Cashmere Valley Bank

2023 Annual Report

“The little Bank with the big circle of friends”

Member FDIC

Cashmere Valley Bank

2023 Annual Report

Performance Results	2023	2022	2021	2020	2019
	Year Ended December 31,				
Return on average equity	15.69%	14.68%	12.24%	11.59%	11.55%
Return on average assets	1.39%	1.22%	1.36%	1.41%	1.49%
Equity to assets	9.93%	7.59%	10.75%	11.97%	12.44%
Earnings per share - Basic	$7.20	$6.70	$7.42	$6.43	$5.70
Dividends per share	$1.70	$1.70	$1.55	$3.40	$1.30
Book value per share	$52.21	$40.78	$61.61	$60.09	$51.78
Year end market value per share	$50.99	$44.95	$71.50	$52.61	$63.00
Average earning assets to average total assets	94.31%	97.88%	95.01%	94.75%	95.56%
Allowance for credit losses to total loans at December 31	1.26%	1.37%	1.46%	1.44%	1.22%
Efficiency ratio	53.48%	58.36%	53.11%	51.71%	55.02%
Yield and Cost of Funds					
Tax equivalent yield on cash and investments	4.01%	2.45%	1.90%	2.21%	2.94%
Tax equivalent yield on loans	4.69%	4.09%	4.19%	4.08%	4.25%
Cost of funds	1.17%	0.29%	0.35%	0.44%	0.54%
Tax equivalent net interest margin	3.36%	2.99%	2.70%	2.82%	3.27%
Selected Items *(in thousands)*					
Total cash and cash equivalents	$117,136	$180,312	$114,004	$135,725	$141,393
Total investments	$790,680	$816,486	$1,103,232	$856,327	$542,087
Total loans	$1,042,453	$1,005,741	$940,802	$950,970	$918,541
Total assets	$2,042,738	$2,087,762	$2,224,302	$1,994,288	$1,651,499
Total deposits	$1,773,767	$1,900,019	$1,936,577	$1,719,971	$1,423,347
Total equity	$202,798	$158,390	$239,098	$238,678	$205,404

To the shareholders and friends of Cashmere Valley Bank

While 2022 was about adapting to volatility and a rapid rise in fed funds and treasury rates, 2023 was the year of living with those higher rates. The reduced velocity of rates was a good thing. However, we had to learn some new tools to deal with the rapid rise in cost of funds. We cautiously entered the derivative markets and executed hedges to partially protect the Bank against further increases in treasury rates. The market was in such an inversion that we reduced our exposure to rates up and received instant positive cash flow. We also sold some bonds with unrealized losses to further reduce our exposure to rates up. We prefer to use multiple strategies in small amounts so as not to get caught in another unexpected market movement.

We had a pretty good year with earnings up 7.7% from the prior year, which translated to return on average assets of 1.39% and a return on average equity of 15.69%. These results were better than we expected.

Deposits dropped 6.6% during the year. We are not very happy about that, but deposits in the State of Washington were down just over 27%. Paying market rates is a big driver in maintaining deposits. Today's customer is much more engaged in seeking out the best yields for their money. I feel good about our current financial metrics, but we still have a couple of years before we see a large volume of assets repricing to market levels. In the meantime, rising cost of funds will create some headwinds that the entire banking industry is facing.

We celebrated the completion of the Union Gap branch and moved a number of insurance personnel from our recent agency acquisition. I hope you get a chance to drive by and take a look. We are located just off the corner of the Costco shopping center at 2232 Goodman Road.

Despite all the turmoil, we remain steadfast in being who we are: a bank that answers the phone and provides a solid answer to every customer's question. That's just how it is at "the Little Bank with the Big Circle of Friends."

Sincerely,

Greg Oakes,
President and CEO

MOSSADAMS

Report of Independent Auditors

The Board of Directors and Shareholders
Cashmere Valley Bank and its subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Cashmere Valley Bank and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Cashmere Valley Bank's internal control over financial reporting as of December 31, 2023, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FIDICIA) and our report dated March 13, 2024, expressed an unmodified opinion.

Basis for Opinion

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

Emphasis of Matter- Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2023, Cashmere Valley Bank and its subsidiary adopted new accounting guidance Accounting Standards Codification Topic 326 Financial Instruments—Credit Losses. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cashmere Valley Bank and its subsidiary's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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.
- 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 Cashmere Valley Bank and its subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Moss Adams LLP

Spokane, Washington
March 13, 2024

Cashmere Valley Bank and Subsidiary
Consolidated Balance Sheets

(Dollars in Thousands, Except Share Amounts)	December 31,	
	2023	**2022**
Assets		
Cash and cash equivalents:		
Cash and due from banks	$26,619	$27,706
Interest-bearing deposits at other financial institutions	86,432	142,617
Federal funds sold	4,085	9,989
Total cash and cash equivalents	117,136	180,312
Securities available for sale at fair value	650,905	670,077
Securities held to maturity, net of allowance for credit losses of $20 and $0, respectively	139,775	146,409
Federal Home Loan Bank stock, at cost	3,008	2,669
Loans held for sale	4	142
Loans and leases	1,042,453	1,005,741
Allowance for credit losses	(13,085)	(13,746)
Net loans and leases	1,029,368	991,995
Premises and equipment, net	21,017	18,275
Accrued interest receivable	9,411	8,199
Other real estate and foreclosed assets	97	--
Bank Owned Life Insurance	26,809	26,105
Goodwill	7,576	7,576
Intangibles, net	3,465	3,796
Mortgage servicing rights	2,536	2,685
Net deferred tax assets	19,563	21,021
Other assets	12,068	8,501
Total assets	**$2,042,738**	**$2,087,762**
Liabilities		
Deposits:		
Noninterest-bearing demand	$424,380	$457,666
Savings and interest-bearing demand	956,290	1,228,375
Time	393,097	213,978
Total deposits	1,773,767	1,900,019
Accrued interest payable	2,216	434
Short-term borrowings	48,858	17,166
Other liabilities	15,099	11,753
Total liabilities	**1,839,940**	**1,929,372**
Commitments and contingencies (Note 14)		
Shareholders' Equity		
Common stock (no par value); authorized 10,000,000 shares;		
Issued and outstanding: 2023 – 3,883,986; 2022 – 3,883,956	--	--
Additional paid-in capital	4,833	4,540
Treasury stock	(16,784)	(16,784)
Retained earnings	280,087	259,839
Other comprehensive income	(65,758)	(89,239)
Total Cashmere Valley Bank shareholders' equity	**202,378**	**158,356**
Noncontrolling interest	420	34
Total shareholders' equity	**202,798**	**158,390**
Total liabilities and shareholders' equity	**$2,042,738**	**$2,087,762**

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

(Dollars in Thousands, Except Per Share Amounts)	Year Ended December 31,	
	2023	**2022**
Interest Income		
Loans and leases	$47,392	$39,950
Federal funds sold and deposits at other financial institutions	4,992	2,199
Securities available for sale:		
Taxable	24,548	16,528
Tax-exempt	1,886	5,653
Securities held to maturity:		
Taxable	3,151	1,856
Tax-exempt	184	58
Total interest income	82,153	66,244
Interest Expense		
Deposits	16,259	4,319
Short-term borrowings	257	63
Total interest expense	16,516	4,382
Net interest income	**65,637**	**61,862**
Provision for credit losses	2,942	800
Net interest income after provision for credit losses	**62,695**	**61,062**
Noninterest Income		
Service charges on deposit accounts	2,128	2,130
Mortgage banking operations	1,514	2,320
Net (loss) on sales of securities available for sale	(4,818)	(8,179)
Brokerage commissions	999	1,136
Insurance commissions and fees	7,720	7,552
Net interchange income	4,743	3,997
Earnings from Bank Owned Life Insurance	704	1,247
Other	1,320	1,463
Total noninterest income	14,310	11,666
Noninterest Expense		
Salaries and employee benefits	22,359	24,558
Occupancy and equipment	4,013	3,317
Audits and examinations	409	546
State and local business and occupation taxes	1,346	1,248
FDIC insurance & WA state assessments	1,017	687
Legal and professional fees	1,361	809
Check losses and charge-offs	582	495
Low income housing fund losses	633	656
Data processing	6,372	5,541
Product delivery	1,255	1,222
Other	3,412	3,831
Total noninterest expense	42,759	42,910
Income before income taxes	**34,246**	**29,818**
Income taxes	6,214	3,818
Net income	**28,032**	**26,000**
Net income attributable to noncontrolling interest	50	--
Net income attributable to Cashmere Valley Bank	**$27,982**	**$26,000**
Earnings per common share – Basic	$7.20	$6.70
Earnings per common share – Diluted	$7.20	$6.69

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

Cashmere Valley Bank and Subsidiary
Consolidated Statements of Comprehensive Income

(Dollars in Thousands)	Year Ended December 31,	
	2023	**2022**
Net income	$27,982	$26,000
Other comprehensive income (loss):		
Change in the fair value of securities available for sale	20,385	(114,948)
Reclassification adjustment for losses included in net income	4,818	8,179
Unrealized loss on securities transferred from available for sale to held to maturity	--	(17,675)
Amortization of net unrealized losses on securities transferred from available for sale to held to maturity	1,798	1,528
Unrealized loss on interest rate swaps	(1,571)	--
Other comprehensive income (loss), before tax	**25,430**	**(122,916)**
Deferred tax liability (benefit)	1,949	(22,421)
Other comprehensive income (loss), net of tax	**23,481**	**(100,495)**
Comprehensive income (loss), net of tax	**$51,463**	**$(74,495)**

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

(Dollars in Thousands, Except Share Information)

	Shares of Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Other Comprehensive Income (Loss)	Total Cashmere Valley Bank Equity	Non-controlling Interest	Total Equity
Balance as of December 31, 2021	**3,880,811**	**$4,186**	**$(16,784)**	**$240,440**	**$11,256**	**$239,098**	**$--**	**$239,098**
Net income	--	--	--	26,000	--	26,000	--	26,000
Other comprehensive income (loss), net of tax	--	--	--	--	(100,495)	(100,495)	--	(100,495)
Transactions with minority shareholders	--	(34)	--	--	--	(34)	34	--
Cash dividends paid	--	--	--	(6,601)	--	(6,601)	--	(6,601)
Stock based compensation expense	--	219	--	--	--	219	--	219
Exercise of common stock options	3,020	169	--	--	--	169	--	169
Restricted stock grants	125	--	--	--	--	--	--	--
Balance as of December 31, 2022	**3,883,956**	**$4,540**	**$(16,784)**	**$259,839**	**$(89,239)**	**$158,356**	**$34**	**$158,390**
Adjustment for adoption of ASU 2016-13, net of tax	--	--	--	(1,131)	--	(1,131)	--	(1,131)
Net income	--	--	--	27,982	--	27,982	50	28,032
Other comprehensive income (loss), net of tax	--	--	--	--	23,481	23,481	--	23,481
Transactions with minority shareholders	--	(336)	--	--	--	(336)	336	--
Cash dividends paid	--	--	--	(6,603)	--	(6,603)	--	(6,603)
Stock based compensation expense	--	246	--	--	--	246	--	246
Exercise of common stock options	--	383	--	--	--	383	--	383
Restricted stock grants	30	--	--	--	--	--	--	--
Balance as of December 31, 2023	**3,883,986**	**$4,833**	**$(16,784)**	**$280,087**	**$(65,758)**	**$202,378**	**$420**	**$202,798**

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

Cashmere Valley Bank and Subsidiary
Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31, 2023	2022
Cash Flows from Operating Activities		
Net income	$28,032	$26,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,024	3,164
Provision for credit losses	2,942	800
Investment amortization – net	4,419	8,960
Stock based compensation	246	219
Net loss on sale of securities and loans	4,891	7,386
Earnings from Bank Owned Life Insurance	(704)	(1,247)
Originations of loans held for sale	(24,725)	(47,704)
Proceeds from sales of loans held for sale	25,247	49,794
Net change in:		
Accrued interest receivable	(1,212)	354
Accrued interest payable	1,782	31
Deferred income tax	190	(383)
Federal income tax payable	(1,208)	496
Deferred compensation	513	491
Other – net	(2,713)	(387)
Net cash provided by operating activities	**40,724**	**47,974**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Sales proceeds	90,180	220,282
Maturities, prepayments, and calls	55,426	61,764
Purchases	(110,038)	(112,278)
Activity in securities held to maturity:		
Maturities, prepayments, and calls	7,618	6,622
Purchases	--	(29,698)
Purchase of Federal Home Loan Bank stock	(339)	(276)
Loans and leases originated (greater) than principal collected	(40,887)	(65,900)
Investment in low income housing fund	(41)	(210)
Proceeds from Bank Owned Life Insurance	--	1,627
Purchases of premises and equipment	(5,069)	(3,291)
Proceeds from sale of premises and equipment	30	20
Net cash provided by investing activities	**(3,120)**	**78,662**
Cash Flows from Financing Activities		
Net (decrease) in deposits	(126,252)	(36,558)
Net increase (decrease) in short-term borrowings	31,692	(17,338)
Cash dividends paid	(6,603)	(6,601)
Exercise of stock options	383	169
Net cash (used in) financing activities	**(100,780)**	**(60,328)**
Net change in cash and due from banks	**(63,176)**	**66,308**
Cash and due from banks at beginning of year	180,312	114,004
Cash and due from banks at end of year	**$117,136**	**$180,312**
Supplemental cash flow information		
Cash paid for interest	$14,734	$4,352
Cash paid for income taxes	$6,002	$3,695
Significant non-cash transactions		
Fair value adjustment of securities available for sale, net of tax	$24,722	$(100,495)
Fair value adjustment of interest rate swaps, net of tax	$(1,241)	$--
Fair value transfer of securities from available for sale to held to maturity	$--	$122,502

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

Note 1 – Summary of Significant Accounting Policies

Cashmere Valley Bank (the Company) is a Washington State chartered bank established in 1932 and operates 11 branches in North Central Washington. The Company's lending and other banking activities are carried out in and around Chelan, Douglas, Kittitas, and Yakima counties and to a lesser degree, areas of Western Washington. The Company provides loan and deposit services to predominantly small and middle-market business and retail customers. The consolidated financial statements include the accounts of Cashmere Valley Bank and the Bank's subsidiary, Mitchell, Reed and Schmitten Insurance, Inc. (MRS), an insurance agency. MRS is based in Wenatchee, Washington and brokers personal and commercial lines of insurance, including property, casualty, life and health insurance, with locations in Chelan, Kittitas, Yakima and King counties.

Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and practices within the financial services industry. GAAP defines a public business entity as an entity whose securities are not subject to contractual restrictions on transfer and that is by law, contract, or regulation required to prepare U.S. GAAP financial statements and make them publicly available on a periodic basis. As the Company meets the definition of a public business entity, certain disclosures are required. Intercompany transactions and balances have been eliminated. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the consolidated balance sheet, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate primarily to the determination of the allowance for credit losses and valuations of securities, goodwill, and mortgage servicing rights.

Noncontrolling Interest

Noncontrolling interest in the Bank's subsidiary, Mitchell, Reed and Schmitten Insurance, Inc., is limited to ownership by key employees of Mitchell, Reed & Schmitten Insurance, Inc. The Company reports noncontrolling interest in shareholders' equity, separate from the Bank's shareholders' equity, on the consolidated balance sheets. The Company reports net income attributable to noncontrolling interest in the consolidated statements of income.

Cash and Cash Equivalents

The Company considers federal funds sold, cash and amounts due from banks, and interest-bearing deposits at other financial institutions with original maturities of less than 90 days to be cash and cash equivalents, and are reported as such on the consolidated balance sheets and statement of cash flows. Cash flows from loans, deposits, and short-term borrowings are reported net.

Stock Based Compensation

The Company has stock-based compensation plans which are more fully discussed in Note 16. Under the plans, certain key employees have been awarded restricted stock grants and options to purchase common stock. Under the accounting guidance for stock-based compensation, compensation expense recognized includes the cost of stock-based awards associated with restricted stock grants and incentive stock options which are recognized as compensation expense over the vesting period on a straight-line basis. The Company recognized stock-based compensation expense totaling $246,000 and $219,000 in 2023 and 2022, respectively.

Securities Available for Sale

Securities available for sale consist of debt securities that the Company intends to hold for an indefinite period, but not necessarily to maturity. Such securities may be sold to implement the Company's asset liability management strategies, interest rate risk strategies, and in response to changes in interest rates and similar factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled "other comprehensive income." Realized gains and losses on securities available for sale, determined using the specific identification method, are included in earnings. Generally, amortization of premiums and accretion of discounts are recognized in interest income over the contractual life of the security using the effective interest method. As principal repayments are received on securities, a proportionate amount of the related premium or discount is recognized so that the effective interest rate on the remaining portion of the security continues unchanged.

Allowance for Credit Losses – Available for Sale Securities

The Company evaluates the available for sale security portfolio on a quarterly basis. When available for sale debt securities are in an unrealized loss position, the Company first evaluates whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security is written down to fair value with the loss recorded in earnings. If either of the criteria regarding intent or requirement to sell is not met, the Company evaluates whether the decline in fair value is due to credit losses. An allowance for credit losses would be recorded to the extent that the unrealized loss was credit-related and likely to be permanent. As of December 31, 2023, the Company did not have an allowance for credit loss related to the available for sale security portfolio. Accrued interest receivable on available for sale securities is excluded from the estimate of credit losses.

Prior to the adoption of ASU 2016-13, a loss on a security that was deemed other-than-temporary would be recognized in earnings as a loss. In estimating other-than-temporary losses, the Company considered the following factors: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospect of the issuer; (3) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; (4) implicit or implied guarantees of the U.S. government; (5) whether it is more likely than not that the Company will be required to sell the securities before recovery; and (6) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

Securities Held to Maturity

Debt securities which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income over the period to maturity.

Securities transferred from available for sale to held to maturity are recorded at fair value at the date of transfer. The unrealized gain or loss at the date of transfer is included in accumulated other comprehensive income (loss), net of tax, in the consolidated balance sheets. The unrealized gains or losses at the date of transfer are amortized or accreted over the contractual life of the securities.

Allowance for Credit Losses – Held to Maturity Securities

The Company evaluates the held to maturity security portfolio on a quarterly basis. Management measures expected credit losses on held to maturity securities on a collective basis by major security type using the probability of default and loss given default method for measuring expected credit losses. Accrued interest receivable on held to maturity securities is excluded from the estimate of credit losses. As of December 31, 2023, the Company had an allowance for credit loss related to the held to maturity security portfolio totaling $20,000.

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based on the sum of the two following calculations (calculated at least annually as of the preceding December 31):

- The Membership Stock Purchase Requirement is based on a percentage of assets as shown in table below:

	Current Requirement	**Minimum Investment**	**Maximum Investment**
Percent of Total Assets	0.06%	0.05%	0.25%
Membership Stock Cap	$10 million	$1 million	$30 million
Membership Stock Floor	$10,000	$10,000	$30,000

- The Activity Based Stock Purchase Requirement is based on a percentage of the book value held and records of the transactions shown in the table below:

	Current Requirement	Minimum Requirement	Maximum Requirement
Outstanding Advances	4.50%	2.00%	5.00%
Outstanding Acquired Member Assets	4.00%	0.00%	5.00%
Standby Letters of Credit	0.10%	0.00%	0.175%
Advance Commitments	0.00%	0.00%	0.35%
Acquired Member Asset Commitments	0.00%	0.00%	0.60%

The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by the FHLB at the $100 per share par value.

The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Management has determined there was no impairment on its FHLB stock as of December 31, 2023 and 2022.

Loans Held for Sale

Loans originated for sale in the secondary market, which is our principal market, or as whole loan sales are classified as loans held for sale. Freddie Mac qualifying single family loans are originated with the intent to be held for sale and are recorded at the lower of cost or market. The fair value of loans held for sale is generally based on observable market prices from other loans in the secondary market that have similar collateral, credit, and interest rate characteristics. If quoted market prices are not readily available, the Company may consider other observable market data such as dealer quotes for similar loans or forward sale commitments. In certain cases, the fair value may be based on a discounted cash flow model. Gains and losses on loans held for sale are recognized in net gain on mortgage loan origination and sale activities within noninterest income. Direct loan origination costs and fees for single family loans originated as held for sale are recognized in earnings.

Loans Held for Investment

Loans held for investment are reported at the principal amount outstanding, net of cumulative charge-offs, interest applied to principal, for loans accounted for using the cost recovery method, unamortized net deferred loan origination fees and costs, and unamortized premiums or discounts on purchased loans. Deferred fees, deferred costs, premiums and discounts are recognized over the contractual terms of the underlying loans using the constant effective yield, known as the interest method. Interest on loans is accrued and recognized as interest income at the contractual rate of interest. As of the loan commitment date, a determination is made as to whether a loan will be held for sale or held for investment. This determination is based primarily on the type of loan or loan program and its related profitability characteristics.

When a loan is designated as held for investment, the intent is to hold these loans until maturity or pay-off. If subsequent changes occur, the Company may change its intent to hold these loans. Once a determination has been made to sell such loans, they are immediately transferred to loans held for sale and carried at the lower of cost or fair value.

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property less unearned income. Interest income from direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment.

From time to time, the Company will originate loans to facilitate the sale of other real estate owned without a sufficient down payment from the borrower. Such loans are accounted for using the installment method and any gain on sale is deferred.

Nonaccrual Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment, or if part of the principal balance has been charged off.

All payments received on nonaccrual loans are accounted for using the cost recovery method. Under the cost recovery method, all cash collected is applied to first reduce the principal balance. A loan may be returned to accrual status if all delinquent principal and interest payments are brought current and the collectability of remaining contractual payments are reasonably assured. Loans that are well-secured and in the process of collection are maintained on accrual status, even if they are 90 days or more past due.

Troubled Loan Modifications

Loans are reported as troubled loan modifications when the Company grants a concession to a borrower experiencing financial difficulty. Loan modifications to borrowers experiencing financial difficulty include principal forgiveness, interest rate reductions, other-than-insignificant payment delay, term extensions or any combinations of these.

Allowance for Credit Losses – Loans

The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on loans. Management estimates the allowance balance quarterly. Estimates are made using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. A loan is charged off against the allowance when the loan is deemed uncollectible by management. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management has made the accounting policy election to exclude accrued interest received on loans from the estimate of credit losses. Adjustments to the allowance are reported in the consolidated income statement as a component of credit loss expense.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The allowance amount for a loan pool is an estimate based on loan type and areas of risk concentration. For loans evaluated collectively, the Company uses the probability of default and loss given default method for measuring expected credit losses. Historical credit loss assumptions are estimated using a model that categorizes loan pools based on loan type and risk rating. These models calculate an expected life-of-loan loss percentage for each loan category by calculating the probability of default. The migration of loans from performing to loss by risk rating or delinquency categories using historical life-of-loan analysis, the severity of loss based on the aggregate net lifetime losses incurred for each loan pool, and the peer loss numbers from Washington state banks are all used to calculate the probability of default.

Management uses economic indicators to adjust the historical loss rates on collectively evaluated loans. The adjustments are made based on reasonable and supportable forecasts which better reflect management's expectations of future conditions over the remaining lives of the loans. While peer historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to the historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors.

The Company has identified several portfolio segments to evaluate and measure the allowance for credit losses on loans, including commercial and agricultural; commercial real estate, construction and farmland; residential 1-4 family; consumer and other; and municipal.

Commercial and agricultural loans are generally made to support the short-term business operations and other needs of small businesses. These loans may be secured or unsecured. Secured loans are generally secured by business assets including receivables, equipment, and other real property of the business. Problem commercial loans are generally identified by periodic review of financial information that may include financial statements, tax returns, and payment history of the borrower. If a problem loan is identified, the Company may take discretionary action including increased guarantor support, additional collateral, requesting a principal reduction, ultimately a demand for repayment, or any combination of these as necessary. When repayment becomes unlikely based on the business' income and cash flow, repossession or foreclosure of the underlying collateral may become necessary. Collateral values may be determined by qualified independent third parties, purchase invoices, or other appropriate documentation.

Commercial real estate loans include owner-occupied and non-owner occupied loans as well as construction loans. Loans secured by non-owner occupied real estate are susceptible to changes in the market conditions of the related business. Market conditions impacting risk may include industry changes, geographic business changes, changes in the individual financial capacity of the business owner, general economic conditions, and changes in business cycles. Owner occupied real estate loans are susceptible to the same risk as non-owner occupied loans, but also include the risk of changes in the valuation of the collateralized property. Construction loans are subject to additional risks including cost increases, changes in market conditions during the project, and lack of demand at completion. Problem commercial real estate loans are generally identified by periodic review of financial information that may include financial statements, tax returns, payment history of the borrower, and site inspections. If a problem loan is identified, the Company may take discretionary action including increased guarantor support, additional collateral, requesting a principal reduction, ultimately a demand for repayment, or any combination of these as necessary. When repayment becomes unlikely based on the business' income and cash flow, repossession or foreclosure of the underlying collateral may become necessary. Collateral values may be determined by licensed and bank approved independent appraisers, qualified independent third parties, purchase invoices, or other appropriate documentation.

Residential mortgage loans, which are secured by real estate, are primarily susceptible to the risk of non-payment due to diminished or lost income, over-extension of credit, a lack of borrower's cash flow to sustain payments, and shortfalls in collateral value. Non-payment is generally due to loss of employment and follows general economic trends in the economy, particularly an increase in the unemployment rate, loss of collateral value, and demand shifts.

Consumer loans, whether unsecured or secured, are primarily susceptible to risks of non-payment due to diminished or lost income, over-extension of credit, a lack of borrower's cash flow to sustain payments, and shortfall in collateral value. Non-payment is generally due to loss of employment and will follow general economic trends in the economy, particularly an increase in the unemployment rate, loss of collateral value, inflation, and demand shifts.

Municipal loans are unsecured loans used to purchase equipment or improve infrastructure in a municipality. In some instances, the debt has been voted on and approved by the voters in the municipality. Risks may include cost increases, timing delays, or changes in the financial condition of a municipality, including a decrease in anticipated revenues within the municipality. Problem municipal loans are generally identified by periodic review of financial information that may include financial statements, public disclosures, and payment history of the borrower. Since municipal loans do not have collateral to repossess, when repayment becomes unlikely collection efforts are focused on working with the municipality on an acceptable payment schedule.

Loans that do not share similar risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting date unadjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for prepayments when appropriate. The contractual term includes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled loan modification will be executed with an individual borrower or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancelable by the Company.

The ultimate recovery of all loans and leases is susceptible to future market factors which are sometimes beyond the Company's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements.

Allowance for Credit Losses – Unfunded Commitments

The Company evaluates the allowance for credit losses on unfunded commitments on a quarterly basis. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has a right to cancel the obligation. The estimate is based on loan segments and the likelihood that funding will occur. The allowance for credit losses on unfunded commitments is included in other liabilities in the consolidated balance sheet, and any adjustments to the allowance for credit losses on unfunded commitments is recorded in the consolidated statements of income as a component of credit loss expense.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets, which range from 35 to 40 years for buildings and 3 to 15 years for furniture, fixtures, and equipment. These assets are reviewed for impairment under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, *"Property, Plant, and Equipment"* when events indicate that the carrying amount may not be recoverable. Gains or losses on dispositions are reflected in earnings.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at the fair value of the properties, less estimated costs of disposal, which becomes the new cost basis. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for credit losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by their current fair values. Any subsequent reductions in carrying values and revenue and expense from the operations of properties are recognized in the consolidated statements of income.

Mortgage Servicing Rights

Mortgage servicing rights (MSR) are recognized as separate assets when rights are acquired through purchase or through sale of loans. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Capitalized servicing rights are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

MSRs are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Subsequent fair value measurements of single family MSRs, which are not traded in an active market with readily observable market prices, are determined by considering the present value of estimated future net servicing cash flows. Changes in the fair value of single family MSRs result from changes in (1) model inputs and assumptions and (2) modeled amortization, representing the collection and realization of expected cash flows and curtailments over time. The significant model inputs used to measure the fair value of single family MSRs include assumptions regarding market interest rates, projected prepayment speeds, discount rates, estimated costs of servicing, and other income and additional expenses associated with the collection of delinquent loans. Impairment is recognized through a valuation allowance to the extent that fair value is less than the recorded value. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance will be recorded as an increase to income.

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Deferred tax assets and liabilities result from differences between the consolidated financial statement carrying amounts and the tax basis of assets and liabilities, and 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. The deferred tax provision represents the difference between the net deferred tax asset or liability at the beginning and end of the year. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The determination of the realization of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence. The calculation of the Company's tax provision for federal income taxes is complex and requires the use of estimates and significant judgments in arriving at the amount of tax benefits to be recognized in the financial statements for a given tax position. It is possible that the tax benefits realized upon the ultimate resolution of a tax position may result in tax benefits that are significantly different from those estimated.

Management has reviewed all tax positions taken on all its income tax returns and has determined there to be no uncertain positions. Any interest and penalties would be recorded in income tax expense. Therefore, no further disclosures are deemed necessary.

The Bank is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. Management believes it is no longer subject to income tax examinations for years prior to 2019.

Bank Owned Life Insurance

Bank owned life insurance (BOLI) policies are recorded at their cash surrender value or the amount that can be realized upon surrender of the policy. Income from BOLI is recognized when it is earned.

Goodwill

Goodwill represents costs in excess of net assets acquired and is evaluated at least annually for impairment, in accordance with FASB ASC 350, "*Intangibles – Goodwill and Other*." The Company tested goodwill for impairment as of December 31, 2023 using the Step 0 method to evaluate impairment and concluded that the fair value of the goodwill is greater than the carrying value, noting no impairment of recorded goodwill. No events have occurred since December 31, 2023 that would require re-evaluation.

Intangible Assets

Intangible assets include non-competition and licensing agreements, and customer contracts and lists. The non-competition and licensing agreements are amortized by the straight-line method over four to five years. The customer contracts and lists are amortized over a period of up to fifteen years, on either a straight-line method or performance basis. In 2023 and 2022, no circumstances existed that would indicate the intangible assets were potentially impaired. If such circumstances had existed, the assets would have been tested for impairment in accordance with FASB ASC 350, "*Intangibles – Goodwill and Other*."

Insurance Revenue

Insurance revenue consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance commission income is recognized as of the effective date of the insurance policy, net of adjustments. Such adjustments are recorded when the amount can be reasonably estimated, which is generally in the period in which they occur. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date. Contingent commissions are estimated and accrued relative to the recognition of corresponding commissions. Management determines a policy cancellation reserve based upon historical cancellation experience adjusted for any known circumstances. Subsequent commission adjustments were recognized upon receipt of notification from insurance companies concerning such adjustments.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense was $256,000 and $265,000 for the years ended December 31, 2023 and 2022, respectively.

Derivative Financial Instruments

The Company enters into interest rate swaps to convert fixed rate assets to floating rate assets. The interest rate swap instruments are recognized as derivatives on the balance sheet at their fair value. On the date the Company enters into the derivative contract, the derivative is designated by the Company as a hedge of fair value of a recognized asset or liability. The gain or loss on the derivative, and the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current period earnings as fair values changes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the balance sheet and statement of cash flows. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below. The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; or (3) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet at its fair value with changes in its fair value recognized in current period earnings, and the hedged asset or liability will no longer be adjusted for changes in fair value.

Fair Value

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include interest rate swap derivatives and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower of cost or market basis, impaired loans, foreclosed real estate, mortgage servicing rights, goodwill and long-lived assets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, known as an exit price, in an orderly transaction between market participants at the measurement date. Fair value estimates are based on quoted market prices, if available. If quoted market prices are not available, fair value estimates are based on quoted market prices of similar assets or liabilities or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, risk and other assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. Fair value amounts also do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

In support of these representations, FASB ASC 820, "*Fair Value Measurements and Disclosures*," establishes fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

> Level 1 inputs are observable inputs, based upon the quoted prices for identical instruments in active markets that are accessible as of the measurement date, and are to be used whenever available.
>
> Level 2 inputs are other types of observable inputs, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; or other inputs that are observable or can be derived from or supported by observable market data. Level 2 inputs are to be used whenever Level 1 inputs are not available.
>
> Level 3 inputs are significantly unobservable and are supported by little or no market activity. These Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. Level 3 inputs are to only be used when Level 1 and Level 2 inputs are unavailable.

When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets or liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities.

Basic and Diluted Earnings per Common Share

Earnings per common share is computed under the two-class method. Pursuant to the two-class method, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of diluted earnings per share. The Company has determined that the outstanding unvested restricted stock awards are participating securities.

Under the two-class method, basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 19.

Business Segments

The Company is managed by legal entity and not by lines of business. The Bank is chartered in the State of Washington and is a community oriented commercial bank. The Bank's primary business is that of a traditional banking institution, gathering deposits and originating loans for portfolio in its respective primary market areas. The Bank offers a wide variety of deposit products to its consumer and commercial clients. Lending activities include the origination of real estate, commercial and agricultural business, dealer financing, leasing and consumer loans. The Bank is also an active participant in the secondary market, originating residential loans for sale with servicing retained. In addition to interest income on loans and investment securities, the Bank receives other income from deposit service charges, loan servicing fees and from the sale of loans and investments. The performance of the Bank is reviewed by the Company's executive management and Board of Directors on a monthly basis. All of the executive officers of the Company are members of Cashmere Valley Bank's management team. Generally accepted accounting principles establish standards to report information about operating segments in annual financial statements. The Company has determined that its current business and operations consist of a single business segment and a single reporting unit.

Recent Accounting Pronouncements

In December 2023, the FASB issued *ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures."* This ASU requires public business entities to disclose in their rate reconciliation table additional categories of information to provide more detail about the reconciling items in some categories if items meet a quantitative threshold. This ASU also requires all entities to disclose additional information about income taxes paid. The amendments in this ASU are effective for fiscal years after December 15, 2025. The Company is assessing the impact of this ASU on its disclosures.

In March 2022, the FASB issued *ASU 2022-01, "Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method."* This ASU renamed the last-of-layer method to the portfolio layer method. The amendments in this ASU allow for multiple hedged layers of a single closed portfolio, as compared to the previous last-of-layer method, which permitted only one hedge layer. This ASU also (1) expands the scope of the portfolio layer method to include non-prepayable financial assets, (2) specifies eligible hedging instruments in a single-layer hedge, (3) provides additional guidance on the accounting for and disclosure of hedged basis adjustments under the portfolio layer method and (4) specifies how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio. The amendments in this ASU are effective for fiscal years after December 15, 2022. The Company adopted this ASU on January 1, 2023.

ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)," as amended by ASU 2018-19, ASU 2019-04 and ASU 2019-05, was originally issued in June 2016. This ASU replaces the existing incurred loss impairment methodology that recognizes credit losses when a probable loss has been incurred with new methodology where loss estimates are based upon lifetime expected credit losses. The amendments in this ASU require a financial asset that is measured at amortized cost to be presented at the net amount expected to be collected. The income statement would then reflect the measurement of credit losses for newly recognized financial assets as well as changes to the expected credit losses that have taken place during the reporting period. The measurement of expected credit losses will be based on historical information, current conditions, and reasonable and supportable forecasts that impact the collectability of the reported amount. Available for sale securities will bifurcate the fair value mark and establish an allowance for credit losses (ACL) through the income statement for the credit portion of that mark. The interest portion will continue to be recognized through accumulated other comprehensive income or loss.

This ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Company has evaluated its current expected loss methodology on the loan and investment portfolios to identify the necessary modifications in accordance with this standard and expects a change in processes and procedures to calculate the ACL. Changes include calculated assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. A valuation adjustment in converting the ALLL to the ACL for the loan or investment portfolios that is identified in this process are reflected as a one-time adjustment in equity rather than earnings. ASU 2019-05 issued in April 2019 further provides that entities with certain financial instruments measured at amortized cost that have credit losses, to irrevocably elect the fair value option in Subtopic 825-10, upon adoption of Topic 326. The fair value option applies to available for sale debt securities. This ASU is effective upon adoption of ASU 2016-13, and should be applied on a modified-retrospective basis as a cumulative-effect adjustment to the opening balance of retained earnings in the statement of financial condition as of the adoption date. The Company has compiled historical and industry data that will be used to calculate expected credit losses on the loan portfolio to ensure full compliance with the ASU at the adoption date. The Company adopted this ASU in January 2023 using the modified retrospective method and recognized a one-time adjustment of $1,058,000 to decrease the allowance for credit losses for the Company's loan portfolio. In addition, a one-time adjustment of $2,138,000 was recognized to increase the reserve for unfunded loan commitments. The Company also established an allowance for credit losses of $352,000 for the Company's held to maturity debt security portfolio. As a result of the cumulative-effect adjustment recorded on January 1, 2023, the Company recognized a reduction to retained earnings of $1,131,000, net of tax.

In April 2019, FASB issued *ASU 2019-05, "Financial Instruments – Credit Losses (Topic 326), Targeted Transition Relief."* The amendments in this ASU provide entities that have certain financial instruments measured at amortized cost that have credit losses, to irrevocably elect the fair value option in Subtopic 825-10, upon adoption of Topic 326. The fair value option applies to available for sale debt securities. This ASU is effective when ASU 2016-13 is adopted, and will be applied on a modified-retrospective basis as a cumulative-effect adjustment to the opening balance of retained earnings in the statement of financial condition as of the adoption date. Prior to adoption, the Company evaluated the available for sale investment securities portfolio for other-than-temporary impairment on a quarterly basis. The Company adopted this ASU in January 2023, and at the time of adoption the Company did not establish an allowance for the credit loss portion of the unrealized loss on available for sale investment securities. The Company will evaluate the available for sale investment securities portfolio for credit impairment, and will establish an allowance if a credit impairment exists and is likely to be permanent.

In March 2022, the FASB issued *ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*." The amendments in this ASU eliminate the current troubled debt restructuring (TDR) recognition and measurement guidance and, instead, require that a creditor evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan.

The amendments also introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. These amendments require vintage disclosures including current-period gross write-offs by year of origination for financing receivables. Gross write-off information must be included in the vintage disclosures in accordance with ASC 326-20-50-6, which requires disclosure of the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2022. These amendments should be applied prospectively, though for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative effect adjustment to retained earnings in the period of adoption. The Company adopted this ASU on January 1, 2023.

Note 2 – Restricted Assets

On March 15, 2020, the Federal Reserve reduced the reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions. The elimination of reserve requirements was maintained through December 31, 2023 and therefore, no balance was required to be on deposit with the Federal Reserve Bank for the years ended December 31, 2023 and 2022.

Note 3 – Securities

Securities have been classified as available for sale or held to maturity according to management's intent and ability. The amortized cost of securities and their approximate fair value are as follows (dollars in thousands):

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
SBA loans backed by U.S. government agency	$19,509	$132	$(161)	$19,480
State and municipal securities	259,572	110	(41,337)	218,345
Collateralized mortgage obligations	231,472	97	(17,666)	213,903
Mortgage-backed securities	111,802	1,578	(3,802)	109,578
Student loans backed by U.S. government agency	47,217	19	(1,043)	46,193
Corporate securities	48,650	--	(5,244)	43,406
Total	$718,222	$1,936	$(69,253)	$650,905
December 31, 2022				
U.S. Treasury securities	$6,245	$--	$(812)	$5,433
SBA loans backed by U.S. government agency	18,803	--	(501)	18,302
State and municipal securities	349,884	129	(59,155)	290,858
Collateralized mortgage obligations	246,151	34	(20,268)	225,917
Mortgage-backed securities	68,668	11	(4,576)	64,103
Student loans backed by U.S. government agency	24,145	--	(1,662)	22,483
Corporate securities	48,702	--	(5,721)	42,981
Total	$762,598	$174	$(92,695)	$670,077

Securities Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
December 31, 2023					
State and municipal securities	$47,717	$11	$(1,866)	$45,862	$(20)
Collateralized mortgage obligations	64,643	--	(5,789)	58,854	--
Mortgage-backed securities	27,435	--	(1,709)	25,726	--
Total	$139,795	$11	$(9,364)	$130,442	$(20)
December 31, 2022					
State and municipal securities	$47,260	$8	$(3,229)	$44,039	$--
Collateralized mortgage obligations	68,962	--	(5,455)	63,507	--
Mortgage-backed securities	30,187	--	(1,886)	28,301	--
Total	$146,409	$8	$(10,570)	$135,847	$--

Accrued interest receivable on available for sale securities totaled $4.3 million and $4.5 million as of December 31, 2023 and 2022, respectively. Accrued interest receivable on held to maturity securities totaled $616,000 and $634,000 as of December 31, 2023 and 2022, respectively. Accrued interest receivable is included in other assets on the consolidated balance sheet.

In April and May 2022, the Company made transfers totaling $122.5 million of available for sale securities to the held to maturity portfolio. The securities were transferred at their fair value at the date of transfer. The Company intends to and has the ability to hold these securities to maturity. As a result of this transfer, an unrealized net loss of $17.7 million was recorded as a reduction to the asset with an offsetting entry to accumulated other comprehensive income (loss), and the net loss will be accreted over the remaining life of the securities. The original premium or discount will be accreted into income over the remaining life of the securities. As of December 31, 2023, the unrealized net loss as a result of the transfer totaled $14.4 million.

At December 31, 2023, there were 330 available for sale securities in a continuous unrealized loss position for more than twelve months. There was no allowance for credit losses on the available for sale securities portfolio recorded at December 31, 2023. The following table shows the unrealized gross losses and fair value of securities in the available for sale portfolio at December 31, 2023 and 2022, by length of time that individual securities in each category have been in a continuous loss position (dollars in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Unrealized Gross Loss	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**
December 31, 2023						
SBA loans backed by U.S. government agency	$--	$7,670	$(161)	$11,810	$(161)	$19,480
State and municipal securities	(2)	5,968	(41,335)	212,314	(41,337)	218,282
Collateralized mortgage obligations	(59)	21,276	(17,607)	192,627	(17,666)	213,903
Mortgage-backed securities	--	47,744	(3,802)	61,834	(3,802)	109,578
Student loans backed by U.S. government agency	(100)	27,880	(943)	18,313	(1,043)	46,193
Corporate securities	--	--	(5,244)	43,341	(5,244)	43,341
Total	$(161)	$110,538	$(69,092)	$540,239	$(69,253)	$650,777

	Less Than 12 Months		More Than 12 Months		Total	
	Unrealized Gross Loss	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**
December 31, 2022						
U.S. Treasury securities	$--	$--	$(812)	$5,433	$(812)	$5,433
SBA loans backed by U.S. government agency	(110)	5,004	(391)	13,298	(501)	18,302
State and municipal securities	(18,263)	144,371	(40,892)	141,667	(59,155)	286,038
Collateralized mortgage obligations	(4,590)	96,713	(15,678)	128,076	(20,268)	224,789
Mortgage-backed securities	(1,102)	39,976	(3,474)	23,777	(4,576)	63,753
Student loans backed by U.S. government agency	(79)	2,779	(1,583)	19,704	(1,662)	22,483
Corporate securities	(740)	4,345	(4,981)	38,636	(5,721)	42,981
Total	$(24,884)	$293,188	$(67,811)	$370,591	$(92,695)	$663,779

The Company monitors the credit quality of held to maturity securities through the use of credit ratings which are reviewed and updated quarterly. The held to maturity security portfolio includes collateralized mortgage obligations and mortgage-backed securities that are backed by the full faith and credit of and/or guaranteed by the U.S. government. Management does not expect that these securities will be settled at prices less than the amortized cost basis of the securities. The held to maturity security portfolio also includes municipal securities, which are evaluated based on the issuer bond rating and historical loss rates for given bond ratings.

The following table details the amortized cost of held to maturity securities by credit rating for the years ended December 31 (dollars in thousands):

	State and Municipal Securities	Collateralized Mortgage Obligations	Mortgage-Backed Securities	Total
December 31, 2023				
AAA	$7,498	$64,643	$27,435	$99,576
AA	38,323	--	--	38,323
A	1,875	--	--	1,875
BB	--	--	--	--
NR	21	--	--	21
Total	$47,717	$64,643	$27,435	$139,795
December 31, 2022				
AAA	$8,480	$63,212	$30,187	$101,879
AA	36,923	--	--	36,923
A	1,833	--	--	1,833
BB	--	5,750	--	5,750
NR	24	--	--	24
Total	$47,260	$68,962	$30,187	$146,409

The following table details activity in the allowance for credit losses on held to maturity securities for the year ended December 31, 2023 (dollars in thousands):

2023	State and Municipal Securities	Collateralized Mortgage Obligations	Mortgage-Backed Securities	Total
Beginning balance	$--	$--	$--	$--
Adjustment to allowance for adoption of ASU 2016-13	30	322	--	352
Provision for (recapture of) credit losses	(10)	(322)	--	(332)
Charge-offs of securities	--	--	--	--
Recoveries	--	--	--	--
Ending balance	$20	$--	$--	$20

The contractual maturities of securities held to maturity and available for sale at December 31, 2023, are shown below (dollars in thousands):

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$--	$--	$29,324	$28,543
Due from one year to five years	13,204	12,839	47,260	45,419
Due from five years to ten years	23,679	22,915	197,651	174,312
Due after ten years	102,912	94,688	443,987	402,631
Total	$139,795	$130,442	$718,222	$650,905

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Securities carried at approximately $178.1 million and $188.0 million at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, repurchase agreements, and other purposes required or permitted by law.

Sales of securities available for sale were as follows (dollars in thousands):

	2023	2022
Proceeds from sales	$90,180	$220,282
Gross realized gains included in earnings	$159	$1,505
Gross realized losses included in earnings	$(4,977)	$(9,684)

Note 4 – Loans and Leases

Loans and leases at December 31 consist of the following (dollars in thousands):

	2023	2022
Commercial and agricultural	$142,569	$139,261
Real estate:		
Residential 1-4 family	107,830	111,032
Commercial	356,285	311,744
Construction	81,673	101,996
Farmland	4,330	5,138
Municipal	91,022	82,456
Consumer	17,362	21,165
Dealer contracts	234,141	224,783
Leases	2,362	3,490
Credit card	4,879	4,676
Total loans and leases	$1,042,453	$1,005,741

Accrued interest receivable on loans totaled $3,461,000 and $2,975,000 at December 31, 2023 and 2022, respectively. Accrued interest receivable is included in other assets on the consolidated balance sheet.

Allowance for Credit Losses on Loans

The following table details activity in the allowance for credit losses on loans (ACL) by portfolio segment for the year ended December 31, 2023 under the current expected credit losses (CECL) methodology. While the allowance is allocated to specific loan and lease categories, the allowance is general in nature and is available for the loan and lease portfolio in its entirety. Provision expense recognized in 2023 was primarily driven by loan growth and an increase in charge off activity.

		Real Estate					
2023	**Commercial and Agricultural**	**Residential 1-4 Family**	**Commercial, Construction, and Farmland**	**Municipal**	**Consumer and Other**	**Unallocated**	**Total ACL**
Beginning balance	$1,985	$878	$6,622	$101	$3,809	$351	$13,746
Adjustment to allowance for adoption of ASU 2016-13	(584)	216	(390)	733	(682)	(351)	(1,058)
Provision for (recapture of) loan and lease losses	3,438	13	(731)	15	989	747	4,471
Charge-offs	(3,696)	--	--	--	(1,044)	--	(4,740)
Recoveries	339	--	--	--	327	--	666
Ending balance	$1,482	$1,107	$5,501	$849	$3,399	$747	$13,085

Prior to the adoption of ASU 2016-13 on January 1, 2023, the Company calculated the allowance for loan losses (ALLL) under the incurred loss methodology. The following table is a disclosure related to the allowance for loan losses in prior periods (dollars in thousands):

		Real Estate					
2022	**Commercial and Agricultural**	**Residential 1-4 Family**	**Commercial, Construction, and Farmland**	**Municipal**	**Consumer and Other**	**Unallocated**	**Total ALLL**
Beginning balance	$1,726	$953	$6,568	$119	$3,966	$442	$13,774
Provision for (recapture of) loan and lease losses	693	(75)	54	(18)	237	(91)	800
Charge-offs	(626)	--	--	--	(791)	--	(1,417)
Recoveries	192	--	--	--	397	--	589
Ending balance	$1,985	$878	$6,622	$101	$3,809	$351	$13,746
Period end amount allocated to:							
Loans and leases individually evaluated for impairment	$93	$322	$17	$--	$4	$--	$436
Loans and leases collectively evaluated for impairment	1,892	556	6,605	101	3,805	351	13,310
Ending balance	$1,985	$878	$6,622	$101	$3,809	$351	$13,746

Nonaccrual and Past Due Loans

A summary of loans and leases by age, segregated by class of loans and leases, as of December 31, 2023 and 2022, is as follows (dollars in thousands):

2023	**Loans and Leases 30-89 Days Past Due**	**Loans and Leases 90 or More Days Past Due**	**Total Past Due Loans and Leases**	**Current Loans and Leases**	**Total Loans and Leases**	**Accruing Loans 90 or More Days Past Due**
Commercial and agricultural	$1,719	$452	$2,171	$140,398	$142,569	$--
Residential 1-4 family real estate	349	50	399	107,431	107,830	--
Commercial, construction, and farmland real estate	184	--	184	442,104	442,288	--
Municipal	--	--	--	91,022	91,022	--
Consumer and other	1,156	53	1,209	257,535	258,744	4
Total	$3,408	$555	$3,963	$1,038,490	$1,042,453	$4

	Loans and Leases 30-89 Days Past Due	**Loans and Leases 90 or More Days Past Due**	**Total Past Due Loans and Leases**	**Current Loans and Leases**	**Total Loans and Leases**	**Accruing Loans 90 or More Days Past Due**
2022						
Commercial and agricultural	$941	$234	$1,175	$138,086	$139,261	$--
Residential 1-4 family real estate	154	139	293	110,739	111,032	--
Commercial, construction, and farmland real estate	801	152	953	417,925	418,878	--
Municipal	--	--	--	82,456	82,456	--
Consumer and other	1,104	55	1,159	252,955	254,114	14
Total	$3,000	$580	$3,580	$1,002,161	$1,005,741	$14

The following table provides information with respect to nonaccrual loans as of the years ended December 31, 2023 and 2022 (dollars in thousands):

	CECL December 31, 2023			Incurred Loss December 31, 2022
	Nonaccrual Loans with No Allowance	**Nonaccrual Loans with an Allowance**	**Total Nonaccrual Loans**	**Nonaccrual Loans**
Commercial and agricultural	$369	$253	$622	$576
Residential 1-4 family real estate	150	113	263	139
Commercial, construction, and farmland real estate	--	753	753	646
Municipal	--	--	--	--
Consumer and other	--	360	360	219
Total	$519	$1,479	$1,998	$1,580

Impaired Loans Prior Periods

Prior to the adoption of ASU 2016-13, loans were considered impaired when it was probable that all contractual principal and interest payments due would not be collected in accordance with the terms of the loan agreement. Factors considered by management in determining whether a loan was impaired included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

The Company's recorded investment in loans and leases as of December 31, 2022 related to each balance in the allowance for loan and lease losses by portfolio segment, and disaggregated on the basis of the Company's impairment methodology, was as follows (dollars in thousands):

		Real Estate				
	Commercial and Agricultural	**Residential 1-4 Family**	**Commercial, Construction, and Farmland**	**Municipal**	**Consumer and Other**	**Total Loans and Leases**
2022						
Loans and leases individually evaluated for impairment	$841	$3,639	$10,486	$--	$113	$15,079
Loans and leases collectively evaluated for impairment	138,420	107,393	408,392	82,456	254,001	990,662
Ending balance	$139,261	$111,032	$418,878	$82,456	$254,114	$1,005,741

The following table provides information with respect to impaired loans as of the year ended December 31, 2022 (dollars in thousands):

2022	**Unpaid Contractual Principal Balance**	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Total Recorded Investment**	**Related Allowance**	**Average Recorded Investment**
Commercial and agricultural	$841	$607	$234	$841	$93	$669
Residential 1-4 family real estate	3,639	693	2,946	3,639	322	3,835
Commercial, construction, and farmland real estate	10,486	10,322	164	10,486	17	10,596
Municipal	--	--	--	--	--	--
Consumer and other	113	23	90	113	4	101
Total	$15,079	$11,645	$3,434	$15,079	$436	$15,201

At December 31, 2022, there were no commitments to lend additional funds to borrowers whose loans have been impaired. Loans over 90 days past due still accruing interest totaled $14,000 at December 31, 2022.

No interest income was recognized on a cash basis for impaired loans for the year ended December 31, 2022. As of December 31, 2022, nonaccrual loans totaled $1,580,000. Nonaccrual loans are included in impaired loan totals. All other impaired loans were paying according to terms and were accruing interest income in 2022.

Credit Quality Indicators

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

Pass – asset is considered of sufficient quality to preclude a Special Mention or an adverse rating. Pass assets generally are well protected by the current net worth and paying capacity of the obligor, by the value of the asset, or the underlying collateral.

Special Mention – asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – asset is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have well-defined weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – asset has the weaknesses of those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the credit quality indicators for the Company's loan portfolio as of December 31, 2023 grouped according to internally assigned risk ratings and payment activity (dollars in thousands). Revolving loans that are converted to term loans are treated as new originations in the table below and are presented by year of origination.

	Term Loans by Year of Origination							
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total Loans and Leases**
Commercial and Agricultural								
Pass	$42,108	$35,055	$20,377	$6,621	$1,347	$3,751	$27,706	$136,965
Special Mention	80	2,399	871	305	12	21	334	4,022
Substandard	37	511	696	6	--	82	250	1,582
Doubtful	--	--	--	--	--	--	--	--
Total	$42,225	$37,965	$21,944	$6,932	$1,359	$3,854	$28,290	$142,569
Current period gross charge-offs	$83	$2,845	$579	$152	$20	$17	$--	$3,696
Residential 1-4 Family								
Pass	$3,435	$16,526	$10,969	$6,340	$4,340	$27,465	$35,518	$104,593
Special Mention	--	--	--	208	--	635	119	962
Substandard	11	100	387	6	113	1,346	312	2,275
Doubtful	--	--	--	--	--	--	--	--
Total	$3,446	$16,626	$11,356	$6,554	$4,453	$29,446	$35,949	$107,830
Current period gross charge-offs	$--	$--	$--	$--	$--	$--	$--	$--
Commercial, Construction, and Farmland								
Pass	$37,801	$57,287	$120,312	$107,301	$32,008	$60,852	$2,906	$418,467
Special Mention	81	350	11,896	--	239	107	--	12,673
Substandard	--	--	452	163	8,698	1,835	--	11,148
Doubtful	--	--	--	--	--	--	--	--
Total	$37,882	$57,637	$132,660	$107,464	$40,945	$62,794	$2,906	$442,288
Current period gross charge-offs	$--	$--	$--	$--	$--	$--	$--	$--

	Term Loans by Year of Origination							
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total Loans and Leases**
Municipal								
Pass	$23,940	$2,374	$20,057	$7,381	$9,410	$18,736	$9,124	$91,022
Special Mention	--	--	--	--	--	--	--	--
Substandard	--	--	--	--	--	--	--	--
Doubtful	--	--	--	--	--	--	--	--
Total	$23,940	$2,374	$20,057	$7,381	$9,410	$18,736	$9,124	$91,022
Current period gross charge-offs	$--	$--	$--	$--	$--	$--	$--	$--
Consumer and Other								
Pass	$84,526	$83,482	$38,444	$21,602	$9,100	$13,972	$3,157	$254,283
Special Mention	343	1,385	930	634	336	272	--	3,900
Substandard	79	210	145	31	11	85	--	561
Doubtful	--	--	--	--	--	--	--	--
Total	$84,948	$85,077	$39,519	$22,267	$9,447	$14,329	$3,157	$258,744
Current period gross charge-offs	$26	$552	$52	$58	$37	$319	$--	$1,044

Troubled Debt Restructurings Disclosures Prior to the Adoption of ASU 2022-02

Restructured loans are defined as the period end outstanding balance of loans that previously underwent a troubled debt restructuring that are not performing in accordance with restructured terms.

The following table presents by class troubled debt restructurings (TDRs) recorded during the year ended December 31, 2022 (dollars in thousands, except number of contracts):

2022	**Number of Contracts**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Commercial and agricultural	4	$390	$390
Residential 1-4 family real estate	1	104	104
Commercial, construction, and farmland real estate	4	378	378
Municipal	--	--	--
Consumer and other	4	26	26
Total*	13	$898	$898

*Amounts exclude specific loan loss reserves

The majority of TDRs are determined to be impaired prior to being restructured. As such, they are individually evaluated for impairment, unless they are considered homogeneous loans in which case they are collectively evaluated for impairment.

As of December 31, 2022, the Company had $341,000 in specific reserves on TDRs. The primary type of concession granted in all TDRs during 2022 was maturity extensions. There were no TDRs that were restructured and subsequently defaulted during 2022.

Modifications to Borrowers Experiencing Financial Difficulty Subsequent to the Adoption of ASU 2022-02

Occasionally, the Company will grant a concession to a borrower experiencing financial difficulty. Loan modifications to borrowers experiencing financial difficulty include principal forgiveness, interest rate reductions, other-than-insignificant payment delay, term extensions or any combination of these. There were no commitments to lend additional funds to borrowers experiencing financial difficulty at December 31, 2023.

The following table provides information with respect to the amortized cost of loans restructured during the twelve months ended December 31, 2023 (dollars in thousands):

2023	Combination: Payment Deferral and Term Extension	Term Extension	Total	Percentage of Total by Loan Category
Commercial and agricultural	$1,378	$250	$1,628	1.14%
Residential 1-4 family real estate	11	--	11	0.01%
Commercial, construction, and farmland real estate	81	--	81	0.02%
Municipal	--	--	--	--%
Consumer and other	--	--	--	--%
Total	$1,470	$250	$1,720	1.17%

Collateral Dependent Loans

The Company has some collateral dependent loans for which the Company will not be able to collect the scheduled payments, and repayment is expected to be provided substantially through the operation or sale of collateral.

The following table presents the amortized cost of collateral dependent loans as of December 31, 2023 (dollars in thousands):

2023	Commercial Property	Equipment	Total
Commercial and agricultural	$502	$1,377	$1,879
Residential 1-4 family real estate	--	--	--
Commercial, construction, and farmland real estate	9,529	--	9,529
Municipal	--	--	--
Consumer and other	--	--	--
Total	$10,031	$1,377	$11,408

Unfunded Commitments

The allowance for unfunded commitments is maintained at a level believed by management to be sufficient to absorb expected lifetime losses related to unfunded credit facilities, including unfunded loan commitments and letters of credit.

The following table details activity in the allowance for credit losses on unfunded commitments for the year ended December 31, 2023 under the CECL methodology (dollars in thousands):

	2023
Beginning balance	$256
Adjustment to allowance for adoption of ASU 2016-13	2,138
Provision for (recapture of) credit losses on unfunded commitments	(1,196)
Ending balance	$1,198

The Company recognized recapture of credit losses on unfunded commitments in 2023 as a result of a decrease in unfunded commitment balances. The decrease in balances of unfunded commitments was due to completion of construction projects. As funding occurs, the allowance for unfunded commitments is reduced and an increase in the allowance for credit losses on loans is calculated using the CECL methodology.

Note 5 - Premises and Equipment

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

	2023	2022
Land	$5,234	$5,234
Buildings and improvements	24,460	19,027
Furniture	5,873	5,745
Equipment	6,619	6,462
Assets in process	4	2,235
Total cost	42,190	38,703
Less accumulated depreciation	(21,173)	(20,428)
Total premises and equipment	$21,017	$18,275

As of December 31, 2023, there were no commitments for capital expenditures.

Depreciation expense was $2,171,000 and $1,975,000 in 2023 and 2022, respectively.

Note 6 – Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase consideration paid over the fair value of the assets acquired, net of the fair value of liabilities assumed in a business combination. The Company's goodwill totaled $7,576,000 as of December 31, 2023 and 2022.

The amortization schedule of intangible assets in connection with all previous Mitchell, Reed & Schmitten Insurance, Inc. acquisitions for future years ending December 31 is estimated as follows (dollars in thousands):

2024	$742
2025	705
2026	505
2027	488
2028	476
Thereafter	549
Total	$3,465

Note 7 – Mortgage Servicing Rights

Mortgage servicing rights are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSRs by risk stratification. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent reversals.

Mortgage loans serviced for others are not included on the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $417.2 million and $428.2 million at December 31, 2023 and 2022, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $3,000,000 and $2,761,000 at December 31, 2023 and 2022, respectively. The weighted average amortization period of the Company's servicing rights was 7.4 years and 7.8 years in 2023 and 2022, respectively. The Company receives mortgage servicing fees from customers for routine and contractually specified maintenance and servicing. Servicing fees earned were $1,064,000 and $1,084,000 in 2023 and 2022, respectively, and are included in mortgage banking operations on the consolidated statements of income.

The following summarizes the activity in mortgage servicing rights for the years ended December 31 (dollars in thousands):

	2023	2022
Balance as of beginning of year	$2,685	$2,802
Originations	174	365
Amortization	(323)	(482)
Adjustment valuation	--	--
Balance as of end of year	$2,536	$2,685

The estimated fair value of the Company's MSR portfolio was $5,198,000 and $5,577,000 at December 31, 2023 and 2022, respectively. Fair value of mortgage servicing rights is based on market prices for comparable mortgage servicing contracts when available. In periods of market inactivity, fair value is determined using a discounted cash flow analysis, utilizing observable market data with unobservable adjustments. The analysis takes into consideration existing conditions in the secondary servicing markets, such as prices from recently executed servicing transactions and market discount rates. The adjustments made to observable data include adjustments for delinquency and loss rates.

The following is a summary of key assumptions used in measuring the fair value of mortgage servicing rights for the years ended December 31:

	2023	2022
Constant prepayment rate	7.34%	6.58%
Discount Rate	10.00%	9.50%
Weighted average life	7.4 years	7.8 years

Note 8 - Deposits

The composition of deposits is as follows (dollars in thousands):

	Deposits at December 31		Interest Expense for the Years Ended December 31	
	2023	2022	2023	2022
Noninterest bearing demand deposits	$424,380	$457,666	$--	$--
NOW accounts	310,951	363,221	2,623	952
Money market and savings accounts	645,339	865,154	3,352	1,140
Time deposits greater than $250,000	144,346	55,465	4,313	594
Time deposits $250,000 or less	248,751	158,513	5,971	1,633
Total	$1,773,767	$1,900,019	$16,259	$4,319

Time deposits at December 31, 2023 are scheduled to mature as follows (dollars in thousands):

	Up to $250,000	Greater than $250,000
0 to 90 days	$65,418	36,005
91 to 365 days	11,454	1,215
1 year to 3 years	41,607	10,986
Over 3 years	130,272	96,140
Total	$248,751	$144,346

Total demand deposit overdrafts that have been reclassified to loans were $220,000 and $236,000 at December 31, 2023 and 2022, respectively.

The Company is a State of Washington Public Depository. All such public depositories are required to be members of Washington State's Public Deposit Protection Commission (PDPC). As such, when there is a loss of public funds at a member institution, those funds are in most instances insured to some extent by the federal government. To the degree a public deposit is not insured by the federal government, the PDPC will assess a claim first against the institution responsible for the loss and then against the pool of collateral held by other PDPC member institutions. Each institution is then responsible to pay its portion of the cost in proportion to the share of public funds held by that institution. The Company held $50,224,000 and $59,067,000 of public deposits as of December 31, 2023 and 2022, respectively.

Note 9 - Short-Term Borrowings

Securities sold under agreements to repurchase and line of credit advances from the Federal Home Loan Bank Des Moines represent short-term borrowings. On December 15, 2023, the Company borrowed $39.0 million from the FHLB with an interest rate of 5.49%. The borrowing is scheduled to mature on January 16, 2024. The Company entered into the borrowing agreement as part of an asset liability strategy to purchase available for sale securities that are then designated as fair value portfolio layer hedges. On January 16, 2024, the Company renewed the borrowing for $39.0 million from the FHLB for a 30-day period. The borrowing is anticipated to continue throughout 2024. Advances from the FHLB are collateralized under a blanket pledge agreement, and advances are payable at maturity date. The company is eligible to borrow up to a total of 45% of total assets.

At December 31, 2022 there were no outstanding balances for credit advances.

Securities sold under agreements to repurchase are secured by specific securities which, in all cases, the Company maintains control.

The following is a summary of securities sold under agreements to repurchase for the years ended December 31 (dollars in thousands):

	2023	2022
Ending balance at December 31	$9,858	$17,166
Average balance	$12,507	$31,538
Maximum month end balance	$15,598	$36,567
Weighted average interest rate:		
End of year	1.75%	0.20%
During the year	1.25%	0.20%
Amortized cost of underlying securities at December 31	$39,998	$48,347
Market value of underlying securities at December 31	$36,274	$42,770

Note 10 - Long-Term Borrowings

There were no long-term borrowings at December 31, 2023 and 2022.

Note 11 - Income Taxes

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

	2023	2022
Current	$6,030	$4,108
Deferred	190	(383)
State income taxes	(6)	93
Total income taxes	$6,214	$3,818

The following is a reconciliation of the statutory income tax rate to the effective income tax rate for the years ended December 31 (dollars in thousands):

	2023		2022	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	$7,192	21.0%	$6,262	21.0%
Increase resulting from:				
State income tax	53	0.2%	67	0.2%
Decrease resulting from:				
Tax-exempt income	(1,050)	(3.0)%	(1,854)	(6.2)%
Tax credits	(845)	(2.5)%	(561)	(1.9)%
Other	864	2.5%	(96)	(0.3)%
Total income tax expense	$6,214	18.2%	$3,818	12.8%

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

	2023	2022
Deferred tax assets		
Unrealized loss on securities available for sale	$14,137	$19,429
Unrealized loss on held to maturity securities	3,014	--
Allowance for credit losses	2,748	2,887
Deferred compensation	884	777
Other	1,321	716
Total deferred tax assets	22,104	23,809
Deferred tax liabilities		
Accumulated depreciation and amortization	$1,529	$1,552
Deferred loan costs	454	536
Mortgage servicing rights	532	564
FHLB dividends	26	136
Total deferred tax liabilities	2,541	2,788
Net deferred tax assets	$19,563	$21,021

Note 12 – Related-Party Transactions

In the ordinary course of business, the Company has transactions with related parties, including but not limited to: directors, principal officers, their immediate families, and affiliated companies in which they are principal shareholders. In the opinion of management, all related party transactions have been on the same terms as the terms for comparable transactions with outside parties.

The following table details the loan activity with related parties at December 31 (dollars in thousands):

	2023	2022
Beginning balance	$13,287	$13,362
New loans or advances during period	3,047	3,389
Repayments or reductions due to director retirement during period	(12,205)	(3,464)
Aggregate amount outstanding	$4,129	$13,287
Loan commitments	$6,265	$16,745
Related party deposits	$10,065	$8,826

Note 13 – Derivative Financial Instruments

Interest Rate Derivatives

The Company engages in interest rate swap agreements to manage and mitigate exposure to interest rate changes. These agreements allow the Company to minimize the impact of interest rate volatility on the Company's earnings and capital levels. Swap agreements also allow the Company to take advantage of time-sensitive changes in rates by providing a level of certainty in funding interest costs. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest rate swaps with notional amounts totaling $165.0 million as of December 31, 2023 were designated as fair value portfolio layer hedges of certain fixed rate available for sale debt securities. As of December 31, 2022, there were no interest rate swaps designated as fair value portfolio layer hedges of certain fixed rate available for sale debt securities. The notional amounts of interest rate swaps of certain fixed rate loans were $980,000 and $1,140,000 at December 31, 2023 and 2022, respectively. The hedges were determined to be effective during all periods presented. The Company expects the hedges to remain effective during the remaining terms of the swaps.

The Company pledged a certificate of deposit due from the counterparty as collateral for the interest rate swap of certain fixed rate loans. This certificate of deposit totaled $100,000 at December 31, 2023 and 2022.

The Company pledged a deposit due from the counterparty as collateral for interest rate swaps of certain fixed rate available for sale debt securities. This deposit totaled $1,000,000 at December 31, 2023. As of December 31, 2022, there was no collateral pledged for interest rate swaps of certain fixed rate available for sale debt securities.

The following table reflects the derivatives recorded on the balance sheet as of December 31 (dollars in thousands):

	2023		2022	
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Derivative assets				
Interest rate swaps	$25,980	$116	$1,140	$4
Total	$25,980	$116	$1,140	$4
Derivative liabilities				
Interest rate swaps	$139,976	$1,646	$--	$--
Total	$139,976	$1,646	$--	$--

The Company's asset derivatives are included in other assets, while the liability derivatives are included in other liabilities on the consolidated balance sheet.

The net gains recognized in interest income related to interest rate swaps outstanding at December 31 were as follows (dollars in thousands):

	2023	2022
Interest on securities available for sale		
Increase in fair value of interest rate swaps hedging securities available for sale	$31	$--
Receivable on interest rate swaps	1,359	--
Net gain recognized in interest income on securities available for sale	$1,390	$--
Interest on loans and leases		
Increase in fair value of interest rate swaps hedging loans receivable	$--	$--
Receivable (payment) on interest rate swaps	15	(27)
Net gain (loss) recognized in interest income on loans and leases	$15	$(27)

The following amounts were recorded on the balance sheet related to cumulative basis adjustments for fair value hedges as of December 31 (dollars in thousands):

	Carrying Amount of the Hedged Assets (Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment included in the Carrying Amount of the Hedged Assets (Liabilities)	
	2023	2022	2023	2022
AFS securities	$275,250	$--	$1,783	$--
Loans receivable	970	1,136	10	4
Total	$276,220	$1,136	$1,793	$4

The carrying value of the hedged assets represents the amortized cost basis of the assets underlying the hedge relationship net of the fair value hedge adjustment. At December 31, 2023 and 2022, the amortized cost basis of the closed portfolios used in these hedging relationships was $278,013,000 and $1,140,000, respectively.

Note 14 - Commitments and Contingencies

Credit

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for balance sheet instruments. A summary of the Company's commitments at December 31 is as follows (dollars in thousands):

	2023	2022
Commitments to extend credit		
Credit card lines	$39,210	$34,955
Commercial real estate, construction and development	30,969	56,946
Home equity lines of credit	68,076	68,120
Other	82,830	85,866
Total commitments to extend credit	$221,085	$245,887
Standby letters of credit	$50	$63

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that between approximately 10% and 25% of loan commitments are drawn upon by customers. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Associated with the unfunded commitment, the Company has established a loss reserve as of December 31, 2023 and 2022 in the amount of $1,198,000 and $256,000, respectively.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. In certain circumstances collateral is deemed necessary to secure the commitment.

Legal

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

Borrowing Facilities

The Company has agreements with commercial banks for lines of credit totaling $74.0 million, none of which was used at December 31, 2023. The Company has a credit line with the Federal Home Loan Bank of Des Moines for up to 45% of assets. As of December 31, 2023, the current borrowing capacity was approximately $254.7 million due to the Company's eligible collateral pledge, $39.0 million of which was used at December 31, 2023. This line is secured with a Blanket Pledge Agreement with the Federal Home Loan Bank (Note 9). The Company also has a credit line with the Federal Reserve Bank secured by pledged securities. As of December 31, 2023, the borrowing capacity with the Federal Reserve Bank was $104.6 million, none of which was used at December 31, 2023.

Investments

The Company entered into a subscription agreement to purchase one unit at $1,000,000 for an interest in Homestead Western Communities Fund Limited Partnership (HWCF) for which funding has been completed. HWCF has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments which are located in the states of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,"* and a pass-through loss of $1,000 and $5,000 was recorded during 2023 and 2022, respectively. HWCF was dissolved in September 2023. At December 31, 2023 and 2022, the Company's partnership equity was $11,000 and $12,000, respectively, and is included in other assets.

The Company entered into a subscription agreement to purchase five units at $1,000,000 per unit for an interest in Homestead Equity Fund X Limited Partnership (HEF-X). HEF-X has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments primarily located in the states of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,"* and a pass-through loss of $527,000 and $565,000 was recorded during 2023 and 2022, respectively. At December 31, 2023 and 2022, the Company's partnership equity was $859,000 and $1,310,000, respectively.

The Company entered into a subscription agreement to purchase one and a half units at $1,000,000 per unit for an interest in CREA Corporate Tax Credit Fund 72, LLC (CREA). CREA has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments nationwide. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,"* and a pass-through loss of $105,000 and $87,000 was recorded during 2023 and 2022, respectively. At December 31, 2023 and 2022, the Company's partnership equity was $1,075,000 and $1,149,000, respectively.

The Company's remaining contractual contribution for CREA Corporate Tax Credit Fund 72, LLC (CREA) of $77,000 is expected to be paid as follows (dollars in thousands):

2024	$2
2025	33
2026	5
Thereafter	37
Total	$77

Employment Agreements

The Company has entered into employment contracts with certain key employees, which provide for contingent payments subject to future events. These agreements are discussed in Note 16.

Note 15 – Significant Concentration of Credit Risk

Most of the Company's business activity is with customers located in the state of Washington. Investments in state and municipal securities involve government entities primarily within the state. At December 31, 2023, 7.83% of total loans outstanding were for construction related projects. At December 31, 2023, 1.09% of total loans outstanding were residential lot development loans.

Loans are generally limited, by state banking regulations, to 20% of the Company's capital to any one borrower, excluding accumulated other comprehensive income. At December 31, 2023 the Company's legal lending limit was $54,052,000. Standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of practice, generally does not extend credit to any single borrower or group of related borrowers in excess of $27,500,000. At December 31, 2023, no borrowing relationship was in excess of this limit.

Note 16 - Employee Compensation Plans

Cashmere Valley Bank Stock Option Plan

The Bank has a stock option plan under which directors and certain key employees have been granted options to purchase shares of common stock. Under the plan, 143,174 options were available for grant at December 31, 2023. Options have an exercise price equal to the fair market value of the stock as of the date of grant. In 2018, the Bank adopted a vesting schedule with no vesting on grant date and 20% vesting on each of the five subsequent anniversaries of the grant. Options have a maximum contractual term of ten years. The Black-Scholes model requires the use of assumptions noted in the following table. The dividend yield is based on the Bank's actual and expected dividends paid to shareholders. The Bank uses historical data to estimate the expected life, which represents the period of time the options are expected to be outstanding. Expected stock price volatility is based on the Bank's historical stock price, adjusted for dividends. The risk-free interest rate is based on the U.S. Treasury yield curve rate in effect at grant date with average equivalent term.

The fair value of each option was estimated on the date of grant based on the Black-Scholes option pricing model and used the following weighted average assumptions:

	2023	**2022**
Dividend yield	2.95%	2.27%
Expected life	6.5 years	6.5 years
Risk-free interest rate	3.70%	3.19%
Expected volatility	23.85%	23.91%

A summary of the status of the Bank's stock option plan as of December 31, 2023, and changes during the years ending on those dates, is presented below:

2023	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Fair Value at Grant**
Outstanding at beginning of year	115,846	$54.88	$10.46
Granted	14,958	47.07	10.06
Exercised	--	--	--
Canceled	4,817	54.17	10.70
Outstanding at end of year	125,987	$54.02	$10.40

2023	Shares	Weighted Average Exercise Price	Weighted Average Fair Value at Grant
Vested and expected to vest	125,435	$54.02	$10.40
Options exercisable at year end	74,216	$54.58	$10.28

The following table summarizes the stock options outstanding and exercisable at December 31, 2023:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$ 25.00 – 40.00	6,700	0.33	$35.00	6,700	0.33	$35.00
$ 40.01 – 50.00	32,443	8.69	$45.60	6,000	7.57	$44.39
$ 50.01 – 58.50	40,400	5.02	$54.83	29,847	4.51	$54.39
$ 58.51 – 72.50	46,444	5.28	$61.93	31,669	4.87	$60.83
Balance at December 31, 2023	125,987	5.81	$54.02	74,216	4.53	$54.58

At December 31, 2023 and 2022, the total intrinsic value of options outstanding was $282,000 and $83,000, respectively. Weighted average remaining contractual life of options vested and expected to vest is 6.50 years. No options included in the Bank's stock option plan were exercised in 2023. The total intrinsic value of the options exercised during 2022 was $43,000. Total proceeds from options exercised in 2022 was $169,000. The Bank recorded a tax benefit of $4,000 in 2022 due to disqualifying dispositions on stock options exercised.

At December 31, 2023, unrecognized compensation expense related to unvested options totaled $420,000 and is expected to be recognized over a weighted average period of 26 months. During 2023, 16,201 options vested with a weighted average fair value at grant date of $10.21. During 2022, 12,630 options vested with a weighted average fair value at grant date of $9.74. Total expense recognized by the Bank for stock options for the years ended December 31, 2023 and 2022 was $180,000 and $145,000, respectively.

Cashmere Valley Bank Restricted Stock Plan

Restricted stock awards are generally scheduled to vest over a three to five-year period, with the unearned compensation related to restricted stock amortized to expense on a straight-line basis adjusted for estimated forfeitures. Unrecognized compensation cost related to unvested restricted stock awards in 2023 and 2022 totaled $1,000 and $7,000, respectively. Total expense recognized by the Bank for restricted stock awards for the years ended December 31, 2023 and 2022 was $7,000 and $14,000, respectively.

The following table summarizes the Bank's restricted stock awards activity:

	Shares	Weighted Average Fair Value at Grant
Outstanding at December 31, 2021	240	$59.97
Granted	125	$67.55
Vested	(225)	$64.23
Outstanding at December 31, 2022	140	$59.90
Granted	30	$44.36
Vested	(130)	$56.45
Outstanding at December 31, 2023	40	$59.45

As of December 31, 2023, there were 40 outstanding restricted stock awards scheduled to vest in 2024.

Mitchell, Reed & Schmitten Insurance, Inc. Stock Option Plan

In 2022, Mitchell, Reed & Schmitten Insurance, Inc. approved a new stock option plan under which certain key employees have been granted options to purchase shares of common stock. Under the plan, MRS may grant options of its common stock to certain key employees up to 2,000 shares. At December 31, 2023, 625 shares were available for grant. Options have an exercise price equal to a valuation of the stock as of the date of grant. Options have a maximum contractual term of ten years. Options vest over a period of five to nine years, specific to the terms of individual agreements. The Black-Scholes model requires the use of assumptions noted in the following table. The dividend yield is based on MRS's actual and expected dividends paid to shareholders. MRS uses historical data of peer groups to estimate the expected life, which represents the period of time the options are expected to be outstanding. Expected stock price volatility is based on the historical stock price of peer groups, adjusted for dividends. The risk-free interest rate is based on the U.S. Treasury yield curve rate in effect at grant date with average equivalent term.

The fair value of each option issued in 2022 was estimated on the date of grant based on the Black-Scholes option pricing model and used the following weighted average assumptions:

	2022
Dividend yield	13.39%
Expected life	6.3 years
Risk-free interest rate	3.78%
Expected volatility	26.52%

A summary of the status of the MRS's stock option plan as of December 31, 2023, and changes during the years ending on those dates, is presented below:

2023	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Fair Value at Grant**
Outstanding at beginning of year	1,160	$1,190	$43.89
Granted	--	--	--
Exercised	322	1,190	44.15
Outstanding at end of year	838	$1,190	$43.80

2023	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Fair Value at Grant**
Vested and expected to vest	838	$1,190	$43.80
Options exercisable at year end	--	$--	$--

The total intrinsic value of the options exercised during 2023 was $50,000. Weighted average remaining contractual life of options vested and expected to vest is 5.21 years. Total proceeds from options exercised in 2023 was $383,000.

At December 31, 2023, unrecognized compensation expense related to unvested options totaled $36,000 and is expected to be recognized over a weighted average period of 37 months. During 2023, 177 options vested with a weighted average fair value at grant date of $44.02. Total expense recognized by MRS for stock options for the years ended December 31, 2023 and 2022 was $8,000 and $7,000, respectively.

Mitchell, Reed & Schmitten Insurance, Inc. Restricted Stock Plan

Restricted stock awards are scheduled to vest over a five-year period, with the unearned compensation related to restricted stock amortized to expense on a straight-line basis adjusted for estimated forfeitures. Unrecognized compensation cost related to unvested restricted stock awards in 2023 totaled $152,000. Total expense recognized by MRS for restricted stock awards for the years ended December 31, 2023 and 2022 was $51,000 and 53,000, respectively.

The following table summarizes the MRS's restricted stock awards activity:

	Shares	Weighted Average Fair Value at Grant
Outstanding at December 31, 2021	--	$--
Granted	215	$1,190.00
Vested	(43)	$1,190.00
Outstanding at December 31, 2022	172	$1,190.00
Granted	--	$--
Vested	(43)	$1,190.00
Outstanding at December 31, 2023	129	$1,190.00

Scheduled vesting for outstanding restricted stock awards as of December 31, 2023 is as follows:

2024	43
2025	43
2026	43
Total	129

Profit-Sharing Plans

The Company has a 401(k) employee benefit plan for those employees who meet eligibility requirements set forth in the plan. Eligible employees may contribute up to 100% of their compensation, subject to certain IRS limits. The Company provides a Safe Harbor match of 100% of the first 4% contributed by participants, subject to certain IRS limits. The Company contributed $725,000 and $683,000 in 2023 and 2022, respectively.

Incentive compensation is awarded to certain employees based on the financial performance of the Company. Cash bonuses were awarded pursuant to a formula targeted on the Company achieving certain performance goals for the years ended in 2022 and 2021, with the amounts awarded in 2023 and 2022. Amounts awarded under the plan in 2023 and 2022 were $1,169,000 and $1,066,000, respectively.

Deferred Compensation Plan

The Company offers a non-qualified deferred compensation plan to members of the Board of Directors and certain employees. The plan permits each participant to defer a portion of their director fees, non-qualified retirement contributions, salary, commissions, or bonuses for future receipt. Earnings and contributions are fully vested upon contribution. The Company also offers a company funded deferred compensation plan to certain key employees. Under this plan, annual contributions are made and interest is expensed. The plan has cliff vesting at January 1, 2031. As of December 31, 2023 and 2022, liabilities recorded in connection with deferred compensation plan benefits totaled $4,211,000 and $3,698,000, respectively. Compensation is charged to expense in the period earned. For the years ended December 31, 2023 and 2022, the Company recognized $334,000 and $257,000 in expense, which represented the plan earnings or planned contributions subject to vesting criteria in accordance with the deferred compensation agreements.

Insurance

The Company provides certain health care, disability, and life insurance benefits for current employees. The cost of health care benefits for employees is recognized as expense when paid. Life insurance benefits for employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of providing such benefits by expensing the monthly insurance premiums. For 2023 and 2022, the cost of providing health care, disability, and life insurance benefits was $2,757,000 and $2,719,000, respectively.

Note 17 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company maintain minimum amounts and ratios of Tier 1 capital to total average assets and minimum ratios of Tier 1 and total capital to risk-weighted assets.

In July 2013, the Board of Governors of the Federal Reserve System and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III). Under the final rules, which became effective for the Company on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements increased for both the quantity and the quality of capital held by the Company. The rules include a new Common Equity Tier 1 capital to risk-weighted assets ratio (CET1 ratio) of 4.5% and a capital conservation buffer of 2.5% above the regulatory minimum risk-based capital requirements, which fully phased in, effectively results in a minimum CET1 ratio of 7.0%. Basel III also (i) raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital to risk-weighted assets ratio of 8.5% when fully phased in); (ii) effectively results in a minimum total capital to risk-weighted assets ratio of 10.5% (with the capital conservation buffer fully phased in); and (iii) requires a minimum leverage ratio of 4.0%. Basel III also makes changes to risk weights for certain assets and off-balance sheet exposures.

As of December 31, 2023, the most recent notification from the Company's regulator categorized the Company as well capitalized under the regulatory framework for prompt corrective action.

The federal banking agencies jointly issued the Community Banking Leverage Ratio (CBLR) final rule effective January 1, 2020. The Company elected to use the CBLR framework effective January 1, 2020, which allows qualifying community banking organizations to calculate a leverage ratio to measure capital adequacy. A CBLR bank is deemed to have met the well-capitalized ratio requirements and complies with the general applicable capital rule. A qualifying community banking organization is defined as having less than $10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets.

The Company's leverage ratio is presented in the following table as of December 31. The Company met all CBLR requirements as of December 31, 2023 and 2022.

December 31, 2023	Actual Ratio	CBLR Minimum Ratio	Regulatory Minimum to be "Adequately Capitalized"	Regulatory Minimum to be "Well Capitalized"
Tier 1 leverage	12.38%	9.00%	4.00%	5.00%

December 31, 2022	Actual Ratio	CBLR Minimum Ratio	Regulatory Minimum to be "Adequately Capitalized"	Regulatory Minimum to be "Well Capitalized"
Tier 1 leverage	10.68%	9.00%	4.00%	5.00%

Restrictions on Retained Earnings

The Company is restricted from paying dividends in an amount that would decrease regulatory capital below the minimum amounts shown above.

Note 18 - Fair Value

The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. These fair value estimates are made at December 31, 2023 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price at which an asset could be sold, or the price for which a liability could be settled. However, given there is no active market or observable market transactions for many of the Company's financial instruments, the Company has made estimates of many of these fair values. Those estimates, which are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values.

Fair Value of Financial Instruments

The carrying amounts and estimated fair value of the Company's financial instruments are as follows (dollars in thousands):

		December 31, 2023		December 31, 2022	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and cash equivalents	1	$117,136	$117,136	$180,312	$180,312
Securities available for sale	1,2,3	650,905	650,905	670,077	670,077
Securities held to maturity	2	139,795	130,442	146,409	135,847
FHLB stock	2	3,008	3,008	2,669	2,669
Loans held for sale	2	4	4	142	142
Loans and leases, net	3	1,029,368	982,200	991,995	929,600
Mortgage servicing rights	3	2,536	5,198	2,685	5,577
Accrued interest receivable	2	9,411	9,411	8,199	8,199
Bank Owned Life Insurance	2	26,809	26,809	26,105	26,105
Interest rate swaps	2	116	116	4	4
Financial Liabilities					
Deposits	3	$1,773,767	$1,587,300	$1,900,019	$1,631,900
Borrowings	3	48,858	49,100	17,166	17,100
Interest rate swaps	2	1,646	1,646	--	--
Accrued interest payable	2	2,216	2,216	434	434

The Company assumes interest rate risk as a result of its normal operations. As a result of interest rate level changes, fair values of the Company's financial instruments may change in a direction that is either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

Securities Available For Sale

Available for sale securities totaling $650,905,000 are reported at fair value utilizing Level 2 inputs. The fair value of securities utilizing Level 1 inputs include listed stocks, bonds, funds or any other assets that have a liquid market and regular mark-to-market mechanism for establishing a fair value, as described in Note 1. The fair value of securities utilizing Level 2 inputs are based on quoted market prices of similar instruments and dealer quotes or determined using a present value income model that applies observable market-based inputs, as described in Note 1. The fair value of securities utilizing Level 3 inputs are based on pricing models or discounted cash flow methodologies, as described in Note 1. The fair values were obtained from an independent pricing service and internally validated. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus, prepayment speeds, credit information, and the bond's terms and conditions, among other things.

Interest Rate Swap Derivatives

The fair values of interest rate swap derivatives utilizing Level 2 inputs are estimated by an independent third-party using a discounted cash flow method based on current incremental rates for similar types of arrangements. For purposes of potential valuation adjustments to its derivative positions, the Company evaluates the credit risk of its counterparties as well as that of the Company. Accordingly, the Company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures, and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by considering the amounts of collateral securing the position. The Company reviews its counterparty exposure on a regular basis, and when necessary, appropriate business actions would be taken to adjust the exposures. The Company also uses this approach to estimate its own credit risk on derivative liability positions. The Company has not realized any significant losses due to a counterparty's inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The financial assets and liabilities measured at fair value on a recurring basis, separated by level in the fair value hierarchy, are as follows (dollars in thousands):

		Fair Value Measurement Using		
December 31, 2023	**Assets (Liabilities) Total**	**Level 1**	**Level 2**	**Level 3**
SBA loans backed by U.S. government agency	$19,480	$--	$19,480	$--
State and municipal securities	218,345	--	218,345	--
Collateralized mortgage obligations	213,903	--	213,903	--
Mortgage-backed securities	109,578	--	109,578	--
Student loans backed by U.S. government agency	46,193	--	46,193	--
Corporate securities	43,406	--	43,406	--
Total securities available for sale	$650,905	$--	$650,905	$--
Interest rate swap derivatives	$(1,530)	$--	$(1,530)	$--
December 31, 2022				
U.S. Treasury	$5,433	$5,433	$--	$--
SBA loans backed by U.S. government agency	18,302	--	18,302	--
State and municipal securities	290,858	--	290,858	--
Collateralized mortgage obligations	225,917	--	225,917	--
Mortgage-backed securities	64,103	--	64,103	--
Student loans backed by U.S. government agency	22,483	--	22,483	--
Corporate securities	42,981	--	26,795	16,186
Total securities available for sale	$670,077	$5,433	$648,458	$16,186
Interest rate swap derivatives	$4	$--	$4	$--

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs

Certain corporate securities are measured at fair value on a recurring basis using significant unobservable inputs during the reported periods. The Company uses either recent trades of that security or in most cases a valuation technique based on a spread over the U.S. Treasury curve to measure these securities at fair value. The significant unobservable inputs used in the fair value measurement of these securities primarily relate to the credit risk of the corporate security and the probability of default. As of December 31, 2022, the weighted-average rate was between 0.0% and 1.0%, for each unobservable input. A change in the significant unobservable inputs used in the fair value measurement to a different amount may result in a significantly higher or lower fair value measurement at the reporting date. Eight corporate securities with a fair value of $16,444,000 as of December 31, 2023 were transferred from Level 3 to Level 2 because observable market data became available for the securities.

The following table provides a reconciliation of the securities measured at a fair value using significant unobservable inputs (Level 3) on a recurring basis during the years ended December 31, 2023 and 2022. The unrealized gains and losses are included in the consolidated statements of comprehensive income.

	Corporate Securities
Balance at December 31, 2021	$17,549
Purchases	--
Total unrealized (losses)	(1,363)
Balance at December 31, 2022	$16,186
Purchases	--
Total unrealized gains	258
Transfers out of Level 3	(16,444)
Balance at December 31, 2023	$--

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table details assets measured at fair value on a nonrecurring basis by level in the fair value hierarchy as of December 31 (dollars in thousands):

		Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
December 31, 2023					
Other real estate owned	$97	$--	$--	$97	$--
Total	$97	$--	$--	$97	$--
December 31, 2022					
Other real estate owned	$--	$--	$--	$--	$--
Total	$--	$--	$--	$--	$--

Other real estate owned (OREO) represents collateral acquired through foreclosure and is recorded at fair value on a nonrecurring basis. The carrying value of OREO is adjusted based on updated real estate appraisals, which are based on current market conditions, less estimated costs to sell the property. The individual carrying value of these assets are reviewed for impairment at least annually. The Company considers any valuation inputs to be Level 3 inputs.

Note 19 – Shareholders' Equity and Earnings per Common Share

Earnings per Common Share

Earnings per common share is computed using the two-class method. Basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include unvested restricted stock awards because holders of these securities receive non-forfeitable dividends at the same rate as holders of the Company's common stock. Holders of restricted stock awards receive dividend equivalent payments for dividends paid during the performance period at the vesting date of the award based upon the number of units that ultimately vest. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share for the years ended December 31 (dollars in thousands, except share and per share amounts):

	2023	2022
Distributed earnings allocated to common stock	$6,603	$6,601
Undistributed earnings allocated to common stock	21,379	19,399
Net earnings allocated to common stock	$27,982	$26,000
Weighted average common shares outstanding - Basic	3,883,875	3,883,174
Dilutive effect of options outstanding	1,506	4,431
Weighted average common shares outstanding - Diluted	3,885,381	3,887,605
Earnings per common share – Basic	$7.20	$6.70
Earnings per common share – Diluted	$7.20	$6.69
“Out of the money” stock options	86,844	94,536

Stock Repurchase Plans

From time to time, the Company’s Board of Directors has authorized stock repurchase plans. In general, stock repurchase plans allow the Company to proactively manage its capital position and return excess capital to shareholders. Shares purchased under such plans also provide the Company with shares of common stock necessary to satisfy obligations related to stock compensation awards.

No shares were repurchased in 2023 or 2022.

Note 20 – Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized in noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2023 and 2022 (dollars in thousands). Items outside of the scope of ASC 606 are noted as such.

	2023	2022
Noninterest income		
Service charges on deposit accounts	$2,128	$2,130
Mortgage banking operations [1]	1,514	2,320
Net (loss) on sales of securities available for sale [1]	(4,818)	(8,179)
Brokerage commissions	999	1,136
Insurance commissions and fees	7,720	7,552
Net interchange income	4,743	3,997
Earnings from Bank Owned Life Insurance [1]	704	1,247
Remaining other [1]	1,320	1,463
Total noninterest income	$14,310	$11,666

(1) Not within scope of ASC 606

Deposit Service Charges

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

Debit and Credit Card Interchange Fee Income and Expenses

Debit and credit interchange income represent fees earned when a 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' card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Brokerage Revenue

Brokerage fees consist of fees earned from advisory asset management, trade execution and administrative fees from investments. Advisory asset management fees are variable, since they are based on the underlying portfolio value, which is subject to market conditions and asset flows. Advisory asset management fees are recognized quarterly and are based on the portfolio values at the end of each quarter. Brokerage accounts are charged commissions at the time of a transaction and the commission schedule is based upon the type of security and quantity. The amount of revenue earned is determined by the value and type of each instrument sold and is recognized at the time the policy or contract is written. In addition, revenues are earned from selling insurance and annuity policies.

Insurance Revenue

Insurance revenue consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance commission income is recognized at the later of the effective date of the insurance policy or billing date, net of adjustments. Such adjustments are recorded when the amount can be reasonably estimated, which is generally in the period in which they occur. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date. Contingent commissions are estimated and accrued relative to the recognition of corresponding commissions. Management determines a policy cancellation reserve based upon historical cancellation experience adjusted for any known circumstances. Subsequent commission adjustments were recognized upon receipt of notification from insurance companies concerning such adjustments.

Note 21 – Subsequent Events

The Company performed an evaluation of subsequent events through March 13, 2024, the date these consolidated financial statements were available to be issued.

On January 16, 2024, the Company’s Board of Directors approved a dividend of $0.85 per share, payable and paid on February 5, 2024, to shareholders of record as of January 26, 2024.

Directors and Officers

Board of Directors
Greg Oakes, Chairman
Kris Loomis, CPA
John Doyle
Keith Wiggins
Mike Neff
Krista Beck
Dale Hall

Administrative Officers
Greg Oakes, President & Chief Executive Officer
Mike Lundstrom, CPA/CIA, EVP & Chief Financial Officer
Jenny Pulver, EVP & Chief Retail Banking Officer
Steve Vradenburg, EVP & Chief Lending Officer
Sue Ozburn, EVP & Chief Information Officer

Mitchell, Reed & Schmitten Insurance Board of Directors
Greg Oakes, Chairman
Lori Reed
Mike Lundstrom
Laura Mounter
Brent Schmitten
Marc Heminger
Keith Wiggins

Finance
Kelly Melton, CPA, VP & Controller
Mario Gonzalez, CPA, AVP & Senior Accountant

Credit Administration
Ann Rankin, AVP & Credit Operations Supervisor
Kyle Bruggman, AVP & Assistant Credit Administrator

Internal Audit
Amanda Brown, VP & Internal Audit Manager

Compliance
Deidra Anderson, SVP & Compliance Officer
Kayla Ramirez, AVP & BSA Officer

Retail Operations and Personnel
Jennifer West, VP & Human Resources Director
Jeff Burton, VP & Retail Operations Officer
Christy Tomlinson, AVP & HR Generalist
Windy Gill, Operations Support Officer

Contract Purchasing and Equipment Leasing
Chris Ewer, SVP & Indirect Lending
Jeff Miller, VP & Dealer Finance Manager
Jessica Steinburg, Financial Services Supervisor
Thomas Christopherson, AVP & Loan Officer

Electronic Banking and Card Services
Carrie Gerdes, AVP & Treasury Management Officer
Angela Ward, Digital Banking Officer

Information Technology
Terri Howard, VP & Information Systems Operations Officer
Josh Castro, VP & Network Operations
Nicholas Moore, AVP & Information Security Officer
Antonio Castaneda, Database Administration Officer

Marketing
Jolene Bray, Marketing Officer

Municipal Banking
Thomas Brown, VP & Municipal Finance Manager

Cashmere Valley Mortgage
Kyle Lewis, SVP & Mortgage Production Manager
Megan Alaniz, Mortgage Operations Officer

Mitchell, Reed & Schmitten Insurance
Brent Schmitten, President & Chief Operations Officer

Cashmere Valley Wealth Management
Timothy Meyers, Division Director

Customer Support Center
Kari Mullins, Officer & CSC Supervisor

Cashmere Branch
Jana Flores, AVP & Retail Operations Officer

Maple Street, Wenatchee Branch
Steve Lee, SVP & Regional Manager
Kelly Walker, AVP & Retail Operations Officer
Andrew King, Loan Officer

Leavenworth Branch
Darrin Rylaarsdam, SVP & Regional Manager
Shawna Alexander, VP & Retail Operations Officer
Gary Waunch, AVP & Loan Officer

East Wenatchee Branch
Alex Cruz, VP & Manager
Edith Amante, AVP & Retail Operations Officer
Ricardo Zepeda, Loan Officer

Chelan Street, Wenatchee Branch
Tina Graham, Retail Operations Officer

Easy Street, Wenatchee Branch
Claudia De Robles, VP & Manager
Elizabeth Mejia, Retail Operations Officer

Ellensburg Branch
Pam Wilson, VP & Manager
Miriam Nation, Retail Operations Officer
Amanda Blackmore, Loan Officer

Cle Elum Branch
Caren Reed, Retail Operations Officer

Lake Chelan Branch
Stacy Willoughby, VP & Manager
Isaac Perez, Retail Operations Officer
Chantel Poole, Loan Officer

Yakima Avenue, Yakima Branch
Darren Reid, VP & Manager
Kailey Gutierrez, Retail Operations Officer

Union Gap, Yakima Branch
Taylor Stormo, SVP & Regional Manager
Sabrina Hall, Retail Operations Officer

Directory

Cashmere Valley Bank:

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www.cashmerevalleybank.com

Administrative Offices
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509-782-2624

Cashmere Branch
117 Aplets Way, Cashmere
509-782-1501

Maple Street, Wenatchee Branch
1100 Maple Street, Wenatchee
509-662-1644

Leavenworth Branch
980 Highway 2, Leavenworth
509-548-5231

East Wenatchee Branch
199 Valley Mall Parkway, East Wenatchee
509-884-0622

Chelan Street, Wenatchee Branch
124 South Chelan Avenue, Wenatchee
509-662-6633

Easy Street, Wenatchee Branch
127 Easy Street, Wenatchee
509-662-5071

Ellensburg Branch
101 West University Way, Ellensburg
509-925-3000

Cle Elum Branch
803 West 1st Street, Cle Elum
509-674-2033

Lake Chelan Branch
329 East Woodin Avenue, Chelan
509-682-7162

Yakima Avenue, Yakima Branch
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509-902-1352

Union Gap, Yakima Branch
2232 Goodman Road, Yakima
509-902-8720

Cashmere Valley Wealth Management
124 East Penny Road, Suite 102, Wenatchee
509-664-7168

Cashmere Valley Mortgage
127 Easy Street, Wenatchee
509-662-7722

Electronic Banking
124 East Penny Road, Suite 103, Wenatchee
509-664-5454

Valley Contract Servicing
124 East Penny Road, Suite 205, Wenatchee
509-664-5452

Card Services
124 East Penny Road, Suite 106, Wenatchee
Credit Cards 509-664-5455
ATM/Debit Cards 509-664-5453

Dealer Financing
124 East Penny Road, Suite 201, Wenatchee
509-664-3820

Equipment Finance Solutions
124 East Penny Road, Suite 202, Wenatchee
509-665-1088

Customer Support Center
124 East Penny Road, Wenatchee
509-665-1070

Municipal Banking
1400 112th Avenue SE, Suite 100, Bellevue
425-688-3935

Mitchell, Reed & Schmitten Insurance:

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www.mrandsinsurance.com

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124 East Penny Road Suite 101, Wenatchee
509-665-0500

Gellatly Insurance Services
22 North Chelan Avenue, Wenatchee
509-662-2151

Cashmere Office
117 Aplets Way, Cashmere
509-782-2751

Ellensburg Office
101 West University Way, Ellensburg
509-962-0902

Elliott Insurance Service
127 West Yakima Avenue, Suite 201, Yakima
509-248-7711

Leavenworth Office
980 Highway 2, Leavenworth
509-548-6050

Cle Elum Office
803 West 1st Street, Cle Elum
509-674-4433

Lee Insurance
11410 98th Avenue NE, Kirkland
425-576-0464

Gress-Kinney-Parrish (GKP) Insurance Center
2232 Goodman Road, Yakima
509-902-8720

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Cashmere Valley Bank

CASHMERE VALLEY
MORTGAGE

Cashmere Valley
WEALTH MANAGEMENT

Mitchell, Reed & Schmitten
INSURANCE, INC.