partial satisfaction of loans, are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned on the statements of income. Gains/losses on the sale of OREO are included in noninterest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

Income taxes – The provision for income tax is recorded under the liability method. 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. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred taxes result from temporary differences in the recognition of certain income and expense amounts between the Company's consolidated financial statements and its tax return. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Financial instruments – In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, standby letters of credit, and financial guarantees. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Advertising costs – The Company expenses advertising costs as they are incurred. Total advertising expense was $124,778 and $121,654 for the years ended December 31, 2022 and 2021, respectively.

Comprehensive income (loss) – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investments, are reported as a separate component of the stockholders' equity section of the consolidated balance sheets. Accumulated other comprehensive loss consists of only one component: unrealized gains or losses on investment securities available-for-sale.

Stock-based compensation plan – Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while a third party valuation of the Company's common stock at the grant date is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Earnings per common share – Basic earnings per common share (EPS) are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect the weighted-average potential dilution that could occur if all potentially dilutive shares or other commitments to issue common stock were exercised or converted into common stock using the treasury stock method.

Fair value measurements – Fair values of financial instruments are estimated using relevant market information and other assumptions as 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.

Fair value is defined as the exit price, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. It also establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. In determining fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability using one of the three valuation techniques within the fair value hierarchy. Inputs can be observable or unobservable. Observable inputs are those assumptions that market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of the Company.

Unobservable inputs are assumptions based on the Company's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date.

All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for assets or liabilities classified as Level 2 are based on one or a combination of the following factors: (i) quoted prices for similar assets; (ii) observable inputs for the asset or liability, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

There were no transfers between Level 1, Level 2, and Level 3 during 2022 or 2021.

Revenue recognition – The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers,"* which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. Most of the Company's revenues come from interest income including loans and securities, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Service Fees – The Bank earns fees from its deposit customers for account maintenance, transaction-based activity, and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts monthly. The performance obligation is satisfied, and the fees are recognized monthly 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 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 debit card are recorded on a net basis with the interchange income.

Reclassifications – Certain reclassifications have been made to the prior-year consolidated financial statements to be in accordance with the current-year presentation with no effect on net income or total stockholder's equity.

Note 2 – Investment Securities

Amortized cost and estimated fair values of investment securities are summarized as follows:

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
Obligations of U.S. agencies	$ 1,500,000	$ -	$ (172,000)	$ 1,328,000
Agency mortgage-backed securities	11,966,640	-	(1,635,000)	10,331,640
Agency collateralized mortgage obligations	2,001,990	-	(273,000)	1,728,990
SBA participation certificates	2,519,722	41,000	(263,000)	2,297,722
	$ 17,988,352	$ 41,000	$ (2,343,000)	$ 15,686,352
Held to maturity securities				
Municipal bonds	$ 1,001,549	$ -	$ (3,199)	$ 998,350
December 31, 2021				
Available-for-sale securities				
Obligations of U.S. agencies	$ 1,500,000	$ -	$ (13,000)	$ 1,487,000
Agency mortgage-backed securities	12,267,782	58,000	(127,000)	12,198,782
Agency collateralized mortgage obligations	2,482,134	5,000	(34,000)	2,453,134
SBA participation certificates	2,872,104	60,000	(16,000)	2,916,104
	$ 19,122,020	$ 123,000	$ (190,000)	$ 19,055,020
Held to maturity securities				
Municipal bonds	$ 1,002,892	$ 109,164	$ -	$ 1,112,056

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

	Available-for-Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
1 to 5 years	$ 266,287	$ 257,934	$ -	$ -
More than 5 years	17,722,065	15,428,418	1,001,549	998,350
	$ 17,988,352	$ 15,686,352	$ 1,001,549	$ 998,350

There were no investment securities pledged at December 31, 2022 or 2021.

Note 2 – Investment Securities (continued)

Information pertaining to investment securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position is as follows:

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
December 31, 2022				
Available-for-sale securities				
Obligations of U.S. agencies	$ -	$ -	$ (172,000)	$ 1,328,000
Agency mortgage-backed securities	(256,000)	2,657,768	(1,379,000)	7,673,872
Agency collateralized mortgage obligations	(16,000)	335,235	(257,000)	1,393,755
SBA participation certificates	(26,000)	1,136,479	(237,000)	230,161
	$ (298,000)	$ 4,129,482	$ (2,045,000)	$ 10,625,788
December 31, 2021				
Available-for-sale securities				
Obligations of U.S. agencies	$ (13,000)	$ 1,487,000	$ -	$ -
Agency mortgage-backed securities	(127,000)	10,089,296	-	-
Agency collateralized mortgage obligations	(34,000)	1,999,750	-	-
SBA participation certificates	(16,000)	1,454,145	-	-
	$ (190,000)	$ 15,030,191	$ -	$ -

There were eleven securities in an unrealized loss position less than 12 months and nine securities in an unrealized loss position greater than 12 months on December 31, 2022 and nine securities in an unrealized loss position less than 12 months and no securities in an unrealized loss position greater than 12 months on December 31, 2021. Unrealized losses have not been recognized into income because management does not intend to sell and does not expect it will be required to sell the investments. The unrealized loss is largely due to changes in market conditions and interest rates, rather than credit quality. The fair value is expected to recover as the underlying securities in the portfolio approach maturity date and market conditions improve. The Company does not consider these securities to be other than temporarily impaired at December 31, 2022 or 2021.

There were no securities sold for gross realized gain or loss in 2022 or 2021.

Note 3 – Loans

The major classifications of loans at December 31 are summarized as follows:

	2022	2021
Residential 1-4 family	$65,304,532	$ 45,201,636
Residential multi-family	23,546,251	15,570,133
Residential construction, 1-4 family and multifamily	24,362,206	40,857,906
Home equity loans and lines of credit	12,059,101	9,773,041
Commercial & Industrial loans (C&I)	60,412,205	67,637,900
Agriculture*	25,004,523	28,068,515
Commercial real estate (CRE)		
Land/development and construction	26,444,575	18,232,857
Income property - owner-occupied (OOC)	99,606,660	97,530,207
Income property - nonowner-occupied (NOC)	133,348,933	147,150,776
Consumer	613,717	1,256,497
Total Loans	$470,702,703	$471,279,468
Less deferred loan fees, net	(1,418,502)	(1,869,851)
Less allowance for loan losses	(9,721,837)	(8,695,997)
Total loans, net	$459,562,364	$460,713,620

*Balances included in Agriculture primarily consist of maritime loans.

The Bank pledged certain commercial, multi-family, and 1-4 family residential loans as collateral for purposes of borrowings with the FHLB. Loans totaling $48,332,842 and $57,440,362 were pledged to the FHLB at December 31, 2022 and 2021, respectively.

Pursuant to the CARES Act passed in March 2020, the Bank funded over 540 loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Bank received a fee of 1%-5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. Included in Commercial & Industrial loans above, the balance of PPP loans at December 31, 2022 and 2021, was $372,000 and $11.3 million, respectively.

Note 3 – Loans (continued)

Past due loans – The following table presents past due loans, net of partial loan charge-offs, by type as of December 31, 2022 and 2021:

2022	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Residential 1-4 family	$ -	$ -	$ -	$ -	$ 65,304,532	$65,304,532
Residential multi-family	-	-	-	-	23,546,251	23,546,251
Residential construction, 1-4 family and multifamily	-	-	-	-	24,362,206	24,362,206
Home equity loans and lines of credit	-	-	-	-	12,059,101	12,059,101
C & I loans	-	-	-	-	60,412,205	60,412,205
Agriculture	53,300	-		53,300	24,951,223	25,004,523
CRE land/development and construction	-	-	-	-	26,444,575	26,444,575
CRE income property - OOC	-	-	272,697	272,697	99,333,963	99,606,660
CRE income property - NOC	-	-	-	-	133,348,933	133,348,933
Consumer	-	-	-	-	613,717	613,717
	$ 53,300	$ -	$ 272,697	$ 325,997	$470,376,706	$470,702,703

2021	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Residential 1-4 family	$ -	$ -	$ -	$ -	$ 45,201,636	$ 45,201,636
Residential multi-family	-	-	-	-	15,570,133	15,570,133
Residential construction, 1-4 family and multifamily	-	-	-	-	40,857,906	40,857,906
Home equity loans and lines of credit	-	-	-	-	9,773,041	9,773,041
C & I loans	47,141	-	80,000	127,141	67,510,759	67,637,900
Agriculture	-	-		-	28,068,515	28,068,515
CRE land/development and construction	-	-	-	-	18,232,857	18,232,857
CRE income property - OOC	1,694,345	-	-	1,694,345	95,835,862	97,530,207
CRE income property - NOC	-	-	-	-	147,150,776	147,150,776
Consumer	-	-	-	-	1,256,497	1,256,497
	$ 1,741,486	$ -	$ 80,000	$ 1,821,486	$469,457,982	$ 471,279,468

The following table presents the recorded investment in nonaccrual loans at December 31:

	2022	2021
Agriculture	$ 1,190,703	$ 1,240,703
CRE income property - OOC	886,099	666,838
CRE income property - NOC	5,067,240	5,532,080
	$ 7,144,042	$ 7,439,621

There were no loans past due accruing interest at December 31, 2022 and one loan 90 days past due for $80,000 and accruing interest at December 31, 2021.

Note 3 – Loans (continued)

Credit quality indicator – Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful, or loss. An asset is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

Risk ratings are assigned to each loan. These numeric ratings range in value from 1 to 10 and are based on the following criteria:

1. Ratings of 1-5 indicate low to minimal credit risk (pass).

2. Rating of 6 indicates an average to above average credit risk with adequate repayment capacity when prolonged periods of adversity do not exist (watch).

3. Rating of 7 indicates potential weaknesses and higher credit risk requiring greater attention by Bank personnel and management to help prevent further deterioration (special mention).

4. Rating of 8 indicates a loss is possible if loan weaknesses are not corrected (substandard).

5. Rating of 9 indicates loss is highly probable; however, the amount of the loss has not yet been determined (doubtful).

6. Rating of 10 indicates the loan is uncollectible and, when identified, is charged off (loss).

Periodically, all loans are reviewed to assess the ability of the borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. Risk ratings should be reviewed and updated whenever appropriate, with more periodic reviews as the risk and dollar value of loss on the loan increases. In the event that full collection of principal and interest is not reasonably ensured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, impairment analysis is used to assess whether a loan warrants specific reserves or a write-down of the loan.

Note 3 – Loans (continued)

The following table represents the internally assigned grade as of December 31 by type of loans:

2022	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total
Residential 1-4 family	$65,304,532	$ -	$ -	$ -	$ -	$65,304,532
Residential multi-family	23,546,251	-	-	-	-	23,546,251
Residential construction, 1-4 family and multifamily	24,362,206	-	-	-	-	24,362,206
Home equity loans and lines of credit	12,059,101	-	-	-	-	12,059,101
C & I loans	58,943,677	89,007	1,379,521	-	-	60,412,205
Agriculture	22,635,283	35,940	2,333,300	-	-	25,004,523
CRE land/development and construction	26,267,275	177,300	-	-	-	26,444,575
CRE income property - OOC	94,271,741	635,709	4,640,710	58,500	-	99,606,660
CRE income property - NOC	108,122,883	7,614,936	17,611,114	-	-	133,348,933
Consumer	613,717	-	-	-	-	613,717
	$ 436,126,666	$ 8,552,892	$ 25,964,645	$ 58,500	$ -	$ 470,702,703
2021						
Residential 1-4 family	$ 44,094,092	$ 243,776	$ 863,768	$ -	$ -	$ 45,201,636
Residential multi-family	15,570,133	-	-	-	-	15,570,133
Residential construction, 1-4 family and multifamily	40,857,906	-	-	-	-	40,857,906
Home equity loans and lines of credit	9,773,041	-	-	-	-	9,773,041
C & I loans	59,772,612	4,128,187	3,737,101	-	-	67,637,900
Agriculture	22,177,109	4,650,703	1,240,703	-	-	28,068,515
CRE land/development and construction	17,854,764	378,093	-	-	-	18,232,857
CRE income property - OOC	93,015,888	3,847,481	666,838	-	-	97,530,207
CRE income property - NOC	111,794,238	14,444,394	20,912,144	-	-	147,150,776
Consumer	1,236,350	20,147		-	-	1,256,497
	$ 416,146,133	$ 27,712,781	$ 27,420,554	$ -	$ -	$ 471,279,468

Loans classified as troubled debt restructurings (TDRs) totaled $1,226,642 and $1,284,351 at December 31, 2022 and 2021, respectively.

There were no newly restructured TDR loans during 2022,or 2021, and no TDR's that defaulted within 12 months of the modification date.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the Coronavirus Relief Act) passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under GAAP. This relief applies to loan modifications executed between March 1, 2020, and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Bank elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. As of December 31, 2022, there was no remaining balance in the CARES Act Relief. The Bank had no commitments to extend additional credit to borrowers owing loans whose terms have been modified in troubled debt restructurings at December 31, 2022 and 2021.

Note 3 – Loans (continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2022 and 2021:

2022	Recorded Investments (Loan Balance Less Charge-off)	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
With allowance recorded					
CRE income property - OOC	$ 907,650	$ 907,650	$ 68,161	$ 888,751	$ 93,384
C & I loans	105,688	105,988	90,884	111,098	4,160
	1,013,338	1,013,638	159,045	999,849	97,544
With no allowance recorded					
Agriculture	1,226,642	1,226,642	-	1,267,042	2,506
CRE income property - OOC	58,500	134,296	-	134,395	7,190
CRE income property - NOC	7,565,100	7,565,100	-	7,804,127	134,437
	8,850,242	8,926,038	-	9,205,564	144,133
Total	$ 9,863,580	$ 9,939,676	$ 159,045	$ 10,205,413	$ 241,677

	Recorded Investments (Loan Balance Less Charge-off)	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
2021					
With allowance recorded					
CRE income property - OOC	$ 666,838	$ 666,838	$ 75,138	$ 688,164	$ 3
C & I loans	117,609	117,609	102,692	120,104	33,639
	784,447	784,447	177,830	808,268	33,642
With no allowance recorded					
Agriculture	1,284,351	1,284,351	-	1,371,785	4,698
Residential 1-4 family	-	-	-	41,342	1
C & I loans	-	-	-	995	109
CRE income property - NOC	14,073,651	14,073,651	-	14,282,949	535,107
	15,358,002	15,358,002	-	15,697,071	539,915
Total	$ 16,142,449	$ 16,142,449	$ 177,830	$ 16,505,339	$ 573,557

Note 3 – Loans (continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by class and based on impairment method as of December 31, 2022 and 2021:

	Allowance for Loan Losses			Loans Receivable		
2022	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Residential 1-4 family	$ 792,338	$ -	$ 792,338	$65,304,532	$ -	$ 65,304,532
Residential multi-family	255,249	-	255,249	23,546,251	-	23,546,251
Residential construction, 1-4 family and multifamily	1,012,321	-	1,012,321	24,362,206	-	24,362,206
Home equity loans and lines of credit	100,824	-	100,824	12,059,101	-	12,059,101
C & I loans	857,720	90,884	766,836	60,412,205	422,751	59,989,454
Agriculture	690,464	-	690,464	25,004,523	1,226,642	23,777,881
CRE land/development and construction	338,412	-	338,412	26,444,575	-	26,444,575
CRE income property - OOC	2,836,201	68,161	2,768,040	99,606,660	5,377,167	94,229,493
CRE income property - NOC	2,738,090	-	2,738,090	133,348,933	8,238,736	125,110,197
Consumer	100,218	-	100,218	613,717	-	613,717
	$ 9,721,837	$ 159,045	$ 9,562,792	$ 470,702,703	$ 15,265,296	$ 455,437,407

	Allowance for Loan Losses			Loans Receivable		
2021	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Residential 1-4 family	$ 659,599	$ -	$ 659,599	$ 45,201,636	$ -	$ 45,201,636
Residential multi-family	212,488	-	212,488	15,570,133	-	15,570,133
Residential construction, 1-4 family and multifamily	842,728	-	842,728	40,857,906	-	40,857,906
Home equity loans and lines of credit	83,933	-	83,933	9,773,041	-	9,773,041
C & I loans	1,256,325	102,692	1,153,633	67,637,900	117,609	67,520,291
Agriculture	574,792	-	574,792	28,068,515	1,284,351	26,784,164
CRE land/development and construction	281,719	-	281,719	18,232,857	-	18,232,857
CRE income property - OOC	2,421,602	75,138	2,346,464	97,530,207	666,838	96,863,369
CRE income property - NOC	2,279,382	-	2,279,382	147,150,776	14,073,651	133,077,125
Consumer	83,428	-	83,428	1,256,497	-	1,256,497
	$ 8,695,997	$ 177,830	$ 8,518,167	$ 471,279,468	$ 16,142,449	$ 455,137,019

Note 3 – Loans (continued)

The following table presents the activity in the allowance for loan losses by class for the years ended December 31, 2022 and 2021:

2022	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Residential 1-4 family	$ 659,599	$ 132,739	$ -	$ -	$ 792,338
Residential multi-family	212,488	42,761	-	-	255,249
Residential construction, 1-4 family and multifamily	842,728	169,592	-	-	1,012,321
Home equity loans and lines of credit	83,933	16,891	-	-	100,824
C & I loans	1,256,325	252,825	(688,431)	37,000	857,720
Agriculture	574,792	115,672	-		690,464
CRE land/development and construction	281,719	56,694	-	-	338,412
CRE income property - OOC	2,421,602	487,328	(75,796)	3,067	2,836,201
CRE income property - NOC	2,279,382	458,708	-	-	2,738,090
Consumer	83,428	16,789	-	-	100,218
	$ 8,695,997	$ 1,750,000	$ (764,227)	$ 40,067	$ 9,721,837

2021	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Residential 1-4 family	$ 482,103	$ 177,496	$ -	$ -	$ 659,599
Residential multi-family	155,308	57,180	-	-	212,488
Residential construction, 1-4 family and multifamily	615,953	226,775	-	-	842,728
Home equity loans and lines of credit	61,347	22,586	-	-	83,933
C & I loans	1,091,866	401,992	(249,533)	12,000	1,256,325
Agriculture	415,541	152,990	-	6,261	574,792
CRE land/development and construction	205,909	75,810	-	-	281,719
CRE income property - OOC	1,769,957	651,645	-	-	2,421,602
CRE income property - NOC	1,666,008	613,374	-	-	2,279,382
Consumer	54,734	20,151	-	8,543	83,428
	$ 6,518,726	$ 2,400,000	$ (249,533)	$ 26,804	$ 8,695,997

Note 4 – Premises and Equipment

Premises and equipment at December 31 are classified as follows:

	2022	2021
Land and buildings	11,155,627	$ 11,050,000
Leasehold improvements	1,751,518	1,751,518
Furniture, fixtures, and office equipment	1,511,888	1,736,015
	14,419,034	14,537,533
Accumulated depreciation and amortization	(4,195,968)	(4,131,642)
	10,223,067	$ 10,405,891

Depreciation expense for these assets totaled $362,572 and $334,697 for the years ended at December 31, 2022 and 2021, respectively.

Note 5 – Leases

The Bank has operating leases for its branches. The maturities of these leases stagger through 2029. The Bank's leases generally exclude extension clauses until it is reasonably certain the Bank will exercise the option.

The components of lease cost (included in occupancy and equipment expense on the consolidated statements of income) are as follows for the year ended December 31 (in thousands):

	2022	2021
Lease cost		
Minimum rent payments	$ 352,293	$ 341,681
Other operating costs	(16,452)	(5,841)
	$ 335,841	$ 335,840

The following table provides supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the year ended December 31 (dollars in thousands):

	2022	2021
Operating cash flows from operating leases	$ 352,293	$ 341,681
Weighted average remaining lease term	5.40 years	6.35 years
Weighted average discount rate	2.71%	2.70%

The Bank's leases typically do not contain a discount rate implicit in the lease contract. As an alternative, the Bank uses the incremental borrowing rate commensurate with the lease term.

Note 5 – Leases (continued)

The following table presents minimum lease payments under the terms of the leases for future years ending December 31, 2022 (in thousands):

2023	$ 363,177
2024	359,846
2025	341,802
2026	352,052
2027 and thereafter	542,823
Total lease payments	1,959,699
Less imputed interest	(101,289)
Total	$ 1,858,410

A portion of the Bank's owned premises are leased to unaffiliated third parties. Minimum rental receipts under sublease agreements for future years ending December 31 are as follows:

2023	$ 403,183
2024	413,021
2025	401,109
2026	343,748
2027 and thereafter	1,792,143
Total lease payments	$ 3,353,204

Note 6 – Servicing Assets

Loans serviced totaled $82,725,534 and $88,752,605 at December 31, 2022 and 2021, respectively. The fair value of servicing assets held at December 31, 2022 and 2021, were $1,373,464 and $1,656,077, respectively.

Changes in the balance of the servicing assets were as follows for the years ended December 31:

	2022	2021
Balance, beginning of year	$ 1,149,009	$ 984,610
Additions	419,361	591,598
Amortization	(487,112)	(427,199)
Balance, end of year	$ 1,081,258	$ 1,149,009

The projected amortized expense of the servicing asset is an estimate. The amortization expense for future periods was calculated by applying the same quantitative factors, such as servicing asset prepayment assumptions that were used to determine current year amortization expense. These factors are inherently subject to significant fluctuations, primarily due to the effect that changes in interest rates have on loan prepayment experience. Accordingly, any projection of servicing asset amortization in future periods is limited by the conditions that existed at the time the calculations were performed and may not be indicative of actual amortization expense that will be recorded in future periods.

Note 6 – Servicing Assets (continued)

The key economic assumptions used in determining the fair value of the servicing asset as of December 31 are as follows:

	2022	2021
Discount rate	16.38%	9.70%
Expected weighted-average life	4.34 years	4.26 years
Constant prepayment rate	17.89%	17.05%

Projected amortization expense at December 31, 2022, is estimated to be as follows:

2023	$ 445,110
2024	305,751
2025	174,605
2026	87,200
2027	41,620
Thereafter	26,972
Carrying value of servicing asset	$ 1,081,258

The following represents servicing fees earned in connection with the servicing asset and is included in the accompanying consolidated financial statements as a component of noninterest income for the years ended December 31:

	2022	2021
Servicing fees	$ 766,484	$ 717,454

Late fees associated with the servicing asset are immaterial for the years ended December 31, 2022 and 2021.

Note 7 – Deposits

Deposits as of December 31 consisted of the following:

	2022	2021
Demand accounts		
Noninterest-bearing	$ 136,647,818	$ 137,761,426
Interest-bearing	74,852,067	63,496,322
Savings accounts	12,637,806	11,326,666
Money market accounts	213,389,175	215,100,433
Certificates of deposit	53,221,982	98,310,112
	$ 490,748,848	$ 525,994,959

Note 7 – Deposits (continued)

At December 31, 2022, scheduled maturities of certificates of deposit are as follows:

2023	$ 34,755,219
2024	10,817,513
2025	3,714,885
2026	2,208,058
2027	1,726,307
	$ 53,221,982

Certificates of deposit that met or exceeded the $250,000 federally insured limit were $16,796,084 and $30,054,749 at December 31, 2022 and 2021, respectively.

Note 8 – Credit Arrangements

Borrowings

The Company has line-of-credit agreements with separate unaffiliated banks totaling $35,000,000. These two lines provide for lending at the corresponding bank's federal fund rates. There were no borrowings outstanding on either of these lines at December 31, 2022 and 2021.

The Bank is a member of the FHLB of Des Moines and, as such, has a committed credit line of up to 35% of total eligible assets, subject to certain collateral requirements. Borrowings generally provide interest at the then-current published rates. At December 31, 2022 and 2021, loans pledged to the FHLB equated to a borrowing capacity after indebtedness of $35,848,638 and $16,119,480, respectively. For both December 31, 2022 and 2021, the Bank had $0 and $24,500,000 of borrowings, respectively, outstanding with the FHLB, with fixed rates ranging from 0.88% to 3.02% under these agreements. The borrowings had a weighted-average interest rate of 0% and 1.79% as of December 31, 2022 and 2021, respectively. Current borrowings are collateralized by pledged loans (Note 3).

Subordinated Notes

On October 1, 2020, Mountain Pacific Bancorp, Inc. issued 14 unsecured subordinated term notes (the Subordinated Notes) in the aggregate principal amount of $5,000,000 due October 1, 2027 (maturity date), pursuant to Subordinated Loan Agreements with various investors, three of which are Directors of the Company. The Subordinated Notes bear interest at an annual fixed interest rate of 5.0% until September 30, 2025, and floating from October 1, 2025, until maturity at the 90-day average secured overnight financing rate (SOFR) plus 4.75%, payable by the Company quarterly in arrears beginning March 31, June 30, September 30, and December 31, of each year, commencing on the first such date following the Closing Date and on the maturity date. Debt issuance costs were not significant.

On December 21, 2018, Mountain Pacific Bancorp, Inc. issued 12 unsecured subordinated term notes (the Subordinated Notes) in the aggregate principal amount of $7,500,000 due December 31, 2025 (maturity date), pursuant to Subordinated Loan Agreements with various investors, two of which are Directors of the Company. The Subordinated Notes bear interest at an annual interest rate of 6.50%, payable by the Company quarterly in arrears beginning March 31, June 30, September 30, and December 31, of each year, (each, a "Fixed Interest Payment Date" until December 31, 2023). Thereafter, the Company will pay interest in arrears on the principal amount of the Note at a variable rate equal to three-month LIBOR plus 250 basis points (as noted in the agreement). Since LIBOR will be discontinued June 30, 2023, the Company will use good faith in selecting a reasonable substitute rate that the Company determines is most comparable to the LIBOR rate. Debt issuance costs were not significant.

Note 8 – Credit Arrangements (continued)

The Subordinated Notes may be prepaid at the Company's option and with regulatory approval at any time on or after five years after the closing date of October 1st or December 21st of each respective series or at any time upon certain events, such as a change in the regulatory capital treatment of the Subordinated Notes or the interest on the Subordinated Notes no longer being deductible by the Company for United States federal income tax purposes.

Note 9 – Federal Income Taxes

The components of the federal income tax expense are as follows at December 31:

	2022	2021
Current	$ 2,300,352	$ 2,373,150
Deferred	(280,352)	(458,150)
	$ 2,020,000	$ 1,915,000

Reconciliation of the provision for income tax expense based on the statutory income tax rate to actual income tax expense is provided as follows:

	2022		2021	
	Amount	Percent	Amount	Percent
Federal income tax at statutory rate	$ 2,023,350	21.0%	$ 1,887,900	21.0%
Tax exempt interest	(104,914)	-1.1%	(43,575)	-0.5%
Permanent Items	5,873	0.1%	8,466	0.1%
Equity compensation	49,195	0.5%	50,902	0.6%
Other	46,496	0.5%	11,307	0.1%
	$ 2,020,000	21.0%	$ 1,915,000	21.3%

The following are the significant components of the Company's deferred tax assets and liabilities at December 31:

	2022	2021
Deferred tax asset		
Allowance for loan losses	$ 1,850,797	$ 1,580,860
Net operating loss carryforward	806,568	895,693
Organization expenditures	8,949	9,804
Nonaccrual interest	167,831	125,580
Unrealized losses on securities	482,300	15,300
Deferred lease liability	390,266	451,308
Other	394,673	349,461
SBA loan discount	213,462	237,557
Subtotal	4,314,846	3,665,563

Note 9 – Federal Income Taxes (continued)

	2022	2021
Deferred tax liabilities		
Deferred loan costs	229,866	269,497
SBA servicing asset	227,064	241,291
Property and equipment depreciation	199,221	185,411
Deferred right-of-use asset	332,193	390,214
Subtotal	988,344	1,086,413
Net deferred tax asset	$ 3,326,502	$ 2,579,150

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of net operating loss and credit carryforwards may be limited in the event a cumulative change in ownership of more than 50% occurs within a three-year period. The Bank determined such an ownership change occurred as of December 12, 2011, as a result of the exercise of stock warrants. This ownership change results in annual limitations on the use of net operating loss carryforwards and limits the Bank's ability to fully utilize its deferred tax assets. The Bank's net operating loss deferred tax asset has been reduced to account for Section 382 limitations.

The Bank has federal net operating loss carryforwards of approximately $3.8 million at December 31, 2022, after the consideration of any Section 382 limits. Federal net operating loss carryforwards, to the extent not used, will begin to expire in 2029.

At December 31, 2022 and 2021, the Company had no unrecognized tax benefits. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2022 and 2021, the Company recognized no interest and penalties. The Company files income tax returns in the U.S. federal jurisdiction.

Note 10 – Employee Benefits

The Company has a 401(k) defined contribution plan (the 401k Plan) for those employees who meet the eligibility requirements set forth in the 401(k) Plan. Eligible employees can contribute up to 100% of compensation subject to certain limits based on federal tax laws. The 401(k) Plan also allows for employer matching contributions equal to 100% up to the first 3%, and 50% up to the next 2% of compensation. Matching contributions vest immediately. The Company's contribution for the years ended December 31, 2022 and 2021, was $226,362 and $216,648, respectively.

Note 11 – Stockholders' Equity

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

Note 11 – Stockholders' Equity (continued)

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

To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based, common equity Tier I risk-based, Tier I risk-based, and Tier I leverage ratios, as set forth in the table. The institution is well capitalized under the prompt corrective action provisions.

As of December 31, 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier I risk-based, Tier I risk-based, and Tier I leverage ratios, as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's consolidated assets are less than $1 billion at the beginning of the year, therefore consolidated ratios are not required to be disclosed.

The Bank's actual capital amounts and ratios as of December 31 are also presented in the table.

	Actual		For Capital Adequacy Purposes		For Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022								
Total capital								
(to risk-weighted assets)	$ 70,446,000	14.19%	$ 39,709,920 ≥	8.00%	$ 52,119,270 ≥	10.50%	$ 49,637,400 ≥	10.00%
Tier I capital								
(to risk-weighted assets)	64,192,000	12.93%	29,782,440 ≥	6.00%	42,191,790 ≥	8.50%	39,709,920 ≥	8.00%
Common equity Tier 1 capital								
(to risk-weighted assets)	64,192,000	12.93%	22,336,830 ≥	4.50%	34,746,180 ≥	7.00%	32,264,310 ≥	6.50%
Tier I capital (to average assets)	64,192,000	11.64%	22,088,280 ≥	4.00%	N/A		27,610,350 ≥	5.00%
As of December 31, 2021								
Total capital								
(to risk-weighted assets)	$ 61,238,000	12.48%	$ 39,373,120 ≥	8.00%	$ 51,677,220 ≥	10.50%	$ 49,216,400 ≥	10.00%
Tier I capital								
(to risk-weighted assets)	55,049,000	11.19%	29,529,840 ≥	6.00%	41,833,940 ≥	8.50%	39,373,120 ≥	8.00%
Common equity Tier 1 capital								
(to risk-weighted assets)	55,049,000	11.19%	22,147,380 ≥	4.50%	34,451,480 ≥	7.00%	31,990,660 ≥	6.50%
Tier I capital (to average assets)	55,049,000	9.20%	23,935,080 ≥	4.00%	N/A		29,918,850 ≥	5.00%

Under the Basel III rules, the Bank must hold a capital conservation buffer of 2.5% above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Note 12 – Stock-Based Compensation Plan

The Company has a stockholder approved plan, the 2017 Mountain Pacific Bancorp Inc. Plan (the "Plan") as amended, is authorized to issue 2,000,000 shares, of which 200,0000 may be issued as restricted stock awards. The Plan is to promote the best interest of the Company by providing an incentive to those key employees who contribute to its success. The Plan permits the grant of incentive stock options for employees, nonqualified stock options for directors, and restricted stock awards for directors. As of December 31,2022, 696,525 shares remained available to grant out of the Plan of which 120,000 are available for restricted stock awards. The Plan will expire in 2027. There was no compensation cost capitalized and no income tax benefits realized on these stock-based compensation arrangements in 2022 or 2021.

Note 12 – Stock-Based Compensation Plan (continued)

Stock option plan – Incentive stock and nonqualified stock option awards are generally granted with an exercise price equal to the grant date fair value; those option awards generally vest and become exercisable in incremental percentages from one to five years of continuous service from the grant date and expire after 10 years. Certain option and share awards provide for accelerated vesting upon death of the optionee or if there is a change in control (as defined in the Plan).

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton valuation model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's stock and other factors. The expected term of options granted was evaluated by a calculation that factored in the contractual term and vesting period, and considered different employee segments. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2022	2021
Risk-free interest rate	1.26-1.44%	0.36-0.64%
Dividend yield rate	0.00%	0.00%
Expected volatility	35-37%	26-27%
Expected term (in years)	5.8-6.6 years	5.8-6.6 years

A summary of incentive and nonqualified stock option activity is presented below:

	Granted Options for Common Stock	Weighted-Average Exercise Price of Shares Under Plan	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 31, 2021	1,182,800	$ 4.94	
Granted	220,000	8.03	
Exercised	(72,425)	4.29	
Forfeited	(57,700)	5.92	
Outstanding at December 31, 2022	1,272,675	$ 5.54	6.23
Options exercisable at December 31, 2022	715,500	$ 4.67	4.90

The weighted-average grant-date fair value of options granted was $2.96 and $1.88 for each of the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, there was $939,789 of total unrecognized compensation cost related to incentive and nonqualified stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.29 years. There were no tax benefits realized from the exercise of options in 2022 or 2021.

Restricted stock awards – Restricted stock awards vest over one to three years from the date of grant. The fair value of restricted stock awards is determined based on the last trade price or most recent stock valuation on the grant date. A summary of nonvested restricted stock awards activity is presented below:

Note 12 – Stock-Based Compensation Plan (continued)

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2021	36,875	$ 5.86
Granted	22,500	8.03
Vested	(20,625)	5.87
Forfeited	-	-
Nonvested at December 31, 2022	38,750	$ 7.12

As of December 31, 2022, there was $168,803 of total unrecognized compensation cost related to restricted stock awards granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 1.72 years.

Note 13 – Related Party Transactions

Certain directors, executive officers, and principal stockholders are Bank customers and have had banking transactions with the Bank. All loans and commitments included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present any other unfavorable features. The following summarizes these transactions with directors, executive officers, principal stockholders, and companies with which they are associated at December 31:

	2022	2021
Beginning balance	$ 7,421,446	$ 3,742,816
New loans	259,654	2,281,497
Loans added for change in related parties	-	1,524,378
Repayments	(645,871)	(127,245)
Ending balance	$ 7,035,229	$ 7,421,446
Deposits	$ 10,970,095	$ 10,598,893

Three directors were investors in the Company's subordinated debt offering in 2020. Two directors were investors in the Company's subordinated debt offering in 2018. Rates and terms are consistent for all investors.

From time to time, a director may purchase a participating interest in certain lending relationships with the Bank. At December 31, 2022, three directors are equally involved in a single participation for $880,000, and no director was involved in participations as of December 31, 2021.

Note 14 – Commitments and Contingencies

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

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, standby letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit and financial guarantees – 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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because 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 81% of loan commitments are drawn upon by customers. The Company evaluates customers' creditworthiness on a case-by-case basis and follows the Bank's normal credit policies. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, income-producing commercial properties, and other real estate.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of policy, does not extend credit in excess of 20% of Tier 2 capital, or approximately $14.8 million, to any single borrower or group of related borrowers.

Standby letters of credit and financial guarantees written 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, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company maintains various levels of collateral supporting those commitments for which collateral is deemed necessary.

The Company has not been required to perform on any financial guarantees. The Company has not incurred any losses on its commitments in 2022 or 2021.

A summary of the notional amounts of the Company's financial instruments with off-balance-sheet risk at December 31 follows:

	2022	2021
Commitments to extend credit	$ 112,273,583	$ 93,673,678
Standby letters of credit	$ 989,127	$ 473,340

Legal contingencies – Various legal claims also arise from time to time in the normal course of business that, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

Note 15 – Fair Value of Financial Instruments

Fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants in the Company's principal market. The Company has established and documented its process for determining the fair values of its assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Company's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities and credit spreads, or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

Valuation adjustments, such as those pertaining to counterparty and the Company's own credit quality and liquidity, may be necessary to ensure that assets and liabilities are recorded at fair value. Credit valuation adjustments are made when market pricing is not indicative of the counterparty's credit quality.

Any changes to valuation methodologies are reviewed by management to ensure that they are relevant and justified. Valuation methodologies are refined as more market-based data becomes available.

There are three levels of inputs that may be used to measure fair values:

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

Level 2 – Either (i) quoted prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

Qualitative disclosures of valuation techniques

Investment securities – Where quoted prices are available in an active market, securities are classified as Level 1. Level 1 instruments include highly liquid government bonds, securities issued by the U.S. Treasury, and exchange-traded equity securities. If quoted prices are not available, management determines fair value using pricing models, quoted prices of similar securities, or discounted cash flows. Such instruments are classified as Level 2. In certain cases, where there is limited activity in the market for a particular instrument, assumptions must be made to determine its fair value. Such instruments are classified as Level 3.

Assets measured at fair value on a recurring basis – Assets are considered to be fair valued on a recurring basis if fair value is measured regularly (i.e., daily, weekly, monthly, or quarterly). The following table shows the Company's assets and liabilities measured at fair value on a recurring basis:

Note 15 – Fair Value of Financial Instruments (continued)

	Level 1	Level 2	Level 3	Total
2022				
Obligations of U.S. agencies	$ -	$ 1,328,000	$ -	$ 1,328,000
Agency mortgage-backed securities	-	10,331,640	-	10,331,640
Agency collateralized mortgage obligations	-	1,728,990	-	1,728,990
SBA participation certificates	-	2,297,722	-	2,297,722
2021				
Obligations of U.S. agencies	$ -	$ 1,487,000	$ -	$ 1,487,000
Agency mortgage-backed securities	-	12,198,782	-	12,198,782
Agency collateralized mortgage obligations	-	2,453,134	-	2,453,134
SBA participation certificates	-	2,916,104	-	2,916,104

Assets measured at fair value on a nonrecurring basis – Assets are considered to be fair valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheets. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value. The following table presents the Company's assets measured at fair value on a nonrecurring basis:

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Impaired loans	$ -	$ -	$ 9,863,580	$ 9,863,580
December 31, 2021				
Impaired loans	$ -	$ -	$ 16,142,449	$ 16,142,449

Valuations of impaired loans are periodically performed by management, and the fair value of the loans is carried at the fair value of the underlying collateral less cost to foreclose, sell, and carry the collateral. Fair value of the underlying collateral is determined by an appraisal performed by a qualified independent appraiser. Other real estate owned is valued in a similar manner as impaired loans.

Quantitative information about Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the years ending December 31, 2022 and 2021, along with the valuation techniques used, are shown in the following table:

	Fair Value at December 31, 2022*	Valuation Technique	Unobservable Input	Range[1]
Impaired loans	$ 9,863,580	Market comparable	Adjustment to appraisal value	0% - 10% (5%)

*Net of charge-offs and reserves
[1] Discount for selling costs.

	Fair Value at December 31, 2021	Valuation Technique	Unobservable Input	Range[1]
Impaired loans	$ 16,142,449	Market comparable	Adjustment to appraisal value	0% - 10% (5%)

Note 15 – Fair Value of Financial Instruments (continued)

Carrying amounts and estimated fair values of financial instruments, not previously presented, as of December 31 are as follows:

	Carrying Amount	Estimated Fair Value	Fair Value Level Level 1	Level 2	Level 3
December 31, 2022					
Financial assets					
Cash and cash equivalents	$ 54,415,217	$ 54,415,217	$ 54,415,217	$ -	$ -
Interest-bearing deposits in other financial institutions	10,000,000	10,000,000	10,000,000	-	-
Securities available-for-sale	15,686,352	15,686,352	-	15,686,352	-
Securities held-to-maturity	1,001,549	998,350	-	998,350	-
Loans receivable	469,284,201	445,350,707	-	-	445,350,707
Loans held for sale	4,320,000	4,320,000	-	-	4,320,000
Servicing asset	1,081,258	1,373,464	-	-	1,373,464
Financial liabilities					
Savings, money market, and demand	437,526,866	437,526,866	437,526,866	-	-
Time deposits	53,221,982	51,524,406	-	51,524,406	-
Borrowings	-	-	-	-	-
Subordinated notes	12,500,000	12,500,000	-	12,500,000	-

	Carrying Amount	Estimated Fair Value	Fair Value Level Level 1	Level 2	Level 3
December 31, 2021					
Financial assets					
Cash and cash equivalents	$100,692,700	$100,692,700	$100,692,700	$ -	$ -
Interest-bearing deposits in other financial institutions	16,001,444	16,001,444	16,001,444	-	-
Securities available-for-sale	19,055,020	19,055,020	-	19,055,020	-
Securities held-to-maturity	1,002,892	1,112,056	-	1,112,056	-
Loans receivable	469,409,617	454,294,627	-	-	454,294,627
Servicing asset	1,149,009	1,656,077	-	-	1,656,077
Financial liabilities					
Savings, money market, and demand	427,684,847	427,684,847	427,684,847	-	-
Time deposits	98,310,112	98,034,840	-	98,034,840	-
Borrowings	24,500,000	24,818,500	-	24,818,500	-
Subordinated notes	12,500,000	12,500,000	-	12,500,000	-

Note 16 – Earnings Per Common Share

The following table presents a reconciliation of the components used to compute basic and diluted earnings per common share:

	2022	2021
Net income	$ 7,615,000	$ 7,075,000
Basic weighted-average common shares outstanding	6,695,766	6,576,279
Plus dilutive incremental shares	421,222	531,029
Diluted weighted-average common shares outstanding	7,116,988	7,107,308
Basic earnings per common share	$ 1.14	$ 1.08
Diluted earnings per common share	$ 1.07	$ 1.00

There were no antidilutive options for the year ended December 31, 2022 or 2021.