COMMUNITY FIRST BANCORPORATION, INC.
AND SUBSIDIARIES
KENNEWICK, WA

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2023 AND 2022

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, 2023 and 2022 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, 2023 and 2022, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 47-48 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 26, 2024

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022
(Dollars in Thousands)

	2023	2022
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 6,580	$ 6,077
Interest-bearing deposits in financial institutions maturing in less than three months	63,767	69,730
Total cash and cash equivalents	70,347	75,807
Investment securities - Note 3	171,635	199,230
Federal Home Loan Bank stock, at cost - Note 2	366	713
Loans held-for-sale - Note 4	1,798	3,267
Loans, net of deferred loan fees and allowance for credit losses - Note 4	335,201	306,261
Premises and equipment, net of accumulated depreciation - Note 5	9,880	9,559
Bank-owned life insurance	7,205	7,046
Goodwill - Note 6	3,049	3,049
Accrued interest receivable	2,152	2,167
Other assets	3,452	2,997
Total Assets	$ 605,085	$ 610,096
LIABILITIES		
Deposits - Note 7	$ 562,915	$ 572,726
Long-term borrowings - Note 8	7,888	9,669
Other liabilities:		
Accrued interest payable	957	36
Accrued expenses and other liabilities	1,654	953
Total other liabilities	2,611	989
Total Liabilities	573,414	583,384
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 - 596,978 and 596,853 shares at December 31, 2023 and 2022, respectively	597	597
Additional paid-in capital	19,985	19,958
Retained earnings	31,863	30,036
Accumulated other comprehensive loss	(20,774)	(23,879)
Total Shareholders' Equity	31,671	26,712
Total Liabilities and Shareholders' Equity	$ 605,085	$ 610,096

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, 2023 AND 2022
(Dollars in Thousands, except for per share amounts)

	2023	2022
Interest income		
Interest and fees on loans	$ 16,905	$ 14,137
Interest on investment securities	3,531	3,728
Interest on federal funds sold and interest-bearing deposits with financial institutions	2,870	893
Total interest income	23,306	18,758
Interest expense		
On deposits	5,305	939
On borrowed funds	618	385
Total interest expense	5,923	1,324
Net interest income	17,383	17,434
Provision for credit losses - Note 4	1,420	665
Net interest income after provision for credit losses	15,963	16,769
Non-interest income		
Service charges and fees on deposit accounts	243	277
Mortgage commissions and fees	1,902	1,198
Earnings on bank-owned life insurance	159	152
Net trading loss - Note 3	-	(1,087)
Net gain on sales of loans	1,303	1,270
Net loss on sales of investment securities	(146)	-
Net loss on sales of premises and equipment	-	(2)
Income from fiduciary activities	8,092	8,043
Other	983	1,070
Total non-interest income	12,536	10,921
Non-interest expense		
Salaries and employee benefits	16,974	14,909
Occupancy	915	901
Furniture and equipment	564	740
Data processing	2,441	1,707
Professional fees	376	310
FDIC assessments	273	166
Regulatory assessments	25	24
ATM/Debit card expenses	342	315
Other operating expenses	2,515	2,316
Total non-interest expense	24,425	21,388
Net Income	$ 4,074	$ 6,302
Basic earnings per share of common stock	$ 6.81	$ 10.59
Average shares of common stock outstanding	598,169	595,050

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, 2023 AND 2022
(Dollars in Thousands)

	2023	2022
Net Income	$ 4,074	$ 6,302
Other Comprehensive Income (Loss)		
Securities available-for-sale:		
Reclassification adjustment for net realized gains/losses on sales during the year	1	-
Change in net unrealized gains/losses during the year	3,104	(24,083)
Other comprehensive income (loss)	3,105	(24,083)
Comprehensive Income (Loss)	$ 7,179	$ (17,781)

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, 2023 AND 2022
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2022	$ 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
Purchases of stock	(5)	(449)			(454)
Stock option compensation expense		4			4
Exercise of stock options	3	156			159
Restricted stock compensation expense	1	239			240
Directors stock compensation expense	1	77			78
Comprehensive income for the year ended December 31, 2023			4,074	3,105	7,179
Dividends paid - $3.76 per share			(2,247)		(2,247)
Balance at December 31, 2023	$ 597	$ 19,985	$ 31,863	$ (20,774)	$ 31,671

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, 2023 AND 2022
(Dollars in Thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,074	$ 6,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	520	504
Provision for credit losses	1,420	665
Net amortization on investment securities	1,092	1,816
Stock option compensation expense	4	3
Restricted stock compensation expense	240	112
Directors stock compensation expense	78	79
Earnings on bank-owned life insurance	(159)	(152)
Net loss on sales of investment securities	146	-
Purchases of trading investment securities	-	(34,239)
Proceeds from sales of trading investment securities	-	43,167
Net trading loss	-	1,087
Originations of loans held-for-sale	(111,950)	(78,164)
Proceeds from sales of loans held-for-sale	114,722	80,837
Net gain on sales of loans	(1,303)	(1,270)
Net loss on sales of premises and equipment	-	2
Increase in net deferred loan fees	330	87
(Increase) decrease in accrued interest receivable	15	(110)
Increase in accrued interest payable	921	12
Other	(536)	(472)
Total adjustments	5,540	13,964
Net Cash Provided by Operating Activities	9,614	20,266
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(2,356)	(43,050)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	5,872	15,570
Proceeds from principal paydowns on investment securities:		
Available-for-sale	7,599	11,827
Proceeds from sales of investment securities:		
Available-for-sale	18,347	-
Purchases of FHLB stock	(21)	(112)
Proceeds from redemptions of FHLB stock	368	3
Net increase in loans made to customers	(30,614)	(2,053)
Proceeds from sales of premises and equipment	-	9
Purchases of premises and equipment	(135)	(541)
Net Cash Used by Investing Activities	$ (940)	$ (18,347)

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, 2023 AND 2022
(Dollars in Thousands)

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, interest-bearing transaction accounts and savings	$ (76,818)	$ 34,587
Net increase in time deposits	67,007	267
Proceeds received from long-term borrowings	-	1,250
Repayments made on long-term borrowings	(1,781)	(631)
Proceeds from sales of common stock	-	351
Proceeds from exercise of stock options	159	221
Purchases of common stock	(454)	(3)
Dividends paid	(2,247)	(2,850)
Net Cash Provided (Used) by Financing Activities	(14,134)	33,192
Net increase (decrease) in cash and cash equivalents	(5,460)	35,111
Cash and cash equivalents at beginning of year	75,807	40,696
Cash and cash equivalents at end of year	$ 70,347	$ 75,807
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	$ 5,002	$ 1,312

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.

Principles of Consolidation

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, 2023 and 2022, HFG Trust, LLC and HFG Advisors, Inc. collectively had assets under management for their customers totaling $1,335,279,000 and $1,327,801,000, 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 credit 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.

With the adoption of Accounting Standards Update (ASU) No. 2016-13 during 2023, allowances for credit losses will be established for declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other-than-temporary. Prior to adoption of ASU No. 2016-13, declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other-than-temporary resulted 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.

Federal Home Loan Bank Stock

At December 31, 2023 and 2022, the Corporation had $366,000 and $713,000, 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 2023 and 2022, no impairment loss was recorded.

Note 2 Summary of Significant Accounting Policies, continued

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 2023 and 2022, 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 credit 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 Credit Losses

As further discussed below, the Corporation adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2023. Accounting Standards Codification (ASC) Topic 326 replaced the previous "incurred" loss model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio, with an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The new current expected credit loss (CECL) model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance-sheet exposures based on historical experience, current conditions, and reasonable and supportable forecasts. In connection with the adoption of ASC 326, management revised certain accounting policies and implemented certain accounting policy elections. Management made the election to utilize the Weighted Average Remaining Maturity (WARM) model. This model includes the required components of CECL, including the use of a historical loss rate, current economic condition factors, weighted average remaining maturity of the portfolio and forecasted future economic factors. The revised accounting policies are described on the next page.

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Credit Losses, continued

Allowance for Credit Losses – Held-to-Maturity (HTM) Securities: The allowance for credit losses on HTM securities is a contra-asset valuation account, calculated in accordance with ASC 326 that is deducted from the amortized cost basis of HTM securities to present management's best estimate of the net amount expected to be collected. HTM securities are charged-off against the allowance when deemed to be uncollectible by management. Adjustments to the allowance are reported in the income statement as a component of the provision for credit losses. Management measures expected credit losses on HTM securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has made the accounting policy election to exclude accrued interest receivable on HTM securities from the estimate of credit losses.

Allowance for Credit Losses – Available-for-Sale (AFS) Securities: In accordance with ASC 326, AFS securities that are in an unrealized loss position are assessed whether (i) there is an intent to sell or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which the fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis, and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss). Adjustments to the allowance are reported in the income statement as a component of the provision for credit losses. Management has made the accounting policy election to exclude accrued interest receivable on AFS securities from estimates of credit losses. AFS securities are charged against the allowance, or in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

Prior to adoption of ASU No. 2016-13, declines in the fair value of HTM and AFS securities below their cost that were deemed to be other-than-temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment, management considered , among other things, (i) the length of time and the extent to which the fair value had been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and ability to retain the 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

Allowance for Credit Losses, continued

Allowance for Credit Losses – Loans: The allowance for credit losses on loans is a contra-asset valuation account, calculated in accordance with ASC 326 that is deducted from the amortized cost basis of loans to present management's best estimate of the net amount expected to be collected. The allowance for credit losses is comprised of amounts charged against income in the form of the provision for credit losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for credit losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for credit losses. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses. Further information regarding the policies and methodology used to estimate the allowance for credit losses on loans is presented in Note 4 – Loans and Allowance for Credit Losses.

The allowance for credit 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 value 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 individually evaluated, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the 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 individually evaluated 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 individually evaluated. 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 collection 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.

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Credit Losses, continued

Prior to adoption of ASU No. 2016-13, the allowance for credit losses on loans was a contra-asset valuation account established through a provision for loan losses charged to expense, which represented management's best estimate of inherent losses that had been incurred within the existing portfolio of loans. The allowance for credit losses on loans included allowance allocations calculated in accordance with ASC Topic 310, *Receivables*, and allowance allocations calculated in accordance with ASC Topic 450, *Contingencies*.

Allowance for Credit Losses – Off-Balance-Sheet Credit Exposures: The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which the Corporation is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Corporation has the unconditional right to cancel the obligation. The allowance is reported as a component of accrued expenses and other liabilities in the amount of $126,000 and $50,000 at December 31, 2023 and 2022, respectively. Adjustments to the allowance are reported in the income statement as a component of the provision for credit losses. As a result of adoption of ASU No. 2016-13, $76,000 was transferred from the allowance for credit losses on loans to the allowance for credit losses on off-balance-sheet items. No provisions for credit losses related to off-balance-sheet items was recorded during 2023 and 2022.

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.

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 credit 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.

Note 2 Summary of Significant Accounting Policies, continued

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.

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, 2020 through December 31, 2023 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 2023 or 2022.

Note 2 Summary of Significant Accounting Policies, continued

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 $322,000 and $194,000 lower for the years ended December 31, 2023 and 2022, 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).

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of $138,000 and $121,000 were expensed during 2023 and 2022, 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, 2023 and 2022, the book value per share is $53.05 and $44.75, respectively. At December 31, 2023 and 2022, the tangible book value per share is $47.94 and $39.64, respectively.

Reclassifications

Certain accounts have been reclassified in the consolidated financial statements of 2022 to conform to the 2023 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, 2023 through March 26, 2024, the date the financial statements were available to be issued. Refer to Note 19 for information on subsequent events identified by the Corporation.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Adopted in 2023 and 2022

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.

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.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Adopted in 2023 and 2022, continued

In October 2021, the FASB issued ASU No. 2021-07, *Compensation – Stock Compensation (Topic 718)*, which as a practical expedient allows non-public 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.

In November 2021, the FASB issued ASU No. 2021-09, *Leases (Topic 842)*, which as a practical expedient allows non-public 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.

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.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Adopted in 2023 and 2022, continued

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). This standard was effective for the Corporation on January 1, 2023. As a result of implementation of this standard, the Corporation transferred $76,000 from the Allowance for Credit Losses on Loans to the Allowance for Credit Losses on Off-Balance sheet credit exposures.

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, which was effective for the Corporation as of January 1, 2023, did not 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, 2023 are as follows (in thousands):

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 24,991	$ -	$ (222)	$ 24,769
U.S. Government agencies	14,999	-	(1,502)	13,497
U.S. Government agency mortgage-backed securities	27,675	-	(4,052)	23,623
Collateralized mortgage obligations	39,170	-	(5,415)	33,755
Obligations of state and political subdivisions	85,574	10	(9,593)	75,991
Total available-for-sale securities	$ 192,409	$ 10	$ (20,784)	$ 171,635

The balance sheet as of December 31, 2023 reflects the fair value of available-for-sale securities in the amount of $171,635,000. A net unrealized loss of $20,774,000 is in the available-for-sale investment securities balance. The net unrealized loss is included in shareholders' equity.

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 value of debt securities at December 31, 2023, 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	$ 32,980	$ 32,517
After one year through five years	41,743	38,762
After five years through ten years	34,001	29,097
After ten years	16,840	13,881
	125,564	114,257
U.S. Government agency mortgage-backed securities	27,675	23,623
Collateralized mortgage obligations	39,170	33,755
Totals	$ 192,409	$ 171,635

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

	2022
Net realized losses on sales transactions	$ (1,087)
Net unrealized gains	-
Net trading loss	$ (1,087)

Investment securities with fair market values of $98,129,000 and $104,884,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

During 2023, proceeds totaling $18,347,000 were received from sales of investment securities. Gross realized gains totaling $34,000 and gross realized losses totaling $180,000 were recorded during 2023 as a result of these sales. During 2022, there were no sales of available-for-sale investment securities. During 2022, the Corporation discontinued the practice of utilizing trading account securities and all trading account securities were sold. During 2022, the Corporation received proceeds totaling $43,167,000 for sales of trading account securities. These sales resulted in net realized losses of $1,087,000 in 2022. During 2023 and 2022, the Corporation received proceeds totaling $368,000 and $3,000, 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, 2023 and 2022, 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, 2023:						
Federal agencies	$ 1,000	$ (3)	$ 94,644	$ (11,188)	$ 95,644	$ (11,191)
Municipals	1,246	(4)	69,915	(9,589)	71,161	(9,593)
Total	$ 2,246	$ (7)	$ 164,559	$ (20,777)	$ 166,805	$ (20,784)
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)

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, 2023, the 115 debt securities with unrealized losses have depreciated 11.08% 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.

At December 31, 2023, there was no allowance for credit losses on available-for-sale securities recorded.

Note 4 Loans and Allowance for Credit Losses

An analysis of loan categories at December 31, 2023 and 2022 is as follows (in thousands):

	2023	2022
Commercial, agricultural and industrial loans	$ 47,123	$ 42,851
Real estate (RE) loans:		
Construction, land and land development	41,101	31,317
Residential 1-4 family	77,262	68,469
Commercial RE	168,291	157,568
Consumer loans	7,785	13,262
Overdrafts	18	156
	341,580	313,623
Less: Net deferred loan fees	(696)	(366)
Allowance for credit losses	(3,885)	(3,729)
Loans, Net	$ 336,999	$ 309,528

At December 31, 2023 and 2022, Residential 1-4 family loans shown above include mortgage loans held-for-sale totaling $1,798,000 and $3,267,000, respectively.

At December 31, 2023 and 2022, there were no Residential 1-4 family loans in process of foreclosure.

Note 4 Loans and Allowance for Credit Losses, continued

Transactions in the allowance for credit losses in 2023 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	2023 Total
Allowance for Credit Losses:							
Balance, beginning of year	$ 120	$ 86	$ 151	$ 392	$ 1,103	$ 1,877	$ 3,729
Transfer to allowance for credit losses on off-balance-sheet	-	-	-	-	-	(76)	(76)
Provisions, charged (credited) to income	363	542	489	1,138	689	(1,801)	1,420
	483	628	640	1,530	1,792	-	5,073
Loans charged-off	-	-	-	-	(1,383)	-	(1,383)
Recoveries of loans previously charged-off	-	-	-	-	195	-	195
Net charge-offs	-	-	-	-	(1,188)	-	(1,188)
Balance, end of year	$ 483	$ 628	$ 640	$ 1,530	$ 604	$ -	$ 3,885
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	483	628	640	1,530	604	-	3,885
Balance, end of year	$ 483	$ 628	$ 640	$ 1,530	$ 604	$ -	$ 3,885
Loans:							
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -		$ -
Ending balance: Collectively evaluated for impairment	47,123	41,101	77,262	168,291	7,803		341,580
Ending balance total loans	$ 47,123	$ 41,101	$ 77,262	$ 168,291	$ 7,803		$ 341,580

Note 4 Loans and Allowance for Credit 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 Credit 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 credit 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, 2023 and 2022 are as follows (in thousands):

	Pass	Other Assets Especially Mentioned	Sub-Standard	Doubtful	Total
December 31, 2023:					
Commercial, agricultural and industrial loans	$ 44,397	$ 2,726	$ -	$ -	$ 47,123
Real estate (RE) loans:					
Construction, land and land development	41,101	-	-	-	41,101
Residential 1-4 family	76,496	485	281	-	77,262
Commercial RE	162,988	5,249	54	-	168,291
Consumer and other loans	7,745	58	-	-	7,803
Subtotal	$ 332,727	$ 8,518	$ 335	$ -	341,580
Less: Net deferred loan fees					(696)
Total loans					$ 340,884
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

Note 4 Loans and Allowance for Credit Losses, continued

At December 31, 2023, there was a residential 1-4 family loan totaling $150,000 on nonaccrual. At December 31, 2022, there were no nonaccrual loans.

At December 31, 2023 and 2022, a summary of information pertaining to loans evaluated individually 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, 2023:							
Real estate (RE) loans:							
Residential 1-4 family	$ -	$ -	$ -	$ -	$ -	$ 79	$ -
Commercial RE	-	-	-	-	-	874	-
Total	$ -	$ -	$ -	$ -	$ -	$ 953	$ -
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

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

Loan Modifications

The restructuring of a loan is considered a loan modification 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 loans restructured during 2023 and 2022.

At December 31, 2023, there were loans restructured in prior years totaling $1,783,000. At December 31, 2023, all of these restructured loans were paying in accordance with the restructured terms.

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

Note 4 Loans and Allowance for Credit Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2023 (in thousands):

December 31, 2023:	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	$ 108	$ -	$ 108	$ 47,015	$ 47,123	$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	41,101	41,101	-
Residential 1-4 family	-	-	-	77,262	77,262	-
Commercial RE	-	-	-	168,291	168,291	-
Consumer and other loans	-	3	3	7,800	7,803	-
Less: Net deferred loan fees	-	-	-	(696)	(696)	-
Total	$ 108	$ 3	$ 111	$ 340,773	$ 340,884	$ -

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 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, 2023 and 2022 is as follows (in thousands):

	2023	2022
Land	$ 1,410	$ 1,410
Buildings	8,819	8,818
Leasehold improvements	583	533
Furniture and equipment	3,135	3,051
Lease right-to-use asset	1,080	423
	15,027	14,235
Less accumulated depreciation and amortization	(5,147)	(4,676)
Premises and equipment, net	$ 9,880	$ 9,559

Depreciation and amortization on premises and equipment charged to expense totaled $471,000 and $482,000 for the years ended December 31, 2023 and 2022, respectively. Computer software, net of accumulated amortization, is included in Other Assets. Amortization on computer software charged to expense totaled $49,000 and $22,000 for the years ended December 31, 2023 and 2022, 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, 2023, this lease includes one more renewal option of five years.

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 $2,000.

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 first right of refusal to purchase the building during tenancy. The initial monthly base rent is $7,000. 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.

The Corporation entered into a lease agreement with an effective date of June 1, 2023 for a wealth management office in Roseberg, Oregon. The term of this lease is two years. The lease agreement includes a renewal option for two years. The monthly base rent is $1,000. During 2021, the Corporation entered into a lease agreement for a loan production office in Lake Oswego, Oregon. The term of this lease expires November 30, 2024. The initial monthly base rent is $5,600.

Note 5 Premises and Equipment, continued

The Corporation recorded lease expense in the amount of $243,000 and $175,000 for the years ended December 31, 2023 and 2022, respectively. Included in the lease expense were amounts paid to related parties in the amount of $119,000 and $87,000 for the years ended December 31, 2023 and 2022, respectively.

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-to-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 5.61%. 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, 2023 (in thousands):

2024	$ 252
2025	186
2026	188
2027	119
2028	96
Thereafter	444
Total undiscounted operating lease liability	1,285
Imputed interest	(205)
Total operating lease liability included in the balance sheet	$ 1,080

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 2023 or 2022.

Note 7 Deposits

The carrying amounts of deposits at December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Demand	$ 182,192	$ 209,087
Interest-bearing transaction accounts	283,057	330,231
Savings	24,249	26,998
Time deposits less than $250,000	50,081	5,399
Time deposits $250,000 and over	23,336	1,011
Total deposits	$ 562,915	$ 572,726

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

2024	$ 64,879
2025	487
2026	186
2027	134
2028	7,731
Total	$ 73,417

At December 31, 2023 and 2022, 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, 2023 and 2022, this loan was fully advanced. The interest rate is the Wall Street Journal Prime rate minus .25%. The interest rate was 8.25% and 5.25% at December 31, 2023 and 2022, 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, 2023 and 2022. Prior to 2023 and 2022, the Corporation used $7,500,000 of these loan proceeds to inject additional capital into the Bank. The outstanding balance on this line of credit was $7,718,000 and $9,436,000 as of December 31, 2023 and 2022, 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, 2023 and 2022 was $170,000 and $233,000, respectively.

Note 8 Long-Term Borrowings, continued

At December 31, 2023, principal payments due on these long-term borrowings for the next five years are as follows (in thousands):

2024	$ 1,302
2025	1,412
2026	1,478
2027	1,577
2028	2,119
Total	$ 7,888

Note 9 Related Party Transactions

During 2023 and 2022, 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, 2023	$ 2,735	$ 33,160	$ (33,693)	$ 2,202
December 31, 2022	$ 4,249	$ 17,372	$ (18,886)	$ 2,735

At December 31, 2023 and 2022, there were unfunded loan commitments to related parties totaling $5,937,000 and $6,272,000, respectively.

The Corporation held deposits for certain of its officers, directors and principal shareholders in the amount of $21,423,000 and $45,577,000 at December 31, 2023 and 2022, 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 $2,000 and $55,000 during 2023 and 2022, 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):

	2023	2022
Commitments to extend credit	$ 72,640	$ 71,603
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 2023 or 2022. The Corporation has not incurred any material losses on its commitments in 2023 or 2022.

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, 2023 and 2022, the Corporation had pledged investment securities with a carrying amount of $6,174,000 and $6,742,000, 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, 2023 and 2022.

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 $261,717,000 at December 31, 2023 assuming assets are pledged accordingly. There were no outstanding balances on this line of credit at December 31, 2023 and 2022. This line is collateralized by pledged loans with a carrying amount of $81,667,000 and $73,078,000 and investment securities with a carrying amount of $90,901,000 and $97,080,000 at December 31, 2023 and 2022, respectively.

During 2021, the Corporation obtained a line of credit from another financial institution in the amount of $10,000,000. During 2023, there were no advances on this line of credit. During 2022, the Corporation borrowed $1,250,000 from this line of credit. At December 31, 2023, there were no available borrowings under this line of credit. At December 31, 2023 and 2022, the outstanding balance on this line of credit was $7,718,000 and $9,436,000, 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, 2023 and 2022, the Corporation had $235,000 and $169,000, 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, 2023 and 2022, there were 26,096 and 34,173, 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, 2023 and 2022 is presented below:

	Restricted Shares	Weighted-Average Grant Date Fair Value
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
Outstanding at January 1, 2023	9,895	$ 83.42
Granted	3,639	93.00
Forfeited	(2,477)	86.07
Vested	(2,033)	81.91
Nonvested at December 31, 2023	9,024	$ 86.90

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 $240,000 and $112,000 was recorded during 2023 and 2022, respectively, relating to restricted stock awards. At December 31, 2023, there was unrecognized compensation expense relating to these awards totaling $769,000 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 2023 and 2022, stock compensation expense totaling $78,000 and $79,000, respectively, was recorded relating to directors' compensation. During 2023 and 2022, 838 and 917 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 $4,000 and $3,000 for the years ended December 31, 2023 and 2022, respectively. Since the Corporation made the Subchapter S election, there is no tax benefit recognized in the income statement for share-based compensation arrangements for the years ended December 31, 2023 and 2022.

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 2023 and 2022 grants of stock options:

	2023	2022
Expected volatility	7.35-8.12%	7.35%
Weighted-average volatility	7.35-8.12%	7.35%
Expected dividends	4.13%	4.14%
Expected term (in years)	10 yrs	10 yrs
Risk-free rate	4.15%	1.73%

Note 15 Stock Compensation Plans, continued

A summary of option activity under the plans as of December 31, 2023 and 2022, 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, 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
Outstanding at January 1, 2023	36,850	$ 73.27	
Granted	3,600	90.78	
Exercised	(2,530)	62.84	
Forfeited or expired	-	-	
Outstanding at December 31, 2023	37,920	$ 75.63	5.42
Vested or expected to vest at December 31, 2023	37,920	$ 75.63	5.42
Exercisable at December 31, 2023	25,940	$ 72.78	4.44

There were 3,600 and 600 options granted during 2023 and 2022, respectively. The proceeds from options exercised were $159,000 and $221,000 in 2023 and 2022, respectively.

A summary of the status of the Corporation's nonvested shares relating to stock options as of December 31, 2023, and changes during the year then ended, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2023	13,400	$ 0.58
Granted	3,600	5.91
Vested	(5,020)	0.68
Forfeited	-	-
Nonvested at December 31, 2023	11,980	$ 2.15

Note 15 Stock Compensation Plans, continued

As of December 31, 2023, there was $18,000 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 4.50 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, 2023 and 2022 were $396,000 and $296,000, respectively. The ESOP component of this plan held 54,717 shares of the Corporation's common stock at December 31, 2023 and 2022.

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, 2023 and 2022, 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, 2023, 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, 2023:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 60,987	15.76%	$ 30,960	8.00%	$ 38,700	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 56,976	14.72%	$ 23,220	6.00%	$ 30,960	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 56,976	14.72%	$ 17,415	4.50%	$ 25,155	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 56,976	9.65%	$ 23,614	4.00%	$ 29,517	5.00%
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%

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.

Individually Evaluated Loans: Certain loans are individually evaluated and 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, 2023 and 2022, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands). At December 31, 2023 and 2022, 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, 2023:				
Available-for-Sale:				
U.S. Treasury notes	$ 24,769	$ -	$ -	$ 24,769
U.S. Government agencies	-	13,497	-	13,497
U.S. Government agency mortgage-backed securities	-	23,623	-	23,623
Collateralized mortgage obligations	-	33,755	-	33,755
Obligations of state and political subdivisions	-	75,991	-	75,991
Totals	$ 24,769	$ 146,866	$ -	$ 171,635
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

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 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.

Note 18 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2023 and 2022, 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, 2023:				
Loans individually evaluated	$ -	$ -	$ -	$ -
Less specific valuation allowance for possible loan losses	-	-	-	-
Impaired loans, net	$ -	$ -	$ -	$ -
December 31, 2022:				
Loans individually evaluated	$ -	$ 1,906	$ -	$ 1,906
Less specific valuation allowance for possible loan losses	-	(4)	-	(4)
Impaired loans, net	$ -	$ 1,902	$ -	$ 1,902

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 credit 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, 2023 and 2022, there was no other real estate owned by the Corporation.

During 2023 and 2022, there were no charge-offs recorded at the time of foreclosure. During 2023 and 2022, 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 credit losses and generally do not significantly impact the Corporation’s provision for credit losses. Regulatory guidelines require the Corporation to reevaluate the fair value of other real estate owned on at least an annual basis.

Note 19 Subsequent Events

The Board of Directors has authorized management to cash in the Bank-owned life insurance policies. Proceeds totaling $2,008,000 were received during March 2024 from the policies held by one insurance carrier. There are additional policies with three other insurance carriers remaining to be cashed in. Since these policies are carried at the cash surrender value as of December 31, 2023, this will not result in a significant amount of income being recorded when these policies are cashed in; however, all earnings since these policies were purchased will be considered taxable income.

OTHER FINANCIAL INFORMATION

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2023
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	HFG TRUST, LLC	HFG ADVISORS, INC.	ELIMINATIONS	CONSOLIDATED BALANCES 2023
ASSETS						
Cash and due from banks	$ -	$ 6,580	$ -	$ -	$ -	$ 6,580
Interest-bearing deposits in financial institutions maturing in less than three months	168	61,143	2,434	22	-	63,767
Total cash and cash equivalents	168	67,723	2,434	22	-	70,347
Investment in subsidiary	39,251	7,216	355	-	(46,822)	-
Investment securities	-	171,635	-	-	-	171,635
Federal Home Loan Bank stock, at cost	-	366	-	-	-	366
Loans held-for-sale	-	1,798	-	-	-	1,798
Loans, net of deferred loan fees and allowance for credit losses	-	335,201	-	-	-	335,201
Premises and equipment, net of accumulated depreciation	-	9,839	41	-	-	9,880
Bank-owned life insurance	-	7,205	-	-	-	7,205
Goodwill	-	-	2,840	209	-	3,049
Accrued interest receivable	-	2,152	-	-	-	2,152
Other assets	-	1,458	1,860	134	-	3,452
Total Assets	$ 39,419	$ 604,593	$ 7,530	$ 365	$ (46,822)	$ 605,085
LIABILITIES						
Deposits	$ -	$ 562,915	$ -	$ -	$ -	$ 562,915
Long-term borrowings	7,718	-	170	-	-	7,888
Other liabilities:						
Accrued interest payable	30	927	-	-	-	957
Accrued expenses and other liabilities	-	1,500	144	10	-	1,654
Total other liabilities	30	2,427	144	10	-	2,611
Total Liabilities	7,748	565,342	314	10	-	573,414
SHAREHOLDERS' EQUITY						
Common stock, $1 par value:						
Authorized - 1,000,000 shares						
Issued and outstanding - 596,978 shares	597	401	-	-	(401)	597
Additional paid-in capital	19,985	27,174	6,870	360	(34,404)	19,985
Retained earnings (deficit)	31,863	32,450	346	(5)	(32,791)	31,863
Accumulated other comprehensive loss	(20,774)	(20,774)	-	-	20,774	(20,774)
Total Shareholders' Equity	31,671	39,251	7,216	355	(46,822)	31,671
Total Liabilities and Shareholders' Equity	$ 39,419	$ 604,593	$ 7,530	$ 365	$ (46,822)	$ 605,085

See Independent Auditor's Report.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	HFG TRUST, LLC	HFG ADVISORS, INC.	ELIMINATIONS	CONSOLIDATED BALANCES 2023
Interest income						
Interest and fees on loans	$ -	$ 16,905	$ -	$ -	$ -	$ 16,905
Interest on investment securities	-	3,531	-	-	-	3,531
Interest on federal funds sold and interest-bearing deposits with financial institutions	15	2,742	111	2	-	2,870
Total interest income	15	23,178	111	2	-	23,306
Interest expense						
On deposits	-	5,305	-	-	-	5,305
On borrowed funds	612	-	6	-	-	618
Total interest expense	612	5,305	6	-	-	5,923
Net interest income (expense)	(597)	17,873	105	2	-	17,383
Provision for credit losses	-	1,420	-	-	-	1,420
Net interest income (expense) after provision for credit losses	(597)	16,453	105	2	-	15,963
Non-interest income						
Service charges and fees on deposit accounts	-	243	-	-	-	243
Mortgage commissions and fees	-	1,843	59	-	-	1,902
Equity in undistributed income (loss) of subsidiary	57	1,297	(7)	-	(1,347)	-
Dividend income from subsidiary	4,630	-	-	-	(4,630)	-
Earnings on bank-owned life insurance	-	159	-	-	-	159
Net gain on sales of loans	-	1,303	-	-	-	1,303
Net loss on sales of investment securities	-	(146)	-	-	-	(146)
Income from fiduciary activities	-	-	7,449	643	-	8,092
Other	-	970	13	-	-	983
Total non-interest income	4,687	5,669	7,514	643	(5,977)	12,536
Non-interest expense						
Salaries and employee benefits	6	11,298	5,138	532	-	16,974
Occupancy	-	735	155	25	-	915
Furniture and equipment	15	522	24	3	-	564
Data processing	-	2,121	320	-	-	2,441
Professional fees	277	71	21	7	-	376
FDIC assessments	-	273	-	-	-	273
Regulatory assessments	-	21	4	-	-	25
ATM/Debit card expenses	-	342	-	-	-	342
Other operating expenses	(282)	2,052	660	85	-	2,515
Total non-interest expense	16	17,435	6,322	652	-	24,425
Net Income (Loss)	$ 4,074	$ 4,687	$ 1,297	$ (7)	$ (5,977)	$ 4,074

See Independent Auditor's Report.