PBCO Financial Corp

REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

PBCO FINANCIAL CORPORATION

December 31, 2023 and 2022

Table of Contents

Note: These consolidated financial statements have not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

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MOSSADAMS

Report of Independent Auditors

The Board of Directors and Stockholders
PBCO Financial Corporation

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PBCO Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our 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 PBCO Financial Corporation 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, PBCO Financial Corporation changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses ("Topic 326")*. PBCO Financial Corporation adopted the new credit loss standard using the modified retrospective approach such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. 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 financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

Portland, Oregon
March 8, 2024

	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	$ 19,557,402	$ 15,886,562
Time deposits with other institutions	496,000	496,000
Investment securities, available-for-sale, at fair value; amortized cost of $173,145,374 and $267,408,885 at December 31, 2023 and 2022, respectivley	154,228,009	236,283,195
Federal Home Loan Bank (FHLB) stock	1,412,000	1,231,700
Loans held-for-sale	-	627,542
Factored accounts receivable, net of allowance for credit losses of $0 and $0 at December 31, 2023 and 2022, respectively	13,038,501	16,714,999
Loans, net of allowance for credit losses of $5,862,594 and $5,189,866 at December 31, 2023 and 2022, respectively, and unearned income	510,834,155	469,834,264
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	25,766,977	23,176,477
Right-of-use asset, net	4,256,513	4,756,769
Other real estate owned, net	206,072	286,072
Bank-owned life insurance (BOLI)	16,636,599	14,178,661
Goodwill	3,335,384	3,335,384
Investment in real estate joint venture	2,213,498	2,262,615
Deferred tax assets, net	7,127,610	10,235,190
Accrued interest receivable and other assets	4,243,894	4,944,835
Total assets	$763,352,614	$804,250,265
LIABILITIES		
Noninterest-bearing demand deposits	$272,944,725	$322,808,505
Interest-bearing demand and money market accounts	286,478,494	291,743,977
Savings deposits	42,439,573	61,509,636
Time deposits	27,917,762	16,733,087
Total deposits	629,780,554	692,795,205
FHLB Advances	20,650,000	5,000,000
Subordinated notes, net	24,530,182	24,470,504
Accrued interest payable and other liabilities	6,228,023	8,595,572
Lease liability	4,575,594	4,978,187
Total liabilities	685,764,353	735,839,468
COMMITMENTS AND CONTINGENCIES (Notes 8, 10, and 11)		
STOCKHOLDERS' EQUITY		
Common stock, $5 par value, 10,000,000 shares authorized; 5,327,035 and 5,325,035 shares issued and outstanding at December 31, 2023 and 2022, respectively	83,720,599	83,710,599
Surplus	2,387,448	2,609,462
Retained earnings	5,289,892	4,812,490
Accumulated other comprehensive income (loss)	(13,809,677)	(22,721,754)
Total stockholders' equity	77,588,261	68,410,797
Total liabilities and stockholders' equity	$763,352,614	$804,250,265

PBCO Financial Corporation
Consolidated Statements of Income

	Years Ended December 31, 2023	2022
INTEREST INCOME		
Interest and fees on loans	$ 27,576,409	$ 22,852,938
Asset-based financing income	3,916,119	6,070,957
Interest on investment securities	3,579,178	3,737,127
Interest on federal funds sold	751,525	1,026,734
Total interest income	35,823,231	33,687,756
INTEREST EXPENSE		
Interest-bearing deposit and savings accounts	4,874,159	716,223
Time deposit accounts	754,375	118,666
Other borrowings	2,694,170	890,313
Total interest expense	8,322,704	1,725,203
NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	27,500,527	31,962,553
PROVISION FOR CREDIT LOSSES	509,129	934,957
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	26,991,398	31,027,596
NONINTEREST INCOME		
Gain on sale of loans	468,834	1,004,475
Service charges and other fees	3,537,865	3,682,791
Mortgage loan fees	208,331	308,325
Loss on sale of OREO	-	(4,720)
Other noninterest income	926,568	826,049
Total noninterest income	5,141,598	5,816,920
NONINTEREST EXPENSE		
Salaries and employee benefits	15,126,324	14,795,682
Occupancy and equipment	4,016,551	3,686,973
Professional fees	818,621	956,419
Advertising and promotional	358,721	349,436
Data processing	915,747	920,035
OREO writedown	80,000	-
Loss on sale of investments	6,813,526	-
Other noninterest expense	2,688,301	2,965,510
Total noninterest expense	30,817,792	23,674,055
INCOME BEFORE PROVISION FOR INCOME TAXES	1,315,204	13,170,461
PROVISION FOR INCOME TAXES	336,692	3,313,578
NET INCOME	$ 978,512	$ 9,856,883
Basic earnings per share of common stock	$ 0.18	$ 1.92
Diluted earnings per share of common stock	$ 0.18	$ 1.92

	Years Ended December 31, 2023	Years Ended December 31, 2022
NET INCOME	$ 978,512	$ 9,856,883
Unrealized gains (losses) on securities available for sale		
Unrealized holding gains (losses) arising during the period, pre-tax	5,394,798	(29,060,742)
Tax effect of unrealized holding gains (losses) arising during the period	(1,456,595)	8,079,403
Reclassification for losses realized in earnings, pre-tax	6,813,526	-
Tax effect of reclassification adjustment for losses realized in earnings	(1,839,652)	-
Other comprehensive income (loss)	8,912,077	(20,981,339)
COMPREHENSIVE INCOME (LOSS)	$ 9,890,589	$ (11,124,455)

PBCO Financial Corporation
Statements of Changes in Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, December 31, 2021	5,057,211	$ 25,297,545	$ 36,042,613	$ 19,465,704	$ (1,740,415)	$ 79,065,447
Holding company reorganization and merger	-	57,073,935	(36,042,866)	(21,031,069)	-	-
Net income	-	-	-	9,856,883	-	9,856,883
Net unrealized loss on investment securities available-for-sale, net of taxes	-	-	-	-	(20,981,339)	(20,981,339)
Options exercised	3,103	15,515	1,179	-	-	16,694
Restricted stock grants issued	14,000	70,000	(70,000)	-	-	-
Stock-based compensation expense	-	-	458,464	-	-	458,464
Restricted stock forfeited	(1,910)	(9,550)	9,550			-
5% Stock Dividend	252,631	1,263,154	2,210,522	(3,479,028)		(5,352)
BALANCE, December 31, 2022	5,325,035	$ 83,710,599	$ 2,609,462	$ 4,812,490	$ (22,721,754)	$ 68,410,797
Net income	-	-	-	978,512	-	978,512
Effect of adoption of ASC 326				(501,111)		(501,111)
Net unrealized loss on investment securities available-for-sale, net of taxes	-	-	-	-	8,912,077	8,912,077
Stock repurchase for restricted grant awards	(49,500)	(247,500)	(382,437)			(629,937)
Restricted stock grants issued	51,500	257,500	(257,500)	-	-	-
Stock-based compensation expense	-	-	417,923	-	-	417,923
BALANCE, December 31, 2023	5,327,035	$ 83,720,599	$ 2,387,448	$ 5,289,892	$ (13,809,677)	$ 77,588,261

	Years Ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 978,512	$ 9,856,883
Adjustments to reconcile net income to net cash:		
Deferred income taxes	(3,325)	(884,389)
Provision for credit losses	509,129	934,957
Depreciation and amortization	1,320,710	1,242,759
Loss on sale of investment securities	6,813,526	-
Amortization of right-of-use asset	500,256	452,966
Stock-based compensation expense	417,923	458,464
Amortization of premiums on investment securities	692,608	877,039
Net appreciation of bank-owned life insurance	(499,308)	(377,615)
Gain on sale of loans	(468,834)	(1,004,475)
Proceeds from the sale of loans held-for-sale	23,787,088	42,501,368
Production of loans held-for-sale	(22,690,712)	(40,716,910)
Loss from sale on OREO	-	4,720
Loss from write down of OREO	80,000	-
Amortization of CDI	48,614	52,256
Amortization of CD Premium	(405)	(4,816)
Amortization of subordinated debt issuance costs	59,678	-
Changes in cash due to changes in certain assets and liabilities:		
Accrued interest receivable and other assets	652,328	(865,402)
Accrued interest payable and other liabilities	(2,773,366)	(269,935)
Decrease in lease liability	(402,593)	(412,289)
Net cash from operating activities	9,021,829	11,845,582
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	-	(62,248,871)
Proceeds from payments and calls of investment securities available-for-sale	37,378,820	37,665,785
Proceeds from sales of investment securities available-for-sale	49,378,556	-
Purchase of FHLB stock	(180,300)	(221,600)
Matured time deposits with other institutions	-	996,000
Net decrease in factored accounts receivable	3,676,498	10,484,769
Net (increase) in loans	(41,789,657)	(17,920,590)
Proceeds from sale of OREO	-	251,518
Purchase of BOLI	(1,958,630)	(41,964)
Distributions in excess of net income from real estate joint venture	49,117	49,117
Payments made for purchase of premises, equipment, and leasehold improvements	(3,911,210)	(1,371,079)
Net cash from investing activities	42,643,194	(32,356,916)

PBCO Financial Corporation
Statements of Cash Flows

	Years Ended December 31, 2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposit accounts	$ (63,014,246)	$ (71,429,308)
Proceeds from borrowings	15,650,000	2,000,000
Subordinated notes issued	-	24,470,504
Cash paid in lieu of fractional shares from stock dividend	-	(5,352)
Proceeds from stock options exercised	-	16,694
Stock repurchase for restricted grant awards	(629,937)	
Net cash from financing activities	(47,994,183)	(44,947,462)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,670,840	(65,458,796)
CASH AND CASH EQUIVALENTS, beginning of year	15,886,562	81,345,358
CASH AND CASH EQUIVALENTS, end of year	$ 19,557,402	$ 15,886,562
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 8,240,661	$ 1,429,068
Cash paid for taxes	$ 2,113,000	$ 4,380,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Change in fair value of investment securities available-for-sale, net of taxes	$ 8,912,077	$ (20,981,339)
Establish right-of-use asset	$ -	$ 953,479
Increase in lease liability	$ -	$ (953,479)

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

In July 1997, People's Bank of Commerce (the Bank) was incorporated and received regulatory approval to become a state-chartered institution authorized to provide banking services in the state of Oregon. The Bank is subject to the regulations of certain federal and state agencies and will undergo periodic examinations by those regulatory authorities.

The Bank, which is headquartered in Medford, Oregon, operates 11 full-service branches, providing banking services to businesses and individuals in Albany, Ashland, Central Point, Eugene, Grants Pass, Jacksonville, Klamath Falls, Lebanon, Medford, and Salem, Oregon, and surrounding areas.

On September 1, 2017, the Bank acquired all of the outstanding shares of Capital Associates, Inc. dba Steelhead Finance (Steelhead) for cash and exchange of the Bank's stock. Steelhead is an asset-based lender serving the commercial freight delivery industry as a factor of freight bills.

On March 1, 2021, the Bank acquired Willamette Community Bank in exchange for the Bank's stock and cash. Willamette Community Bank was originally founded in 2003 and operated three branches in Oregon's Willamette Valley, including Albany, Lebanon, and Salem. All three branches remained open after conclusion of the merger.

On February 28, 2022, PBCO Financial Corporation (Holding Company) was formed and completed a common control reorganization where it obtained 100% of the outstanding stock of the Bank. Due to continuity of business operations, the consolidated financial statements reflect the full year of activity of the Bank and Holding Company. Retained earnings reflect the accumulated net income subsequent to PBCO Financial Corporation's formation. The consolidated financial statements include the accounts of the Holding Company and its wholly owned subsidiary, the Bank (collectively, the Company). All material intercompany balances and transactions have been eliminated in the consolidation.

The Company declared a 5% stock dividend during 2022. All per share amounts and calculations in the accompanying consolidated financial statements have been restated to reflect the effects of these stock dividends. No stock dividends were declared in 2023.

Management's estimates and assumptions

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets, and revenues and expenses for the reporting periods. Actual results could differ significantly from management's estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of investment securities available-for-sale, other real estate owned, deferred tax assets, and the fair value of financial instruments.

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

Cash and cash equivalents

Cash equivalents are generally short-term investments with a maturity of three months or less. Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold within a one-day period.

The Company maintains balances in correspondent bank accounts which, at times, may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of correspondent banks. The Company has not experienced any losses in such accounts.

Investment securities

The Company is required to specifically identify its investment and debt securities as “available-for-sale,” “held-to-maturity,” or “trading accounts.” The Company holds no trading securities. However, debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale and recorded at fair value. Premiums and discounts are recognized in interest income using the effective interest method over the period to maturity.

Available-for-sale securities consist of bonds, notes, and debentures. Securities are generally classified as available-for-sale if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Unrealized holding gains and losses, net of taxes, on available-for-sale securities are reported as a net amount in a separate component of equity until realized.

Fair values for these investment securities are based on quoted market prices. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Transfers of securities from held-to-maturity to available-for-sale are accounted for at amortized cost as of the date of the transfer. Fair value adjustments are recognized in other comprehensive income (loss) at the time of the transfer and, thereafter, among unrealized gains or losses recognized for all securities classified as available-for-sale.

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

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

Factored accounts receivable, net of allowance for credit losses

To help ensure collection of accounts receivable, Steelhead may require factoring clients to maintain factoring reserves of 5% to 20% of their monthly factoring activity. The factored accounts receivable are secured and a reserve has been established in the Company's Allowance for Credit Losses. As of December 31, 2023 and 2022, the allowance was $27,032 and $140,396, respectively. Management estimates the allowance for credit losses based on historical bad debt and losses and aging of current receivable balances. Management considers accounts to be past due after 60 days without a payment. Management's only measure of credit quality for factored accounts receivable is days past due. The amount of factored accounts receivable past due as of December 31, 2023 and 2022, was insignificant.

Loans held-for-sale

Mortgage loans held-for-sale are carried at the lower of cost or estimated market value. Market value is determined on an aggregate loan basis. Market value adjustments that reduce the carrying value of loans held-for-sale are recorded within a valuation allowance account and charged to noninterest income. Servicing is released when the loans are sold. The bank discontinued operations of its mortgage division in 2023 and did not carry any held-for-sale loans as of December 31, 2023.

Loans, net of allowance for credit losses, and unearned income

In the normal course of business, the Company originates and services loans receivable from borrowers. Loans are stated at the amount of unpaid principal, net of an allowance for credit losses, and net of deferred loan fees or costs. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed and recoveries are credited to the allowance when received. In the case of recoveries, amounts may not exceed the aggregate of amounts previously charged off.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates and property values.

Accrued interest receivable is excluded from the estimate of credit losses for loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods: Real estate, commercial, construction, and consumer.

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

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are excluded in the collective evaluation. When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs.

When the discounted cash flow method is used to determine the allowance for credit losses, management does not adjust the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

Expected credit losses are estimated over the contractual term of loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date than an extension or renewal option are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposure is adjusted through a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The estimate utilizes the same factors and assumptions as the allowance for credit losses on loans and is applied at the same collective cohort level.

Premises, equipment, and leasehold improvements
Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, or lease term in the case of leasehold improvements, which range from 2 to 40 years.

Other real estate owned
Property and assets acquired through foreclosure or deed in lieu of foreclosure are initially recorded at fair value and are subsequently stated at the lower of the carrying value of the loan or the fair value of the assets received, less estimated costs to sell, at the date the asset is acquired. Adjustments that reduce loan balances to the lower carrying value at the time of foreclosure are recognized as charge-offs in the allowance for loan losses. Subsequent impairment write-downs to net realizable value, if any, or any disposal gains or losses are included in noninterest income or expense. Costs relating to the development and improvement of property are capitalized and holding costs are charged to expense as incurred.

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

Revenue from contracts with customers

The Company accounts for revenue arising through contracts with customers under the guidance of the Financial Accounting Standards Board's Accounting Standards Codification Topic 606 ("ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges, debit and ATM interchange income, merchant fee income, credit card and interchange income, and gain (loss) on other real estate owned, net. Refer to Note 12 – Revenue from Contracts with Customers for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

Federal Home Loan Bank (FHLB) stock

At December 31, 2023 and 2022, the Company held FHLB stock with a par value of $1,412,000 and $1,231,700, respectively. As a member of the FHLB system, the Company is required to maintain a minimum investment level in FHLB stock based on specific percentages of the Company's outstanding mortgages, total assets, or FHLB advances. These securities are reported at par value, which represents the Company's cost.

Stock in the FHLB of Des Moines is classified as restricted stock and is evaluated for impairment based on ultimate recoverability. The determination of whether the investment is impaired is based on the Company's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. Management concluded that the Company's FHLB stock investment was not impaired as of December 31, 2023 or 2022.

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

Investment in real estate joint venture

During 2011, the Company entered a joint venture with another investor in a limited liability company formed to manage the construction and ownership of a commercial building that the Company has utilized for operations. The Company has accounted for its initial investment at 50% of total costs incurred to construct the new building. Following completion of construction and occupancy of the building, the Company accounts for its investment in the limited liability company by following the equity method of accounting. Under this accounting treatment, the Company recognizes its proportionate share of earnings and losses as a component of noninterest expense. During 2023 and 2022, the Company recognized net income from its investment in the limited liability company of $148,883 in each year.

Goodwill

Goodwill arises from business combinations and represents the fair value of assets acquired net of liabilities assumed that exceeds the consideration provided at the acquisition date. Goodwill is not amortized, but instead is measured for impairment annually and when impairment is determined to exist, goodwill is written down through a charge to earnings. The Company performs impairment testing at least annually to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Income taxes

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. Changes in enacted tax rates result in a revaluation of deferred tax assets and liabilities through the income tax provision in the period that the tax rate changes are enacted. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company does not anticipate that any amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. Additionally, the Company recognizes interest and penalties related to income tax matters in income tax expense, although there were no interest and penalties recognized for the years ended December 31, 2023 and 2022.

Off-balance sheet financial instruments

The Company holds no derivative financial instruments. However, in the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

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

Asset-based financing income

Asset-based financing income on factored accounts receivable includes service fees and finance income. Service fee income from freight bills and other factored receivables purchased is calculated as a percentage of receivables purchased from clients plus a variable or fixed charge per bill. Finance income from factored receivables is recognized as income over the period the related factored receivables are outstanding. Fees charged vary among clients and are based upon a credit evaluation and expected profit contribution to Steelhead from each client.

Service charges and other fees on other deposit accounts

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.

Advertising and promotional expenses

Advertising and promotional costs are charged to expense during the period in which they are incurred.

Earnings per share

Basic earnings per share is computed by dividing net income available to stockholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock dividends and splits. Outstanding shares includes shares issued to the Employee Stock Ownership Plan and granted restricted stock. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include dilutive common equivalent shares for stock options assumed to be outstanding during the period utilizing the treasury-stock method.

Stock compensation plans

The Company has adopted stock-based compensation plans and recognizes compensation expense based on the fair value of options or restricted stock awards on the date of grant. Share-based awards that do not require future service (i.e., fully vested awards at grant date) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period. The phantom stock plans are settled in cash, based on the stock price on the vesting date, as they vest annually. The Company recognizes share-based compensation expense on a straight-line basis.

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

Leases

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses an incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

The lease agreements relate to real estate and generally provide that the Company pay taxes, insurance, maintenance and certain other operating expenses applicable to the leased premises. Variable lease components and non-lease components are not included in the Company's computation of the ROU asset or lease liability. The Company also does not include short-term leases in the computation of the ROU asset or lease liability. Short-term leases are leases with a term at commencement of 12 months or less. Short-term lease expense is recorded on a straight-line basis over the term of the lease. Lease agreements do not contain any residual value guarantees or restrictive covenants.

Certain leases have renewal options at the expiration of the lease terms. Option periods are included in the computation of the lease term for ROU assets or lease liabilities if the Company is reasonably assured to utilize the locations through those periods.

Bank-owned life insurance

The Company holds life insurance policies that provide protection against the adverse financial effects that could result from the death of current and former employees and provide tax deferred income. Although the lives of individual current or former management level employees are insured, the Company is the owner and is split beneficiary on certain policies. The Company is exposed to credit risk to the extent an insurance company is unable to fulfill its financial obligations under a policy. Split dollar life insurance is recorded as an asset at cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other noninterest income and are not subject to income tax.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. The Company has assessed that partial sales of financial assets meet the definition of participating interest. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company and the transferee obtains the right (free of conditions that constrain it from taking advantage of that right beyond a trivial benefit) to pledge or exchange the transferred assets. Gains or losses are recognized in the period of sale upon derecognition of the asset.

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

Fair value measurements
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

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

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

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The Company's own data used to develop unobservable inputs shall be adjusted for market consideration when reasonably available.

The Company used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value on a recurring or nonrecurring basis in the accompanying financial statements:

Investment securities available-for-sale – Investment securities available-for-sale are measured and carried at fair value on a recurring basis. For these securities, the Company obtains fair value measurements from an independent pricing service. 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 (Level 1). When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing (Level 2).

Collateral-dependent loans – Collateral-dependent loans are measured and adjusted to fair value on a nonrecurring basis. Collateral-dependent loans are measured for impairment at the present value of expected future cash flows discounted at the loan's effective interest rate (Level 3), the loan's market price (Level 2), or the fair value of the collateral based on independent appraisals, less costs to sell, if the loan is collateral dependent (Level 3).

Other real estate owned – Other real estate owned is measured and adjusted to fair value on a nonrecurring basis. On the date that other real estate owned is received in satisfaction of a loan receivable, it is measured at fair value, less cost to sell, based on recent independent appraisals (Level 3). Subsequent to the acquisition date, it is measured for impairment and written down to its fair value, less costs to sell, based on updated independent appraisals (Level 3).

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

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. Consequently, the fair value of the Company's financial instruments will change when interest rate levels change, and that change may be 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.

New Accounting Pronouncements

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

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in an increase to our allowance for credit losses on loans of $280,637, an increase of $405,817 to our allowance for unfunded commitments, and a net-of-tax cumulative-effect adjustment of $501,111 to decrease the beginning balance of retained earnings.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration (PCD) that were previously classified as purchase credit impaired (PCI) and accounted for under ASC 310-30. In accordance with ASC 326, management did not reassess whether PCI assets met the criteria for PCD assets as of the date of adoption. On January 1, 2023, the amortized cost basis of PCD assets were adjusted to reflect the addition of $0 to the allowance for credit losses. The remaining noncredit discount (based on the adjusted amortized cost basis) will be accreted into interest income at the effective interest rate as of January 1, 2023.

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

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

The Company finalized the adoption of ASC 326 as of January 1, 2023, as detailed in the following table:

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
Real Estate	$ 3,233,026	$ 3,080,395	$ 152,632
Commercial	758,887	1,040,065	(281,178)
Construction	1,425,600	143,099	1,282,501
Consumer	52,990	88,649	(35,658)
Unallocated	-	837,659	(837,659)
Allowance for credit losses on loans	$ 5,470,503	$ 5,189,866	$ 280,637
Liabilities:			
Reserve for unfunded commitments (accrued interest payable and other liabilities)	$ 678,582	$ 272,765	$ 405,817

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported net income, earnings per share, or retained earnings.

Subsequent events
Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued. The Company has evaluated subsequent events through March 8, 2024, which is the date the financial statements became available to be issued.

Note 2 – Investment Securities

Investment securities consisted of the following as of December 31, 2023 and 2022:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment securities available-for-sale				
U.S. Treasury & government agency obligations	$ 41,969,367	$ -	$ (2,698,185)	$ 39,271,182
SBA backed securities	512	-	(4)	508
Residential mortgage backed securities	124,077,278	-	(15,772,240)	108,305,038
Municipal securities	5,098,217	17,959	(41,712)	5,074,464
Corporate sub-debt	2,000,000	-	(423,183)	1,576,818
Total investment securities:	$ 173,145,374	$ 17,959	$ (18,935,324)	$ 154,228,009

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment securities available-for-sale				
U.S. Treasury & government agency obligations	$ 108,932,064	$ -	$ (11,442,731)	$ 97,489,333
SBA backed securities	2,709	3	-	2,712
Residential mortgage backed securities	144,191,353	-	(19,011,741)	125,179,612
Municipal securities	12,282,759	13,406	(407,544)	11,888,621
Corporate sub-debt	2,000,000	-	(277,083)	1,722,917
Total investment securities:	$ 267,408,885	$ 13,409	$ (31,139,099)	$ 236,283,195

As of December 31, 2023, there was no allowance for credit losses on the available-for-sale investment securities for the years ended, December 31, 2023 and 2022.

Note 2 – Investment Securities (continued)

At December 31, 2023, the Company had 1 available-for-sale investment securities in a loss position for less than 12 months, and 129 available-for-sale investment securities in a loss position for greater than 12 months as shown in the following table.

	December 31, 2023					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale						
U.S. Treasury & government agency obligations	$ -	$ -	$ 39,271,182	$ (2,698,185)	$ 39,271,182	$ (2,698,185)
SBA backed securities	508	(4)	-	-	-	(4)
Residential mortgage backed securities	-	-	108,305,038	(15,772,240)	108,305,038	(15,772,240)
Municipal securities	-	-	2,212,283	(41,712)	2,212,283	(41,712)
Corporate sub-debt	-	-	1,576,818	(423,183)	1,576,818	(423,183)
	$ 508	$ (4)	$ 151,365,321	$ (18,935,320)	$ 151,365,321	$ (18,935,324)

At December 31, 2022, the Company had 53 available-for-sale investment securities in a loss position for less than 12 months, and 131 available-for-sale investment securities in a loss position for greater than 12 months as shown in the following table.

	December 31, 2022					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale						
U.S. Treasury & government agency obligations	$ 25,140,600	$ (798,806)	$ 72,348,733	$ (10,643,925)	$ 97,489,333	$ (11,442,731)
Residential mortgage backed securities	15,226,463	(1,330,849)	109,953,149	(17,680,892)	125,179,612	(19,011,741)
Municipal securities	7,471,541	(291,931)	2,132,726	(115,613)	9,604,267	(407,544)
Corporate sub-debt	1,722,917	(277,083)	-	-	1,722,917	(277,083)
	$ 49,561,521	$ (2,698,669)	$ 184,434,608	$ (28,440,430)	$ 233,996,129	$ (31,139,099)

Unrealized losses have not been recognized into income because management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. The decline in fair value is largely due to changes in interest rates and other market conditions.

In 2023, the Company sold $49,378,556 in market value of investments and recognized a pre-tax loss of $6,813,526. The Company did not sell any securities in its portfolio of available-for-sale investments during 2022. At December 31, 2023 and 2022, securities in the amount of $10,077,835 and $8,263,437, respectively, were pledged to secure public deposits.

Note 2 – Investment Securities (continued)

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2023, are as follows:

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 6,981,693	$ 6,828,050
Due from one year through five years	35,749,250	33,181,144
Due from five years through ten years	3,565,767	3,155,230
Due after ten years	2,771,387	2,758,548
Residential mortgage backed securities	124,077,278	108,305,038
	$ 173,145,374	$ 154,228,009

Residential mortgage backed securities are able to be prepaid and the Company is unable to estimate the maturities per year. As a result, they have been shown separately within the maturity table above.

Note 3 – Loans, Net of Allowance for Credit Losses, and Unearned Income

The composition of loan balances is summarized as follows as of December 31:

	2023	2022
Real estate loans	$ 397,093,207	$ 380,521,607
Commercial loans	64,940,539	57,547,797
Construction loans	53,977,569	35,658,127
Consumer loans	2,734,301	3,567,006
Total loans	518,745,616	477,294,536
Allowance for credit losses	(5,862,594)	(5,189,866)
Unearned income, net of deferred costs	(2,048,866)	(2,270,406)
Loans, net of allowance for credit losses, and unearned income	$ 510,834,155	$ 469,834,264

Note 3 – Loans, Net of Allowance for Credit Losses, and Unearned Income (continued)

The following table displays the activity and allocation of the allowance for credit losses to significant segments of the loan portfolio at December 31:

	2023					
	Real Estate	Commercial	Construction	Consumer	Unallocated	Total
Allowance for credit losses						
Beginning balance	$ 3,080,395	$ 1,040,065	$ 143,099	$ 88,649	$ 837,659	$ 5,189,866
CECL Day 1 Accounting	$ 152,632	$ (281,178)	$ 1,282,501	$ (35,658)	$ (837,659)	$ 280,637
Charge-offs	-	(122,640)	-	-	-	$ (122,640)
Recoveries	-	4,502	1,100	-	-	5,602
Provision for credit losses	734,565	69,374	(282,667)	(12,143)	-	509,129
Ending balance	$ 3,967,591	$ 710,123	$ 1,144,033	$ 40,847	$ -	$ 5,862,594

	2022					
	Real Estate	Commercial	Construction	Consumer	Unallocated	Total
Allowance for credit losses						
Beginning balance	$ 2,690,174	$ 841,086	$ 132,335	$ 58,139	$ 654,075	$4,375,808
Charge-offs	-	(147,152)	-	-	-	(147,152)
Recoveries	-	25,053	1,200	-	-	26,253
Provision for credit losses	390,221	321,078	9,564	30,510	183,584	934,957
Ending balance	$ 3,080,395	$1,040,065	$ 143,099	$ 88,649	$ 837,659	$5,189,866
Ending balance Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance Loans collectively evaluated for impairment	$ 3,080,395	$1,040,065	$ 143,099	$ 88,649	$ 837,659	$5,189,866

Note 3 – Loans, Net of Allowance for Credit Losses, and Unearned Income (continued)

The following table displays the activity and allocation of loans evaluated individually and collectively for impairment to significant segments of the loan portfolio at December 31:

	2022				
	Real Estate	Commercial	Construction	Consumer	Total
Loans					
Ending balance	$ 380,521,607	$ 57,547,797	$ 35,658,127	$ 3,567,006	$ 477,294,536
Ending balance Loans individually evaluated for impairment	$ 657,204	$ -	$ -	$ -	$ 657,204
Ending balance Loans collectively evaluated for impairment	$ 379,864,403	$ 57,547,797	$ 35,658,127	$ 3,567,006	$ 476,637,332

The Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. Assignment of a risk rating is done on the individual loan rather than at the borrower level. Loans are graded from inception and on a continuing basis until the debt is repaid. The risk rating categories can be generally described by the following groupings:

Pass (1-6) – An acceptable asset carrying a normal degree of credit risk exhibiting the capacity to perform according to the repayment terms.

Special Mention (7) – A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in a 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 (8) – A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt.

Doubtful (9) – Any asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable.

Loss (10) – Assets classified loss are considered uncollectible and of such minimal value that the continuance as bankable assets are not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value but that it is not practical or desirable to defer writing off this basically worthless asset even though a partial recovery may occur in the future.

Note 3 – Loans, Net of Allowance for Credit Losses, and Unearned Income (continued)

The following credit quality indicators are based on management's most recent analysis of risk ratings and are presented as of December 31:

	Term Loans Amortized Cost Basis by Origination				Revolving	
	2023	2022	2021	Prior	Loans	Total
December 31, 2023						
Real estate:						
Pass	$ 37,770,599	$ 68,506,981	$ 71,333,856	$ 206,121,439	$ 4,054,855	$ 387,787,730
Special mention	-	-	1,034,831	2,419,491	-	3,454,323
Substandard	-	-	757,326	5,093,828	-	5,851,154
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total real estate	$ 37,770,599	$ 68,506,981	$ 73,126,013	$ 213,634,759	$ 4,054,855	$ 397,093,207
Commercial:						
Pass	$ 13,313,103	$ 18,868,157	$ 7,652,032	$ 8,249,756	$ 14,866,022	$ 62,949,070
Special mention	-	1,055,597	73,764	-	484,345	1,613,706
Substandard	123,025	46,503	-	208,236	-	377,763
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial	$ 13,436,128	$ 19,970,257	$ 7,725,796	$ 8,457,992	$ 15,350,367	$ 64,940,539
Construction:						
Pass	$ 14,351,964	$ 31,752,971	$ 5,605,961	$ 2,266,672	$ -	$ 53,977,569
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total construction	$ 14,351,964	$ 31,752,971	$ 5,605,961	$ 2,266,672	$ -	$ 53,977,569
Consumer:						
Pass	$ 186,831	$ 1,624,432	$ 581,234	$ 23,916	$ 317,887	$ 2,734,301
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total Consumer	$ 186,831	$ 1,624,432	$ 581,234	$ 23,916	$ 317,887	$ 2,734,301
Total loans	$ 65,745,522	$ 121,854,641	$ 87,039,004	$ 224,383,339	$ 19,723,109	$ 518,745,616
Total loans						
Pass	$ 65,622,497	$ 120,752,542	$ 85,173,082	$ 216,661,784	$ 19,238,764	$ 507,448,669
Special mention	-	1,055,597	1,108,596	2,419,491	484,345	5,068,029
Substandard	123,025	46,503	757,326	5,302,064	-	6,228,917
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total loans	$ 65,745,522	$ 121,854,641	$ 87,039,004	$ 224,383,339	$ 19,723,109	$ 518,745,616
Charge-offs						
Commercial Loans	$ 122,640	$ -	$ -	$ -	$ -	$ 122,640

The above term loans are stated at principal balance rather than amortized cost as the difference is insignificant.

	2022				
	Real Estate	Commercial	Construction	Consumer	Total
Grade					
Pass	$ 374,972,051	$ 56,728,080	$ 35,658,127	$ 3,567,006	$ 470,925,264
Special Mention	1,311,601	287,075	-	-	1,598,676
Substandard	4,237,954	532,642	-	-	4,770,596
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 380,521,607	$ 57,547,797	$ 35,658,127	$ 3,567,006	$ 477,294,536

Note 3 – Loans, Net of Allowance for Credit Losses, and Unearned Income (continued)

Past due loans are loans for which principal and interest were not paid timely according to the contractual payment terms. The following table represents loans past due by loan category as of December 31:

	2023					
	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate	$ -	$ -	$ 292,073	$ 292,073	$ 396,801,134	$ 397,093,207
Commercial	123,025	-	-	123,025	64,817,515	64,940,539
Construction	317,919	-	-	317,919	53,659,650	53,977,569
Consumer	-	-	-	-	2,734,301	2,734,301
	$ 440,943	$ -	$ 292,073	$ 733,016	$ 518,012,600	$ 518,745,616

	2022					
	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate	$ 1,354,924	$ -	$ 1,304,275	$ 2,659,199	$ 377,862,408	$ 380,521,607
Commercial	35,125	-	-	35,125	57,512,672	57,547,797
Construction	-	-	-	-	35,658,127	35,658,127
Consumer	-	-	-	-	3,567,006	3,567,006
	$ 1,390,049	$ -	$ 1,304,275	$ 2,694,324	$ 474,600,212	$ 477,294,536

As of December 31, 2023, one real estate loan was on non-accrual status totaling $292,073. As of December 31, 2022, there were three real estate non-accrual loans totaling $1,304,275. As of December 31, 2023 and 2022, there were no loans past due over 89 days and still accruing interest.

Note 3 – Loans, Net of Allowance for Credit Losses, and Unearned Income (continued)

The following table represents a comparison of collateral-dependent loans with and without specific allowance recorded for the period ended December 31:

2023	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
With allowance recorded					
Real estate	$ 256,933	$ 292,073	$ -	$ 252,356	$ -
Commercial	-	-	-	-	-
	$ 256,933	$ 292,073	$ -	$ 252,356	$ -
Total					
Real estate	$ 256,933	$ 292,073	$ -	$ 252,356	$ -
Commercial	-	-	-	-	-
	$ 256,933	$ 292,073	$ -	$ 252,356	$ -

2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
With allowance recorded					
Real estate	$ 549,130	$ 657,204	$ -	$ 529,310	$ -
Commercial	-	-	-	-	-
	$ 549,130	$ 657,204	$ -	$ 529,310	$ -
Total					
Real estate	$ 549,130	$ 657,204	$ -	$ 529,310	$ -
Commercial	-	-	-	-	-
	$ 549,130	$ 657,204	$ -	$ 529,310	$ -

Note 3 – Loans, Net of Allowance for Credit Losses, and Unearned Income (continued)

Modified Loans

At December 31, 2023 and 2022, loans of $292,073 and $657,204, respectively, had been modified since origination due to demonstrated weakness in cash flow as primary source of repayment. The modifications were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms.

The types of modifications offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is modified.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Payment modification – A modification in which the payment amount is changed.

Combination modification – Any other type of modification, including the use of multiple types of modifications.

There was one newly modified loan during the year ended December 31, 2023, and no newly modified loans in the year ended December 31, 2022. During 2022, there were no modified loans that subsequently defaulted within 12 months of modification.

Note 4 – Premises, Equipment, and Leasehold Improvements

The composition of premises, equipment, and leasehold improvements is summarized as follows as of December 31:

	2023	2022
Land	$ 4,200,203	$ 4,200,203
Bank premises	20,778,873	20,742,256
Furniture and equipment	6,477,191	6,005,808
Leasehold improvements	260,385	256,199
Automobiles	206,803	160,549
	31,923,455	31,365,015
Less accumulated depreciation and amortization	(9,458,190)	(8,228,226)
Construction in progress (CIP)	3,301,712	39,688
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	$ 25,766,977	$ 23,176,477

Depreciation and amortization expense for the years ended December 31, 2023 and 2022, was $1,320,710 and $1,242,759, respectively.

Note 4 – Premises, Equipment, and Leasehold Improvements (continued)

As of December 31, 2023, the Company was in process of negotiating a construction contract estimated at $1,900,000 for renovations on the newly acquired Eugene facility, expected to be placed in service in September 2024.

Note 5 – Time Deposits

Time certificates of deposit of $250,000 and over totaled $11,402,249 and $3,247,264 at December 31, 2023 and 2022, respectively.

As of December 31, 2023, the scheduled maturities for all time deposits are as follows:

Years ending December 31,	2024	$ 27,031,361
	2025	665,043
	2026	-
	2027	109,509
	2028	501
	Thereafter	111,347
		$ 27,917,762

Note 6 – Borrowings

Federal Home Loan Bank advances
As a member of the Federal Home Loan Bank of Des Moines (FHLB), the Company has entered into an "Advances, Security, and Deposit Agreement" with the FHLB.

Borrowings under the credit arrangement are collateralized by the Company's FHLB stock as well as deposits or other instruments, which may be pledged. As of December 31, 2023, the Company had an overnight FHLB advance of $20,650,000 at an annual interest rate of 5.56%. As of December 31, 2022, the Company had $5,000,000 in outstanding borrowings at an annual rate of 4.60% with the FHLB. As of December 31, 2023 and 2022, the Company had $36,473,734 and $30,090,389, respectively, in available borrowing capacity with FHLB.

Federal funds line of credit
The Company has obtained lines of credit totaling $55,000,000 with three correspondent banks. Two Federal Funds line for $45,000,000 will expire or renew at the discretion of the correspondent bank. A second line for $10,000,000 was established with a term extending from June 30, 2023 through June 30, 2024. There were no balances outstanding on these lines of credit as of December 31, 2023.

Subordinated Debentures
In March 2022, the Company completed a private placement of $25,000,000 in aggregate principal amount of fixed-to-floating rate subordinated notes (the "Notes") to certain qualified institutional buyers and accredited investors.

Note 6 – Borrowings (continued)

The Notes initially bear interest at 3.875% per annum payable semi-annually until March 2027, and thereafter pay a quarterly floating interest rate based on the then current Three-Month Term Secured Overnight Financing Rate (SOFR) plus 242 basis points, payable quarterly in arrears. Beginning on March 15, 2027, the Notes may be redeemed, in whole or in part, at the Company's option. The Notes will mature on March 15, 2032.

Included in the proceeds from the debenture were various expenses including commission fees, legal expenses, accounting expenses, and various filing expenses. The total cost of issuance was $571,781 and will be amortized over the life of the debt as an increase to interest expense. For the years ended December 31, 2023 and 2022, the Company's interest expense was $1,039,383 and $832,910, respectively.

The Notes were structured to qualify as Tier 2 capital instruments for capital purposes at the holding company. During 2022, subsequent to issuance of the Notes, the Company made a capital investment in the Bank totaling $12.5 million. The capital investment qualifies as Tier 1 capital at the Bank.

Note 7 – Income Taxes

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

	2023	2022
Current income taxes		
Federal	$ 288,216	$ 3,095,768
State	51,801	1,102,199
Total current income taxes	340,017	4,197,967
Deferred income taxes		
Federal	29,284	(700,218)
State	(32,609)	(184,171)
Total deferred income tax benefit	(3,325)	(884,389)
Provision for income taxes	$ 336,692	$ 3,313,578

The following summarizes the differences between the provision for income taxes for financial statement purposes and the federal statutory rate of 21.0% for the years ended December 31, 2023 and 2022:

RATE RECONCILIATION:

	2023		2022	
Federal, at statutory rate	$ 276,193	21.0%	$ 2,765,789	21.0%
State, net of federal benefit	78,965	6.0%	790,752	6.0%
Tax-exempt interest, net of expenses	(45,901)	-3.5%	(57,814)	-0.4%
Bank-owned life insurance	(134,833)	-10.3%	(101,957)	-0.5%
Other	162,268	12.3%	(83,192)	-1.5%
Tax expense, at effective rate	$ 336,692	25.6%	$ 3,313,578	24.6%

Note 7 – Income Taxes (continued)

Net deferred tax assets, in the accompanying balance sheets, include the following components as of December 31:

	2023	2022
Deferred tax assets (liabilities)		
Lease liability	$ 1,235,593	$ 1,344,307
Allowance for credit losses	1,541,019	1,327,769
Supplemental executive retirement plan	950,341	829,234
Accrued bonuses	-	226,518
Split-dollar liability	56,867	54,697
Unrealized losses on investment securities available-for-sale	5,155,452	8,451,699
Reserve for off-balance sheet instruments	166,924	73,658
Other	138,147	53,382
	9,244,342	12,361,264
Right-of-use asset	(1,149,429)	(1,284,518)
Depreciation and organization costs	(725,490)	(642,205)
Prepaids	(179,344)	(135,747)
Loan origination costs	(21,964)	(23,098)
Intangible assets – permits and licenses	(40,505)	(40,506)
Other	-	-
	(2,116,732)	(2,126,074)
Net deferred tax assets	$ 7,127,610	$ 10,235,190

A valuation allowance has not been recognized as an offset to the net deferred tax assets since management believes it is more likely than not that all deferred tax assets will be utilized in future periods.

Note 8 – Financial Instruments with Off-Balance Sheet Risk

In the normal course of business to meet the financing needs of its customers, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and letters of credit written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Note 8 – Financial Instruments with Off-Balance Sheet Risk (continued)

Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. 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 amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing properties.

Letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support bonding requirements for real estate developers and contractors. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

A summary of the notional amounts of the Company's financial instruments with off-balance sheet risk as of December 31, 2023, is as follows:

Commitments to extend credit	
Commercial	$ 45,663,840
Construction	39,289,521
Real Estate	11,830,116
Consumer	2,598,301
Total	$ 99,381,778
Commercial and standby letters of credit	$ 2,094,000

Note 9 – Concentrations of Credit Risk

All of the Company's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3.

During 2023, the Bank's loan policy did not allow the extension of credit to any single borrower or group of related borrowers in excess of $2,500,000 on an unsecured basis and $5,000,000 on a secured basis, without approval from the Loan Committee.

Note 10 – Commitments and Contingencies

The Company may become a defendant in certain claims and legal actions arising in the ordinary course of business. As of December 31, 2023, the Company was not involved in any current matters expected to have a material adverse effect on its financial condition or results of operations.

Note 11 – Leases

The outstanding leases have expirations continuing through 2042. Future minimum payments, including assumed extensions, under these lease agreements are as follows:

Years ending December 31,	2024	$ 531,718
	2025	444,550
	2026	458,184
	2027	423,126
	2028	229,314
	Thereafter	3,548,479
	Total	5,635,372
	Less present value discount	(1,117,614)
	Present value of leases	$ 4,517,758

The weighted average remaining lease term and discount rate as of December 31, 2023, were 8.0 years, and 3.13%, respectively, compared to 9.0 years and 3.12%, respectively, for the year ended December 31, 2022. During 2022, the bank entered into a 24-month lease for a new Eugene location, with lease payments beginning February 1, 2023. No new leases were initiated in 2023.

Rent expense, including common area maintenance, was $652,976 and $463,343 for the years ended December 31, 2023 and 2022, respectively. As discussed in Note 1, the Company pays rent to a related party as part of a real estate joint venture. Rent paid to the related party was $297,185 and $291,358 for the years ended December 31, 2023 and 2022, respectively.

Note 12 – 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. Gains/losses on the sale of other real estate owned are included in noninterest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

Note 12 – Revenue from Contracts with Customers (continued)

The following table presents the Company's sources of noninterest income for the 12 months ended December 31:

	2023	2022
Noninterest income:		
Service charges and other fees		
Service charges on deposit accounts	$ 476,605	$ 489,390
Interchange fee income	901,142	921,533
Other processing fees	1,954,007	2,115,242
Merchant fee income	206,111	156,627
Gain on sale of loans (1)	468,834	1,004,475
Mortgage loan fees (1)	208,331	308,325
Net loss on sale of OREO	-	(4,720)
Other noninterest income		
Investment income from real estate joint venture (1)	148,883	148,883
Increase in cash surrender value of life insurance (1)	499,308	377,615
Remaining other income	278,377	299,551
Total noninterest income	$ 5,141,598	$ 5,816,920

(1) Not within the scope of ASC 606

Service charges on deposit accounts – The Company earns fees from its deposit customers for account maintenance, transaction-based activity and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis.

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

Merchant fee income – Merchant fee income represents fees earned by the Company for card payment services provided to its merchant customers. The Company has a contract with a third party to provide card payment services to merchants that contract for those services. The third-party provider passes the payments made by the merchants through to the Company. The Company, in turn, pays the third-party provider for the services it provides to the merchants. These payments to the third-party provider are recorded as expenses as a net reduction against fee income. In addition, a portion of the payment received represents interchange fees which are passed through to the card issuing bank. Income is primarily earned based on the dollar volume and number of transactions processed. The performance obligation is satisfied and the related fee is earned when each payment is accepted by the processing network.

Note 12 – Revenue from Contracts with Customers (continued)

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

Note 13 – Transactions with Related Parties

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Company in the ordinary course of business, and the Company expects to have such transactions in the future.

All loans and commitments to lend included in such transactions are made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Company, do not involve more than the normal risk of collection or present any other unfavorable features.

The amount of loans and loan commitments outstanding to directors, executive officers, and principal stockholders with the Company was as follows as of December 31:

	2023	2022
Balance, beginning of year	$ 284,520	$ 330,801
Loans made and advances	-	-
Repayments and pay offs	(50,166)	(46,281)
Balance, end of year	$ 234,354	$ 284,520
Outstanding loan commitments	$ 310,000	$ 360,000

(1) Represents loans existing at the beginning of the year that were outstanding to parties no longer meeting the definition of related parties.

In addition, the Company has a loan to the other 50% member in the limited liability company that owns a branch location. The loan carries an interest rate of 6.25%, matures in December of 2037, and is collateralized by the member's interest in the land on which the building is located. The loan was originated for the purpose of funding the partner's portion of construction costs of the Company's administrative office and had a balance of $1,550,720 and $1,617,490 as of December 31, 2023 and 2022, respectively.

Related party deposits held by the Company at December 31, 2023 and 2022, were $2,196,260 and $4,087,716, respectively.

Note 14 – Stock-Based Compensation Plans

Under its stock-based compensation plans, the Company may grant nonqualified stock options and restricted stock awards to its directors, officers, and employees for up to 255,256 shares of common stock.

There were no proceeds received from stock options exercised in 2023. Proceeds received from stock options exercised in 2022 were $16,694. There are currently no outstanding stock option awards outstanding as of December 31, 2023.

The Company expenses stock options on a straight-line basis over the options' related vesting term. As of December 31, 2023 and 2022, there was no unrecognized compensation expense related to the granting of stock options.

The following table summarizes restricted stock award activity under the plan for the year ended December 31, 2022:

	Number of Shares	Weighted Average Fair Value
Restricted stock awards unvested at December 31, 2022	74,713	$ 12.83
Awards vested	(30,121)	
Award granted	51,500	12.63
Awards forfeited	-	
Adjustment for	-	
stock dividends	-	-
Restricted stock awards unvested at December 31, 2023	96,092	

As of December 31, 2022, there was $1,181,585 of unrecognized stock-based compensation expense related to nonvested restricted stock awards, which vest over 5 years. The cost is expected to be recognized over a weighted average vesting period of 3.01 years as of December 31, 2023.

Compensation expense recognized for stock-based compensation plans was $417,923 and $458,464 for the years ended December 31, 2023 and 2022, respectively.

Under its phantom stock plan, the Company may award cash or stock compensation to its directors, officers, and employees for up to 150,000 shares. Cash awards are recognized as liabilities until settled, measured at the net settlement value, and have no impact on the number of shares available to be issued under the plan. Awards granted under the phantom stock plan participate in stock dividends.

Note 14 – Stock-Based Compensation Plans (continued)

The Company has granted phantom stock awards which are settled in cash when they vest. The following table summarizes activity for outstanding phantom stock awards for the years ended December 31, 2023 and 2022:

	2023	2022
Balance, beginning of year	$ 73,741	$ 38,927
Granted	-	43,500
Vested	(16,260)	(8,532)
Adjustment for stock dividend	-	1,946
Forfeited or expired	-	(2,100)
Balance, end of year	$ 57,481	$ 73,741

Stock Price December 31, 2023	$ 13.50
Value of shares in Phantom Stock Plan at year end	$ 775,996

As of December 31, 2023, based on the value of the Company's stock, the value of the phantom stock awards outstanding was $775,996. The weighted average vesting period for the awards is 3.6 years.

Total compensation expense recognized for phantom stock-based compensation plans was $206,816 and $129,128 for the years ended December 31, 2023 and 2022, respectively.

Note 15 – Employee Benefit Plans and Agreements

The Company adopted a 401(k) plan in which substantially all employees participate. Employees may contribute the maximum amount permissible under federal tax laws.

During 2017, the Company established an Employee Stock Ownership Plan (ESOP). The Company is required to contribute 3% of each eligible employee's compensation under safe harbor provisions. For the years ended December 31, 2023 and 2022, the Company's expense attributable to contributions to these plans was $352,596 and $356,775, respectively.

Beginning in 2005, the Company entered into supplemental retirement plans with key executive officers. In 2006, to support its obligations under these plans and to provide death benefits to selected employees, the Company acquired bank-owned life insurance. The Company's liability pursuant to these supplemental retirement plans was $3,320,743 and $3,070,783 as of December 31, 2023 and 2022, respectively. These amounts are included on the balance sheet among "accrued interest payable and other liabilities." For 2023 and 2022, compensation expense related to these plans was $514,107 and $529,587 respectively.

Note 16 – Earnings Per Share

The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2023 and 2022, and (adjusted for the 2022 stock dividend):

	Net Income	Weighted Average Shares	Per Share Amount
For the year ended December 31, 2023			
Basic income per share	$ 978,512	5,325,577	$ 0.18
Stock options		-	
Diluted income per share	$ 978,512	5,325,577	$ 0.18
For the year ended December 31, 2022			
Basic income per share	$ 9,856,883	5,122,028	$ 1.92
Stock options		1,810	
Diluted income per share	$ 9,856,883	5,123,838	$ 1.92

No stock options were excluded from the computation of diluted earnings per share, as all were dilutive during 2022.

Note 17 – Fair Value of Financial Instruments

Assets are displayed at fair value in the table below based upon recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be re-measured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be re-measured at fair value after initial recognition in the financial statements at some time during the reporting period.

Note 17 – Fair Value of Financial Instruments (continued)

The following tables disclose fair value information about all financial instruments, whether carried or not carried at fair value on the balance sheet, where it is practicable to estimate that value.

	Carrying Amount	Fair Value at December 31, 2023 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 19,557,402	$ 19,557,402	$ 19,557,402	$ -	$ -
Investment securities available-for-sale	154,228,009	154,228,009	-	154,228,009	-
Factored accounts receivable	13,038,501	13,038,501	-	13,038,501	-
Restricted equity securities	1,412,000	1,412,000	1,412,000	-	-
Loans receivable, net	510,834,155	490,220,097	-	-	490,220,097
Financial liabilities					
Noninterest-bearing demand deposits	$ 272,944,725	$ 272,944,725	$ -	$ 272,944,725	$ -
Interest-bearing demand, money market accounts, and savings deposits	328,918,067	328,918,067	-	328,918,067	-
Time certificates of deposit	27,917,762	27,992,452	-	-	27,992,452
FHLB advances	20,650,000	20,650,000	20,650,000	-	-
Subordinated notes	24,530,182	21,132,752			21,132,752

	Carrying Amount	Fair Value at December 31, 2022 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 15,886,562	$ 15,886,562	$ 15,886,562	$ -	$ -
Time deposits with other institutions	496,000	496,000	496,000	-	-
Investment securities available-for-sale	236,283,195	236,283,195	-	236,283,195	-
Factored accounts receivable	16,714,999	16,714,999	-	16,714,999	-
Restricted equity securities	1,231,700	1,231,700	1,231,700	-	-
Loans held-for-sale	627,542	627,542	-	627,542	-
Loans receivable, net	469,834,264	452,959,972	-	-	452,959,972
Financial liabilities					
Noninterest-bearing demand deposits	$ 322,808,505	$ 322,808,505	$ -	$ 322,808,505	$ -
Interest-bearing demand, money market accounts, and savings deposits	353,253,613	353,253,613	-	353,253,613	-
Time certificates of deposit	16,733,087	16,611,744	-	-	16,611,744
FHLB advances	5,000,000	5,000,000	5,000,000	-	-
Subordinated notes	24,470,504	21,081,339			21,081,339

The Company normally intends to hold the majority of its financial instruments until maturity; it does not expect to realize many of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for items which are not defined as financial instruments but which have significant value. These include such off-balance sheet items as core deposit intangibles on non-acquired deposits. The Company does not believe that it would be practicable to estimate a representational fair value for these types of items as of December 31, 2023 and 2022.

Note 18 – Regulatory Matters

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

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

On January 1, 2020, the community bank leverage ratio (CBLR) final rule became effective, providing an optional capital reporting framework for qualifying community banks. This new framework was designed to reduce regulatory burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. Upon filing of the March 31, 2020, call report the Bank opted into this new capital framework. Upon the opt in, the Bank no longer calculated risk- based capital ratios.

Under the CBLR the Bank must maintain a leverage ratio greater than 9.0%. As of December 31, 2023, the Bank had Tier 1 Capital of $101,699,574.86 and a CBLR of 12.49%, which was in excess of the 9.0% requirement. This compares to Tier 1 Capital of $100,635,072 and a CBLR of 12.55% as of December 31, 2022.

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PBCO Financial Corp