COMMUNITY FIRST BANK | HFG TRUST

PO Box 6919 | 8131 W Grandridge Blvd
Kennewick WA 99336 | 509.783.3435

Annual Letter to Shareholders

April 3, 2023

Dear Shareholder:

2022 was a very strong core income year for your company. During the year we accomplished a long-standing objective of achieving $10.50/share in core earnings. Our strong earnings were driven by significant increases in net interest income and wealth management revenues. The growth in these areas more than offset a sharp decline in mortgage volume.

A historic rise in interest rates was the primary culprit for the slowdown in the mortgage department and a decline in the values of investment securities. Despite these market headwinds, the company was able to manage growth in net interest income due to its stable deposit base and loyal clients.

Below are some key financial metrics for the company during 2022.

- Core Earnings Per Share were up 23.2% from the prior year.
- Non-PPP Revenue Grew 9.8%
- Deposits Grew 6.5%
- Assets Under Management (AUM) Grew 22.7%
- Regulatory Capital Ratios Strengthened
- Credit Quality remained pristine.
- Our Loan portfolio remains pristine and diversified

Through a historic rise in interest rates our remarkable team of employees once again delivered impressive results and continue to grow meaningful, long-term relationships with our clients. Our growth has been exceptional over the past few years, and we have made substantial progress in diversifying our business lines, which is providing us with some insulation from volatile macro-economic conditions.

As you are likely aware, a few weeks ago, the failure of Silicon Valley Bank and Signature Bank brought a lot of attention to the banking industry and to issues surrounding the value of investment securities on bank balance sheets. While nearly all banks (including ours) have seen the impact of security declines stemming from a rapid rise in interest rates, most banks (especially ours) are well positioned to manage through this situation. We are proud of our conservative business model, extremely strong loan portfolio, high quality investment portfolio and of our steadfast commitment

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from our largest owners to build a multi-generational business. We are committed to serving our community through all types of economic conditions just as we did during the 2008-2009 recession and the pandemic. For more information pertaining to the recent banking news, we have prepared and attached a brief Q&A document that you may find helpful.

Eric Pearson, President & CEO
Community First Bancorp

Questions & Answers

Question: Why have banks like ours seen market value declines in their investment portfolios?

Answer: While we only make investments in extremely low risk government bonds, all fixed rate bonds are subject to interest rate risk. As rates rise, the value of bonds decline. As rates rose at a historic pace and level, value declines began to show up very quickly in the bond portfolios of financial institutions across the country.

Question: Are these value declines realized or unrealized and what is the difference?

Answer: In most cases, bond value declines are unrealized as a loss and are only realized when/if the bonds are sold. Banks typically manage their balance sheet in such a manner that holding securities to maturity is the norm and as such will recoup their full original value over time.

Question: Since most banks have these unrealized losses in their investment portfolio, are most banks at risk of a fate like that of Silicon Valley Bank (SVB)?

Answer: No. Most banks are sitting on unrealized market value declines that are much smaller in relationship to their balance sheet than they were at SVB. Furthermore, most banks will not need to recognize any market value declines in their securities portfolios because they have more stable funding sources from relationship deposits and well-established back-up funding sources which will allow them to hold the investments closer to maturity. The closer a bond is to maturity the less of a possible market value decline there will be.

Question: Why is CFB positioned differently than banks that have been in the news?

Answer: Primarily, CFB has a very stable deposit base that is not concentrated in a single industry or overly dependent on any small group of clients. This has been evidenced by our recent experience of only minor deposit outflows in the face of recent events. Our deposit stability means that the bank will be able to allow the market value declines to reduce and eventually vanish as securities mature and/or approach their maturity.

Additionally, the current levels of decline in value of CFB's bond portfolio relative to the base capital of the bank is much smaller than was the case at the banks in the news. To this end and as evidenced by our recent "extreme" stress testing, we have concluded that CFB could withstand the impact of selling all its securities (even after market value declines) in response to what would have to be extremely severe demands for liquidity from our depositors. Following such an extreme stress scenario, the bank would remain well capitalized by regulatory standards.

Finally, our local ownership is committed to the multi-generational aspect of our company as evidenced by their own significant deposit totals with the bank and frequently reiterated commitment to invest capital in support of operations as needed.

Question: What is the outlook for performance for the bank considering the current economic conditions?

Answer: Management believes that the impact of the historic rate increases will be felt mostly in potentially tightening margins as we feel pressure on deposit rates at a faster pace than we can reprice our earning assets (loans and securities). So far through this cycle, we have been able to increase our margins, but expect that the next several months will show some tightening. We remain optimistic, however, that we can return income in 2023 that is only modestly less than in 2022. Depending on interest rates, the margin compression will likely begin to dissipate sometime in mid-late 2024. While this is unfolding, we are looking to continue to grow our non-interest businesses to minimize the company's sensitivity to rates going forward via revenue diversification.

COMMUNITY FIRST BANCORPORATION, INC.
AND SUBSIDIARIES
KENNEWICK, WA

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2022 AND 2021

C O N T E N T S

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

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Shareholders
of Community First Bancorporation, Inc.
Kennewick, WA

Opinion

We have audited the accompanying consolidated financial statements of Community First Bancorporation, Inc. and Subsidiaries, which comprise the balance sheets as of December 31, 2022 and 2021 and the related statements of income, comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Community First Bancorporation, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated 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 Community First Bancorporation, Inc. and Subsidiaries' 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Community First Bancorporation, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Community First Bancorporation, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other financial information on pages 46-47 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, L.L.P.
Fort Worth, Texas
March 27, 2023

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021
(Dollars in Thousands)

	2022	2021
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 6,077	$ 3,175
Interest-bearing deposits in financial institutions maturing in less than three months	69,730	37,521
Total cash and cash equivalents	75,807	40,696
Investment securities - Note 3	199,230	209,476
Trading account securities - Note 3	-	10,015
Federal Home Loan Bank stock, at cost - Note 2	713	604
Loans held-for-sale - Note 4	3,267	4,670
Loans, net of deferred loan fees and allowance for loan losses - Note 4	306,261	304,960
Premises and equipment, net of accumulated depreciation - Note 5	9,559	9,088
Bank-owned life insurance	7,046	6,894
Goodwill - Note 6	3,049	3,049
Accrued interest receivable	2,167	2,057
Other assets	2,997	2,730
Total Assets	$ 610,096	$ 594,239
LIABILITIES		
Deposits - Note 7	$ 572,726	$ 537,872
Long-term borrowings - Note 8	9,669	9,050
Other liabilities:		
Accrued interest payable	36	24
Accrued expenses and other liabilities	953	713
Total other liabilities	989	737
Total Liabilities	583,384	547,659
Commitments and contingencies - Notes 5, 10, 11, 12, 13 and 14		
SHAREHOLDERS' EQUITY		
Common stock, $1 par value:		
Authorized - 1,000,000 shares		
Issued and outstanding - 596,853 and 585,152 shares at December 31, 2022 and 2021, respectively	597	585
Additional paid-in capital	19,958	19,207
Retained earnings	30,036	26,584
Accumulated other comprehensive income (loss)	(23,879)	204
Total Shareholders' Equity	26,712	46,580
Total Liabilities and Shareholders' Equity	$ 610,096	$ 594,239

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Dollars in Thousands, except for per share amounts)

	2022	2021
Interest income		
Interest and fees on loans	$ 14,137	$ 15,068
Interest on investment securities	3,728	2,758
Interest on federal funds sold and interest-bearing deposits with financial institutions	893	47
Total interest income	18,758	17,873
Interest expense		
On deposits	939	371
On borrowed funds	385	79
Total interest expense	1,324	450
Net interest income	17,434	17,423
Provision for loan losses - Note 4	665	1,037
Net interest income after provision for loan losses	16,769	16,386
Non-interest income		
Service charges and fees on deposit accounts	277	275
Mortgage commissions and fees	1,198	996
Earnings on bank-owned life insurance	152	152
Net trading income (loss) - Note 3	(1,087)	38
Net gain on sales of loans	1,270	2,720
Net loss on sales of premises and equipment	(2)	(26)
Income from fiduciary activities	8,043	6,472
Other	1,070	910
Total non-interest income	10,921	11,537
Non-interest expense		
Salaries and employee benefits	14,909	13,818
Occupancy	901	1,015
Furniture and equipment	740	1,028
Data processing	1,707	1,497
Professional fees	310	273
FDIC assessments	166	314
Regulatory assessments	24	20
ATM/Debit card expenses	315	246
Other operating expenses	2,316	2,373
Total non-interest expense	21,388	20,584
Net Income	$ 6,302	$ 7,339
Basic earnings per share of common stock	$ 10.59	$ 12.62
Average shares of common stock outstanding	595,050	581,300

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Dollars in Thousands)

	2022	2021
Net Income	$ 6,302	$ 7,339
Other Comprehensive Loss		
Securities available-for-sale:		
Reclassification adjustment for net realized gains/losses on sales during the year	-	-
Change in net unrealized gains/losses during the year	(24,083)	(3,696)
Other comprehensive loss	(24,083)	(3,696)
Comprehensive Income (Loss)	$ (17,781)	$ 3,643

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2021	$ 575	$ 18,782	$ 21,427	$ 3,900	$ 44,684
Sales of stock	3	257			260
Stock option compensation expense		3			3
Exercise of stock options	1	83			84
Restricted stock compensation expense	5	5			10
Directors stock compensation expense	1	77			78
Comprehensive income (loss) for the year ended December 31, 2021			7,339	(3,696)	3,643
Dividends paid - $3.75 per share			(2,182)		(2,182)
Balance at December 31, 2021	585	19,207	26,584	204	46,580
Sales of stock	4	347			351
Purchases of stock		(3)			(3)
Stock option compensation expense		3			3
Exercise of stock options	4	217			221
Restricted stock compensation expense	3	109			112
Directors stock compensation expense	1	78			79
Comprehensive income (loss) for the year ended December 31, 2022			6,302	(24,083)	(17,781)
Dividends paid - $4.82 per share			(2,850)		(2,850)
Balance at December 31, 2022	$ 597	$ 19,958	$ 30,036	$ (23,879)	$ 26,712

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Dollars in Thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,302	$ 7,339
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	504	587
Provision for loan losses	665	1,037
Net amortization on investment securities	1,816	2,008
Stock option compensation expense	3	3
Restricted stock compensation expense	112	10
Directors stock compensation expense	79	78
Earnings on bank-owned life insurance	(152)	(152)
Purchases of trading investment securities	(34,239)	(36,449)
Proceeds from sales of trading investment securities	43,167	26,472
Net trading (income) loss	1,087	(38)
Originations of loans held-for-sale	(78,164)	(120,720)
Proceeds from sales of loans held-for-sale	80,837	131,192
Net gain on sales of loans	(1,270)	(2,720)
Net loss on sales of premises and equipment	2	26
Increase (decrease) in net deferred loan fees	87	(1,677)
(Increase) decrease in accrued interest receivable	(110)	116
Increase (decrease) in accrued interest payable	12	(2)
Other	(472)	(852)
Total adjustments	13,964	(1,081)
Net Cash Provided by Operating Activities	20,266	6,258
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(43,050)	(101,836)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	15,570	13,098
Proceeds from principal paydowns on investment securities:		
Available-for-sale	11,827	16,801
Purchases of FHLB stock	(112)	(701)
Proceeds from redemptions of FHLB stock	3	521
Net increase in loans made to customers	(2,053)	(20,444)
Proceeds from sales of other real estate	-	223
Proceeds from sales of premises and equipment	9	204
Purchases of premises and equipment	(541)	(1,943)
Cash paid for purchase of Prime Wealth Management, Inc.	-	(226)
Net Cash Used by Investing Activities	$ (18,347)	$ (94,303)

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Dollars in Thousands)

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 34,587	$ 81,801
Net increase (decrease) in time deposits	267	(1,840)
Proceeds received from long-term borrowings	1,250	8,750
Repayments made on long-term borrowings	(631)	(50)
Proceeds from sales of common stock	351	260
Proceeds from exercise of stock options	221	84
Purchases of common stock	(3)	-
Dividends paid	(2,850)	(2,182)
Net Cash Provided by Financing Activities	33,192	86,823
Net increase (decrease) in cash and cash equivalents	35,111	(1,222)
Cash and cash equivalents at beginning of year	40,696	41,918
Cash and cash equivalents at end of year	$ 75,807	$ 40,696
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	$ 1,312	$ 452

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 1 History

Community First Bancorporation, Inc. was formed August 6, 2004 to serve as a bank holding company. The Corporation was activated January 1, 2005, when Community First Bancorporation, Inc. and Community First Bank entered into a Share Exchange Agreement in order to effect the acquisition of 100 percent of the issued and outstanding common stock of the Bank. Each eligible Bank Shareholder received one share of Corporation stock in exchange for each share of Bank stock owned.

In order to effect a conversion to a Subchapter S corporation, there was a 1-for-1,000 reverse stock split in 2005. During 2005, Community First Merger Corporation, Inc. was formed in order to effectuate the Subchapter S conversion. Effective January 1, 2006, Community First Bancorporation, Inc. and Community First Merger Corporation, Inc., a Subchapter S corporation, merged. After this merger, a 1,000-for-1 stock split occurred, which restored the number of shares to the original amounts prior to the reverse stock split.

Effective January 1, 2016, HFG Trust, LLC, a wholly-owned subsidiary of the Bank, was established. At this same time, HFG Holdings, LLC, a newly established merger subsidiary of the Corporation, and Haberling Financial Group, Inc. merged. After the merger, HFG Holdings, LLC was merged into HFG Trust, LLC. Pursuant to the merger agreement, 41,600 shares of common stock in the Corporation were issued to shareholders of Haberling Financial Group, Inc. Haberling Financial Group, Inc. was principally owned by a director of the Corporation.

Effective April 1, 2021, HFG Trust, LLC acquired Prime Wealth Management, Inc. Upon acquisition, Prime Wealth Management, Inc. became a wholly-owned subsidiary of HFG Trust, LLC. Effective April 1, 2022, the name of Prime Wealth Management, Inc. was changed to HFG Advisors, Inc.

Note 2 Summary of Significant Accounting Policies

The consolidated financial statements of the Corporation include its accounts and those of its one hundred percent (100%) owned subsidiary, Community First Bank ("Bank"), the Bank's one hundred percent (100%) owned subsidiary, HFG Trust, LLC ("HFG") and HFG's one hundred percent (100%) owned subsidiary, HFG Advisors, Inc. ("HFGA"). The accounting and reporting policies of all four entities are in accordance with accounting principles generally accepted in the United States of America. All dollar amounts, except per share information, are stated in thousands.

<u>Principles of Consolidation</u>

In the consolidated financial statements, all significant intercompany accounts and transactions have been eliminated upon consolidation.

Note 2 Summary of Significant Accounting Policies, continued

Nature of Operations

Community First Bancorporation, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Community First Bank. Community First Bank operates five offices in Kennewick, Connell, Pasco and Richland, Washington. Community First Bank provides loan services to, and accepts deposits from, customers who are predominately small- and middle-market businesses and middle-income individuals in Southeastern Washington State. Funding sources are deposits from customers, public entities and borrowings from various sources. The Bank operates under a state bank charter and provides full banking services. The Bank is subject to regulation by the Washington State Department of Financial Institutions and the Federal Deposit Insurance Corporation. HFG Trust, LLC is a wholly-owned subsidiary of the Bank and provides financial management and trust services to a variety of customers at its office in Kennewick, Washington. During 2021, HFG Trust, LLC opened a loan production office (LPO) in Lake Oswego, Oregon for the purpose of originating loans for HFG's Income Fund, as well as origination of traditional mortgage loans. HFG Advisors, Inc. is a wholly-owned subsidiary of HFG and provides financial management to a variety of customers at its offices in Berkley, California and Roseburg, Oregon. At December 31, 2022 and 2021, HFG Trust, LLC and HFG Advisors, Inc. collectively had assets under management for their customers totaling $1,327,801,000 and $1,308,710,000, respectively.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Corporation's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Corporation has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Corporation to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Note 2 Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents and Cash Flows

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in cash and amounts due from depository institutions, interest-bearing deposits maturing in three months or less and federal funds sold. The Corporation reports net cash flows from customer loan transactions, deposit transactions and short-term borrowings.

Investment Securities

The Corporation accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under the provisions of the FASB authoritative guidance, debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method. Accretion of discounts are recognized in interest income over the period to maturity. Amortization of premiums are recognized in interest income over the earlier of the period to maturity or the earliest call date for callable securities.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains (losses) on securities available-for-sale are included in other income and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss). Gains and losses on sales of securities are determined on the specific-identification method.

Securities held for resale in anticipation of short-term market movements are classified as trading. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in other income.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other-than-temporary result in writedowns of the individual securities to their fair value. The related writedowns are included in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Note 2 Summary of Significant Accounting Policies, continued

Federal Home Loan Bank Stock

At December 31, 2022 and 2021, the Corporation had $713,000 and $604,000, respectively, recorded for stock in the Federal Home Loan Bank (FHLB). As a member of the FHLB system, the Corporation is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of .5% of its outstanding mortgage related assets or 4.5% of advances from the FHLB. The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by the FHLB at the $100 per share par value. This stock is classified as a restricted investment security, carried at cost and evaluated annually for impairment. During 2022 and 2021, no impairment loss was recorded.

Loans Held-for-Sale

Mortgage loans originated for sale in the foreseeable future in the secondary market are carried at the lower of aggregate cost or fair value. Gains and losses on sales of loans are recognized at the settlement date and are determined by the difference between the sales proceeds and the carrying value of the loans. Sales are made without recourse. Net unrealized losses, if any, are recognized through a valuation allowance established by charges to income.

The Corporation issues various representations and warranties associated with the sale of loans. During 2022 and 2021, there were no losses incurred regarding these representations and warranties.

Loans

Loans are stated at the principal amount outstanding less net deferred loan fees and the allowance for loan losses. Interest income on loans is recognized based upon the principal amounts outstanding. Generally, the accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or when they are past due 90 days as to either principal or interest, unless they are well secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed against current income. If management determines that the ultimate collectability of principal is in doubt, cash receipts on nonaccrual loans are applied to reduce the principal balance on a cash-basis method, until the loans qualify for return to accrual status or principal is paid in full. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due status is determined based on contractual terms.

Loan Origination Fees and Costs

Loan origination fees and costs are deferred and amortized into income as an adjustment to yield over the life of the related loan.

Allowance for Loan Losses

The allowance for loan losses is comprised of amounts charged against income in the form of the provision for loan losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses.

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated values of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogenous loans are collectively evaluated for impairment; accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject to a restructuring agreement.

Periodically, regulatory agencies review the Corporation's allowance for loan losses as an integral part of their examination process and may require the Corporation to make additions to the allowance based on their judgment about information available to them at the time of their examination.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method based upon the estimated useful lives of the assets, which range from three to seven years for furniture and equipment and 30 to 40 years for buildings and improvements. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvement, whichever is less.

Note 2 Summary of Significant Accounting Policies, continued

Premises and Equipment, continued

Maintenance and repairs are charged to operating expenses. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. Depreciable assets sold or retired are removed from the asset and related accumulated depreciation accounts and any gain or loss is reflected in the income and expense accounts. These assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines that an impairment exists, the asset is reduced with an offsetting charge to expense.

Other Real Estate Owned

Other real estate owned is foreclosed property held pending disposition and is initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. At foreclosure, if the fair value of the real estate acquired less estimated selling costs is less than the Corporation's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate owned are accounted for according to authoritative guidance issued by the FASB.

Goodwill

As a result of the HFG and Prime acquisitions, which are discussed in Note 1, goodwill was recorded by the Corporation. Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Corporation has adopted authoritative guidance issued by the FASB. Under this guidance, goodwill is periodically assessed for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. The Corporation bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. Refer to Note 6 for additional information.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Note 2 Summary of Significant Accounting Policies, continued

Reserve for Unfunded Commitments

The Corporation has established a reserve for possible losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. At December 31, 2022 and 2021, this reserve totaled $50,000.

Federal Income Taxes

Effective January 1, 2006, the shareholders of the Corporation elected to be taxed as a Subchapter "S" Corporation under Internal Revenue Service Code Section 1362. In lieu of corporate income taxes, the shareholders of a Subchapter S Corporation are taxed on their proportionate share of the Corporation's taxable income.

The Corporation, the Bank, HFG and HFGA join in filing federal income tax returns.

The Companies maintain their records for financial reporting on the accrual basis of accounting. The Companies maintain their records for income tax reporting on the cash basis of accounting.

In accordance with authoritative guidance issued by the FASB, the Corporation performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the consolidated financial statements. No uncertain tax positions were identified. The December 31, 2019 through December 31, 2022 tax years remain subject to examination by the Internal Revenue Service. The Corporation does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the consolidated financial statements. The Corporation records incurred penalties and interest in other non-interest expense. There were no penalties and interest assessed by taxing authorities during 2022 or 2021.

Stock-Based Compensation

The Corporation has stock-based employee and director compensation plans which are more fully described in Note 15. The Corporation has adopted authoritative guidance issued by the FASB regarding accounting for stock compensation expense. As a result of adopting the FASB authoritative guidance, the Corporation's net income is $194,000 and $91,000 lower for the years ended December 31, 2022 and 2021, respectively.

Comprehensive Income (Loss)

The Corporation has adopted authoritative guidance issued by the FASB which establishes standards for reporting and display of comprehensive income (loss) and its components. These standards require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investment securities, are reported as a separate component in shareholders' equity. These items, along with net income, are components of comprehensive income (loss). The Corporation reports comprehensive income (loss) in the statement of comprehensive income (loss).

Note 2 Summary of Significant Accounting Policies, continued

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of $121,000 and $136,000 were expensed during 2022 and 2021, respectively.

Book Value and Tangible Book Value per Share

Book value per share is calculated by dividing the total shareholders' equity shown on the consolidated balance sheets by the number of shares outstanding as of year-end. Tangible book value per share is calculated by dividing the total shareholders' equity less goodwill shown on the consolidated balance sheets by the number of shares outstanding as of year-end. At December 31, 2022 and 2021, the book value per share is $44.75 and $79.60, respectively. At December 31, 2022 and 2021, the tangible book value per share is $39.64 and $74.39, respectively.

Reclassifications

Certain accounts have been reclassified in the consolidated financial statements of 2021 to conform to the 2022 presentation.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Corporation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Corporation's consolidated 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 consolidated financial statements are available to be issued. The Corporation has evaluated subsequent events from December 31, 2022 through March 27, 2023, the date the financial statements were available to be issued. Refer to Note 20 for information on subsequent events identified by the Corporation.

Accounting Standards Adopted in 2022 and 2021

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update were originally effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years beginning after December 15, 2021; however, in July 2020, the FASB voted to delay the effective date of this accounting standard for one year due to the unprecedented challenges of the COVID-19 pandemic. Therefore, the amendments in this update are now effective for fiscal years beginning after December 15, 2021 and interim periods within those fiscal years beginning after December 15, 2022. Implementation of this standard, which was effective for the Corporation as of December 31, 2022, resulted in the Corporation recording a lease right-to-use asset and a lease obligation-to-pay liability. Refer to Note 5 for additional information.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Adopted in 2022 and 2021, continued

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This amendment simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments in this update should be applied on a prospective basis. For non-public business entities, the amendments are effective for fiscal years beginning after December 15, 2021. Implementation of this standard, which was effective for the Corporation as of January 1, 2022, did not have a significant impact on the Corporation's consolidated financial statements.

In July 2021, the FASB issued ASU No. 2021-05, *Leases (Topic 842)*, which affects lessors with lease contracts that (1) have variable lease payments that do not depend on a reference index or a rate and (2) would have resulted in the recognition of a selling loss at lease commencement if classified as sales-type or direct financing. The amendments in this update address concerns by amending the lease classification requirements for lessors to align them with practice under Topic 840. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: (1) The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 through 25-3 and (2) The lessor would have otherwise recognized a day-one loss. The amendments in this update are effective for fiscal years beginning after December 15, 2021 for all entities and interim periods within those fiscal years for public business entities and interim periods with fiscal years beginning after December 15, 2022 for all other entities. Early application is permitted. Implementation of this standard, which was effective for the Corporation as of December 31, 2022, did not have a significant impact on the Corporation's consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-07, *Compensation – Stock Compensation (Topic 718)*, which as a practical expedient allows nonpublic entities to determine the current price input of equity-based awards issued to both employees and nonemployees using a reasonable application of a reasonable valuation method. A reasonable application of a reasonable valuation method includes (1) the date on which a valuation's reasonableness is evaluated, (2) the factors that a reasonable valuation should consider, (3) the scope of information that a reasonable valuation should consider and (4) the criteria that should be met for the use of a previously calculated value to be considered reasonable. The amendments in this update are effective prospectively for all qualifying awards granted or modified during the fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted. Implementation of this standard, which was effective for the Corporation as of January 1, 2022, did not have a significant impact on the Corporation's consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Adopted in 2022 and 2021, continued

In November 2021, the FASB issued ASU No. 2021-09, *Leases (Topic 842)*, which as a practical expedient allows nonpublic entities to elect, as an accounting policy, to use a risk-free rate as the discount rate for all leases. The amendments in this update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose which asset classes it has elected to apply a risk-free rate. The amendments require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. For entities which have already adopted Topic 842, the amendments of this update were effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Other entities are required to adopt the amendments of this update at the same time that they adopt Topic 842. Implementation of this standard, which was effective for the Corporation as of December 31, 2022, did not have a significant impact on the Corporation's consolidated financial statements.

Accounting Standards Pending Adoption

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For non-public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Pending Adoption, continued

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326)*, which relates to Troubled Debt Restructurings (TDRs) for all entities after they have adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments of this update eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. For public entities, the amendments of this update require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*. For entities that have adopted the amendments in ASU No. 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted the amendments in ASU No. 2016-13, the effective date for the amendments in this update are the same as the effective dates in ASU No. 2016-13. An entity has the option to apply a modified retrospective transition method relating to the recognition and measurement of TDRs which will result in a cumulative-effect adjustment to retained earnings in the period of adoption. All other provisions of this update are applied prospectively. Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

Note 3 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2022 are as follows (in thousands):

	December 31, 2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-Sale:				
U.S. Treasury notes	$ 24,958	$ -	$ (724)	$ 24,234
U.S. Government agencies	14,999	-	(1,936)	13,063
U.S. Government agency mortgage-backed securities	31,313	-	(4,330)	26,983
Collateralized mortgage obligations	43,464	-	(5,393)	38,071
Obligations of state and political subdivisions	107,771	137	(11,610)	96,298
Corporate securities	604	-	(23)	581
Total available-for-sale securities	$ 223,109	$ 137	$ (24,016)	$ 199,230

The balance sheet as of December 31, 2022 reflects the fair value of available-for-sale securities in the amount of $199,230,000. A net unrealized loss of $23,879,000 is in the available-for-sale investment securities balance. The net unrealized loss is included in shareholders' equity.

Note 3 Investment Securities, continued

The amortized cost and fair values of investment securities at December 31, 2021 are as follows (in thousands):

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 4,999	$ 17	$ -	$ 5,016
U.S. Government agencies	15,140	-	(435)	14,705
U.S. Government agency mortgage-backed securities	32,149	18	(576)	31,591
Collateralized mortgage obligations	43,836	122	(574)	43,384
Obligations of state and political subdivisions	108,119	2,590	(954)	109,755
Corporate securities	5,029	5	(9)	5,025
Total available-for-sale securities	$ 209,272	$ 2,752	$ (2,548)	$ 209,476

The balance sheet as of December 31, 2021 reflects the fair value of available-for-sale securities in the amount of $209,476,000. A net unrealized gain of $204,000 is in the available-for-sale investment securities balance. The net unrealized gain is included in shareholders' equity.

The amortized cost and fair value of debt securities at December 31, 2022, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are shown separately since they are not due at a single maturity date.

	Available-for-Sale	
	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 4,847	$ 4,813
After one year through five years	76,619	72,077
After five years through ten years	33,877	30,241
After ten years	32,989	27,045
	148,332	134,176
U.S. Government agency mortgage-backed securities	31,313	26,983
Collateralized mortgage obligations	43,464	38,071
Totals	$ 223,109	$ 199,230

Note 3 Investment Securities, continued

During 2021, the Corporation started utilizing trading account securities. During 2022, the Corporation discontinued this practice and all trading account securities were sold. The trading account consisted of the following at fair value as of December 31, 2021 (in thousands):

	2021
Government bonds	$ 3,000
Municipal bonds	6,044
FDIC insured deposits	971
Total trading account securities	$ 10,015

During 2022 and 2021, the net gains and losses on trading account securities were as follows (in thousands):

	2022	2021
Net realized losses on sales transactions	$ (1,087)	$ (24)
Net unrealized gains	-	62
Net trading income (loss)	$ (1,087)	$ 38

Investment securities with fair market values of $104,884,000 and $16,913,000 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

During 2022 and 2021, there were no sales of available-for-sale investment securities. During 2022 and 2021, the Corporation received proceeds totaling $43,167,000 and $26,472,000, respectively, for sales of trading account securities. These sales resulted in net realized losses of $1,087,000 and $24,000 in 2022 and 2021, respectively. During 2022 and 2021, the Corporation received proceeds totaling $3,000 and $521,000, respectively, from redemptions of Federal Home Loan Bank (FHLB) stock. The FHLB stock was redeemed at par value, so there were no realized gains or losses on these redemptions.

Note 3 Investment Securities, continued

Information pertaining to securities with gross unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022:						
Federal agencies	$ 37,408	$ (1,787)	$ 64,943	$ (10,596)	$ 102,351	$ (12,383)
Municipals	31,468	(2,531)	49,048	(9,079)	80,516	(11,610)
Corporate bonds	-	-	581	(23)	581	(23)
Total	$ 68,876	$ (4,318)	$ 114,572	$ (19,698)	$ 183,448	$ (24,016)
December 31, 2021:						
Federal agencies	$ 52,093	$ (953)	$ 23,155	$ (632)	$ 75,248	$ (1,585)
Municipals	41,541	(529)	12,446	(425)	53,987	(954)
Corporate bonds	3,009	(9)	-	-	3,009	(9)
Total	$ 96,643	$ (1,491)	$ 35,601	$ (1,057)	$ 132,244	$ (2,548)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2022, the 131 debt securities with unrealized losses have depreciated 11.58% from the Corporation's amortized cost basis. These securities are primarily guaranteed by either the U.S. Government or other governments. The unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary. Refer to Note 20 for information regarding management's decision to sell 26 available-for-sale securities subsequent to December 31, 2022 which resulted in net realized losses being recorded in 2023.

Note 4 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2022 and 2021 is as follows (in thousands):

	2022	2021
Commercial, agricultural and industrial loans	$ 42,851	$ 41,467
Real estate (RE) loans:		
Construction, land and land development	31,317	32,928
Residential 1-4 family	68,469	64,111
Commercial RE	157,568	154,438
Consumer loans	13,262	20,287
Overdrafts	156	208
	313,623	313,439
Less: Net deferred loan fees	(366)	(279)
Allowance for loan losses	(3,729)	(3,530)
Loans, Net	$ 309,528	$ 309,630

At December 31, 2022 and 2021, Residential 1-4 family loans shown above include mortgage loans held-for-sale totaling $3,267,000 and $4,670,000, respectively.

At December 31, 2022 and 2021, there were no Residential 1-4 family loans in process of foreclosure.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law which introduced the Paycheck Protection Program (PPP). The goal of this program was to prevent job loss and failure of small businesses as a result of the COVID-19 pandemic. If the borrower met certain criteria, PPP loans were eligible for forgiveness under the Small Business Association's (SBA) loan forgiveness program. There were two and 43 outstanding PPP loans with balances totaling $38,000 and $9,242,000 included in Commercial, Agricultural and Industrial loans shown above at December 31, 2022 and 2021, respectively. These loans are 100% guaranteed by the SBA.

Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2022 are summarized as follows (in thousands):

	Commercial, Agricultural and Industrial	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2022 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 93	$ 11	$ 21	$ 50	$ 100	$ 3,255	$ 3,530
Provisions, charged (credited) to income	27	75	130	342	1,469	(1,378)	665
	120	86	151	392	1,569	1,877	4,195
Loans charged-off	-	-	-	-	(554)	-	(554)
Recoveries of loans previously charged-off	-	-	-	-	88	-	88
Net charge-offs	-	-	-	-	(466)	-	(466)
Balance, end of year	$ 120	$ 86	$ 151	$ 392	$ 1,103	$ 1,877	$ 3,729
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ 4	$ -	$ -	$ 4
Ending balance: Collectively evaluated for impairment	120	86	151	388	1,103	1,877	3,725
Balance, end of year	$ 120	$ 86	$ 151	$ 392	$ 1,103	$ 1,877	$ 3,729
Loans:							
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 157	$ 1,749	$ -		$ 1,906
Ending balance: Collectively evaluated for impairment	42,851	31,317	68,312	155,819	13,418		311,717
Ending balance total loans	$ 42,851	$ 31,317	$ 68,469	$ 157,568	$ 13,418		$ 313,623

Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2021 are summarized as follows (in thousands):

	Commercial, Agricultural and Industrial	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2021 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 50	$ 8	$ 21	$ 50	$ 40	$ 2,331	$ 2,500
Provisions, charged to income	40	3	-	-	70	924	1,037
	90	11	21	50	110	3,255	3,537
Loans charged-off	-	-	-	-	(13)	-	(13)
Recoveries of loans previously charged-off	3	-	-	-	3	-	6
Net (charge-offs) recoveries	3	-	-	-	(10)	-	(7)
Balance, end of year	$ 93	$ 11	$ 21	$ 50	$ 100	$ 3,255	$ 3,530
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ 1	$ -	$ -	$ 1
Ending balance: Collectively evaluated for impairment	93	11	21	49	100	3,255	3,529
Balance, end of year	$ 93	$ 11	$ 21	$ 50	$ 100	$ 3,255	$ 3,530
Loans:							
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 182	$ 1,866	$ -		$ 2,048
Ending balance: Collectively evaluated for impairment	41,467	32,928	63,929	152,572	20,495		311,391
Ending balance total loans	$ 41,467	$ 32,928	$ 64,111	$ 154,438	$ 20,495		$ 313,439

Note 4 Loans and Allowance for Loan Losses, continued

Federal regulations require that the Corporation periodically evaluate the risks inherent in its loan portfolio. In addition, the Corporation's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of current existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for loan losses, thereby reducing that reserve. The Corporation also classifies some loans as "Watch" or "Other Assets Especially Mentioned" ("OAEM"). Loans classified as Watch are performing assets and classified as pass credits but have elements of risk that require more monitoring than other performing loans. Loans classified as OAEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Loans by credit quality risk rating at December 31, 2022 and 2021 are as follows (in thousands):

	Pass	Other Assets Especially Mentioned	Sub-Standard	Doubtful	Total
December 31, 2022:					
Commercial, agricultural and industrial loans	$ 42,808	$ 43	$ -	$ -	$ 42,851
Real estate (RE) loans:					
Construction, land and land development	30,724	593	-	-	31,317
Residential 1-4 family	68,312	-	157	-	68,469
Commercial RE	156,122	1,134	312	-	157,568
Consumer and other loans	13,389	14	15	-	13,418
Subtotal	$ 311,355	$ 1,784	$ 484	$ -	313,623
Less: Net deferred loan fees					(366)
Total loans					$ 313,257
December 31, 2021:					
Commercial, agricultural and industrial loans	$ 40,992	$ 475	$ -	$ -	$ 41,467
Real estate (RE) loans:					
Construction, land and land development	32,928	-	-	-	32,928
Residential 1-4 family	63,929	-	182	-	64,111
Commercial RE	153,657	243	538	-	154,438
Consumer and other loans	20,489	6	-	-	20,495
Subtotal	$ 311,995	$ 724	$ 720	$ -	313,439
Less: Net deferred loan fees					(279)
Total loans					$ 313,160

Note 4 Loans and Allowance for Loan Losses, continued

At December 31, 2022 and 2021, there were no nonaccrual loans.

At December 31, 2022 and 2021, a summary of information pertaining to impaired loans is as follows (in thousands):

	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2022:							
Real estate (RE) loans:							
Residential 1-4 family	$ 157	$ -	$ 157	$ 157	$ -	$ 169	$ 8
Commercial RE	1,749	-	1,749	1,749	4	1,808	75
Total	$ 1,906	$ -	$ 1,906	$ 1,906	$ 4	$ 1,977	$ 83
December 31, 2021:							
Real estate (RE) loans:							
Residential 1-4 family	$ 182	$ -	$ 182	$ 182	$ -	$ 195	$ 9
Commercial RE	1,866	-	1,866	1,866	1	1,112	81
Total	$ 2,048	$ -	$ 2,048	$ 2,048	$ 1	$ 1,307	$ 90

The Corporation has no commitments to loan additional funds to borrowers whose loans are impaired.

Troubled Debt Restructurings

The restructuring of a loan is considered a “troubled debt restructuring” if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

There were no troubled debts restructured during 2022 and 2021.

At December 31, 2022, there were troubled debts restructured in prior years totaling $1,906,000. At December 31, 2022, all of these restructured loans were paying in accordance to the restructured terms.

At December 31, 2021, there were troubled debts restructured in prior years totaling $2,048,000. At December 31, 2021, all of these restructured loans were paying in accordance to the restructured terms.

Note 4 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2022 (in thousands):

December 31, 2022:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More Past Due and Still Accruing
Commercial, agricultural and industrial loans	$ 25	$ -	$ 25	$ 42,826	$ 42,851	$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	31,317	31,317	-
Residential 1-4 family	-	-	-	68,469	68,469	-
Commercial RE	-	-	-	157,568	157,568	-
Consumer and other loans	-	-	-	13,418	13,418	-
Less: Net deferred loan fees	-	-	-	(366)	(366)	-
Total	$ 25	$ -	$ 25	$ 313,232	$ 313,257	$ -

The following table illustrates an age analysis of past due loans as of December 31, 2021 (in thousands):

December 31, 2021:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More Past Due and Still Accruing
Commercial, agricultural and industrial loans	$ -	$ -	$ -	$ 41,467	$ 41,467	$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	32,928	32,928	-
Residential 1-4 family	-	-	-	64,111	64,111	-
Commercial RE	-	-	-	154,438	154,438	-
Consumer and other loans	-	-	-	20,495	20,495	-
Less: Net deferred loan fees	-	-	-	(279)	(279)	-
Total	$ -	$ -	$ -	$ 313,160	$ 313,160	$ -

The Corporation grants commercial, consumer and real estate loans to customers within Southeastern Washington State. A substantial portion of its debtors' ability to honor their contracts is dependent upon the commercial and real estate economic sectors in that geographic area.

Note 5 Premises and Equipment

The investment in premises and equipment at December 31, 2022 and 2021 is as follows (in thousands):

	2022	2021
Land	$ 1,410	$ 1,410
Buildings	8,818	8,543
Leasehold improvements	533	525
Furniture and equipment	3,051	3,093
Lease right-to-use asset	423	-
	14,235	13,571
Less accumulated depreciation and amortization	(4,676)	(4,483)
Premises and equipment, net	$ 9,559	$ 9,088

Depreciation and amortization on premises and equipment charged to expense totaled $482,000 and $536,000 for the years ended December 31, 2022 and 2021, respectively. Computer software, net of accumulated amortization, is included in Other Assets. Amortization on computer software charged to expense totaled $22,000 and $51,000 for the years ended December 31, 2022 and 2021, respectively.

The Corporation owns the building that houses its main branch and leases the land and a sign from a director. The lease is classified as an operating lease with an initial term of 10 years and minimum annual rents of $28,000, with cost of living increases annually. The initial lease term expired February 28, 2012 and was renewed through February 28, 2017. During 2017, this lease was renewed through February 28, 2022. Effective March 1, 2022, this lease was renewed for another five years. The land lease contains renewal clauses from five to twenty years and escalation clauses based on increases in the Consumer Price Index. As of December 31, 2022, this lease includes one more renewal option of five years.

The Corporation entered into a lease agreement for the Richland branch facilities which opened in January 2006. The original lease was for a term of five years with a renewal option of another five years and provided for minimum annual rents of $61,000. On December 31, 2010, the renewal option was exercised and expired December 31, 2015. During 2015, both parties agreed to renew this lease for an additional five years which extended the expiration date to December 31, 2020. This lease was on a month-to-month basis during 2021, until the new facility for this branch was available in September 2021.

During 2021, the Corporation entered into a lease agreement with a director for office space utilized by the Bank's Loan Operations department. This lease term is from July 1, 2021 through June 30, 2026. The monthly base rent is $2,255.

The Corporation recorded lease expense in the amount of $175,000 and $190,000 for the years ended December 31, 2022 and 2021, respectively. Included in the lease expense were amounts paid to related parties in the amount of $87,000 and $71,000 for the years ended December 31, 2022 and 2021, respectively.

Note 5 Premises and Equipment, continued

The Corporation also leases various equipment under operating leases. Effective December 31, 2022, the Corporation adopted ASU No. 2016-02 which required the recognition of certain operating leases on the balance sheet as lease right-of-use assets (reported as a component of premises and equipment) and related lease liabilities (reported as a component of accrued expenses and other liabilities). Refer to Note 2 for additional information.

The weighted-average discount rate was 4.16%. The following table reconciles future undiscounted lease payments due under non-cancelable operating leases (those amounts subject to recognition) to the aggregate operating lease liability as of December 31, 2022 (in thousands):

2023	$ 162
2024	158
2025	94
2026	97
2027	25
Total undiscounted operating lease liability	536
Imputed interest	(113)
Total operating lease liability included in the balance sheet	$ 423

Note 6 Goodwill

As discussed in Note 1, the Corporation completed the HFG acquisition effective January 1, 2016 and the HFGA acquisition effective April 1, 2021. These acquisitions resulted in goodwill being recorded which totaled $2,473,000 and $576,000, respectively. In accordance with authoritative guidance issued by the FASB, the goodwill will not be amortized and will be evaluated for impairment at least annually. No impairment of goodwill was identified during 2022 or 2021. Refer to Note 19 for additional information about the HFGA acquisition.

Note 7 Deposits

The carrying amounts of deposits at December 31, 2022 and 2021 are as follows (in thousands):

	2022	2021
Demand	$ 209,087	$ 201,640
Interest-bearing transaction accounts	330,231	303,226
Savings	26,998	26,863
Time deposits less than $250,000	5,399	5,132
Time deposits $250,000 and over	1,011	1,011
Total deposits	$ 572,726	$ 537,872

Note 7 Deposits, continued

Maturities of time deposits for each of the next five years are as follows (in thousands):

2023	$	4,779
2024		1,378
2025		47
2026		16
2027		190
Total	$	6,410

At December 31, 2022 and 2021, there were no brokered deposits or deposits obtained from customers outside the Corporation's primary market area.

Note 8 Long-Term Borrowings

On July 9, 2021, the Corporation obtained a line of credit from another financial institution in the amount of $10,000,000. As of December 31, 2022, this loan was fully advanced. As of December 31, 2021, the Corporation had advanced $8,750,000 on this line of credit. The interest rate is the Wall Street Journal Prime rate minus .25%. The interest rate was 5.25% and 3.00% at December 31, 2022 and 2021, respectively. The terms of the loan require monthly interest only payments for 12 consecutive months beginning August 15, 2021 and then 71 principal and interest payments of $152,000 beginning August 15, 2022. This loan is secured by 100% of the outstanding stock in the Bank. The Corporation is subject to the following loan covenants: (1) Maximum debt for the Holding Company is $10 million; (2) Minimum capital at the Bank of $50 million; (3) Minimum Bank Capital to Asset ratio of 7%; (4) Minimum annualized pre-tax return on assets of .80%; (5) Minimum cash flow to service debt of 1.5; (6) Maximum net income distribution of 50%; and (7) Maximum classified assets to total capital of 50%. The Corporation was in compliance with these loan covenants as of December 31, 2022 and 2021. The Corporation used $7,500,000 of these loans proceeds to inject additional capital into the Bank during 2021. The outstanding balance on this line of credit was $9,436,000 and $8,750,000 as of December 31, 2022 and 2021, respectively.

In connection with the acquisition of Prime Wealth Management, Inc. on April 1, 2021, HFG entered into a loan agreement with the previous owner of Prime in the amount of $350,000. The interest rate is fixed at 3.00%. The terms of the loan require monthly principal and interest payments of $6,000 beginning on May 1, 2021 through the maturity date of April 1, 2026. The outstanding balance on this note at December 31, 2022 and 2021 was $233,000 and $300,000, respectively. Refer to Note 19 for additional information.

Note 8 Long-Term Borrowings, continued

At December 31, 2022, principal payments due on these long-term borrowings for the next five years and in the aggregate thereafter are as follows (in thousands):

2023	$ 1,430
2024	1,504
2025	1,584
2026	1,611
2027	1,678
Thereafter	1,862
Total	$ 9,669

Note 9 Related Party Transactions

During 2022 and 2021, the Corporation had transactions made in the ordinary course of business with certain of its officers, directors and principal shareholders. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

A summary of these transactions follows (in thousands):

	Balance Beginning of Year	Additions	Amounts Collected	Balance End of Year
For the year ended:				
December 31, 2022	$ 4,249	$ 17,372	$ (18,886)	$ 2,735
December 31, 2021	$ -	$ 9,972	$ (5,723)	$ 4,249

At December 31, 2022 and 2021, there were unfunded loan commitments to related parties totaling $6,272,000 and $1,225,000, respectively.

The Corporation held deposits for certain of its officers, directors and principal shareholders in the amount of $45,577,000 and $27,541,000 at December 31, 2022 and 2021, respectively.

The Corporation has entered into lease agreements with related parties. Refer to Note 5 for additional information regarding these lease agreements.

The Corporation paid a company owned by an officer of HFG Trust, LLC amounts totaling $55,000 and $26,000 during 2022 and 2021, respectively, for expenses relating to signage.

Note 10 Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not reflected in the financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheets.

Financial instruments whose contract amount represents credit risk were as follows (in thousands):

	2022	2021
Commitments to extend credit	$ 71,603	$ 63,231
Standby letters of 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 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 Corporation's experience has been that approximately 70% of loan commitments are drawn upon by customers. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Corporation has guaranteed credit cards issued by another financial institution to some of the Corporation's customers. The Corporation has exposure to credit loss in the event that there is nonperformance by their customer.

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

Note 11 Compensated Absences

Employees of the Corporation are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Corporation's policy is to recognize the costs of compensated absences when actually paid to employees.

Note 12 Commitments and Contingent Liabilities

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Corporation.

The Bank participates in the Washington State Public Depository program. In February 2009, new standards were adopted which require institutions to collateralize uninsured public deposits at 100 percent. In June 2016, resolution 2016-1 was adopted which reduced the collateral requirement from 100 percent of uninsured public deposits to 50 percent for well-capitalized public depository banks. At December 31, 2022 and 2021, the Corporation had pledged investment securities with a carrying amount of $6,742,000 and $9,098,000, respectively, to secure public deposits. Refer to Note 3 for additional information.

Note 13 Lines of Credit

The Corporation has established an unsecured line of credit in the amount of $20,000,000 for overnight purchase of federal funds. This line may be cancelled without prior notification. There were no outstanding balances on this line of credit at December 31, 2022 and 2021.

The Corporation also has a credit line with the Federal Home Loan Bank of Des Moines totaling 45% of assets which had available borrowings of $140,719,000 at December 31, 2022 assuming assets are pledged accordingly. There were no outstanding balances on this line of credit at December 31, 2022 and 2021. This line is collateralized by pledged loans with a carrying amount of $73,078,000 and $65,043,000 and investment securities with a carrying amount of $97,080,000 and $6,489,000 at December 31, 2022 and 2021, respectively.

During 2021, the Corporation obtained a line of credit from another financial institution in the amount of $10,000,000. During 2022 and 2021, the Corporation advanced borrowings totaling $1,250,000 and $8,750,000, respectively, from this line of credit. At December 31, 2022, there were no available borrowings under this line of credit. At December 31, 2022 and 2021, the outstanding balance on this line of credit was $9,436,000 and $8,750,000, respectively. Refer to Note 8 for additional information.

Note 14 Concentration of Credit Risk

The Corporation maintains its cash accounts with several correspondent banks. Generally, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. At December 31, 2022 and 2021, the Corporation had $169,000 and $154,000, respectively, in uninsured deposits in other financial institutions. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

The Corporation has credit risk exposure, including off-balance-sheet credit risk exposure, as disclosed in Notes 4 and 10. Most of the Corporation's business activity is with customers located in the state of Washington. The ultimate collectability of a substantial portion of the loan portfolio is susceptible to changes in economic and market conditions in the region. The Corporation generally requires collateral on all real estate loans and typically maintains loan-to-value ratios of no greater than 75% to 80%. Loans are generally limited, by state banking regulations, to 20% of the Bank's shareholder's equity, excluding accumulated other comprehensive income (loss). The Corporation, as a matter of practice, generally does not extend credit to any single borrower or group of related borrowers in excess of $8,500,000.

The contractual amounts of credit related financial instruments such as commitments to extend credit and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon the customer defaults and the value of any existing collateral becomes worthless. Letters of credit are granted primarily to commercial borrowers.

Note 15 Stock Compensation Plans

On April 23, 2019, the shareholders of the Corporation approved the "2019 Employee Stock Option and Equity Compensation Plan." This Plan provides for stock awards in the form of stock options, stock appreciation rights and restricted stock grants. The Plan allows for both incentive and non-qualified stock options to be granted. The Corporation may grant up to 65,000 shares under this Plan to certain key employees and directors. At December 31, 2022 and 2021, there were 34,173 and 36,806, respectively, shares available for grant under this Plan. The exercise price of options and the value of other awards is equal to the fair market value of the Corporation's stock on the date of grant. The maximum term of stock options is 10 years. Options are 100% vested five years after the grant date. Restricted stock grants vest ratably over a period of two to ten years from the date of grant depending on the terms of the agreement.

Prior to adoption of this Plan, the Corporation had a share-based compensation plan that was ratified by the shareholders during 2009 ("2009 Plan"). The 2009 Plan provided for stock awards in the form of stock options, restricted stock grants, restricted stock units and stock appreciation rights. It allowed for both incentive and non-qualified stock options to be granted. The 2009 Plan allowed grants up to 65,000 shares to certain key employees and directors. The exercise price of options and the value of other awards is equal to the fair market value of the Corporation's stock on the date of grant. The maximum term of stock options is 10 years. Options are 100% vested five years after the grant date. Restricted stock grants vest ratably over a period of two to ten years from the date of grant depending on the terms of the agreement. This plan was terminated with the adoption of the "2019 Employee Stock Option and Equity Compensation Plan." The termination of this plan does not affect the terms of any outstanding options granted under this plan.

Note 15 Stock Compensation Plans, continued

A summary of the Corporation's restricted stock awards and activity under these plans for the years ending December 31, 2022 and 2021 is presented below:

	Restricted Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2021	3,935	$ 82.18
Granted	4,830	80.60
Forfeited	-	-
Vested	(868)	81.94
Nonvested at December 31, 2021	7,897	$ 81.09
Outstanding at January 1, 2022	7,897	$ 81.09
Granted	3,865	86.50
Forfeited	(499)	83.69
Vested	(1,368)	79.40
Nonvested at December 31, 2022	9,895	$ 83.42

Under the provisions of these plans, grantees of restricted stock awards have all the rights of a shareholder (including voting, dividend and liquidation rights). Stock compensation expense totaling $112,000 and $10,000 was recorded during 2022 and 2021, respectively, relating to restricted stock awards. At December 31, 2022, there was unrecognized compensation expense relating to these awards totaling $714,000 which will be recognized over 4.10 years.

During 2013, the Corporation approved a stock grant program for directors' compensation. Under this program, the equivalent number of shares of the Corporation's common stock will be issued at the beginning of each year based on the prior year's stock compensation expense divided by the fair value of the Corporation's common stock. During 2022 and 2021, stock compensation expense totaling $79,000 and $78,000, respectively, was recorded relating to directors' compensation. During 2022 and 2021, 917 and 1,040 shares, respectively, were issued to directors relating to this program.

Note 15 Stock Compensation Plans, continued

The compensation cost that has been charged against income for these plans was $3,000 for the years ended December 31, 2022 and 2021. Since the Corporation made the Subchapter S election effective January 1, 2006, there is no tax benefit recognized in the income statement for share-based compensation arrangements for the years ended December 31, 2022 and 2021.

The Corporation accounts for stock-based awards to employees and directors using the fair value method, in accordance with accounting guidance issued by the FASB. The Corporation uses the Black-Scholes valuation model to estimate the fair value of stock option awards. The following assumptions are used in the Black-Scholes model: expected volatility, expected dividends, expected term and risk-free rate. Expected volatilities are based on the historical volatility of the Corporation's stock and other factors. The Corporation uses historical data to estimate option exercise and employee termination within the model. The expected term of options granted is determined from the output of the option valuation model and management's experience and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions are determined at the date of grant and are not subsequently adjusted for actual. The following assumptions were used regarding the 2022 and 2021 grants of stock options:

	2022	2021
Expected volatility	7.35%	7.19-7.35%
Weighted-average volatility	7.35%	7.19-7.35%
Expected dividends	4.14%	4.14-4.30%
Expected term (in years)	10 yrs	10 yrs
Risk-free rate	1.73%	0.85-1.24%

Note 15 Stock Compensation Plans, continued

A summary of option activity under the plans as of December 31, 2022 and 2021, and changes during the years then ended, are presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2021	34,157	$ 70.39	
Granted	9,250	77.80	
Exercised	(1,357)	62.00	
Forfeited or expired	-	-	
Outstanding at December 31, 2021	42,050	$ 72.29	6.50
Vested or expected to vest at December 31, 2021	42,050	$ 72.29	6.50
Exercisable at December 31, 2021	21,200	$ 67.92	4.80
Outstanding at January 1, 2022	42,050	$ 72.29	
Granted	600	86.50	
Exercised	(3,550)	62.00	
Forfeited or expired	(2,250)	76.28	
Outstanding at December 31, 2022	36,850	$ 73.27	5.77
Vested or expected to vest at December 31, 2022	36,850	$ 73.27	5.77
Exercisable at December 31, 2022	23,450	$ 70.66	4.76

During 2022 and 2021, there were 600 and 9,250 options granted, respectively. The proceeds from options exercised were $221,000 and $84,000 in 2022 and 2021, respectively.

A summary of the status of the Corporation's nonvested shares relating to stock options as of December 31, 2022, and changes during the year then ended, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2022	20,850	$ .57
Granted	600	1.18
Vested	(6,400)	.64
Forfeited	(1,650)	.38
Nonvested at December 31, 2022	13,400	$ .58

Note 15 Stock Compensation Plans, continued

As of December 31, 2022, there was $5,000 of total unrecognized compensation cost related to nonvested shares of stock options granted under the Plans. That cost is expected to be recognized over a weighted-average period of 4.10 years.

Note 16 Employee Benefit Plan

The Corporation established a KSOP plan in 2005 which has a 401(k) component and an ESOP component. The Corporation has the option to make discretionary matching contributions to this plan. The Corporation matches 100% of the first 3% plus 50% of the next 2% of employee contributions to the 401(k) component of the plan up to a maximum match of $3,000. The Corporation's discretionary contributions for the years ended December 31, 2022 and 2021 were $296,000 and $311,000, respectively. The ESOP component of this plan held 54,717 and 50,817 shares of the Corporation's common stock at December 31, 2022 and 2021, respectively.

Note 17 Regulatory Capital

Banks are 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 the regulatory capital adequacy guidelines and 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 amounts and classification under the prompt corrective action guidelines 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 (set forth in the table on the next page) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2022 and 2021, that the Bank met all capital adequacy requirements to which it is subject.

Note 17 Regulatory Capital, continued

Effective January 1, 2019, the Bank was required to establish a capital conservation buffer of 2.50%, increasing the minimum required total risk-based capital, Tier 1 risk-based and common equity Tier 1 capital to risk-weighted assets it must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

As of December 31, 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum common equity risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table listed below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale and goodwill.

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 60,453	16.43%	$ 29,431	8.00%	$ 36,789	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 56,674	15.41%	$ 22,074	6.00%	$ 29,431	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 56,674	15.41%	$ 16,555	4.50%	$ 23,913	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 56,674	9.52%	$ 23,803	4.00%	$ 29,753	5.00%
As of December 31, 2021:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 55,521	15.29%	$ 29,046	8.00%	$ 36,308	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 51,941	14.31%	$ 21,785	6.00%	$ 29,046	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 51,941	14.31%	$ 16,339	4.50%	$ 23,600	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 51,941	8.97%	$ 23,165	4.00%	$ 28,956	5.00%

Note 18 Fair Value Measurements

The Corporation has adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

The authoritative guidance issued by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The authoritative guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- ***Level 1 Inputs*:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- ***Level 2 Inputs:*** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from, or corroborated by, market data by correlation or other means.
- ***Level 3 Inputs:*** Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Note 18 Fair Value Measurements, continued

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation 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.

Trading Account Securities: U.S. Treasury securities and FDIC insured deposits are reported at fair value utilizing Level 1 inputs. Other securities classified as trading account securities are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation 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.

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Other Real Estate Owned: Other real estate owned represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

Note 18 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2022 and 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands). At December 31, 2022 and 2021, there were no financial liabilities measured at fair value on a recurring basis.

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2022:				
Available-for-Sale:				
U.S. Treasury notes	$ 24,234	$ -	$ -	$ 24,234
U.S. Government agencies	-	13,063	-	13,063
U.S. Government agency mortgage-backed securities	-	26,983	-	26,983
Collateralized mortgage obligations	-	38,071	-	38,071
Obligations of state and political subdivisions	-	96,298	-	96,298
Corporate securities	-	581	-	581
Totals	$ 24,234	$ 174,996	$ -	$ 199,230
December 31, 2021:				
Available-for-Sale:				
U.S. Treasury notes	$ 5,016	$ -	$ -	$ 5,016
U.S. Government agencies	-	14,705	-	14,705
U.S. Government agency mortgage-backed securities	-	31,591	-	31,591
Collateralized mortgage obligations	-	43,384	-	43,384
Obligations of state and political subdivisions	-	109,755	-	109,755
Corporate securities	-	5,025	-	5,025
Totals	$ 5,016	$ 204,460	$ -	$ 209,476
Trading Account Securities:				
Government bonds	$ -	$ 3,000	$ -	$ 3,000
Municipal bonds	-	6,044	-	6,044
FDIC insured deposits	971	-	-	971
Totals	$ 971	$ 9,044	$ -	$ 10,015

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying

Note 18 Fair Value Measurements, continued

collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2022 and 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2022:				
Impaired loans	$ -	$ 1,906	$ -	$ 1,906
Less specific valuation allowance for possible loan losses	-	(4)	-	(4)
Impaired loans, net	$ -	$ 1,902	$ -	$ 1,902
December 31, 2021:				
Impaired loans	$ -	$ 2,048	$ -	$ 2,048
Less specific valuation allowance for possible loan losses	-	(1)	-	(1)
Impaired loans, net	$ -	$ 2,047	$ -	$ 2,047

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate owned which, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate owned, which subsequent to their initial recognition, are remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate owned is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2022 and 2021, there was no other real estate owned by the Corporation.

During 2022 and 2021, there were no charge-offs recorded at the time of foreclosure. During 2022 and 2021, there were no writedowns recorded subsequent to foreclosure. Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Corporation's provision for loan losses. Regulatory guidelines require the Corporation to reevaluate the fair value of other real estate owned on at least an annual basis.

Note 19 Acquisition of Prime Wealth Management, Inc.

Effective April 1, 2021, HFG Trust, LLC acquired Prime Wealth Management, Inc. as discussed in Note 1. Upon acquisition, Prime Wealth Management, Inc. became a wholly-owned subsidiary of HFG Trust, LLC. Effective April 1, 2022, the name was changed to HFG Advisors, Inc. Refer to Notes 6 and 8 for additional information.

The estimated fair values of the assets acquired and liabilities assumed are set forth below (in thousands):

Goodwill	$	576
Note payable		(350)
Total cash paid to seller	$	226

Note 20 Subsequent Events

The Corporation entered into a lease agreement with an effective date of April 1, 2023 to house a new mortgage loan production office located in Kennewick. The lease term is for 60 months and expires on March 31, 2028. The Corporation has a first right of refusal to purchase the building during tenancy. The lease rate increases 3% annually starting in year three of the lease. The Corporation has the right to early termination of this lease after 36 months with a minimum of 90 days' notice. There is an option to renew the lease for five years with 3% annual increases during the renewal option.

During February and March 2023, management made the decision to sell 26 available-for-sale investment securities which resulted in a net realized loss of $159,000 being recorded in 2023.

OTHER FINANCIAL INFORMATION

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2022
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	HFG TRUST, LLC	HFG ADVISORS, INC.	ELIMINATIONS	CONSOLIDATED BALANCES 2022
ASSETS						
Cash and due from banks	$ -	$ 6,077	$ -	$ -	$ -	$ 6,077
Interest-bearing deposits in financial institutions maturing in less than three months	327	68,300	1,079	24	-	69,730
Total cash and cash equivalents	327	74,377	1,079	24	-	75,807
Investment in subsidiary	35,844	5,833	302	-	(41,979)	-
Investment securities	-	199,230	-	-	-	199,230
Federal Home Loan Bank stock, at cost	-	713	-	-	-	713
Loans held-for-sale	-	3,267	-	-	-	3,267
Loans, net of deferred loan fees and allowance for loan losses	-	306,261	-	-	-	306,261
Premises and equipment, net of accumulated depreciation	-	9,511	48	-	-	9,559
Bank-owned life insurance	-	7,046	-	-	-	7,046
Goodwill	-	-	2,840	209	-	3,049
Accrued interest receivable	-	2,167	-	-	-	2,167
Other assets	-	937	1,930	130	-	2,997
Total Assets	$ 36,171	$ 609,342	$ 6,199	$ 363	$ (41,979)	$ 610,096
LIABILITIES						
Deposits	$ -	$ 572,726	$ -	$ -	$ -	$ 572,726
Long-term borrowings	9,436	-	233	-	-	9,669
Other liabilities:						
Accrued interest payable	23	12	1	-	-	36
Accrued expenses and other liabilities	-	760	132	61	-	953
Total other liabilities	23	772	133	61	-	989
Total Liabilities	9,459	573,498	366	61	-	583,384
SHAREHOLDERS' EQUITY						
Common stock, $1 par value:						
Authorized - 1,000,000 shares						
Issued and outstanding - 596,853 shares	597	401	-	-	(401)	597
Additional paid-in capital	19,958	26,929	6,785	300	(34,014)	19,958
Retained earnings (deficit)	30,036	32,393	(952)	2	(31,443)	30,036
Accumulated other comprehensive loss	(23,879)	(23,879)	-	-	23,879	(23,879)
Total Shareholders' Equity	26,712	35,844	5,833	302	(41,979)	26,712
Total Liabilities and Shareholders' Equity	$ 36,171	$ 609,342	$ 6,199	$ 363	$ (41,979)	$ 610,096

See Independent Auditor's Report.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	HFG TRUST, LLC	HFG ADVISORS, INC.	ELIMINATIONS	CONSOLIDATED BALANCES 2022
Interest income						
Interest and fees on loans	$ -	$ 14,137	$ -	$ -	$ -	$ 14,137
Interest on investment securities	-	3,728	-	-	-	3,728
Interest on federal funds sold and interest-bearing deposits with financial institutions	4	865	23	1	-	893
Total interest income	4	18,730	23	1	-	18,758
Interest expense						
On deposits	-	939	-	-	-	939
On borrowed funds	377	-	8	-	-	385
Total interest expense	377	939	8	-	-	1,324
Net interest income (expense)	(373)	17,791	15	1	-	17,434
Provision for loan losses	-	665	-	-	-	665
Net interest income (expense) after provision for loan losses	(373)	17,126	15	1	-	16,769
Non-interest income						
Service charges and fees on deposit accounts	-	277	-	-	-	277
Mortgage commissions and fees	-	893	305	-	-	1,198
Equity in undistributed income (loss) of subsidiary	4,635	659	(40)	-	(5,254)	-
Dividend income from subsidiary	2,158	-	-	-	(2,158)	-
Earnings on bank-owned life insurance	-	152	-	-	-	152
Net trading loss	-	(1,087)	-	-	-	(1,087)
Net gain on sales of loans	-	1,270	-	-	-	1,270
Net loss on sales of premises and equipment	-	(2)	-	-	-	(2)
Income from fiduciary activities	-	-	7,437	606	-	8,043
Other	-	1,070	-	-	-	1,070
Total non-interest income	6,793	3,232	7,702	606	(7,412)	10,921
Non-interest expense						
Salaries and employee benefits	49	8,789	5,566	505	-	14,909
Occupancy	-	677	199	25	-	901
Furniture and equipment	61	647	30	2	-	740
Data processing	132	1,274	293	8	-	1,707
Professional fees	229	54	25	2	-	310
FDIC assessments	-	166	-	-	-	166
Regulatory assessments	-	20	4	-	-	24
ATM/Debit card expenses	-	315	-	-	-	315
Other operating expenses	(353)	1,623	941	105	-	2,316
Total non-interest expense	118	13,565	7,058	647	-	21,388
Net Income (Loss)	$ 6,302	$ 6,793	$ 659	$ (40)	$ (7,412)	$ 6,302

See Independent Auditor's Report.