Report of Independent Auditors
and Consolidated Financial Statements

RiverBank Holding Company and Subsidiaries

December 31, 2022 and 2021

MOSSADAMS

Table of Contents

Report of Independent Auditors

Board of Directors and Stockholders
RiverBank Holding Company and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 RiverBank Holding Company and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RiverBank Holding Company and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

Moss Adams LLP

Spokane, Washington
February 27, 2023

Consolidated Financial Statements

RiverBank Holding Company and Subsidiaries
Consolidated Statements of Financial Condition
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and due from banks	$ 2,406,193	$ 2,347,904
Interest-bearing deposits in other financial institutions	1,836,992	4,119,869
Federal funds sold	26,933,008	665,131
Cash and cash equivalents	31,176,193	7,132,904
Deposits held at other financial institutions	8,710,000	9,199,000
Securities available for sale, at fair value	24,459,659	31,204,145
Pacific Coast Bankers' Bank (PCBB) stock, at cost	920,000	920,000
Federal Home Loan Bank (FHLB) of Des Moines stock, at cost	220,900	196,000
Loans receivable, net of allowance for loan losses of $2,427,426 and $2,413,232 at December 31, 2022 and 2021, respectively	168,865,506	133,771,770
Premises and equipment, net	228,076	178,739
Accrued interest receivable	706,437	390,764
Other assets	1,690,589	425,724
Deferred tax asset, net	1,451,725	569,300
Total assets	$ 238,429,085	$ 183,988,346
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 216,517,793	$ 166,190,011
Borrowed funds	-	749,116
Other liabilities	1,914,510	346,485
Total liabilities	218,432,303	167,285,612
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS' EQUITY		
Common stock, no par value; 2,500,000 shares authorized; 1,093,418 and 864,040 shares issued and outstanding at December 31, 2022 and 2021, respectively	28,378,559	23,821,485
Additional paid-in capital	199,111	199,111
Accumulated other comprehensive loss	(3,306,215)	(413,056)
Accumulated deficit	(5,274,673)	(6,904,806)
Total stockholders' equity	19,996,782	16,702,734
Total liabilities and stockholders' equity	$ 238,429,085	$ 183,988,346

See accompanying notes.

RiverBank Holding Company and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2022 and 2021

	2022	2021
Interest income		
Loans, including fees	$ 7,707,135	$ 7,035,572
Securities	332,379	269,095
Other	448,464	154,145
Total interest income	8,487,978	7,458,812
Interest expense		
Deposits	393,746	241,458
Borrowings	11,346	65,403
Total interest expense	405,092	306,861
Net interest income	8,082,886	7,151,951
Provision for loan losses	-	-
Net interest income after provision for loan losses	8,082,886	7,151,951
Noninterest income		
Service charges on deposits	24,006	23,789
Other income	269,471	323,246
	293,477	347,035
Noninterest expenses		
Salaries and employee benefits	4,362,418	3,999,945
Occupancy	453,871	434,745
Information systems and communication	742,600	595,472
Professional services	224,839	304,425
Administrative and insurance	179,021	168,840
FDIC assessment	63,196	69,051
Marketing, advertising, and promotion	61,032	35,793
Transportation and travel	37,612	20,973
Business taxes	102,801	95,434
Collection and foreclosure	7,831	17,644
Other	93,567	171,298
	6,328,788	5,913,620
Income before provision for income taxes	2,047,575	1,585,366
Income tax (expense) benefit	(417,442)	259,500
Net income	$ 1,630,133	$ 1,844,866
Earnings per common share		
Basic	$ 1.74	$ 2.15
Diluted	$ 1.69	$ 2.07
Basic weighted average common shares outstanding	938,223	856,299
Diluted weighted average common shares outstanding	966,970	885,645

See accompanying notes.

RiverBank Holding Company and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income
Years Ended December 31, 2022 and 2021

	2022	2021
Net income	$ 1,630,133	$ 1,844,866
Other comprehensive loss		
Unrealized loss on securities available for sale		
Unrealized holding loss	(3,662,226)	(611,906)
Tax benefit on unrealized holding loss	769,067	109,800
Other comprehensive loss	(2,893,159)	(502,106)
Comprehensive (loss) income	$ (1,263,026)	$ 1,342,760

See accompanying notes.

RiverBank Holding Company and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2022 and 2021

	Shares	Total	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
BALANCE, December 31, 2020	3,423,700	$ 15,382,813	$ 23,672,959	$ 199,111	$ (8,578,307)	$ 89,050
Reverse stock split (4 to 1)	(2,567,775)	-	-	-	-	-
Net income	-	1,844,866	-	-	1,844,866	-
Dividends declared and paid ($0.05 per share)	-	(171,185)	-	-	(171,185)	-
Fractional share dividends	(10)	(180)	-	-	(180)	-
Stock-based compensation expense	8,125	148,526	148,526	-	-	-
Other comprehensive loss, net of tax	-	(502,106)	-	-	-	(502,106)
BALANCE, December 31, 2021	864,040	16,702,734	23,821,485	199,111	(6,904,806)	(413,056)
Net income	-	1,630,133	-	-	1,630,133	-
Issuance of common stock, net of cost	218,750	4,344,534	4,344,534	-	-	-
Stock-based compensation expense	10,628	212,540	212,540	-	-	-
Other comprehensive loss, net of tax	-	(2,893,159)	-	-	-	(2,893,159)
BALANCE, December 31, 2022	1,093,418	$ 19,996,782	$ 28,378,559	$ 199,111	$ (5,274,673)	$ (3,306,215)

See accompanying notes.

RiverBank Holding Company and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,630,133	$ 1,844,866
Adjustments to reconcile net income to net cash from operating activities		
Depreciation of premises and equipment	83,256	79,002
Change in provision for unfunded commitments	5,545	27,180
Net Amortization of Premiums/Discounts on Securities	172,719	195,240
Stock based compensation	212,540	148,526
Gain on disposal of assets	-	(45)
Change in assets and liabilities		
Accrued interest receivable	(315,673)	109,518
Deferred tax asset	(3,559)	(349,700)
Other assets	(1,374,665)	(216,081)
Other liabilities	1,562,479	(195,820)
Net cash from operating activities	1,972,775	1,642,686
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(826,843)	(14,162,424)
Maturities, prepayments, and calls of securities available for sale	3,736,385	4,233,735
Purchase of FHLB of Des Moines stock	(745,500)	(101,100)
Proceeds from redemption of FHLB of Des Moines stock	720,600	201,900
Purchases of deposits with other financial institutions	(7,220,000)	(3,228,498)
Maturities of deposits with other financial institutions	7,709,000	10,443,498
Net increase in loans	(35,093,736)	(17,737,919)
Proceeds from sale of premises and equipment	-	4,439
Purchases of premises and equipment	(132,592)	(55,305)
Net cash from investing activities	(31,852,686)	(20,401,674)

See accompanying notes.

RiverBank Holding Company and Subsidiaries
Consolidated Statements of Cash Flows
December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	4,344,534	-
Cash dividends paid on common stock	-	(171,365)
Net decrease in public funds	-	(2,000,000)
Net increase in deposits	50,327,782	33,549,993
Proceeds from FHLB advances	22,000,000	-
Repayments on FHLB advances	(22,000,000)	(3,000,000)
Proceeds from FRB PPPLF borrowings	-	18,513,946
Repayments on FRB PPPLF borrowings	(749,116)	(27,191,014)
Net cash from financing activities	53,923,200	19,701,560
NET CHANGE IN CASH AND CASH EQUIVALENTS	24,043,289	942,572
CASH AND CASH EQUIVALENTS, beginning of year	7,132,904	6,190,332
CASH AND CASH EQUIVALENTS, end of year	$ 31,176,193	$ 7,132,904
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Income taxes paid	$ 355,357	$ 200,000
Cash paid during the year for interest	393,746	241,458

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Nature of operations – RiverBank Holding Company and Subsidiaries (the Company) is a Washington corporation. The Company was organized February 27, 2008, and commenced operations May 30, 2008. The Company is a single-bank holding company with RiverBank as its wholly owned subsidiary.

RiverBank (the Bank or RiverBank) is a state chartered commercial bank incorporated under the laws of the state of Washington. The Bank provides a full range of banking services to its commercial and consumer customers serving Spokane, Washington, and the Inland Northwest. The Bank was organized April 19, 2006, and commenced operations May 22, 2006, with the opening of the traditional branch in Spokane, Washington. The Mobile Tech Branch, also in Spokane, was opened November 6, 2006, and provides services throughout the Spokane metropolitan area.

In January 2013, RB Disposition Co LLC was organized to facilitate the acquisition and sale of select nonperforming assets. RiverBank is the sole member.

The Bank and Company are also subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

As of July 1, 2021, with majority shareholder consent, the Company was granted approval from the Internal Revenue Service (IRS) to revoke its S corporation election.

Basis of consolidation – The December 31, 2022 and 2021, consolidated financial statements include the Company and its wholly owned subsidiaries, RiverBank and RB Disposition Co LLC. All significant intercompany balances and transactions have been eliminated.

Basis of financial statement presentation and use of estimates – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the date of the statement of financial condition and certain revenues and expenses for the period. Actual results could differ, either positively or negatively, from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, including valuation of impaired loans, the valuation of deferred tax assets, and the determination of the fair value of financial instruments.

Management believes the allowance for loan losses is adequate. While management uses currently available information to recognize losses on loans and other real estate owned, future additions to the allowance or valuation adjustments to other real estate may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and other real estate owned. Such agencies may require the Company to recognize additions to the allowance or valuation adjustments based on their judgments of information available to them at the time of their examination.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, overnight funds at the Federal Reserve Bank, and federal funds sold. Generally, federal funds sold are for one-day periods.

Deposits held at other financial institutions – Time deposits held at other financial institutions mature within a year and are carried at cost. These deposits are all 100% insured as no deposit at one individual institution exceeds $250,000.

Pacific Coast Bankers' Bancshares (PCBB) stock – The PCBB stock is an optional investment; however, membership does provide some benefits through reduced fees for certain products. The common stock is carried at cost. Dividends of $5,000 were received in both 2022 and 2021.

As of December 31, 2022 and 2021, the Company held 7,500 PCBB Series D 7.00% Fixed Rate Cumulative Perpetual Preferred shares. Dividends of $52,520 and $52,500 were received in 2022 and 2021, respectively

Federal Home Loan Bank of Des Moines (FHLB) stock – FHLB stock is a required investment for institutions that are members of the FHLB. The required investment in FHLB common stock is based on a predetermined formula and is carried at par value ($100 per share) on the statements of financial condition. The Company may request redemption at par value of any stock in excess of the amount the Company is required to hold. FHLB stock is restricted as to purchase, sale, and redemption. The Company views its investment in FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. Dividends are recorded as income. Dividends of $10,081 and $9,732 were received during the years ended December 31, 2022 and 2021, respectively.

Securities available for sale – Debt securities classified as available for sale consist of U.S. government agency mortgage-backed securities. Debt securities available for sale are carried at fair value with unrealized holding gains and losses reported as a separate component of accumulated other comprehensive income (loss). Gains and losses on the sale of available for sale securities are determined using the specific-identification method and are included in earnings.

Any declines in the values of these securities that are considered to be other-than-temporary-impairment (OTTI) due to declines in credit quality are recognized in earnings. Noncredit-related OTTI on securities not expected to be sold is recognized in OCI. The review for OTTI is conducted on an ongoing basis and takes into account the severity and duration of the impairment, recent events specific to the issuer or industry, fair value in relationship to cost, extent and nature of change in fair value, creditworthiness of the issuer, including external credit ratings and recent downgrades, trends and volatility of earnings, current analysts' evaluations, and other key measures. In addition, the Company determines that it does not intend to sell the securities and it is more likely than not that it will not be required to sell the securities before recovery of their amortized cost basis. In making this determination, the Company takes into account its balance sheet management strategy and consideration of current and future market conditions. There were no such write-downs during the years ended December 31, 2022 or 2021.

Premiums and discounts are recognized in interest income using the effective yield method over the period to maturity.

Public depository – The Company is a public depository under the state of Washington Public Deposit Protection Commission (WPDPC). As a public depository, the Company must pledge eligible securities or a letter of credit equal to 50% of the uninsured public funds on deposit. At December 31, 2022 and 2021, the Company had no public funds on deposit.

At December 31, 2022 and 2021, there were no letters of credit from the FHLB pledged to secure public funds.

Loans receivable and allowances for loan losses – Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal, net of deferred loan origination fees and costs, charge-offs, and the allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding and includes the amortization of net deferred loan origination fees. Loans are considered impaired when, based on current information and events, the collection of scheduled payments of principal or interest when due according to contractual terms of the loan agreements is not probable. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or the loan has been in default for a period of 90 days or more. In determining impaired status, management considers payment status, collateral value, and the probability of collecting payments due according to the contractual terms of the loan arrangement. Impairment on commercial or construction loans is measured on a loan-by-loan basis. Impairment may be measured by either the present value of expected future cash flows, the loan's market price, or the fair value of collateral if the loan is collateral-dependent. Loans that are in default over 90 days may continue to accrue interest if the loan is well collateralized and in the process of collection. Thereafter, no interest is taken into income unless received in cash or until such time as the borrower demonstrates the ability to resume payments of principal and interest.

An allowance for probable losses on loans is maintained at a level deemed by management to be adequate to provide for probable loan losses through charges to operating expense. The allowance is based upon a continuing review of loans, which includes consideration of actual net loan loss experience; changes in the size and character of the loan portfolio; identification of individual problem situations, which may affect the borrower's ability to repay; and evaluation of current economic conditions. As a result of changes in economic and other conditions, it is reasonably possible that the allowance for loan losses could materially change within the year. Loan losses are recognized through charges to the allowance.

Troubled debt restructurings – Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in an attempt to protect the investment. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity date(s), or providing a lower interest rate than would normally be available for a transaction of similar risk. This generally occurs when the financial condition of the borrower needs to be given temporary or permanent relief from the original contractual terms of the loan. A loan restructured in a troubled debt restructuring is an impaired loan and is accounted for as such. The assessment of accrual status is based on the borrower's sustained historical repayment performance, generally a minimum period of six months prior to the date on which the loan is returned to accrual status. Performing restructured loans continue to be separately reported as troubled debt restructurings until after the calendar year in which the restructuring occurred once it is returned to accrual status.

Other real estate owned – Other real estate owned is acquired through foreclosure, or deeds in lieu of foreclosure, and is stated at the lower of cost or fair value less costs to sell. When the property is acquired, any excess of the loan balance over the estimated net realizable value is charged to the allowance for loan losses. Holding costs, subsequent write-downs to net realizable value, if any, or any disposition gains or losses are included in noninterest income and expenses. Costs of development and improvement of the property are capitalized.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation over estimated useful lives, which range from 1 to 15 years. Depreciation and amortization expense is computed using the straight-line method for financial statement purposes. Normal costs of maintenance and repairs are charged to expense as incurred.

Leases – Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain locations and equipment. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated statements of financial condition that are classified as short term (less than one year). At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the consolidated statements of income.

Valuation of long-lived assets – The Company, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At December 31, 2022 and 2021, no long-lived assets had been impaired.

Paycheck Protection Program liquidity facility – A bank can pledge Paycheck Protection Program (PPP) loans to the Federal Reserve Bank as collateral for discount window borrowings under the liquidity facility. Such borrowings are secured only by the underlying Small Business Administration (SBA) PPP loans and are nonrecourse to the bank. The related loans and borrowings are excluded from regulatory capital, liquidity, and other measures when pledged on this basis mitigating credit, liquidity, and other risks. The Company pledged substantially all of its PPP loans and taken corresponding borrowings under this program. See Note 6 – Other Borrowed Funds.

Income taxes – The Company was previously organized as a Subchapter S corporation in the state of Washington. Effective July 1, 2021, the Company revoked its Subchapter S election and has been taxed as a C Corporation since that date. As such, until July 1, 2021, in lieu of corporate income taxes, the stockholders would separately account for their pro rata shares of the Company's items of income, deductions, losses, and credits. Therefore, the consolidated financial statements through June 30, 2021, do not include any provision for corporate income taxes.

Pursuant to being taxed as a C corporation, deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Accounting Standards Codification (ASC) 740-10, *Income Taxes*, requires recognition and measurement of uncertain tax positions using a "more-likely-than-not" approach. The Company's approach to ASC 740-10 consisted of an examination of its consolidated financial statements, its income tax provision, and its federal and state income tax returns. The Company analyzed its tax positions including the permanent and temporary differences as well as the major components of income and expense. As of December 31, 2022, the Company did not believe it had any uncertain tax positions that would rise to the level of having a material effect on its consolidated financial statements. In addition, the Company had no accrued interest or penalties as of December 31, 2022. It is the Company's policy to record interest and penalties as a component of income tax expense.

Stockholders' equity and earnings per share – During 2021, the Board of Directors approved a 4-for-1 reverse stock split of the no-par common stock of the Bank. All prior period common share and related per common share information has been restated to reflect the 4-for-1 reverse stock split.

Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable related to restricted stock agreements as calculated using the treasury stock method.

Stock-based compensation – The Bank has a stock-based compensation plan for employees that includes restricted stock awards, which are recognized as stock-based compensation expense in the statements of income based on the grant-date fair value of the award with a corresponding increase in common stock. The fair value is amortized over the requisite service period, which is generally the vesting period.

Revenue from contracts with customers

The Company's services that fall within the scope of *Revenue from Contracts with Customers* (Topic 606) include service charges on deposits, debit/ATM interchange income, merchant fee income, credit card and interchange income, and remaining other income. Management analyzes each of these noninterest income sources in accordance with Topic 606.

Service charges on deposits – The Company earns fees from its deposit customers for account maintenance, transaction-based activity, and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed.

Debit and ATM interchange fee income and expenses – Debit and ATM interchange income represent fees earned when a debit card issued by the Company is used. The 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. 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.

Credit card and interchange income and expenses – Credit card interchange income represents fees earned when a credit card issued by the Company is used. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the cardholders' credit card. Certain expenses and rebates directly related to the credit card interchange contract are recorded net of interchange income.

Other income – During 2022, the Company began utilizing third party deposit custodian services to facilitate placement of customer deposits at other financial institutions for FDIC insurance purposes. The Company earns income from placing customer deposits in the program, which is recorded as other non-interest income when received. The performance obligation is satisfied, and the fees are recognized monthly as the service period is completed.

Other real estate owned – The Company records a gain or loss on recoveries of already charged off loans when funds are received, and on 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. 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.

Comprehensive income (loss) – Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of equity.

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

Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). The ASU requires the replacement of the current incurred loss model with an expected loss model, referred to as the current expected credit loss (CECL) model. The guidance in the ASU is effective for reporting periods beginning after December 15, 2022, with a cumulative-effect adjustment to retained earnings required for the first reporting period. Management is still assessing the impact of this ASU; however, it is expected that it will have some impact on the Company's financial condition and results of operations as this modifies calculation of the allowance for loan losses by accelerating the recognition of losses.

On March 31, 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326) – Troubled Debt Restructurings and Vintage Disclosures*. The ASU eliminates the accounting guidance on troubled debt restructurings (TDRs) for creditors and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. The ASU adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The guidance in the ASU is effective for entities upon adoption of ASU 2016-13 and will be adopted by the Company when that standard is adopted.

Advertising – Advertising costs are charged to noninterest expense as incurred. Advertising and promotional costs were $61,032 and $35,793 in 2022 and 2021, respectively.

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

Subsequent events – Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the consolidated financial statements are available to be 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 statement of financial condition, including the estimates inherent in the process of preparing of the financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after the date of the statement of financial condition and before the financial statements are available to be issued.

The Company has evaluated subsequent events through February 27, 2023, which is the date the consolidated financial statements were available to be issued.

Note 2 – Securities

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2022 and 2021, and the corresponding amount of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses.

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
Mortgage-backed securities	$ 28,644,741	$ -	$ (4,185,082)	$ 24,459,659

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
Mortgage-backed securities	$ 31,727,001	$ 13,324	$ (536,180)	$ 31,204,145

Gross unrealized losses and fair value by length of time the individual securities have been in a continuous unrealized loss position at December 31 are as follows:

	Less Than 12 Months		12 Months or More		Total	
December 31, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 976,713	$ (2,762)	$ 23,482,946	$ (4,182,320)	$ 24,459,659	$ (4,185,082)

	Less Than 12 Months		12 Months or More		Total	
December 31, 2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 23,313,747	$ (348,697)	$ 7,401,040	$ (187,483)	$ 30,714,787	$ (536,180)

At December 31, 2022 and 2021, the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies. At December 31, 2022 and 2021, 13 and 10 securities were in an unrealized loss position, with 11 and 2 of those investments in a loss position of more than 12 months, respectively. The Company has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. Interest rates increased significantly over 2022. The decline in value is not related to any Company- or industry-specific event. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment. Because management does not intend to sell and does not anticipate being required to sell these securities in the near term, no declines are deemed to be other than temporary.

Due to the nature of mortgage-backed securities they are not due at a single maturity date and therefore disclosure of future maturities of securities is not required to be made. There were no sales of securities for the year ended December 31, 2022 or 2021.

Note 3 – Loan Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	2022	2021
Construction and land	$ 16,080,974	$ 6,748,033
Commercial real estate	63,214,151	52,987,777
Multi-family and residential	44,410,279	37,918,211
Commercial and industrial	29,534,497	16,251,228
Paycheck Protection Program (PPP) loans	5,851	748,161
Agricultural loans	3,858,812	4,448,762
Consumer	1,715,156	1,010,403
Other	13,246,752	16,784,068
	172,066,472	136,896,643
Deferred loan fees and costs	(773,540)	(711,641)
Allowance for loan losses	(2,427,426)	(2,413,232)
	$ 168,865,506	$ 133,771,770

The interest rates on loans fall into the following fixed and variable components at December 31:

	2022	2021
Fixed	$ 54,241,865	$ 42,300,004
Variable	117,824,607	94,596,639
	$ 172,066,472	$ 136,896,643

The following table summarizes activity related to the allowance for loan losses:

	Year Ended December 31, 2022				
	Balance, Beginning of Year	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Balance, End of Year
Construction and land	$ 59,062	$ 193,756	$ -	$ -	$ 252,818
Commercial real estate	793,046	(74,624)	-	14,132	732,554
Multi-family and residential	321,775	24,202	-	-	345,977
Commercial and industrial	462,016	165,401	-	62	627,479
Agricultural loans	72,914	68,149	-	-	141,063
Other	191,812	(44,297)	-	-	147,515
Consumer	33,844	9,533	-	-	43,377
Unallocated	478,763	(342,120)	-	-	136,643
	$ 2,413,232	$ -	$ -	$ 14,194	$ 2,427,426

	Year Ended December 31, 2021				
	Balance, Beginning of Year	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Balance, End of Year
Construction and land	$ -	$ 59,062	$ -	$ -	$ 59,062
Commercial real estate	106,441	686,605	-	-	793,046
Multi-family and residential	632,575	(845,865)	-	535,065	321,775
Commercial and industrial	285,117	70,980	-	105,919	462,016
Agricultural loans	114,652	(43,315)	-	1,577	72,914
Other	221,533	(29,721)	-	-	191,812
Consumer	20,075	13,769	-	-	33,844
Unallocated	93,143	385,620	-	-	478,763
	$ 1,473,536	$ 297,135	$ -	$ 642,561	$ 2,413,232

The Company's recorded investment in loans and the related allowance for loan losses by portfolio segment, disaggregated on the basis of the Company's impairment methodology, was as follows:

	December 31, 2022			
	Collectively Evaluated for Impairment		Individually Evaluated for Impairment	
	Loans	Related Allowance	Loans	Related Allowance
Construction and land	$ 16,080,974	$ 252,818	$ -	$ -
Commercial real estate	63,214,151	732,554	-	-
Multi-family and residential	44,410,279	345,977	-	-
Commercial and industrial	29,232,441	531,333	302,056	96,146
Paycheck Protection Program (PPP) loans	5,851	-	-	-
Agricultural loans	3,858,812	141,063	-	-
Consumer	1,715,156	43,377	-	-
Other	13,246,752	147,515	-	-
Unallocated	-	136,643	-	-
	$ 171,764,416	$ 2,331,280	$ 302,056	$ 96,146

	December 31, 2021			
	Collectively Evaluated for Impairment		Individually Evaluated for Impairment	
	Loans	Related Allowance	Loans	Related Allowance
Construction and land	$ 6,748,033	$ 59,062	$ -	$ -
Commercial real estate	52,987,777	793,046	-	-
Multi-family and residential	37,918,211	321,775	-	-
Commercial and industrial	15,480,707	306,560	770,521	155,456
Paycheck Protection Program (PPP) loans	748,161	-	-	-
Agricultural loans	4,448,762	72,914	-	-
Consumer	1,010,403	33,844	-	-
Other	16,784,068	191,812	-	-
Unallocated	-	478,763	-	-
	$ 136,126,122	$ 2,257,776	$ 770,521	$ 155,456

The following table summarizes impaired loans by loan class as of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Construction and land	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Multi-family and residential	-	-	-	-	-
Commercial and industrial	28,709	28,709	-	36,272	2
Paycheck Protection Program (PPP) loans	-	-	-	-	-
Agricultural loans	-	-	-	-	-
Consumer	-	-	-	-	-
Other loans	-	-	-	-	-
With an allowance recorded					
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Multi-family and residential	-	-	-	-	-
Commercial and industrial	273,347	273,347	96,146	277,612	15,959
Paycheck Protection Program (PPP) loans	-	-	-	-	-
Agricultural loans	-	-	-	-	-
Consumer	-	-	-	-	-
Other loans	-	-	-	-	-
Total					
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Multi-family and residential	-	-	-	-	-
Commercial and industrial	302,056	302,056	96,146	313,884	15,961
Paycheck Protection Program (PPP) loans	-	-	-	-	-
Agricultural loans	-	-	-	-	-
Consumer	-	-	-	-	-
Other loans	-	-	-	-	-
	$ 302,056	$ 302,056	$ 96,146	$ 313,884	$ 15,961

The following table summarizes impaired loans by loan class as of December 31, 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Construction and land	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Multi-family and residential	-	-	-	-	-
Commercial and industrial	92,644	92,644	-	91,678	1,485
Paycheck Protection Program (PPP) loans	-	-	-	-	-
Agricultural loans	-	-	-	-	-
Consumer	-	-	-	-	-
Other loans	-	-	-	-	-
With an allowance recorded					
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Multi-family and residential	-	-	-	-	-
Commercial and industrial	677,877	677,877	155,456	711,014	34,581
Paycheck Protection Program (PPP) loans	-	-	-	-	-
Agricultural loans	-	-	-	-	-
Consumer	-	-	-	-	-
Other loans	-	-	-	-	-
Total					
Construction and land	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Multi-family and residential	-	-	-	-	-
Commercial and industrial	770,521	770,521	155,456	802,692	36,066
Paycheck Protection Program (PPP) loans	-	-	-	-	-
Agricultural loans	-	-	-	-	-
Consumer	-	-	-	-	-
Other loans	-	-	-	-	-
	$ 770,521	$ 770,521	$ 155,456	$ 802,692	$ 36,066

Troubled debt restructurings – Loans may occasionally be restructured due to economic or legal reasons relating to the borrower’s financial condition by granting a concession in attempt to protect the investment.

The Company may offer a variety of modifications to borrowers on a case-by-case basis. These modifications include interest rate reductions, change in amortization or payment terms, interest-only payment periods, forgiveness of principal debt, or any combination of these modifications. The Company is not committed to lend additional funds to debtors whose loans have been restructured.

There were no new troubled debt restructurings during the years ended December 31, 2022 and 2021. There were no troubled debt restructurings modified within the previous 12 months for which there was a declaration of default during the years ended December 31, 2022 and 2021. At December 31, 2022 and 2021, all remaining troubled debt restructurings had paid off.

Paycheck Protection Program loans – Pursuant to the CARES Act passed in March 2020, the Company funded 108 loans totaling $18.4 million in 2021 to eligible small businesses and nonprofit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Company received a fee of 1%–5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. The Company recognized approximately $32 thousand and $1.0 million of interest income during 2022 and 2021, respectively from PPP loans forgiven during the years. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans at December 31, 2022 and 2021, was approximately $6 thousand and $750 thousand, respectively.

Credit quality indicators – The Company utilizes internal risk ratings for its credit quality indicators. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The internal risk ratings (1) provide a basis for evaluating, monitoring, and reporting the overall quality of the loan portfolio; (2) promptly identify deterioration of loan quality and the need for remedial action; and (3) assists in identifying areas requiring upgrading of policies, procedures, or documentation. Loans are monitored on an ongoing basis for appropriate risk rating, with term loans completed annually.

Loans graded 1 through 6 are considered “Pass,” while loans graded 7 are considered “Criticized” and loans graded 8 through 10 are considered “Classified” loans. The internal risk ratings are as follows:

Substantially Risk Free – Grade 1 – These loans are generally to major national companies with excellent financial condition. Also included in this category are loans that are cash secured with deposits at the Company.

Minimal Risk – Grade 2 – These loans have very strong earnings, as well as continuing substantial excess operating cash flows and interest coverage. There is minimal identifiable risk of collection. They conform in all respects to Company policy and federal regulations. Probability of serious financial deterioration is unlikely. The portion of loans guaranteed by government agencies, such as the Small Business Administration (SBA) programs, are classified as minimal risk. Financial statements and tax returns are acquired on a timely annual basis.

Modest Risk – Grade 3 – These loans have consistent earnings and generate consistent excess operating cash flows and interest coverage. Performance ratios are consistently better than peers and have modest capital intensiveness and operating leverage. Financial statements and tax returns are acquired on a timely annual basis and the loans conform to Company policy and federal regulations.

Better than Average Risk – Grade 4 – Loans in this category have consistent earnings with modest growth and will generate excess operating cash flows and interest coverage with minor temporary declines. Performance ratios are generally better than their peers and are generally a leader in their local market. The quality of their assets is above average and conservatively valued. Financial statements and tax returns are acquired on a timely annual basis and the loans conform to Company policy and federal regulations.

Average Risk – Grade 5 – These loans have good sources of repayment and have adequate earnings, cash flow, and debt service coverage. Their trends are generally positive but may not be consistently stable. There is confidence they will meet debt repayment schedules over medium terms. Borrower management has good character with demonstrated ability to deal with adversity. Financial statements and tax returns are acquired on a timely annual basis and the loans conform to Company policy and federal regulations.

Watch – Grade 6 – The grade 6 loans are similar to the grade 5; however, there may be signs of weakness in one or more areas. Operating earnings, cash flow, or debt service exhibit signs of strain or are subject to volatility. The borrower's position within their industry may be deteriorating or their asset quality may be below average. This may also include borrowers with limited industry experience or their leverage is above average relative to the industry. Loans in this category are given a higher level of servicing attention by management until the weaknesses are resolved. Financial statements and tax returns are acquired on a timely annual basis; however, these loans may be experiencing a delay in obtaining them. These loans generally conform to Company policy and federal regulations but may have exceptions because of the decline in the borrower's ratios. The Company's practice is generally not to originate a Grade 6 loan.

Special Mention – Grade 7 – Loans in this category receive additional attention by management, as they are showing increased weaknesses. Borrowers in this category may be experiencing financial or operational difficulties. This may include strained earnings and cash flow above average leverage, noncompliance with loan covenants, declining trends, lack of current financial information, or management issues. This classification is generally transitory in nature. The weaknesses to be corrected should be identified and corrected based on a specified action plan (generally no longer than a year) and the loan would return to an acceptable pass grade. If the correction does not take place within the framework of the plan, further downgrade may be warranted. All Special Mention loans are monitored for improvement or deterioration of the borrower's financial condition.

Substandard – Grade 8 – Loans graded Substandard may be inadequately protected by current net worth, paying capacity, or pledged collateral. These loans typically have one or more well-defined and uncorrected weaknesses indicating inability for repayment of the debt or the borrower's financial information indicates an unacceptable level of risk. These loans are characterized by the distinct possibility the Company may sustain some loss if the deficiencies are not corrected. A potential loss does not have to be recognizable in an individual credit for that credit to be rated substandard; therefore, a loan can be fully and adequately secured and still be considered a substandard credit. Substandard graded loans require increased attention by management and are monitored monthly as to their progress toward collection.

Situations that suggest a Substandard classification include the following:

- Cash flow deficiencies exist that jeopardize future loan payments.
- Past due principal or interest payments.
- The sale of noncollateral assets has become a primary source of repayment for the loan.
- The relationship has deteriorated to the point the sale of collateral is now the Company's primary source of repayment (unless it was the original source of repayment).

Doubtful – Grade 9 – Loans classified Doubtful are also classified nonaccrual and a partial loss is probable. These are loans where there is excessive risk and full collection is highly improbable due to inadequate cash flow or collateral to repay the loan. If identifiable and measurable, the amount of probable loss is charged off or a specific allowance for loan loss reserve is established. Loans in this category receive increased servicing attention by management until either collected or a portion of the loan is returned to a pass credit classification.

Loss – Grade 10 – The Loss rating is assigned to loans that are considered uncollectible and a loss is probable. While, for financial reporting purposes, loans in this category will be charged off, legal and collection actions may continue in an effort to recover some or all of the loss. Management and the Company's legal counsel are generally involved with the collection actions associated with these borrowers.

The following table summarizes the internal risk rating by loan class as of December 31, 2022:

	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land	$ 16,080,974	$ -	$ -	$ -	$ 16,080,974
Commercial real estate	63,214,151	-	-	-	63,214,151
Multi-family and residential	44,410,279	-	-	-	44,410,279
Commercial and industrial	28,592,759	-	941,738	-	29,534,497
Paycheck Protection Program (PPP) loans	5,851	-	-	-	5,851
Agricultural loans	3,858,812	-	-	-	3,858,812
Consumer	1,667,403	-	47,753	-	1,715,156
Other loans	13,246,752	-	-	-	13,246,752
Total	$171,076,981	$ -	$ 989,491	$ -	$172,066,472

The following table summarizes the internal risk rating by loan class as of December 31, 2021:

	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land	$ 6,748,033	$ -	$ -	$ -	$ 6,748,033
Commercial real estate	51,878,897	-	1,108,880	-	52,987,777
Multi-family and residential	37,918,211	-	-	-	37,918,211
Commercial and industrial	14,857,751	135,323	1,258,154	-	16,251,228
Paycheck Protection Program (PPP) loans	748,161	-	-	-	748,161
Agricultural loans	4,448,762	-	-	-	4,448,762
Consumer	988,650	-	21,753	-	1,010,403
Other loans	16,784,068	-	-	-	16,784,068
Total	$134,372,532	$ 135,323	$ 2,388,787	$ -	$136,896,643

The following table presents an aging of loans as of December 31, 2022:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loan Receivables	Recorded Investment >90 Days and Accruing	Total Portfolio
Construction and land	$ -	$ -	$ -	$ -	$ 16,080,974	$ 16,080,974	$ -	$ 16,080,974
Commercial real estate	-	-	-	-	63,214,151	63,214,151	-	63,214,151
Multi-family and residential	-	-	-	-	44,410,279	44,410,279	-	44,410,279
Commercial and industrial	-	-	28,709	28,709	29,505,788	29,534,497	-	29,534,497
Paycheck Protection Program (PPP) loans	-	-	-	-	5,851	5,851	-	5,851
Agricultural loans	-	-	-	-	3,858,812	3,858,812	-	3,858,812
Consumer	-	-	-	-	1,715,156	1,715,156	-	1,715,156
Other loans	-	-	-	-	13,246,752	13,246,752	-	13,246,752
Total	$ -	$ -	$ 28,709	$ 28,709	$ 172,037,763	$ 172,066,472	$ -	$ 172,066,472

The following table presents an aging of loans as of December 31, 2021:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loan Receivables	Recorded Investment >90 Days and Accruing	Total Portfolio
Construction and land	$ -	$ -	$ -	$ -	$ 6,748,033	$ 6,748,033	$ -	$ 6,748,033
Commercial real estate	-	-	-	-	52,987,777	52,987,777	-	52,987,777
Multi-family and residential	-	-	-	-	37,918,211	37,918,211	-	37,918,211
Commercial and industrial	42,709	-	49,935	92,644	16,158,584	16,251,228	-	16,251,228
Paycheck Protection Program (PPP) loans	-	-	12,290	12,290	735,871	748,161	12,290	748,161
Agricultural loans	-	-	-	-	4,448,762	4,448,762	-	4,448,762
Consumer	-	-	-	-	1,010,403	1,010,403	-	1,010,403
Other loans	-	-	-	-	16,784,068	16,784,068	-	16,784,068
Total	$ 42,709	$ -	$ 62,225	$ 104,934	$ 136,791,709	$ 136,896,643	$ 12,290	$ 136,896,643

Additionally, the Company categorizes loans as performing or nonperforming based on payment activity. Loans that are 90 days past due and nonaccrual loans are considered nonperforming (unless PPP SBA guaranteed loans).

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

	2022	2021
Commercial and industrial	$ 302,056	$ 92,644

Note 4 – Premises and Equipment

Major classifications of premises and equipment at December 31 are summarized as follows:

	2022	2021
Leasehold improvements	$ 680,677	$ 680,676
Furniture and equipment	1,120,035	1,013,178
Vehicles	133,031	133,031
Total cost	1,933,743	1,826,885
Less accumulated depreciation	(1,705,667)	(1,648,146)
Net book value	$ 228,076	$ 178,739

Depreciation and amortization expense for the years ended December 31, 2022 and 2021, was $83,256 and $79,002, respectively.

The Company enters into leases in the normal course of business primarily for operations locations and office equipment. The Company's leases have remaining terms ranging from 3 months to 5.25 years.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications are as follows:

	Balance sheet classification	2022
Right-of-use assets:		
Operating leases	Other assets	$ 1,083,612
	Total right-of-use assets	$ 1,083,612
Lease liabilities:		
Operating leases	Other liabilities	$ 1,101,084
	Total lease liabilities	$ 1,101,084

Lease commitments and contracts – The Company has entered into operating lease agreements for its branch and office space. The future minimum annual rental payments under the branch and office lease at December 31, 2022, exclusive of taxes and other charges, are summarized as follows:

Years ending December 31,	
2023	$ 295,695
2024	282,288
2025	282,288
2026	282,288
2027	4,148
Thereafter	162
	1,146,869
Less effect of discounts	(45,785)
Future net minimum rental payments	$ 1,101,084

Total rental expense for 2022 and 2021 amounted to $345,779 and $315,641, respectively.

Note 5 – Deposits

Major classifications of deposits at December 31 were as follows:

	2022	2021
Demand deposit	$ 92,375,871	$ 75,190,391
NOW and money market	113,263,469	82,840,386
Savings	919,933	1,511,499
Certificates of deposit	9,958,520	6,647,735
	$ 216,517,793	$ 166,190,011

There were $72,017 and $3,982 of overdrawn deposit accounts reclassified as loans as of December 31, 2022 and 2021, respectively.

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of $250,000 or greater, was approximately $815,523 and $1,064,144 as of December 31, 2022 and 2021, respectively.

The following is a schedule by year of maturities for certificates of deposit at December 31, 2022:

Years ending December 31,	
2023	$ 8,443,848
2024	1,212,888
2025	-
2026	209,842
2027	91,942
	$ 9,958,520

Note 6 – Other Borrowed Funds

The Company has unsecured operating lines of credits with PCBB and United Bankers Bank for $6,000,000 and $5,000,000, respectively. At December 31, 2022, the Company had no overnight borrowings outstanding with PCBB. Interest varies based on the federal funds market rates daily. There was no outstanding balance for either operating line at December 31, 2022 and 2021.

The Company is a member of the FHLB of Des Moines. As a member, the Company is eligible for a credit line of up to 35% of total assets, subject to certain collateral requirements. At December 31, 2022 and 2021, loans pledged as collateral to the FHLB equated to a borrowing capacity of $15,329,838, and $22,431,781, respectively, when fully collateralized. The Company had no outstanding indebtedness through the FHLB at December 31, 2022, and 2021.

The Bank can also borrow from the Federal Reserve Bank of San Francisco Discount Window. The Bank has not pledged collateral or borrowed under the historical Discount Window programs. In 2020, the Federal Reserve established the Paycheck Protection Program Liquidity Facility (PPPLF) under section 13(3) of the Federal Reserve Act to bolster the effectiveness of the Small Business Administration's PPP, which provides relief to American workers and businesses. Under the PPPLF, the Federal Reserve will supply liquidity to participating financial institutions through term financing backed by PPP loans. The PPPLF borrowings are 100% of the loan balance. The borrowings are nonrecourse to the bank, except for certain representations and warranties, and match the maturity of the underlying PPP loan. All borrowings carry a 0.35% rate for the term of the borrowing. The amount of the PPPLF and the related PPP loans are excluded from calculating regulatory capital and other ratios. The Bank elected to pledge and borrow against substantially all the PPP loans to improve regulatory capital ratios. At December 31, 2022 and 2021, the Bank had $0 and $749,116 borrowed under the PPPLF, respectively.

Note 7 – Commitments and Contingencies

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements. The commitments and contingent liabilities include various guarantees and commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment letter. 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 Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the counterparty. Collateral held varies but may include securities, accounts receivable, inventory, fixed assets, and/or real estate properties. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

At December 31, 2022 and 2021, the Company had $51,578,574 and $48,835,606, respectively, in commitments to extend credit. The Company also had standby letters of credit totaling $419,800 and $390,420 at December 31, 2022 and 2021, respectively.

The Company does not anticipate any material losses as a result of these commitments. At December 31, 2022 and 2021, a reserve of $103,997 and $98,452, respectively, had been established for unfunded commitments.

The Company is party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate of which, in management’s opinion, would not have a material adverse effect on the financial condition or results of operations of the Company.

Note 8 – Related Party Transactions

Loans to related parties – In the normal course of business, the Company makes loans to its executive officers, directors, and companies affiliated with these individuals. It is management’s opinion that loans to the Company’s and Bank’s officers and directors are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability. The following is a schedule of related party loans as of December 31:

	2022	2021
Beginning of year balance	$ 5,253,202	$ 7,339,555
Additions - SBA PPP loans	-	10,465,492
Additions - other loans	13,382,117	3,966,477
Payments - other loans	(6,790,932)	(4,034,304)
Payments and forgiveness on SBA PPP loans	-	(12,484,018)
Year end balance	$ 11,844,387	$ 5,253,202

The Company also accepts deposits from its executive officers, directors, major stockholders, and affiliated companies on substantially the same terms as unrelated persons. The aggregate dollar amount of these deposits was approximately $91,717,378 and $30,353,467 at December 31, 2022 and 2021, respectively.

Operating leases – The Company has entered into operating lease agreements (Note 4) with a corporation controlled by a director of the Company who directly and indirectly owns more than 10% of the outstanding common stock of the Company. The lease payments amounted to $314,677 and $286,122 in 2022 and 2021, respectively.

Note 9 – Income Taxes

As disclosed in Note 1, the Company revoked its S corporation status during 2021; therefore, taxes for 2021 were calculated and paid on a short-year basis for the portion of the year after conversion to a C corporation. Income taxes consist of the following for the year ended December 31:

	2022	2021
Current tax expense	$ 304,085	$ 293,562
Change in entity status	-	(460,624)
Deferred tax expense (benefit)	113,357	(92,438)
Income tax (benefit) expense	$ 417,442	$ (259,500)

The nature and components of the Company's net deferred tax asset at December 31, 2022 and 2021, are as follows:

	2022	2021
Deferred tax assets		
Allowance for loan and lease losses	$ 509,759	$ 413,666
Fixed assets	32,835	48,546
Restricted stock units	-	32,490
Equity compensation	1,868	-
Net unrealized loss on securities available for sale	878,867	109,800
Lease accounting - liability	231,228	-
Other	97,192	32,181
	1,751,749	636,683
Deferred tax liabilities		
Deferred loan fees	(35,915)	(35,915)
Lease accounting - asset	(227,559)	-
Other	(36,550)	(31,468)
	(300,024)	(67,383)
Net deferred tax asset	$ 1,451,725	$ 569,300

The effective tax rate differs from the statutory federal rate for the year presented as follows:

	2022	2021
Federal income tax expense at statutory rates	$ 434,148	$ 332,927
Effect of change in entity status	-	(460,624)
Less income recognized as S corporation at statutory rates	-	(165,095)
Other	(16,706)	33,292
Income tax (benefit) expense	$ 417,442	$ (259,500)

A valuation allowance is required for deferred tax assets if, based on available evidence, it is more likely than not that all or some portion of the asset will not be realized due to the inability to generate sufficient taxable income to use the benefit of the deferred tax asset. After evaluating the positive and negative evidence associated with the deferred tax asset, including the consideration of the Company's earnings history and projections, the Company determined that the deferred tax asset could be supported at December 31, 2022.

As discussed more in Note 1, effective July 1, 2021, the Company revoked its Subchapter S election. As a result, the Company recognized a net deferred tax asset as of that date of $460,624. This was recognized as tax benefit in the consolidated financial statements.

Note 10 – Concentrations of Credit Risk

Most of the Company's loans, commitments, and standby letters of credit have been granted to customers in the Company's market area, which is the Inland Northwest (Spokane County, Washington, the surrounding areas in eastern Washington, and northern Idaho). As such, significant changes in economic conditions in the Inland Northwest or with its primary industries could adversely affect the Company's ability to collect loans. Substantially all such customers are depositors of the Company. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Company, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of approximately $3.6 million.

The Company places its cash with high-credit-quality institutions. The amount on deposit fluctuates and, at times, exceeds the insured limit by the Federal Deposit Insurance Corporation (FDIC), and this potentially subjects the Company to credit risk.

Note 11 – Regulatory Matters

Banks and Bank Holding Companies are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy 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 classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

As of December 31, 2022, the most recent notification from the Bank's regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

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

The Bank meets all CBLR requirements as of December 31, 2022.

Actual and required capital amounts (in millions) and ratios are presented below at December 31, 2022 and 2021, under the regulations then in effect:

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
December 31, 2022				
Tier 1 leverage capital (to average assets)	$ 23,169	10.74%	$ 19,418	9.00%
December 31, 2021				
Tier 1 leverage capital (to average assets)	$ 17,117	8.99%	$ 15,239	8.00%

The Company's consolidated capital amounts and ratios do not differ materially from the Bank's information presented above and are therefore not presented separately.

Dividend restrictions – The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit an amount of dividends that may be paid without prior approval of regulatory agencies. The Bank has an accumulated deficit, so all dividends require prior approval of regulatory agencies.

Note 12 – Employee Benefit Plan

The Company maintains the RiverBank 401(k) Plan. Employee deferrals may begin after three consecutive months of employment. The Company's contribution is at the discretion of the Board of Directors. The Company contributed $106,684 and $101,502 in safe harbor match in 2022 and 2021, respectively. Participants' interests vest immediately and may be withdrawn upon termination or upon attainment of normal retirement age. In addition, the Company may make profit sharing contributions that become fully vested after six years or attainment of normal retirement age.

Note 13 – Stockholders' Equity and Stock Based Compensation

During 2021, the Board of Directors approved a 4-for-1 reverse stock split of the no-par common stock of the Bank. All prior period common share and related per common share information has been restated to reflect the 4-for-1 reverse stock split.

Shareholders approved the 2020 Equity Incentive Plan at the May 28, 2020, Annual Shareholders' Meeting. The plan provides for the issuance of shares to employees, directors and consultants. Compensation expense is recognized over the vesting period of the awards based on the fair value of stock at issue date. The book value of the shares at date of grant approximated fair value. The awards vest ratably over a period of time, typically 3-5 years. 10,000 and 37,500 shares were issued in 2022 and 2021, respectively. Remaining shares issuable under the plan at December 31, 2022, total 15,000 shares.

A summary of changes in the Company's nonvested shares for the year follows:

Nonvested Shares	Shares	Weighted
Nonvested at January 1, 2022	29,375	18.28
Granted	10,000	20.00
Vested	(10,628)	18.68
Forfeited	-	-
Nonvested at December 31, 2022	28,747	18.73

As of December 31, 2022, there was $574,940 of total unrecognized compensation cost related to nonvested shares granted under the plan. The cost is expected to be recognized over approximately 3 years. The total fair value of shares vested during the year ended December 31, 2022 and 2021, was $215,207 and $154,714, respectively.

Note 14 – Obligations Under Guarantees

The Company has guaranteed credit cards with other institutions for certain customers. These credit cards have varying terms. If the customer were to default on these credit cards, the Company would be required to pay for the credit card. The maximum potential amount of future payments the Company would be required to make was $118,000 and $113,000 as of December 31, 2022 and 2021, respectively.

Note 15 – Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value.

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

These two types of inputs create the following fair value hierarchy:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring basis:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Mortgage-backed securities	$ 24,459,659	$ -	$ 24,459,659	$ -
December 31, 2021				
Mortgage-backed securities	$ 31,204,145	$ -	$ 31,204,145	$ -

The following table presents quantitative information about Level 3 fair value instruments measured at fair value on a nonrecurring basis at December 31, 2022 and 2021.

	December 31, 2022				
		Fair Value	Valuation Techniques	Unobservable Inputs	Range of Inputs
Impaired loans	$	302,056	Market approach	Adjusted for differences between comparable sales	10%–80%

	December 31, 2021				
		Fair Value	Valuation Techniques	Unobservable Inputs	Range of Inputs
Impaired loans	$	770,521	Market approach	Adjusted for differences between comparable sales	8-25%

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, based on the loan's observable market price or the fair value of collateral, if the loan is collateral-dependent. The fair value of the collateral is reduced for prior liens, delinquent taxes, and estimated selling costs, generally approximately 10%. Additional discounts may also be taken where it is deemed advantageous to liquidate assets quicker than the standard marketing exposure period. Impaired loans that are collateral-dependent and have experienced a write-down in carrying value or have a recognized valuation allowance are included in the table on the previous page. Impaired loans whose fair value exceeds the carrying value are excluded from the table on the previous page, as these loans do not represent financial assets measured and carried at fair value.

The carrying amounts and estimated fair values of financial instruments not carried at fair value, are as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2022		
		Level 1	Level 2	Level 3
December 31, 2022				
Financial assets				
Cash and cash equivalents	$ 31,176,193	$ 31,176,193	$ -	$ -
Deposits held at other financial institutions	8,710,000	8,710,000	-	-
Securities available for sale, at fair value	24,459,659	24,459,659	-	-
Pacific Coast Bankers' Bank stock, at cost	920,000	920,000	-	-
Loans receivable, net	168,865,506	-	-	159,741,532
Financial liabilities				
Deposits	216,517,793	-	199,243,848	-
Borrowed funds	-	-	-	-

	Carrying Amount	Fair Value Measurements at December 31, 2021		
		Level 1	Level 2	Level 3
December 31, 2021				
Financial assets				
Cash and cash equivalents	$ 7,132,904	$ 7,132,904	$ -	$ -
Deposits held at other financial institutions	9,199,000	9,199,000	-	-
Securities available for sale, at fair value	31,204,145	31,204,145	-	-
Pacific Coast Bankers' Bank stock, at cost	920,000	920,000	-	-
Loans receivable, net	133,771,770	-	-	132,550,934
Financial liabilities				
Deposits	166,190,011	-	151,993,751	-
Borrowed funds	749,116	749,116	-	-

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