Report of Independent Auditors
and Financial Statements

Washington Business Bank

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Washington Business Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Washington Business Bank, which comprise the statements of financial condition as of December 31, 2022 and 2021, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

Everett, Washington
February 17, 2023

Financial Statements

Washington Business Bank
Statements of Financial Condition
(dollars in thousands)
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and due from banks	$ 7,891	$ 629
Federal funds sold	2,146	14,625
Total cash and cash equivalents	10,037	15,254
Interest-bearing deposits in banks	61	9,419
Securities available-for-sale, at fair value	26	33
Federal Home Loan Bank (FHLB) stock	250	330
Loans receivable	83,340	82,062
Allowance for loan losses	(670)	(670)
Net loans	82,670	81,392
Accrued interest receivable	237	245
Premises and equipment, net	1,672	1,713
Other assets	34	89
Total assets	$ 94,987	$ 108,475
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Customer deposits	$ 77,416	$ 90,228
Borrowings	3,000	5,000
Other liabilities	392	405
Total liabilities	80,808	95,633
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
SHAREHOLDERS' EQUITY		
Preferred stock (no par value), 1,000,000 shares authorized, no shares issued or outstanding in 2022 and 2021	-	-
Common stock ($1 par value), 10,000,000 shares authorized, 712,498 and 690,878 shares issued and outstanding in 2022 and 2021, respectively	712	691
Additional paid-in capital	7,001	6,856
Retained earnings	6,466	5,295
Accumulated other comprehensive income, net of tax	-	-
Total shareholders' equity	14,179	12,842
Total liabilities and shareholders' equity	$ 94,987	$ 108,475

See accompanying notes.

Washington Business Bank
Statements of Income
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
INTEREST INCOME		
Loans and fees	$ 4,226	$ 4,536
Federal funds sold and interest-bearing deposits in banks	303	30
FHLB stock dividends	22	22
Securities available-for-sale	1	1
Total interest income	4,552	4,589
INTEREST EXPENSE		
Deposits	216	300
Borrowings	62	90
Total interest expense	278	390
Net interest income	4,274	4,199
PROVISION FOR LOAN LOSSES	-	-
Net interest income after provision for loan losses	4,274	4,199
NONINTEREST INCOME		
Service charges on deposit accounts	23	21
Debit/ATM interchange	64	62
Other fee income	10	4
Total noninterest income	97	87
NONINTEREST EXPENSE		
Salaries and employee benefits	1,693	1,496
Occupancy and equipment	124	124
Data processing	158	147
Taxes and regulatory assessment	108	124
Other	806	601
Total noninterest expense	2,889	2,492
Income before provision for income taxes	1,482	1,794
PROVISION FOR INCOME TAXES	311	377
NET INCOME	$ 1,171	$ 1,417
Earnings per common share		
Basic	$ 1.66	$ 2.05
Diluted	$ 1.58	$ 1.92

See accompanying notes.

Washington Business Bank
Statements of Comprehensive Income
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
NET INCOME	$ 1,171	$ 1,417
Other comprehensive income		
Unrealized holding (loss) on securities available-for-sale (net of tax (benefit) of $0 for 2022 and 2021)	-	(1)
COMPREHENSIVE INCOME	$ 1,171	$ 1,416

See accompanying notes.

Washington Business Bank
Statements of Changes in Shareholders' Equity
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Paid-In-Capital	Earnings	Income	Equity
BALANCE, December 31, 2020	667,269	$ 667	$ 6,866	$ 3,878	$ 1	$ 11,412
Net income	-	-	-	1,417	-	1,417
Unrealized loss on securities, net of tax	-	-	-	-	(1)	(1)
Vested restricted stock	4,670	5	(4)	-		1
Repurchased shares	(21,261)	(21)	(346)	-	-	(367)
Exercised stock options	40,200	40	256	-	-	296
Stock-based compensation	-	-	84	-	-	84
BALANCE, December 31, 2021	690,878	691	6,856	5,295	-	12,842
Net income	-	-	-	1,171	-	1,171
Unrealized loss on securities, net of tax	-	-	-	-	-	-
Vested restricted stock	5,220	5	(5)	-		-
Repurchased shares	(2,100)	(2)	(37)	-	-	(39)
Exercised stock options	18,500	18	121	-	-	139
Stock-based compensation	-	-	66	-	-	66
BALANCE, December 31, 2022	712,498	$ 712	$ 7,001	$ 6,466	$ -	$ 14,179

See accompanying notes.

Washington Business Bank
Statements of Cash Flows
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,171	$ 1,417
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	-	-
Deferred income tax	(88)	67
Gain on sale of other real estate owned	-	(11)
Depreciation and amortization	77	72
Stock-based compensation expense	66	84
Changes in operating assets and liabilities		
Accrued interest payable	(1)	(21)
Accrued interest receivable	8	48
Other assets	122	68
Other liabilities	9	19
Net cash from operating activities	1,364	1,743
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities available-for-sale		
Paydowns received	7	10
Decrease (increase) in interest-bearing deposits with banks	9,358	(1,217)
Decrease (increase) in loans made to customers, net of principal collections	(1,278)	13,102
Proceeds from sale of other real estate owned	-	82
Redemption of FHLB stock	80	19
Purchases of premises and equipment	(36)	(31)
Net cash from investing activities	8,131	11,965
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(12,812)	7,140
Repayment of FHLB borrowings	(2,000)	(1,000)
Repayment of FRB borrowings	-	(7,443)
Repurchase of stock	(39)	(367)
Proceeds from exercise of stock options	139	296
Net cash from financing activities	(14,712)	(1,374)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,217)	12,334
CASH AND CASH EQUIVALENTS, beginning of year	15,254	2,920
CASH AND CASH EQUIVALENTS, end of year	$ 10,037	$ 15,254
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Taxes	$ 262	$ 255
Interest	$ 279	$ 411

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Nature of operations – Washington Business Bank (the Bank) operates one full-service branch in Thurston County, Washington. The Bank is a state-chartered bank that provides loan and deposit services to customers who are predominately small and midsized businesses and middle-income individuals in western Washington. The Bank is subject to significant competition from other financial institutions. The Bank is also subject to the regulations of certain federal and state of Washington agencies and undergoes periodic examinations by those regulatory authorities.

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

Financial statement presentation and use of estimates – The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and practices within the banking industry. Preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the statements of financial condition, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, and valuation of deferred tax assets.

All dollar amounts are stated in thousands, except per-share amounts.

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

The Bank has evaluated subsequent events through February 17, 2023, which is the date the financial statements are available to be issued.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, and federal funds sold, all with maturities of three months or less. The Bank, at times, may have cash deposits at other financial institutions in excess of Federal Deposit Insurance Corporation (FDIC)-insured limits.

There was no reserve requirement with the Federal Reserve Bank (FRB) at December 31, 2022 and 2021.

Interest-bearing deposits in banks – Interest-bearing deposits with other financial institutions mature within one year and are carried at cost. The balances in these accounts may fluctuate and, at times, exceed the insured limit set by the FDIC, which potentially subjects the Bank to credit risk. The Bank has not experienced any losses in such accounts.

Investment securities – Investment securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities categorized as available-for-sale are generally held for investment purposes (to maturity), although unanticipated future events may result in the sale of some securities. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Federal Home Loan Bank stock – The Bank, as a member of the Federal Home Loan Bank of Des Moines (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding home loans or 5% of advances from the FHLB. The Bank's investment in FHLB stock is a restricted investment carried at par value ($100 per share), which approximates its fair value. No ready market exists for the FHLB stock, and it has no quoted market value; however, the Bank may request redemption at par value of any stock in excess of the amount the Bank is required to hold. Stock redemptions are made at the discretion of the FHLB.

Pacific Coast Bankers' Bank stock – Pacific Coast Bankers' Bank (PCBB) stock represents an investment by the Bank in the capital stock of PCBB of $60 at December 31, 2022 and 2021, and is carried at par value ($15 per share), which reasonably approximates fair value and is included in other assets.

Loans held-for-sale – Loans originated and intended for sale in secondary markets are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses on the sale of such loans are based on the specific identification method. There were no loans held-for-sale at December 31, 2022 or 2021.

Loan sales recognition – The Bank recognizes a sale on loans if the transferred portion (or portions) and any portion that continues to be held by the transferor are participating interests. Participating interest is defined as a portion of a financial asset that (a) conveys proportionate ownership rights with equal priority to each participating interest holder, (b) involves no recourse (other than standard representations and warranties), and (c) does not entitle any participating interest holder to receive cash before any other participating interest holder. The transfer of the participating interest (or participating interests) must also meet the conditions for surrender of control.

Loans receivable – Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances and adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method. Because some loans may not be repaid in full, an allowance for loan losses is recorded.

Credit risk represents the possibility of sustaining a loss because the other parties to the financial obligation fail to perform in accordance with the terms of the contract. The Bank's exposure to credit loss primarily relates to cash and due from banks, FHLB stock, loans receivable, and investment securities.

Most of the Bank's business activity is with customers in the state of Washington. Loans are generally limited by state banking regulations to 20% of the Bank's shareholders' equity, excluding accumulated other comprehensive income. At December 31, 2022 and 2021, $40,821 and $40,771, respectively, of loans receivable were made for commercial real estate and development purposes.

Interest income recognition on loans – Interest income on loans is accrued over the term of the loans based on the principal outstanding. 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, as well as when required by regulatory provision. Past-due status is based on contractual terms of loans. When interest accrual is discontinued, all unpaid accrued interest is reversed. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses – An allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The allowance is based on ongoing, monthly assessments of the probable and estimable losses inherent in the loan portfolio. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements.

The allowance for loan losses is based upon management's periodic review of the collectability of the loan in relation to 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 because it requires estimates that are susceptible to significant revision as updated information becomes available. Additionally, loans are subject to examination by state and federal regulators who, based upon their judgment, may require the Bank to make additional provisions or adjustments to the allowance for loan losses.

Specific reserves are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred. Impaired loans consist of loans receivable that are not expected to be repaid in accordance with their contractual terms. Smaller balance loans are excluded from this analysis. In addition to impaired loans, any loans risk rated as substandard, doubtful, or loss are individually evaluated for impairment. All other loans are generally evaluated collectively for purposes of estimating the allowance for loan losses.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and qualitative factors over the loss emergence period. The following portfolio segments are used: commercial loans, real estate loans, construction loans, and consumer loans.

Each loan segment inherently contains differing credit risk profiles depending on the unique aspects of that segment. For example, real estate construction loans carry a risk that a project under development might not be completed as planned or that the original cost estimate might be insufficient. In all cases, management believes the credit risk for all loans is similarly dependent on essentially the same factors, including the financial strength of the borrower, the cash flow available to service maturing debt obligations, the condition and value of underlying collateral, the financial strength of any guarantors, and other factors. Management exercises judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment but generally relies on underlying collateral values, projected cash flows, and other available borrower information.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts or to release balances from the allowance for loan losses.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

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

Impaired, nonaccrual, and charged-off loans – Loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller balance loans of similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected to come from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

Impaired loans, or portions thereof, are charged off when deemed uncollectible. The Bank's charge-off policies are treated similarly in each segment of the loan portfolio. When a loan reaches 90 days past due, it is generally considered impaired. The loan is placed on nonaccrual and a specific reserve is allocated after an impairment analysis is performed by management and deemed necessary.

The Bank generally places loans on nonaccrual status when the full and timely collection of interest and principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach three months past due for all loan classes. When the Bank places a loan on nonaccrual status, the Bank reverses the accrued unpaid interest receivable against interest income and accounts for the loan on the cash or cost recovery method until it qualifies for return to accrual status. Generally, the Bank returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) a formal restructuring has occurred, and continued payment is reasonably assured, generally after six months of payment history.

The Bank has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the customer's statement. Interest and fees continue to accrue on past-due loans until the date the loan goes into nonaccrual status, if applicable.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets. Gains or losses on dispositions are reflected in earnings. Assets are reviewed for impairment when events indicate that their carrying value may not be recoverable. If management determines impairment exists, the assets are reduced with an offsetting charge to expense.

Leases – On January 1, 2022, the Bank adopted FASB ASU No. 2016-02, *Leases* (Topic 842). ASU No. 2016-02 requires lessees to recognize on the balance sheet the assets and liabilities arising from operating leases. A lessee should recognize a liability to make lease payments and a right-of-use (ROU) asset representing its right to use the underlying asset for the lease term. A lessee should include payments to be made in an optional period only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For operating leases, the lease cost should be allocated over the lease term on a generally straight-line basis.

The Bank adopted the standard using the modified retrospective transition approach. The new standard provides for a number of practical expedients in transition. The Bank elected the package of practical expedients, which permits the Bank to not reassess under the new standard prior conclusions about lease identification, lease classification, and initial direct costs. The Bank also elected the use-of-hindsight and elected the practical expedient to not separate lease and non-lease components on real estate leases where the Bank is the lessee. The Bank did not elect the practical expedient pertaining to land easement as it is not applicable.

The Bank has elected the short-term lease recognition exemption for certain leases which are less than 12 months in duration or month-to month. This means, for those leases that qualify, ROU assets or lease liabilities will not be recognized. As the Bank currently has no leases, the adoption of this ASU on January 1, 2022, had no impact on the financial statements.

Other real estate owned – Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held-for-sale is carried at the lower of the new cost basis or fair value less costs to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. The Bank had $0 in other real estate owned at December 31, 2022 and 2021, which is included within other assets on the statement of financial condition.

Income taxes – The Bank records its provision for income taxes under the liability method. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred taxes result from temporary differences in the recognition of certain income and expense amounts between the Bank's financial statements and its tax return. The principal items giving rise to these differences include net operating losses, valuation adjustments on foreclosed properties, and allowance for credit losses. The Bank's policy is to recognize interest and penalties associated with income tax matters in income tax expense.

Earnings per common share – Basic earnings per common share (EPS) are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect the weighted-average potential dilution that could occur if all potentially dilutive shares or other commitments to issue common stock were exercised or converted into common stock using the treasury stock method.

Stock-based compensation – Stock-based compensation cost is recognized at the grant-date fair value and is based on awards that are ultimately expected to vest. The cost is recognized over the period during which an employee is required to provide services in exchange for the award. The tax benefit resulting from tax deductions in excess of the compensation cost recognized is classified as a financing activity in the statements of cash flows. The fair value of stock options is determined using the Black-Scholes valuation model.

Fair value measurements – The Bank recognizes fair values of financial instruments in accordance with ASC 825-10, *Financial Instruments – Overall*, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Fair value is defined as the exit price, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. It also establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. In determining fair value, the Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability using one of the three valuation techniques within the fair value hierarchy. Inputs can be observable or unobservable. Observable inputs are those assumptions that market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of the Bank.

Unobservable inputs are assumptions based on the Bank's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date.

All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for assets or liabilities classified as Level 2 are based on one or a combination of the following factors: (i) quoted prices for similar assets; (ii) observable inputs for the asset or liability, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

There were no transfers between Level 1, Level 2, and Level 3 during 2022 or 2021.

Revenue recognition – The Bank recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, *as amended*, (ASC 606) which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the Bank performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation. The majority of the Bank's revenues come from interest income including loans and securities, that are outside the scope of ASC 606. The Bank's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Bank satisfies its obligation to the customer. Services within the scope of ASC 606 are described below.

All of the Bank's revenue from contracts with customers in the scope of ASC 606 is reported in noninterest income except for gains/losses on the sale of other real estate owned. Gains/losses on the sale of other real estate owned are included in noninterest expense and are generally recognized when the performance obligation is complete. Completion typically occurs at delivery of control over the property to the buyer at time of each real estate closing.

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

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

Financial instruments – In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, standby letters of credit, and financial guarantees. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Comprehensive income – Accounting principles generally require including recognized revenue, expenses, gains, and losses in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the statement of financial condition. Such items, along with net income, are the only components of comprehensive income. For the years ended December 31, 2022 and 2021, there were no amounts reclassed out of accumulated comprehensive income, and ending components of accumulated comprehensive income consisted of changes to the unrealized gains and losses of securities available-for-sale.

Advertising costs – Advertising costs are expensed as incurred. Total advertising expense was $2 and $3 for the years ended December 31, 2022 and 2021, respectively.

Note 2 – Securities Available-for-Sale

Securities have been classified as available-for-sale according to management's intent. The amortized cost of securities and their approximate fair value are as follows:

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Agency mortgage-backed securities and collateralized mortgage obligations	$ 26	$ -	$ -	$ 26
December 31, 2021				
Agency mortgage-backed securities and collateralized mortgage obligations	$ 32	$ 1	$ -	$ 33

At December 31, 2022 and 2021, there were no investments with contractual maturities or securities with an unrealized loss. Additionally, there were no sales of investment securities during the years ended December 31, 2022 and 2021.

Note 3 – Loans Receivable

Loans consisted of the following at December 31:

	2022	2021
Commercial	$ 25,670	$ 25,014
Real estate		
Commercial	40,821	40,771
Multi-family	2,553	1,727
Residential: 1-4 family	13,079	12,605
Total real estate	56,453	55,103
Construction	1,387	2,207
	83,510	82,324
Less net deferred loan origination fees	(170)	(262)
Loans receivable, net	$ 83,340	$ 82,062

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed by the President of the United States. During the years ended December 31, 2021, the Bank participated in the Paycheck Protection Program (PPP), under the CARES Act, whereby loans to small businesses are made and those loans are subject to the regulatory requirements that would require forbearance of loan payments for a specified time or that would limit the ability to pursue all available remedies in the event of a loan default. The above table includes $0 and $2,736 of PPP loans administered by the U.S. Small Business Administration (SBA) within the Commercial loan segment as of December 31, 2022 and 2021, respectively.

The Bank pledged certain commercial, multi-family, 1–4 family residential, and land loans as collateral for purposes of borrowings with the FHLB and FRB. Loans totaling $17,769 and $20,273 were pledged to the FHLB at December 31, 2022 and 2021, respectively. There were $9,929 and $9,915 in loans pledged to the FRB at December 31, 2022 and 2021, respectively (Note 6).

Reflected in the allowance for loan loss methods previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of management's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience, and other subjective factors, including industry trends, calculated to better reflect the Bank's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

The following tables present, by portfolio segment, the changes in the allowance for loan losses for the years ended December 31 and the amount of loans evaluated for impairment individually and collectively.

2022	Commercial	Real Estate	Construction	Consumer	Total
Allowance					
Balance, beginning of the period	$ 202	$ 441	$ 27	$ -	$ 670
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	(4)	10	(6)	-	-
Balance, end of the period	$ 198	$ 451	$ 21	$ -	$ 670
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 198	$ 451	$ 21	$ -	$ 670
Loans					
Ending balance	$ 25,670	$ 56,453	$ 1,387	$ -	$ 83,510
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 25,670	$ 56,453	$ 1,387	$ -	$ 83,510

2021					
Allowance					
Balance, beginning of the period	$ 300	$ 349	$ 19	$ -	$ 668
Charge-offs	(2)	-	-	-	(2)
Recoveries	4	-	-	-	4
Provision	(100)	92	8	-	-
Balance, end of the period	$ 202	$ 441	$ 27	$ -	$ 670
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 202	$ 441	$ 27	$ -	$ 670
Loans					
Ending balance	$ 25,014	$ 55,103	$ 2,207	$ -	$ 82,324
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 25,014	$ 55,103	$ 2,207	$ -	$ 82,324

Credit quality information – The Bank's internal risk categories are based on a variety of detailed factors obtained during loan underwriting and subsequent loan review procedures. A summary of these risk categories is described as follows:

Exceptional loans – Excellent and well documented primary and secondary sources of repayment. Excellent capital levels and management with significant industry experience and succession plans. More than adequately secured loans with no loss exposure.

Quality loans – Strong sources of primary and secondary repayment; loans comply in all respects to Bank policy and applicable regulations. Better than average capital levels with proven, experienced management. Acceptable collateral with above average loan-to-value ratios resulting in no loss exposure.

Average loans – Adequate sources of repayment as evidenced by an average level of earnings, debt service coverage, and capital levels compared with industry peer groups. Experienced management in most critical roles of the organization. Acceptable collateral in quality and amount that results in no loss exposure.

Below average loans – Below average sources of repayment, with marginal identifiable risk of collection. Modest secondary source of repayment provides limited support. Below average capital levels compared with peer group, and management may be untested or lack depth. Below average collateral position that may have limited liquidation value. Minimal loss exposure expected based on consideration of all relevant factors.

Watch list loans – These loans are typically of higher quality than substandard or doubtful loans but have been determined to have identified potential weaknesses in debt service coverage, collateral value, or other factors and are rated watch list in order to receive special attention and review by the Bank's credit department. These loans are consistently reviewed and regraded monthly. This grade is intended to correspond with a "Pass" rating used by regulators.

Substandard loans – These loans are inadequately protected by the paying capacity of the borrower, current sound net worth, or pledged collateral. A substandard loan typically has one or more well defined weaknesses that could jeopardize the repayment of the debt.

Doubtful loans – Loans with weaknesses inherent in the substandard classification for which collection and liquidation in full is questionable.

Loss – This rating is assigned to loans considered uncollectible and of such little value that their continuance as an active bank-owned asset is not warranted. These loans are immediately charged off.

The following table represents credit exposures by risk category for the years ended December 31, 2022 and 2021. The use of various categories to grade loans permits management's use of migration analysis to estimate a portion of credit risk.

2022	Exceptional	Quality	Average	Below Average	Watch	Substandard	Total
Commercial	$ 748	$ 71	$ 21,282	$ 3,557	$ 12	$ -	$ 25,670
Real estate							
Commercial	-	9,517	26,004	5,009	291	-	40,821
Multi-family	-	-	2,553	-	-	-	2,553
Residential 1-4 family	-	256	9,078	3,345	400	-	13,079
Total real estate	-	9,773	37,635	8,354	691	-	56,453
Construction	-	-	128	1,259	-	-	1,387
	$ 748	$ 9,844	$ 59,045	$ 13,170	$ 703	$ -	$ 83,510
2021							
Commercial	$ -	$ 104	$ 16,463	$ 8,261	$ 31	$ 155	$ 25,014
Real estate							
Commercial	-	9,208	25,658	5,612	-	293	40,771
Multi-family	-	-	1,727		-	-	841
Residential 1-4 family	-	287	8,391	3,927	-	-	12,605
Total real estate	-	9,495	35,776	9,539	-	293	55,103
Construction	-	-	1,992	215	-	-	2,207
	$ -	$ 9,599	$ 54,231	$ 18,015	$ 31	$ 448	$ 82,324

The Bank's internal risk grading system is based on experiences with similarly graded loans. Category ratings are reviewed periodically at the segment level, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track the migration of loan performance. Credit quality details are generally updated annually using information obtained from the Bank's internal loan review processes, from regulatory examinations, and from external loan review consultants. Loans that trend upward toward higher levels generally have a lower loss factor associated with that category, whereas loans that migrate toward lower ratings generally will result in a higher loss factor being applied to those related loan balances. There were no loans classified as doubtful or loss at December 31, 2022 or 2021.

Past-due loans receivable by class – The following table includes an aging analysis of the outstanding principal balance of past-due loans receivable as of December 31, 2022 and 2021. There were no loans and two loans delinquent greater than 90 days and still accruing interest at December 31, 2022 and 2021, respectively.

2022	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans
Commercial	$ -	$ 12	$ -	$ 12	$ 25,658	$ 25,670	$ -
Real estate							
Commercial	-	291	-	291	40,530	40,821	-
Multi-family	-	-	-	-	2,553	2,553	-
Residential 1-4 family	-	400	-	400	12,679	13,079	-
Total real estate	-	691	-	691	55,762	56,453	-
Construction	-	-	-	-	1,387	1,387	-
	$ -	$ 703	$ -	$ 703	$ 82,807	$ 83,510	$ -
2021							
Commercial	$ 70	$ -	$ 31	$ 101	$ 24,913	$ 25,014	$ -
Real estate							
Commercial	-	-	-	-	40,771	40,771	-
Multi-family	-	-	-	-	1,727	1,727	-
Residential 1-4 family	-	-	-	-	12,605	12,605	-
Total real estate	-	-	-	-	55,103	55,103	-
Construction	-	-	-	-	2,207	2,207	-
	$ 70	$ -	$ 31	$ 101	$ 82,223	$ 82,324	$ -

Impaired loans –The average balances are calculated based on the quarter-end balances of the loans of the period reported. The Bank has no impaired loans at or during the years ended December 31, 2022 and 2021.

Modifications – A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Bank offers and participates in various types of concessions when modifying a loan. There were no troubled debt restructurings at December 31, 2022 or 2021. No loans were modified in 2022 or 2021 as TDRs.

Related party loans – Certain related parties of the Bank , principally Bank directors and their associates are loan customers of the Bank in the ordinary course of business.

47	2022	2021
Outstanding at beginning of year	$ 731	$ 1,413
New loan advances	812	-
Loan repayments	(124)	(682)
Outstanding at end of year	$ 1,419	$ 731

Note 4 – Premises and Equipment

Components of premises and equipment at December 31 are as follows:

	2022	2021
Land	$ 437	$ 437
Building	1,987	1,987
Furniture and fixtures	170	168
Equipment	674	640
Software	124	124
	3,392	3,356
Less accumulated depreciation and amortization	1,720	1,643
	$ 1,672	$ 1,713

Note 5 – Customer Deposits

The composition of deposits at December 31 is as follows:

	2022	2021
Demand deposits, noninterest-bearing	$ 27,401	$ 28,499
NOW and money market accounts	34,948	42,187
Savings deposits	5,131	4,857
Time certificates	9,936	14,685
	$ 77,416	$ 90,228

The aggregate amount of time certificates of $250 and over was approximately $810 and $3,117 as of December 31, 2022 and 2021, respectively.

Scheduled maturities of time certificates are as follows:

2023	$	6,467
2024		2,473
2025		995
2026		1
2027		-
	$	9,936

Included within time certificates were brokered deposits of $553 and $298 as of December 31, 2022 and 2021, respectively.

Deposits from certain related parties of the Bank, principally directors, officers, and their affiliates, at December 31, 2022 and 2021, amounted to approximately $9,505 and $9,487, respectively.

Note 6 – FHLB and other Borrowings and Credit Arrangements

The Bank has a committed line of credit through the FRB of San Francisco for a discounted rate based on the type of loans pledged as collateral (Note 3). Loans pledged to the FRB equated to a borrowing capacity of $6,977 and $5,144 at December 31, 2022 and 2021, respectively. There was $0 outstanding balances under this credit arrangement at December 31, 2022 and 2021.

The Bank also has a line-of-credit agreement with an unaffiliated bank totaling $5,000. This line provides for lending at the bank's federal fund rates. There were no borrowings outstanding on this line at December 31, 2022 and 2021.

The Bank is a member of the FHLB, which entitles it to certain benefits including a variety of borrowing options. Credit capacity is determined by the FHLB based on a number of factors, including amount of eligible collateral. The Bank's available borrowing capacity at December 31, 2022 and 2021, was approximately $10,500 and $9,828, respectively, with interest payable at the then stated rate. The FHLB borrowing facilities are additionally collateralized by a blanket pledge of the Bank's assets.

At December 31, 2022, the Bank had $3,000 of fixed-rate borrowings outstanding with the FHLB, with fixed rates ranging from 0.89% to 1.58% under these agreements. The contractual maturities of FHLB advances at December 31, 2022, are as follows:

2023	$	1,000
2024		2,000
	$	3,000

The maximum and average outstanding balances and average interest rates on advances from the FHLB were as follows:

	2022	2021
Average balance during the year	$ 4,500	$ 5,458
Average interest rate during the year	1.24%	1.45%
Maximum month-end balance during the year	5,000	6,000
Weighted-average rate at year-end	1.12%	1.42%

Note 7 – Income Taxes

The components of the provision for income taxes are as follows at December 31:

	2022	2021
Current	$ 399	$ 310
Deferred	(88)	67
	$ 311	$ 377

Reconciliation of the provision for income tax expense based on the statutory income tax rate to actual income tax expense is provided as follows (in thousands):

	2022		2021	
	Amount	Percent	Amount	Percent
Federal income tax at statutory rate	$ 311	21%	$ 377	21%
Equity compensation	(13)	-1%	(14)	-1%
Other	13	1%	14	1%
	$ 311	21%	$ 377	21%

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

	2022	2021
Deferred tax assets		
Stock-based compensation expense	$ 10	$ 15
Allowance for loan losses	77	77
Total deferred tax assets	87	92
Deferred tax liabilities		
Deferred income	(108)	(205)
Accumulated depreciation	(12)	(10)
Cash basis reporting	(3)	(1)
Total deferred tax liabilities	(123)	(216)
Net deferred tax (liabilities) assets	$ (36)	$ (124)

The Bank's income tax filings are subject to audit by various taxing authorities. The Bank's policy is to recognize income tax-related interest and penalties in income tax expense. The Bank incurred no interest and penalties for the years ended December 31, 2022 and 2021.

Note 8 – Commitments and Contingencies

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, primarily at variable interest rates. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the statements of financial condition.

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

A summary of the Bank's commitments at December 31 is as follows:

	2022	2021
Commitments to extend credit	$ 3,907	$ 6,679

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are issued primarily to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies, as specified above, and is required in instances where the Bank deems it necessary.

Because of the nature of its activities, the Bank may be subject to legal actions that arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Bank.

The Bank has entered into agreements with executive officers that provide for payouts contingent upon a change in control.

Note 9 – Retirement Plan

The Bank has established a 401(k) plan to which employees can elect to defer a portion of their pay, up to a maximum allowed by the IRS. At management's discretion, the Bank can make a matching contribution. The Bank contributed $40 and $39 for the years ended December 31, 2022 and 2021, respectively.

Note 10 – Stock Incentive Plans

During April 2014, the shareholders approved the Bank's 2014 Stock Incentive Plan (the Plan). Awards up to 150,000 shares under the plan may be granted to any director, officer, employee, or other person providing services to the Bank. Awards may consist of stock options or grants of restricted shares of common stock. The maximum term of these awards is 10 years.

The exercise price of each option equals the fair market value as calculated using the Black Scholes model on the grant date. A share award is a grant of shares that are subject to vesting requirements, which, if not satisfied, result in the forfeiture of the shares.

Restricted share units are rights to acquire shares upon satisfaction of vesting requirements, with the underlying shares not issued or outstanding until such vesting requirements are satisfied. Both share awards and restricted share units are valued using the stock price on the date of grant.

Stock options – A summary of the status of the Bank's stock options as of and for the year ended December 31, 2022, is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Life (Years)
Outstanding at beginning of year	64,900	$ 8.47	1.65
Exercised	(18,500)	7.60	
Expired	-	-	
Outstanding at end of year	46,400	$ 8.81	1.14
Exercisable at end of year	46,400	$ 8.81	1.14

Restricted share awards – A summary of the status of the Bank's restricted share units as of December 31, 2022, and changes during the year ended is presented below:

	Shares	Weighted-Average Grant-Date Fair Value per Share
Nonvested at beginning of year	15,240	$ 13.72
Granted	-	-
Vested	(5,220)	14.91
Nonvested at end of year	10,020	$ 13.10

The total fair value of shares vested during the years ended December 31, 2022 and 2021, was $78 and $67, respectively.

Compensation expense recorded in the financial statements for stock-based plans for the years ended December 31, 2022 and 2021, totaled $66 and $84, respectively. Unrecognized compensation expense totaled $119 as of December 31, 2022, all of which is attributed to restricted share awards. The weighted-average period over which this remaining compensation cost will be recognized is 1.91 years.

Note 11 – Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines on the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

Washington Business Bank is periodically examined by the FDIC and the Department of Financial Institutions of the State of Washington. As of December 31, 2022, the Bank is categorized as well capitalized under the regulatory framework. To be categorized as well capitalized, the Bank must maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), of Tier I capital (as defined) to average assets (as defined), and Common equity Tier 1 capital.

As of December 31, 2022, the most recent notification from the Bank's regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the following table. Management believes, as of December 31, 2022, that the Bank meets all capital requirements to which it is subject.

	Actual		For Capital Adequacy Purposes		For Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk-weighted assets)	$ 14,858	20.03%	$ 5,935	8.00%	$ 7,790	10.50%	$ 7,419	10.00%
Tier I capital (to risk-weighted assets)	14,179	19.11%	4,452	6.00%	6,306	8.50%	5,935	8.00%
Common equity Tier 1 capital (to risk-weighted assets)	14,179	19.11%	3,339	4.50%	5,194	7.00%	4,823	6.50%
Tier I capital (to adjusted average assets)	14,179	14.66%	3,868	4.00%	6,286	6.50%	4,835	5.00%
December 31, 2021								
Total risk-based capital (to risk-weighted assets)	$ 13,521	18.88%	$ 5,729	8.00%	$ 7,520	10.50%	$ 7,162	10.00%
Tier I capital (to risk-weighted assets)	12,842	17.93%	4,297	6.00%	6,087	8.50%	5,729	8.00%
Common equity Tier 1 capital (to risk-weighted assets)	12,842	17.93%	3,223	4.50%	5,013	7.00%	4,655	6.50%
Tier I capital (to adjusted average assets)	12,842	12.04%	4,265	4.00%	6,930	6.50%	5,331	5.00%

The federal banking agencies substantially amended the regulatory risk-based capital rules applicable to the Bank in 2015. The amendments implemented the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. The rule includes a minimum common equity Tier 1 capital (CET1) to risk-weighted assets ratio of 4.5% of risk-weighted assets, a minimum Tier 1 capital to risk-weighted assets of 6.0%, and a minimum leverage ratio of 4.0%. The required minimum ratio of total capital to risk-weighted assets is 8.0%.

The amended rules also established a “capital conservation buffer” of 2.5% above the new regulatory minimum capital ratios, and resulted in the following phased-in minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations established a maximum percentage of eligible retained income that could be utilized for such actions. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

Note 12 – Fair Value Measurements

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy for disclosure of fair value measurements and enhances disclosure requirements for fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The three levels are defined as follows:

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

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

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

Following is a description of the valuation methodologies used to measure and report fair value of financial and nonfinancial assets and liabilities, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities available-for-sale – The Bank reports securities available-for-sale at fair value on a recurring basis. The fair value of the Bank’s securities available-for-sale are determined using Level 2 inputs, which are derived from quoted prices for identical or similar assets in markets that are active or not active, i.e., markets in which there are a few transactions for the asset, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.

Assets reported at fair value on a recurring basis – The following table presents the balances of assets reported at fair value measured on a recurring basis at December 31:

	Total	Level 1	Level 2	Level 3
2022				
Agency mortgage-backed securities and collateralized mortgage obligations	$ 26	$ -	$ 26	$ -
2021				
Agency mortgage-backed securities and collateralized mortgage obligations	$ 33	$ -	$ 33	$ -

Assets reported at fair value on a nonrecurring basis – There were no assets reported at fair valued measures on a nonrecurring basis as of December 31, 2022 or 2021.

Carrying amounts and estimated fair values of financial instruments, as of December 31 are as follows:

	Carrying Amount	Estimated Fair Value Level		
December 31, 2022		Level 1	Level 2	Level 3
Financial assets				
Cash and due from banks	$ 7,891	$ 7,891	$ -	$ -
Federal funds sold	2,146	2,146	-	-
Interest-bearing deposits in other financial institutions	61	61	-	-
Securities available-for-sale	26	-	26	-
Loans receivable, net	82,670	-	-	81,593
Federal Home Loan Bank stock	250	250	-	-
Accrued interest receivable	237	237	-	-
Financial liabilities				
Demand, savings, money market, and NOW	67,480	67,480	-	-
Time deposits	9,936	-	9,914	-
Accrued interest payable	4	4	-	-
Borrowings	3,000	-	3,113	-
December 31, 2021				
Financial assets				
Cash and due from banks	$ 629	$ 629	$ -	$ -
Federal funds sold	14,625	14,625	-	-
Interest-bearing deposits in other financial institutions	9,419	9,419	-	-
Securities available-for-sale	33	-	33	-
Loans receivable, net	81,392	-	-	81,122
Federal Home Loan Bank stock	330	330	-	-
Accrued interest receivable	245	245	-	-
Financial liabilities				
Demand, savings, money market, and NOW	75,543	75,543	-	-
Time deposits	14,685	-	14,872	-
Accrued interest payable	5	5	-	-
Borrowings	5,000	-	5,004	-

Note 13 – Earnings Per Share

The following table presents a reconciliation of the components used to compute basic and diluted earnings per share (dollars in thousands, except per-share amounts):

	2022	2021
Net income	$ 1,171	$ 1,417
Basic weighted-average common shares outstanding	704,466	690,505
Plus dilutive options and awards outstanding	37,865	46,339
Diluted weighted-average common shares outstanding	742,331	736,844
Basic earnings per share of common stock	$ 1.66	$ 2.05
Diluted earnings per share of common stock	$ 1.58	$ 1.92

There were no antidilutive options and awards for 2022 and 2021.

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