Report of Independent Auditors
and Consolidated Financial Statements

U & I Financial Corp. and Subsidiary

December 31, 2023 and 2022

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MOSSADAMS

Report of Independent Auditors

The Board of Directors and Shareholders of
U & I Financial Corp. and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of U & I Financial Corp. and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of U & I Financial Corp. and Subsidiary 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 (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 U & I Financial Corp. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2023, U & I Financial Corp. and Subsidiary adopted new accounting guidance Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about U & I Financial Corp. and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of U & I Financial Corp. and Subsidiary'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 U & I Financial Corp. and Subsidiary'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
April 30, 2024

Consolidated Financial Statements

U & I Financial Corp. and Subsidiary
Consolidated Statements of Financial Condition
(dollars in thousands)
December 31, 2023 and 2022

	2023	2022
ASSETS		
ASSETS		
Cash and due from banks	$ 61,254	$ 42,003
Securities available-for-sale, at fair value (amortized cost of $50,421 and $50,624 at December 31, 2023 and 2022, respectively)	49,014	48,527
Other Investments	2,332	2,432
Loans receivable, net of allowance for credit losses of $25,950 and $4,580 at December 31, 2023 and 2022, respectively	464,686	454,441
Loans held for sale	-	12,527
Accrued interest receivable	2,270	1,755
Premises and equipment, net	5,353	5,576
Right-of-use asset	1,086	1,406
Bank-owned life insurance	14,340	13,996
Servicing asset, net	2,139	2,385
Deferred tax asset, net	6,880	1,198
Other assets	695	484
Total assets	$ 610,049	$ 586,730
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$ 100,135	$ 117,491
Interest-bearing		
Money market accounts and NOW	214,470	213,272
Savings	8,063	14,042
Time deposits	191,733	143,449
Total deposits	514,401	488,254
Borrowings	20,000	22,000
Lease liability	1,086	1,406
Accrued interest payable	1,262	316
Allowance for credit losses on off-balance sheet credit exposure	5,551	15
Other liabilities	6,330	2,716
Total liabilities	548,630	514,707
SHAREHOLDERS' EQUITY		
Preferred stock, $1,000 par value; 5,500 shares authorized; no shares issued and outstanding at December 31, 2023 and 2022	-	-
Common stock - no par value; 10,000,000 shares authorized; 5,465,579 and 5,441,343 shares issued and outstanding at December 31, 2023 and 2022, respectively	31,352	30,955
Retained earnings	31,179	42,725
Accumulated other comprehensive income (loss), net of tax	(1,112)	(1,657)
Total shareholders' equity	61,419	72,023
Total liabilities and shareholders' equity	$ 610,049	$ 586,730

See accompanying notes.

U & I Financial Corp. and Subsidiary
Consolidated Statements of Operations
(dollars in thousands, except per share amounts)
Years Ended December 31, 2023 and 2022

	2023	2022
INTEREST INCOME		
Interest and fees on loans	$ 33,513	$ 23,949
Interest on interest earning deposits with other banks	2,214	447
Interest on securities	1,757	1,404
Dividends on other investments	167	114
Total interest income	37,651	25,914
INTEREST EXPENSE		
Interest on deposits	14,145	2,750
Interest on borrowings	1,242	236
Total interest expense	15,387	2,986
Net interest income before provision for credit losses	22,264	22,928
PROVISION FOR CREDIT LOSSES	26,411	-
Net interest income (loss) after provision for credit losses	(4,147)	22,928
NONINTEREST INCOME		
Gain on sale of loans	1,410	2,512
Loan servicing fees	624	494
Service charges on deposit accounts	306	268
Other income	545	419
Total noninterest income	2,885	3,693
NONINTEREST EXPENSES		
Salaries and employee benefits	8,241	8,470
Occupancy and equipment	964	970
Data processing and communication	684	613
Professional fees, net	603	663
Directors' expenses	268	246
Other	1,922	1,826
Total noninterest expenses	12,682	12,788
Income (loss) before income tax provision	(13,944)	13,833
INCOME TAX EXPENSE (BENEFIT)	(3,136)	2,704
NET INCOME (LOSS)	$ (10,808)	$ 11,129
Earnings (Loss) per common share		
Basic	$ (1.98)	$ 2.03
Diluted	$ (1.98)	$ 1.97

See accompanying notes.

U & I Financial Corp. and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
(dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
NET INCOME (LOSS)	$ (10,808)	$ 11,129
Other comprehensive income (loss), net of tax		
Unrealized gain on securities		
Unrealized holding gain (loss), net of tax expense (benefit) of $145 and ($911), respectively	545	(3,427)
Other comprehensive income (loss), net of tax	545	(3,427)
COMPREHENSIVE INCOME (LOSS)	$ (10,263)	$ 7,702

See accompanying notes.

U & I Financial Corp. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
(dollars in thousands, except share amounts)
Years Ended December 31, 2023 and 2022

	Preferred Stock		Common Stock		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Earnings	Income (Loss)	Equity
BALANCE, December 31, 2021	-	$ -	5,562,025	$ 30,016	$ 35,331	$ 1,770	$ 67,117
Share-based compensation	-	-	-	281	-	-	281
Stock options exercised	-	-	107,038	658	-	-	658
Cash dividends	-	-	-	-	(1,099)	-	(1,099)
Common stock repurchased	-	-	(227,720)	-	(2,636)	-	(2,636)
Net income (loss)	-	-	-	-	11,129	-	11,129
Other comprehensive income (loss), net of tax	-	-	-	-	-	(3,427)	(3,427)
BALANCE, December 31, 2022	-	-	5,441,343	30,955	42,725	(1,657)	72,023
Share-based compensation	-	-	-	261	-	-	261
Stock options exercised	-	-	24,236	136	-	-	136
Cash dividends	-	-	-	-	(1,091)	-	(1,091)
Net income (loss)	-	-	-	-	(10,808)	-	(10,808)
Impact due to the adoption of ASU 2016-13, net of tax	-	-	-	-	353	-	353
Other comprehensive income (loss), net of tax	-	-	-	-	-	545	545
BALANCE, December 31, 2023	-	$ -	5,465,579	$ 31,352	$ 31,179	$ (1,112)	$ 61,419

See accompanying notes.

U & I Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
(dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (10,808)	$ 11,129
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	292	267
Increase in cash surrender value of bank-owned life insurance	(344)	(317)
Provision for credit losses on loans	20,875	-
Provision for credit losses on off-balance sheet credit exposure	5,536	-
Net amortization of premiums and discounts on investment securities	195	336
Right-of-use assets amortization	320	318
Stock compensation expense	261	281
Proceeds from sales of loans	16,225	31,242
Origination of loans held-for-sale	(2,288)	(20,474)
Gain on sale of loans	(1,410)	(2,512)
Gain on sale of premises and equipment	(3)	-
Deferred income tax (benefit) provision	(5,816)	11
Servicing asset capitalized	(473)	(846)
Servicing asset amortization	683	861
Servicing asset valuation reserve	36	-
Changes in operating assets and liabilities		
Change in accrued interest receivable	(515)	(632)
Change in other assets	(211)	41
Change in accrued interest payable	946	292
Change in lease liabilities	(320)	(318)
Change in other liabilities	3,614	293
Net cash from operating activities	26,795	19,972
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	(30,778)	(132,676)
Proceeds from matured, called, and principal repayment of securities available-for-sale	1,258	2,323
Proceeds from sale of premises and equipment	8	-
(Purchases) of securities available-for-sale	(1,250)	(500)
(Purchases) sales of other investments	100	(632)
Purchases of premises and equipment, net	(74)	(377)
Net cash (used in) investing activities	(30,736)	(131,862)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	26,147	113,874
Proceeds (Repayments)from Federal Home Loan Bank advances, net	(2,000)	12,000
Proceeds from exercise of stock options	136	658
Cash dividend paid on common stock	(1,091)	(1,099)
Repurchases of common stock	-	(2,636)
Net cash from financing activities	23,192	122,797
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,251	10,907
CASH AND CASH EQUIVALENTS, beginning of year	42,003	31,096
CASH AND CASH EQUIVALENTS, end of year	$ 61,254	$ 42,003
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest paid	$ 14,441	$ 2,694
Income taxes paid	$ 3,135	$ 2,620
NONCASH INVESTING ACTIVITIES		
Unrealized gain (loss) on securities available for sale	$ 690	$ (4,338)
Reclassification of loans held for sale to loans receivable	$ -	$ 15,788
Impact of adoption of ASU 2016-13 on retained earnings	$ 353	$ -

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

UniBank (the Bank) is a Washington state–chartered commercial bank, which was incorporated on September 1, 2006, and opened for business on November 1, 2006. The Bank provides general business banking services, including deposits and loans, and specializes in government guaranteed lending programs with its market encompassing the Asian American Communities of King, Snohomish, and Pierce counties in Washington state and certain markets in the West Coast and Sun Belt states. The principal office and full-service branch is located at 19315 Hwy. 99, Lynnwood, Washington, 98036. In addition, the Bank has branches in Tacoma, Bellevue, and Federal Way, Washington, as well as a loan production office in Atlanta, Georgia.

U & I Financial Corp. was issued a certificate of incorporation in the state of Washington on August 19, 2010. On September 10, 2010, the Federal Reserve Board granted authority to U & I Financial Corp. to become a bank holding company through a reorganization of the ownership interests of UniBank. The Washington Department of Financial Institutions Divisions of Banks approved the articles of share exchange and plan of share exchange, and issued a certificate of reorganization.

The consolidated financial statements include the transactions of U & I Financial Corp. and its wholly owned subsidiary, UniBank (collectively, the Bank). All significant intercompany transactions have been eliminated in consolidation.

The accounting and reporting policies of the Bank conform to generally accepted accounting principles in the United States of America (GAAP) and general practices within the banking industry.

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

Use of estimates in the preparation of financial statements – The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the valuation of the allowance for credit losses (ACL), fair value of financial instruments, and deferred income taxes. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the 2022 comparable information to conform to the 2023 presentation. Such reclassifications do not alter the net income or equity balances as previously reported.

Concentration of credit risk – Assets and liabilities that subject the Bank to concentration of credit risk consist of investments, loans and deposits. Most of the Bank's customers are located within Snohomish County, King County, Pierce County, and the surrounding areas. The types of securities that the Bank invests in are discussed in Note 2 – Investment Securities and the Bank's primary lending products are discussed in Note 3 – Loans and Allowance for Credit Losses. As of December 31, 2023 and 2022, the Bank had concentrations of commercial real estate loans. The Bank did not have any significant concentrations to any one customer. However, in the Bank's commercial-equipment segment, several different borrowers, whom the Bank finances, can purchase the equipment from a single manufacturer who also provides servicing through operating arrangements with the respective borrowers. More information of this segment is included in Note 3 and Note 8 – Commitment and Contingencies.

At times, the Bank has cash and interest-bearing deposits in other banks in excess of the Federal Deposit Insurance Corporation (FDIC)-insured limits. The Bank places these deposits with major financial institutions and monitors the financial condition of these institutions.

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

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after December 31, 2022, are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in a decrease to our allowance for credit losses on loans, an no material impact to our allowance for unfunded commitments, resulting in a net-of-tax cumulative-effect adjustment of $353,000 to increase the beginning balance of retained earnings.

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

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets			
Available-for-sale debt securities	$ -	$ -	$ -
Allowance for credit losses on debt securities	-	-	-
Loans			
Commercial real estate	1,854	2,789	(935)
Residential real estate	1,555	136	1,419
Commercial - equipment	593	805	(212)
Commercial - all other	90	173	(83)
Multifamily	2	23	(21)
Construction and land	40	10	30
Consumer and other	-	-	-
Unallocated	-	644	(644)
Allowance for credit losses on loans	$ 4,134	$ 4,580	$ (446)
Liabilities			
Allowance for credit losses on off-balance-sheet credit exposures	$ 15	$ 15	$ -

The Company is utilizing a third party to tabulate its estimate of current expected credit losses, using an average charge off or loss rate methodology. In accordance with ASC Topic 326, the Company has segmented its loan portfolio based on similar risk characteristics which generally included call report categories. The Company primarily utilizes historical loss rates for the CECL calculation based on Company-specific historical losses and supplemented with peer loss history where applicable. For its reasonable and supportable forecasting of CECL, the Company analyzes a simple regression using forecasted economic metrics and historical loss data. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Company may consider the following qualitative adjustment factors: economic conditions; concentrations of credit; interest rates; ability of staff; loan review; trends in loan quality; policy changes; and changes in nature and/or volume of loans. The Company's CECL implementation process was overseen by the Chief Credit Officer and Chief Financial Officer and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Company's historical loss experience.

In March 2022, Financial Accounting Standards Board (FASB) issued ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross charge-offs for financing receivables and net investment in leases by year of origination. The amendments in this ASU were applied prospectively, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. ASU 2022-02 was effective for the Company on January 1, 2023, and it did not have a material impact on the Company's consolidated financial statements.

Cash and cash equivalents – Cash and cash equivalents include cash and due from banks, and term and overnight federal funds sold, all of which have original maturities less than 90 days.

Restricted cash – Zions Bank required a minimum balance of $250,000 as of December 31, 2023 and 2022, related to a line of credit (Note 9). The Pacific Coast Banker's Bank required a minimum balance of $250,000 as of December 31, 2023 and 2022, related to a line of credit (Note 9). These balances are included in cash and cash equivalents.

Investment securities – Investment securities are classified into one of three categories: (1) held-to-maturity, (2) available-for-sale, or (3) trading. The Bank had no trading securities or held-to-maturity securities as of December 31, 2023 and 2022.

Securities are classified as held-to-maturity when the Company has the ability and positive intent to hold them to maturity. Securities classified as held-to-maturity are carried at cost, adjusted for amortization of premiums to the earliest callable date and accretion of discounts to the maturity date and, if appropriate, any credit losses. Securities available-for-sale consist of debt securities that the Company has the intent and ability to hold for an indefinite period, but not necessarily to maturity. Securities available-for-sale are reported at fair value. Realized gains and losses on securities available-for-sale, determined using the specific identification method, are included in results of operations. Amortization of premiums and accretion of discounts are recognized as adjustments to yield over the contractual lives of the related securities with the exception of premiums for noncontingently callable debt securities which are amortized to the earliest call date, rather than the contractual maturity date. Dividends and interest income are recognized when earned.

A debt security is placed on nonaccrual status at the time any principal and interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. There were no securities 90 days or more delinquent for the year ended December 31, 2023.

Other investments – Other investments consists of direct equity investments in stock of the Federal Reserve Bank of San Francisco (FRB), the Federal Home Loan Bank of Des Moines (FHLB), and investment in an equity fund.

As a Federal Reserve member bank, the Bank is required to subscribe to Federal Reserve Stock. The par value of the stock is $100 per share of which one-half will be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System. The recorded amount of the FRB stock equals its fair value because the shares can be redeemed only by the FRB at the par value. The Bank's investment in FRB stock totaled $963,000 and $950,000 as of December 31, 2023 and 2022, respectively.

The Bank, as a member of the FHLB, is required to maintain an investment in capital stock of FHLB in an amount equal to 4% of advances outstanding. The Bank's investment in FHLB stock totaled $1,252,000 and $1,427,000 as of December 31, 2023 and 2022, respectively. FHLB stock is carried at cost and classified as a restricted security. Both cash and stock dividends received are reported as dividend income. The Bank evaluates FHLB stock for impairment. The determination of whether these investments are impaired is based on the Bank's assessment of the ultimate recoverability of cost, rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared with the capital stock amount for the FHLB and the length of time this situation has persisted; (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB; and (4) the liquidity position of the FHLB. Based on the above, the Bank has determined that there is no impairment on the FHLB stock investment as of December 31, 2023 or 2022.

In 2022, the Company entered into an agreement with an investment fund designed to help accelerate technology adoption at banks. The Company committed up to $250,000 in capital for the fund, however, the Company is not obligated to fund the commitment prior to a capital call. The Bank's investment in the fund totaled $118,000 and $55,000 as of December 31, 2023 and 2022, respectively. This equity investment does not have a readily determinable fair value and is held at cost minus impairment, if any.

Bank-owned life insurance (BOLI) – The Bank owns life insurance for various individuals in management positions. The carrying amount of the life insurance is measured using the cash surrender value, less applicable surrender charges. The change in the cash surrender value is included in noninterest income. At December 31, 2023 and 2022, the BOLI had a total cash surrender value of $14,340,000 and $13,996,000, respectively.

Loans held-for-sale – Certain government guaranteed loans that may be sold prior to maturity are designated as held-for-sale at origination and are recorded at the lower of cost or market, determined on an aggregate basis. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. The Bank typically sells the guaranteed portions and retains the unguaranteed portion.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and unearned income. Interest revenue on loans is accrued daily based on the principal amount outstanding.

Loan origination fees are deferred and amortized as yield adjustments over the contractual lives of the related loans. Other loan fees and charges, representing service costs for the prepayment of loans, delinquent payments, or miscellaneous loan services, are recorded as income when collected.

Income recognition on nonaccrual loans and securities – 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 (based on contractual terms), unless they are well secured and in the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off are reversed against interest income. Subsequent collections on a cash basis are applied proportionately to past due principal and interest, unless collectability of principal is in doubt, in which case all payments are applied to principal. Loans are returned to accrual status when the loan is performing according to its contractual terms for at least six months and the collectability of principal and interest is no longer doubtful. While less common, similar interest reversal and nonaccrual treatment is applied to investment securities if their ultimate collectability becomes questionable.

Allowance for credit losses – As further discussed below, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, on January 1, 2023. 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 CECL model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance-sheet credit exposures based on historical experience, current conditions, and reasonable and supportable forecasts. In connection with the adoption of ASC Topic 326, we revised certain accounting policies and implemented certain accounting policy elections. Results for reporting periods beginning after January 1, 2023 will be presented under ASC Topic 326, while periods prior to January 1, 2023 will be reported in accordance with GAAP applicable for the time period. The revised accounting policies are described below.

Allowance for credit losses on held-to-maturity debt securities – Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers credit ratings and historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

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

Changes in the ACL are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the un-collectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is not included in the estimate of credit losses.

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

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

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

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

Expected credit losses are estimated over the estimated lives of loans, i.e. contractual terms adjusted for expected prepayments. The estimated life excludes expected extensions, renewals, and modifications unless management has a reasonable expectation at the reporting date than an extension or renewal option are included in the original or modified contract at the reporting date at the borrowers discretion and are not unconditionally cancellable by the Company.

Allowance for credit losses on off-balance-sheet credit exposures – The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. In addition, the Bank originates loans through the government guarantee programs and sells these guarantees in the secondary market. Upon default by the borrower, the Bank would be required to repurchase the guaranteed portion of the loans and submit the repayment requests to the respective government agency. The agency may decide not to honor the guarantees if certain conditions are not met. Guarantees, as defined under ASC 460, *Guarantees*, that create off-balance sheet credit exposure are in the scope of ASC 326-20 when such guarantees for loans have an implicit repurchase arrangement and thus may present an off-balance sheet credit risk. The allowance for credit losses on off-balance sheet credit exposure is adjusted through a provision for credit loss expense.

Loan sales and servicing – When the Company sells the government guaranteed portions of the loans, it generally retains the rights to service them. The Company initially records an asset representing the right to service loans at fair value, which is calculated by discounting the future cash flows from servicing at the discount rate that approximates the current market rate and discounting the future estimated prepayment speeds. This value is then carried and amortized in proportion to, and over the period of, the estimated net servicing income. As the servicing rights should be carried at the lower of cost or market, for the purposes of evaluating and measuring impairment, they are periodically reevaluated based on current prepayment speeds and market discount rates. Any impairment is measured as the amount by which the carrying value of servicing rights for a stratum exceeds its fair value.

The cash proceeds from sale equal the principal amount of loans and the respective premiums, reflective of the adjusted yield to the investor based on the current market rates. Because the portion retained does not carry the guarantee, a discount is recorded on the retained portion of the loan and accreted into interest income.

Premises and equipment – Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over three to 39 years (leasehold improvements are amortized over the lesser of the useful life or the terms of the respective leases). Repairs and maintenance are charged to operating expenses as incurred.

Leases – The Company accounts for leases in accordance with FASB ASU No. 2016-02, *Leases* (Topic 842), recognizing on the balance sheet the assets and liabilities arising from operating leases. Accordingly, the Company recognizes a liability to make lease payments and a right-of-use (ROU) asset representing the right to use the underlying asset for the lease term.

Impairment of other long-lived assets – Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. No impairment loss was recognized in 2023 or 2022.

Other real estate owned (OREO) – Assets acquired through or in lieu of loan foreclosure are held-for-sale and are initially recorded at estimated fair value, less cost to sell at the date of foreclosure. Losses arising from the acquisition of property, in full or partial satisfaction of loans, are charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense. There were no OREO assets during 2023 or 2022.

Share-based compensation – The Bank measures the cost of employee services received in exchange for an award of share-based compensation based on the grant-date fair value of the award. The cost is recognized over the requisite service period, except for awards granted to retirement-eligible employees, which are fully expensed by the grant date.

Income taxes – The Bank records its provision for income tax 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 consolidated financial statements and its tax returns.

Earnings (loss) per common share – Basic earnings (loss) per common share (EPS) are computed by dividing net income (loss) available or attributed to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) 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. There is no assumed dilution when the Company is in a net loss position.

Comprehensive income (loss) – Comprehensive income (loss) includes all changes in shareholders' equity during a period, except those resulting from transactions with shareholders. Besides net income (loss), other components of comprehensive income include the net-of-tax effect of changes in the net unrealized gain or loss on securities available-for-sale.

Transfer of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control has been relinquished. Control is deemed to be surrendered when the assets have been isolated from the Bank, 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 the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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

Advertising costs – The Bank expenses advertising costs as they are incurred. Total advertising expenses were approximately $131,000 and $178,000 in 2023 and 2022, respectively.

Fair value measurements – The Company recognizes the fair value 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 2023 or 2022.

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

All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized 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. This is typically 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 nonsufficient 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.

Subsequent events – Subsequent events are events or transactions that occur after the date of the consolidated statements of financial condition but before the consolidated financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the consolidated statements of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the consolidated statements of financial condition but arose after that date. Management has reviewed events through April 30, 2024, the date the consolidated financial statements were issued.

Note 2 – Investment Securities

The following is a summary of the investment securities as of December 31 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2023				
Available-for-sale				
Municipal bonds	$ 34,768	$ 121	$ (860)	$ 34,029
Corporate bonds	12,030	-	(618)	11,412
SBA securities	3,623	-	(50)	3,573
	$ 50,421	$ 121	$ (1,528)	$ 49,014
2022				
Available-for-sale				
Municipal bonds	$ 34,076	$ 82	$ (1,410)	$ 32,748
Corporate bonds	12,015	-	(701)	11,314
SBA securities	4,533	-	(68)	4,465
	$ 50,624	$ 82	$ (2,179)	$ 48,527

The amortized cost and estimated fair value of securities as of December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,457	$ 2,448
Due from one to five years	10,934	10,445
Due from five to ten years	13,599	13,352
Due in more than ten years	23,431	22,769
	$ 50,421	$ 49,014

Securities with an amortized cost of $29,943,000 and $30,547,000 as of December 31, 2023 and 2022, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

There was no sale of available-for-sale securities during 2023 or 2022.

Gross unrealized losses on investment securities available-for-sale and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of December 31 (in thousands):

	Less Than 12 Months		12 Months or More		Total	
2023	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
Available-for-sale						
Municipal bonds	$ (60)	$ 7,111	$ (800)	$ 17,594	$ (860)	$ 24,705
Corporate bonds	(3)	1,770	(615)	9,642	(618)	11,412
SBA securities	-	-	(50)	3,573	(50)	3,573
	$ (63)	$ 8,881	$ (1,465)	$ 30,809	$ (1,528)	$ 39,690
2022						
Available-for-sale						
Municipal bonds	$ (1,410)	$ 25,791	$ -	$ -	$ (1,410)	$ 25,791
Corporate bonds	(266)	4,427	(435)	6,887	(701)	11,314
SBA securities	-	-	(68)	4,465	(68)	4,465
	$ (1,676)	$ 30,218	$ (503)	$ 11,352	$ (2,179)	$ 41,570

There was no allowance for credit losses on securities at December 31, 2023. At December 31, 2023 and 2022, there were 67 and 69 securities, respectively, in unrealized loss positions. The Company does not intend to sell these securities, nor anticipates that these securities will be required to be sold before recovery the unrealized losses are due to changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such securities decline. The Company does not believe any of these securities are impaired due to reasons of credit quality. The Company assesses the need to sell a security due to a corporate's risk rating decline, the related losses are recognized in the earnings.

Note 3 – Loans and Allowance for Credit Losses

The adoption of ASC 326 requires certain tables to be presented at amortized cost, however, for the year ended December 31, 2023, the difference between amortized cost and principal balance is immaterial and therefore the applicable tables below reflect principal balances.

The following table presents the principal balance of total loans outstanding by portfolio segment and class of loans receivable at December 31:

	2023	2022
Commercial real estate	$ 241,881	$ 277,688
Residential real estate	168,087	96,455
Commercial - equipment	67,334	68,161
Commercial - all other	9,436	11,542
Multifamily	2,884	2,763
Construction and land	979	1,071
Consumer and other	76	33
Gross loans outstanding	490,677	457,713
Deferred net loan origination (fees) costs	(41)	1,308
Allowance for credit losses	(25,950)	(4,580)
	$ 464,686	$ 454,441

Residential real estate loans are secured by nonowner occupied investment properties.

The Company distinguishes the commercial-equipment loan segment from all other commercial loans. For many of these loans, the Bank financed borrowers purchasing equipment from manufacturers that also service the machines through operating arrangements with the respective borrowers.

Allowance for credit losses – The following table presents, by portfolio segment, the changes in the allowance for credit losses on loans for the years ended December 31, 2023 and 2022:

2023	Commercial real estate	Residential real estate	Commercial - equipment	Commercial - all other	Multifamily	Construction and land	Consumer and other	Unallocated	Total
Allowance for credit losses:									
Beginning balance, prior to adoption of ASC 326	$ 2,789	$ 136	$ 805	$ 173	$ 23	$ 10	$ -	$ 644	$ 4,580
Impact of adopting ASC 326	(935)	1,419	(212)	(83)	(21)	30	-	(644)	(446)
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	941	-	-	-	-	-	-	-	941
Provision	(1,105)	(303)	22,310	(26)	1	(6)	4	-	20,875
Ending balance	$ 1,690	$ 1,252	$ 22,903	$ 64	$ 3	$ 34	$ 4	$ -	$ 25,950

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
2022					
Construction and land	$ 30	$ (20)	$ -	$ -	$ 10
Multifamily	27	(4)	-	-	23
Commercial real estate	2,982	(198)	-	5	2,789
Residential real estate	25	111	-	-	136
Commercial - equipment	196	609	-	-	805
Commercial - all other	522	(349)	-	-	173
Consumer and other	-	-	-	-	-
Unallocated	793	(149)	-	-	644
	$ 4,575	$ -	$ -	$ 5	$ 4,580

Prior to the implementation of ASC 326 on January 1, 2023, a loan is considered impaired when the Bank has determined that it may be unable to collect payments of principal or interest when due under the terms of the loan. In the process of identifying loans as impaired, management takes into consideration factors that include payment history and status, collateral value, financial condition of the borrower, and the probability of collecting scheduled payments in the future. Minor payment delays and insignificant payment shortfalls typically do not result in a loan being classified as impaired. The significance of payment delays and shortfalls is considered by management on a case-by-case basis, after taking into consideration the totality of circumstances surrounding the loans and the borrowers, including payment history and amounts of any payment shortfall, length and reason for delay, and likelihood of return to stable performance. Impairment is measured on a loan-by-loan basis for all loans in the portfolio except for the smaller groups of homogeneous consumer loans in the portfolio.

The following table presents loans individually evaluated for impairment by class of loans as of December 31 (in thousands):

	Recorded Investments (Loan Balance Less Charge-off)	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
2022					
With no allowance recorded					
Commercial real estate	$ 288	$ 288	$ -	$ 291	$ -

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 (in thousands):

	Allowance for Credit Losses			Loans Receivable		
	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
2022						
Commercial real estate	$ 2,789	$ -	$ 2,789	$ 277,688	$ 288	$ 277,400
Residential real estate	136	-	136	96,455	-	96,455
Commercial - equipment	805	-	805	68,161	-	68,161
Commercial - all other	173	-	173	11,542	-	11,542
Multifamily	23	-	23	2,763	-	2,763
Construction and land	10	-	10	1,071	-	1,071
Consumer and other	-	-	-	33	-	33
Unallocated	644	-	644	-	-	-
	$ 4,580	$ -	$ 4,580	$ 457,713	$ 288	$ 457,425

Additionally, the Bank categorizes loans as performing or nonperforming based on payment activity. Loans that are more than 90 days past due and nonaccrual loans are considered nonperforming.

The following table represents the payment activity as of December 31, 2022, by type of loan (in thousands):

Credit Risk Profile Based on Payment Activity

	Commercial real estate	Residential real estate	Commercial - equipment	Commercial - all other	Multifamily	Construction and land	Consumer and other	Total
Performing	$ 277,400	$ 96,455	$ 68,161	$ 11,542	$ 2,763	$ 1,071	$ 33	$ 457,425
Nonperforming	288	-	-	-	-	-	-	288
	$ 277,688	$ 96,455	$ 68,161	$ 11,542	$ 2,763	$ 1,071	$ 33	$ 457,713

Credit quality indicators – Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful, or loss. An asset is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When the Company classifies problem assets as substandard, doubtful, or loss, it may determine the loan is collateral dependent and establish a specific allowance to address the risk specifically, or the Company may allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but that, unlike specific allowances, have not been specifically allocated to particular problem assets. When an insured institution classifies problem assets as a loss, it is required to charge off such assets in the period in which they are deemed uncollectible or soon thereafter.

Assets that do not currently expose the Bank to sufficient risk to warrant classification as substandard or doubtful but possess identified weaknesses are designated as special mention assets. Assets not otherwise classified or criticized are graded pass.

The following tables represent the internally assigned grade as of December 31 by type of loan (in thousands):

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	Prior	Revolving Loans	Total
December 31, 2023						
Commercial real estate:						
Pass	$ 14,037	$ 64,695	$ 68,744	$ 84,912	$ 7,936	$ 240,324
Special mention	-	471	-	1,086	-	1,557
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial real estate	14,037	65,166	68,744	85,998	7,936	241,881
Residential real estate:						
Pass	$ 81,001	$ 74,389	$ 12,697	$ -	$ -	$ 168,087
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total residential real estate	81,001	74,389	12,697	-	-	168,087
Commercial - equipment:						
Pass	$ 7,126	$ 21,519	$ 5,361	$ -	$ -	$ 34,006
Special mention	-	-	5,699	8,904	-	14,603
Substandard	-	4,172	-	-	-	4,172
Doubtful	-	270	16	2,613	-	2,899
Loss	-	6,336	4,492	826	-	11,654
Total commercial - equipment	7,126	32,297	15,568	12,343	-	67,334
Commercial - all other:						
Pass	$ 600	$ 1,029	$ 1,870	$ 4,712	$ 1,225	$ 9,436
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial - all other	600	1,029	1,870	4,712	1,225	9,436
Multifamily:						
Pass	$ 199	$ -	$ -	$ 2,685	$ -	$ 2,884
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total multifamily	199	-	-	2,685	-	2,884
Construction and land:						
Pass	$ -	$ -	$ -	$ 979	$ -	$ 979
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total construction and land	-	-	-	979	-	979
Consumer and other:						
Pass	$ 43	$ -	$ 5	$ 8	$ 20	$ 76
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total consumer and other	43	-	5	8	20	76
Total loans	$ 103,006	$ 172,881	$ 98,884	$ 106,725	$ 9,181	$ 490,677
Aggregate total						
Pass	$ 103,006	$ 161,632	$ 88,677	$ 93,296	$ 9,181	$ 455,792
Special mention	-	471	5,699	9,990	-	16,160
Substandard	-	4,172	-	-	-	4,172
Doubtful	-	270	16	2,613	-	2,899
Loss	-	6,336	4,492	826	-	11,654
Total loans	$ 103,006	$ 172,881	$ 98,884	$ 106,725	$ 9,181	$ 490,677

There were no loans charged off, entirely or partially, during the year ended December 31, 2023.

Commercial credit quality indicators – The Company manages a consistent process for assessing commercial loan credit quality. Commercial loans are subject to individual risk assessments using internal borrower and collateral quality ratings. The following table represent the internally assigned grade as of December 31, 2022, by each loan type (in thousands):

2022	Commercial real estate	Residential real estate	Commercial - equipment	Commercial - all other	Multifamily	Construction and land	Consumer and other	Total
Grade								
Pass	$ 276,157	$ 96,455	$ 68,161	$ 11,534	$ 2,763	$ 1,071	$ 33	$ 456,174
Special mention	1,243	-	-	8	-	-	-	1,251
Substandard	288	-	-	-	-	-	-	288
	$ 277,688	$ 96,455	$ 68,161	$ 11,542	$ 2,763	$ 1,071	$ 33	$ 457,713

Past due loans – Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents past due loans, net of any previous partial loan charge-offs, by type as of December 31 (in thousands):

2023	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
Commercial real estate	$ -	$ -	$ 471	$ 471	$ 241,410	$ 241,881
Residential real estate	-	-	-	-	168,087	168,087
Commercial - equipment	268	409	10,187	10,864	56,470	67,334
Commercial - all other					9,436	9,436
Multifamily	-	-	-	-	2,884	2,884
Construction and land	-	-	-	-	979	979
Consumer and other	-	-	-	-	76	76
Total	$ 268	$ 409	$ 10,658	$ 11,335	$ 479,342	$ 490,677

2022	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
Commercial real estate	$ -	$ -	$ 288	$ 288	$ 277,400	$ 277,688
Residential real estate	-	-	-	-	96,455	96,455
Commercial - equipment	-	-	-	-	68,161	68,161
Commercial - all other	-	-	-	-	11,542	11,542
Multifamily	-	-	-	-	2,763	2,763
Construction and land	-	-	-	-	1,071	1,071
Consumer and other	-	-	-	-	33	33
Total	$ -	$ -	$ 288	$ 288	$ 457,425	$ 457,713

Nonaccrual loans – Loans are placed on nonaccrual once the loan is 90 days past due or sooner if, in management's opinion, the borrower may be unable to meet payment of obligations as they become due, as well as when required by regulatory provisions. The following table presents the recorded investment in nonaccrual loans by type as of December 31 (in thousands):

2023	Nonaccrual with no Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial real estate	$ -	$ 471	$ 471	$ -
Commercial - equipment	-	14,283	14,283	-
Total	$ -	$ 14,754	$ 14,754	$ -

Nonaccrual balances are presented below by class as of December 31, 2022:

2022	Total Nonaccrual
Commercial real estate	$ 288
Commercial - equipment	-
Total	$ 288

If interest on nonaccrual loans had been accrued at their original rates, such interest would have amounted to $264,000 and $25,000 during 2023 and 2022, respectively.

Collateral Dependent Loans – Loans that have been classified as collateral dependent are loans where substantially all repayment of the loan is expected to come from the operation of or eventual liquidation of the collateral. Collateral dependent loans are evaluated individually for purposes of determining the ACL, which is determined based on the estimated fair value of the collateral. Estimates for costs to sell are included in the determination of the ACL when liquidation of the collateral is anticipated. In cases where the loan is well secured and the estimated value of the collateral exceeds the amortized cost of the loan, no ACL is recorded.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Commercial Real Estate	Residential Real Estate	Total
Commercial real estate	$ 471	$ -	$ 471
Commercial - equipment	-	-	-
	$ 471	$ -	$ 471

Loans in the Commercial – equipment segment are not collateral dependent for the purpose of determining the ACL as any collections efforts will be primarily from the guarantors.

Loan modification – The Company may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-significant payment delay, term extension, interest rate modification, or combination therein.

There were no modifications to borrowers experiencing financial difficulty during the twelve months ended December 31, 2023.

Prior to the implementation of ASC 326 on January 1, 2023, loans classified as troubled debt restructurings totaled $288,000 at December 31, 2022. A troubled debt restructuring is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Bank is granting the borrower a concession of some kind. The Bank has granted a variety of concessions to borrowers in the form of loan modifications. The modifications granted can generally be described in the following categories:

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

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

Payment modification – A modification in which the dollar amount of the payment is changed. Interest-only modifications in which a loan is converted to interest-only payments for a period of time are included in this category.

Combination modification – Any other type of modification, including the use of multiple categories above.

Upon identifying those receivables as troubled debt restructurings, the Bank identified them as impaired for purposes of determining the allowance for loan losses. This requires the loans to be evaluated individually for impairment, generally based on the expected cash flows under the new terms discounted at the loans' original effective interest rates. For troubled debt restructured loans that subsequently default, the method of determining impairment is generally the fair value of the collateral less estimated selling costs.

There were no loans modified as trouble debt restructurings during 2022. There were no commitments to lend to borrowers whose loans had been modified under troubled debt restructuring as of December 31, 2022.

Other disclosures – There were no real estate secured loans that have loan-to-value ratios above supervisory guidelines at December 31, 2023 and 2022.

There were no related party loans to officers and directors at December 31, 2023 and 2022.

Note 4 – Premises and Equipment

Premises and equipment as of the following years ended December 31 are summarized as follows (in thousands):

	2023	2022
Land	$ 1,432	$ 1,432
Building	4,658	4,284
Leasehold improvements	926	925
Furniture, fixtures, and equipment	1,436	1,452
Vehicles	90	90
Construction in Progress	-	366
	8,542	8,549
Less accumulated depreciation and amortization	(3,189)	(2,973)
	$ 5,353	$ 5,576

Total depreciation and amortization expense of premises and equipment for the years ended December 31, 2023 and 2022, amounted to $292,000 and $267,000, respectively.

Note 5 – Leases

The Company has operating leases for its satellite branches. The maturities of these leases stagger through 2027. The Company's leases generally include extension clauses for five years at a time, but are excluded from the calculation of the lease liabilities.

The components of lease cost (included in occupancy and equipment expense on the Consolidated Statements of Income) are as follows for the years ended December 31 (in thousands):

	2023	2022
Lease cost		
Minimum rent payments	$ 329	$ 329
Other operating costs	67	66
	$ 396	$ 395

The following table provides supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the years ended December 31 (dollars in thousands):

	2023	2022
Operating cash flows from operating leases	$ 329	$ 329
Weighted-average remaining lease term	3.17 years	4.15 years
Weighted-average discount rate	1.6%	1.6%

The Company's leases typically do not contain a discount rate implicit in the lease contract. As an alternative, the Company uses the incremental borrowing rate commensurate with the lease term.

The following table presents minimum lease payments under the terms of the leases at December 31, 2023 (in thousands):

2024	$ 338
2025	347
2026	357
2027	98
Total lease payments	1,140
Less imputed interest	(54)
Total	$ 1,086

Note 6 – Servicing Asset

The sold portions of government guaranteed loans are not included in the accompanying consolidated statements of financial condition. The sold portions of the government guaranteed loans at December 31, 2023 and 2022, were $120,455,000 and $141,441,000, respectively. The fair value of servicing rights held as of December 31, 2023 and 2022 were $2,635,000 and $2,475,000, respectively.

Changes in the balance of the servicing asset, net of the valuation allowance, were as follows for the years ended December 31 (in thousands):

	2023	2022
Balance, beginning of year	$ 2,385	$ 2,400
Additions	473	846
Amortization	(683)	(861)
Valuation allowance	(36)	-
Balance, end of year	$ 2,139	$ 2,385

At December 31, 2023, the expected weighted-average life of the Bank's servicing asset was 4.8 years. Projected annual amortization expense after the year ended December 31, 2023, is estimated to be as follows (in thousands):

2024	$ 383
2025	383
2026	370
2027	352
2028	301
Thereafter	386
Gross carrying value of servicing asset	2,175
Less valuation allowance	(36)
Net carrying value of servicing asset	$ 2,139

The following represents servicing fees earned in connection with the servicing asset, indicated net of the servicing asset amortization. These amounts are included in the accompanying consolidated financial statements as components of noninterest income for the years ended December 31 (in thousands):

	2023	2022
Servicing fees	$ 613	$ 478

Late fees associated with the servicing asset are immaterial for the years ended December 31, 2023 and 2022.

The projected amortized expense of the servicing asset is an estimate. The amortization expense for future periods was calculated by applying the same quantitative factors, such as servicing asset prepayment assumptions that were used to determine amortization expense for 2023. These factors are inherently subject to significant fluctuations, primarily due to the effect that changes in interest rates have on loan prepayment experience. Accordingly, any projection of servicing asset amortization in future periods is limited by the conditions that existed at the time the calculations were performed and may not be indicative of actual amortization expense that will be recorded in future periods. The constant prepayment rate as of December 31, 2023 and 2022, is 15.6% and 16.3%, respectively. The discount rate as of December 31, 2023 and 2022, is 12.9% and 18.1%, respectively.

Note 7 – Deposits

The scheduled maturities of time deposits as of December 31, 2023, are as follows (in thousands):

2024	$ 188,281
2025	2,364
2026	818
2027	171
2028	99
	$ 191,733

Brokered deposits of $20,293,000 and $1,000 were included in money market accounts as of December 31, 2023 and 2022, respectively. Brokered deposits of $65,392,000 and $37,784,000 were included in time deposit accounts as of December 31, 2023 and 2022, respectively. The Bank held related party deposits of $529,000 and $228,000 as of December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, time deposits equal to or greater than $250,000 totaled $96,961,000 and $77,074,000, respectively.

Note 8 – Commitments and Contingencies

Litigation – In the normal course of business, U & I Financial Corp. and UniBank are involved in various legal claims. Management has reviewed all legal claims with counsel and has taken into consideration the views of such counsel regarding the outcome of the claims.

One significant claim is related to the Bank's borrowers who financed equipment purchases from manufacturers that also service the machines through operating arrangements. During 2023, one such manufacturer went into receivership caused by an action by the Securities and Exchange Commission, and a judgment that was entered against it resulting from the manufacturer's fraudulent activities. Certain borrowers who financed loans to acquire equipment from the manufacturers filed suit against the Bank in federal court in Washington state. Although the Bank won an early motion to dismiss the case in federal court, these plaintiffs subsequently refiled their case in Washington state court. The Bank has raised substantial defenses to this lawsuit and has asserted counterclaims against the plaintiffs. Although the plaintiffs are mostly seeking relief from their respective loan obligations, they are also seeking damages. Currently, the total amount of actual damages that the Bank may have to pay is neither estimable nor probable.

In management's opinion, the final disposition of any other claims will not have a material adverse effect on the financial condition, results of operations, or cash flows of the Bank.

Financial instruments with off-balance-sheet risk – The accompanying consolidated financial statements do not reflect various other commitments and contingent liabilities. These commitments and contingent liabilities include various commitments to extend credit and standby letters of credit, which arise in the normal course of business. Commitments to extend credit are legally binding loan commitments with set expiration dates. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. They are intended to be disbursed, subject to certain conditions, upon request of the borrower.

The Bank evaluates the creditworthiness of each customer. The amount of collateral obtained, if deemed necessary by the Bank upon the extension of credit, is based on management's evaluation of the borrower. Collateral for commercial loans may vary but may include securities; accounts receivable; inventory; property, plant, and equipment; and income-producing commercial or other properties.

The following is a summary of the Bank's financial instruments relating to extension of credit with off-balance-sheet risk as of December 31 (in thousands):

	2023	2022
Commitments to extend credit	$ 1,213	$ 855

In addition, the Bank has originated certain loans in the commercial-equipment segment with government guarantees and has subsequently sold many of the guaranteed portions of these loans in the secondary market. Upon defaults by the borrowers, the Bank would be required to repurchase the guaranteed portions of the loans and submit the repayment requests to the respective government agency. The agency may decide not to honor the guarantees if certain conditions are not met. Guarantees, as defined under ASC 460, *Guarantees*, that create off-balance sheet credit exposure are in the scope of ASC 326-20 when such guarantees for loans have an implicit repurchase arrangement and thus may present an off-balance sheet credit risk. The following is a summary of the Bank's sold portion of guaranteed commercial-equipment loans that were graded below Pass as of December 31, 2023 and 2022 (in thousands).

	2023	2022
Guarantees sold on commercial-equipment loans	$ 7,065	$ -

Note 9 – Borrowing Arrangements

The Bank periodically uses FHLB advances as a funding source to provide operating liquidity and to fund loan origination. At December 31, 2023, the Bank had a $20,000,000 overnight advance at a rate of 5.64%. At December 31, 2022, the Bank had total borrowings outstanding of $22,000,000, including $12,000,000 of overnight advance at rate of 4.60% and $10,000,000 of 3-week fixed advance at a rate of 4.02%.

As of December 31, 2023 and 2022, under the FHLB borrowing agreement, the borrowing capacity was limited to the lesser of 45% of total assets or available collateral balance. The Bank has pledged loans as collateral with an approximate total carrying value of $146,208,000 and $162,830,000 as of December 31, 2023 and 2022, respectively. The unused and available line of credit at December 31, 2023 and 2022, were $126,208,000 and $100,123,000, respectively.

The Company also uses borrowings from the Federal Reserve Bank of San Francisco through the discount window. As of December 31, 2023 and 2022, the Company had no overnight borrowings outstanding. These borrowing lines are collateralized by pledged loans and securities with an approximate carrying value of $84,580,000 and $82,338,000 as of December 31, 2023 and 2022, respectively.

In addition, the Bank had three unsecured lines of credit to borrow up to a total of $26,500,000 for overnight purchase of federal funds as of December 31, 2023 and 2022, at the then current rates. As of December 31, 2023 and 2022, there were no outstanding balances on these lines.

Note 10 – Income Taxes

The provision for income taxes consists of the following for the years ended December 31 (in thousands):

	2023	2022
Current income tax expense	$ 2,680	$ 2,693
Deferred income tax (benefit) expense	(5,816)	11
	$ (3,136)	$ 2,704

Reconciliation of the provision for income tax expense based on the statutory income tax rate to actual income tax expense is provided as follows as of December 31 (in thousands):

	2023	2022
Deferred tax assets		
Allowance for credit losses on loans	$ 5,657	$ 973
Allowance for credit losses on off-balance sheet credit exposure	1,210	3
Organizational costs	1	1
Unrealized loss on securities available-for-sale	312	446
Stock based compensation	60	61
Lease liability	237	299
Other	40	58
Total deferred tax assets	7,517	1,841
Deferred tax liabilities		
Deferred loan costs	(212)	(174)
Servicing asset	(146)	(95)
Fixed asset basis	(34)	(33)
Right-of-use assets	(237)	(299)
Other	(8)	(42)
Total deferred tax liabilities	(637)	(643)
Net deferred tax assets (liabilities)	$ 6,880	$ 1,198

The cumulative temporary differences, as tax effected, are as follows as of December 31 (in thousands):

	2023		2022	
	Amount	Percent	Amount	Percent
Federal income tax (benefit) at statutory rate	$ (2,928)	21.0%	$ 2,905	21.0%
Interest income on tax-exempt bonds	(210)	1.5%	(210)	(1.5%)
Income from bank owned life insurance	(67)	0.5%	(67)	(0.5%)
Equity compensation	29	(0.2%)	29	0.2%
State Tax	34	(0.2%)	34	0.2%
Other	6	(0.1%)	13	0.1%
	$ (3,136)	22.5%	$ 2,704	19.5%

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, the projected future taxable income, and tax-planning strategies in making this assessment. A valuation allowance against deferred tax assets at the consolidated statement of financial condition date is not considered necessary because it is more likely than not that the deferred tax asset will be fully realized.

The Bank applies a more-likely-than-not recognition criterion. The Bank had no unrecognized tax benefits at December 31, 2023 and 2022. The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2023 and 2022, the Bank recognized no material interest and penalties. The Company files income tax returns in the U.S. federal and various state jurisdictions and is no longer subject to examination for years before 2019.

Note 11 – Stock-Based Compensation

During 2006, the Bank's Board of Directors granted the 2006 incentive and nonqualified share-based compensation plan that provided for the issuance of options to purchase its authorized but unissued common stock to eligible employees and directors. The exercise price of each option equals the fair market value of the Bank's stock on the date of grant, and options are scheduled to vest over periods ranging from three to five years. The 2006 incentive and nonqualified share-based compensation plan expired in November 2016 and all stock compensation expense was fully recognized. In 2018, the Company's shareholders approved an equity incentive plan (the Plan). The Plan permits the grant of incentive stock options, nonqualified stock options, and restricted stock awards. The maximum amount of common stock that may be issued under the Plan is 824,256, of which there are 82,426 shares allowable for restricted stock grants. As of December 31, 2023, 147,589 shares remained available to grant out of the Plan, of which 4,092 remained available for restricted stock. The Plan will expire in 2028.

Stock options – Incentive stock and nonqualified stock options are awarded with an exercise price generally equal to the fair market value of the Company's stock as of the grant date, and vest ratably over their respective vesting periods, provided continuous service by the awardees. The exercise period commences on the vesting date and expires 10 years from the grant date. Certain option awards provide for accelerated vesting upon a "change in control" as defined by the Plan.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton valuation model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Bank's stock and other factors. The expected term of options granted was evaluated by a calculation that factored in the contractual term and vesting period and considered different employee segments. The risk-free interest 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.

	2023	2022
Assumptions		
Risk-free interest rate	3.99%-4.61%	1.26%-1.73%
Dividend yield	2%	2%
Expected volatility	20%-30%	30%-35%
Expected option life in years	5.0-6.5	5.0-7.5

The following is a summary of the incentive and nonqualified stock option activity for the year ended December 31, 2023:

	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Term
Outstanding, beginning of year	505,237	$ 6.95	7.51
Options granted	49,000	11.02	-
Options exercised	(24,235)	5.60	-
Options forfeited/cancelled	(24,500)	6.59	-
Outstanding, end of year	505,502	$ 7.43	6.96
Options expected to vest assuming 0% forfeiture rate	232,503	$ 8.04	7.35
Options exercisable at year-end	272,999	$ 6.91	6.63

The weighted-average grant-date fair value of all options granted during 2023 was $2.72. As of December 31, 2023, there was $384,000 in unrecognized compensation cost related to incentive and nonqualified stock options granted under the Plan. The cost is expected to be recognized over the remaining weighted-average period of 1.63 years.

Restricted stock – The fair value of restricted stock awards granted is equal to the fair market value of the Company's stock at the date of grant. Restricted stock awards vest ratably over three years from the date of grant.

The following is a summary of the nonvested restricted stock award activity for the year ended December 31, 2023:

	Number of Shares Outstanding	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Term
Outstanding, beginning of year	2,500	$ 6.59	0.50
Restricted stock granted	-	-	-
Restricted stock vested	(2,500)	6.59	-
Restricted stock forfeited	-	-	-
Outstanding, end of year	-	$ -	-

As of December 31, 2023, there was $0 in unrecognized compensation cost related to restricted stock awards.

The Bank's pre-tax compensation expense for share-based employee compensation was $261,000 and $281,000 for the years ended December 31, 2023 and 2022, respectively.

Note 12 – Employee Benefit Plan

On January 1, 2008, the Bank established a 401(k) profit sharing plan (the 401(k) Plan), which is available to all eligible employees who have completed three months of service. Each employee is allowed to contribute to the 401(k) Plan up to the maximum percentage allowable, but not to exceed the limits of the Internal Revenue Service. As of January 1, 2018, the 401(k) Plan requires the Company to match 75% up to 8% of employee deferrals. Total employer contribution expense amounted to approximately $361,000 and $205,000 for 2023 and 2022, respectively.

Note 13 – Fair Value

The Bank used the following methods and assumptions in estimating fair value disclosure for financial instruments. Financial assets and liabilities recorded at fair value on a recurring and nonrecurring basis are as listed below:

Securities available-for-sale – Available-for-sale securities are valued using prices from an independent pricing service using Level 2 inputs. 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.

Collateral dependent loans – The fair value of collateral-dependent loans is measured based on the fair value of the underlying collateral. The fair value is determined through appraisals, which requires a significant degree of management judgment.

As of December 31, assets measured at fair value on a recurring basis (there were no liabilities measured at fair value on a recurring basis) are as follows (in thousands):

	Level 1	Level 2	Level 3	
2023	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total Fair Value
Assets				
Securities available-for-sale				
Municipal bonds	$ -	$ 34,029	$ -	$ 34,029
Corporate bonds	-	11,412	-	11,412
SBA securities	-	3,573	-	3,573
Total	$ -	$ 49,014	$ -	$ 49,014
2022				
Assets				
Securities available-for-sale				
Municipal bonds	$ -	$ 32,748	$ -	$ 32,748
Corporate bonds	-	11,314	-	11,314
SBA securities	-	4,465	-	4,465
Total	$ -	$ 48,527	$ -	$ 48,527

Assets measured at fair value on a nonrecurring basis (there were no liabilities measured at fair value on a nonrecurring basis) are as follows as of December 31 (in thousands):

	Level 1	Level 2	Level 3	
2023	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total Fair Value
Assets				
Collateral dependent loans	$ -	$ -	$ 471	$ 471
2022				
Assets				
Impaired loans	$ -	$ -	$ 288	$ 288

Quantitative information about Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets as of December 31, 2023 and 2022, along with the valuation techniques used, are shown in the following table (in thousands):

2023	Fair Value	Valuation Technique	Unobservable Input	Weighted Average [1]
Collateral dependent loans	$ 471	Market comparable	Adjustment to appraisal value	8%

[1] Discount to appraisal value

2022	Fair Value	Valuation Technique	Unobservable Input	Weighted Average [1]
Impaired loans	$ 288	Market comparable	Adjustment to appraisal value	8%

[1] Discount to appraisal value

Carrying amounts and estimated fair values of financial instruments, not previously presented, as of December 31 are as follows (in thousands):

	Carrying	Estimated	Fair Value Level		
2023	Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 61,254	$ 61,254	$ 61,254	$ -	$ -
Securities available-for-sale	49,014	49,014	-	49,014	-
Loans receivable, net	464,686	464,320	-	-	464,320
Servicing asset	2,139	2,635	-	-	2,635
Other investments	2,332	2,332	2,332	-	-
Accrued interest receivable	2,270	2,270	2,270	-	-
Financial liabilities					
Noninterest-bearing deposits	100,135	100,135	100,135	-	-
Savings, money market, and NOW	222,533	222,533	222,533	-	-
Time deposits	191,733	191,329	-	191,329	-
Accrued interest payable	1,262	1,262	1,262	-	-
Borrowings	20,000	20,000	-	20,000	-
2022					
Financial assets					
Cash and due from banks	$ 42,003	$ 42,003	$ 42,003	$ -	$ -
Securities available-for-sale	48,527	48,527	-	48,527	-
Loans receivable, net	454,441	442,560	-	-	442,560
Servicing asset	2,385	2,475	-	-	2,475
Other investments	2,432	2,432	2,432	-	-
Accrued interest receivable	1,755	1,755	1,755	-	-
Financial liabilities					
Noninterest-bearing deposits	117,491	117,491	117,491	-	-
Savings, money market, and NOW	227,314	227,314	227,314	-	-
Time deposits	143,449	141,943	-	141,943	-
Accrued interest payable	316	316	316	-	-
Borrowings	22,000	22,000	-	22,000	-

Note 14 – Regulatory Matters

U & I Financial Corp. and UniBank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and regulatory framework for prompt corrective actions, U & I Financial Corp. and UniBank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. U & I Financial Corp. and UniBank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes that as of December 31, 2023 and 2022, U & I Financial Corp. and UniBank met all of the capital adequacy requirements to which they are subject.

U & I Financial Corp. and UniBank are periodically examined by the Federal Reserve Bank and the Department of Financial Institutions of the State of Washington. As of December 31, 2023, U & I Financial Corp. and UniBank are 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. There are no conditions or events that have occurred since that notification that management believes would result in a change to the institution's category.

The Bank's actual capital amounts and ratios are presented in the table below as of December 31 (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2023						
Total capital (to risk-weighted assets)	$ 68,782	13.71%	$ 40,123	≥ 8.00%	$ 50,154	≥ 10.00%
Tier I capital (to risk-weighted assets)	$ 62,270	12.42%	$ 30,092	≥ 6.00%	$ 40,123	≥ 8.00%
Common equity Tier 1 capital	$ 62,270	12.42%	$ 22,569	≥ 4.50%	$ 32,600	≥ 6.50%
Tier I capital (to average assets)	$ 62,270	10.16%	$ 24,517	≥ 4.00%	$ 30,646	≥ 5.00%
2022						
Total capital (to risk-weighted assets)	$ 77,921	16.91%	$ 36,864	≥ 8.00%	$ 46,080	≥ 10.00%
Tier I capital (to risk-weighted assets)	$ 73,341	15.91%	$ 27,658	≥ 6.00%	$ 36,878	≥ 8.00%
Common equity Tier 1 capital	$ 73,341	15.91%	$ 20,744	≥ 4.50%	$ 29,963	≥ 6.50%
Tier I capital (to average assets)	$ 73,341	12.83%	$ 22,865	≥ 4.00%	$ 28,582	≥ 5.00%

The Federal Reserve and the FDIC approved final capital rules in July 2013 that substantially amended the existing capital rules for banks. These rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as "Basel III") as well as requirements contemplated by the Dodd-Frank Act.

Under the amended capital rules, there is a capital ratio of common equity Tier I capital to risk-weighted assets ratio. Common equity Tier I capital generally consists of retained earnings and common stock (subject to certain adjustments). In March 2015, the Bank exercised a one-time irrevocable option to exclude investment components of accumulated other comprehensive income. The Bank is also required to establish a "conservation buffer," consisting of a common equity Tier I capital amount equal to 2.5% of risk-weighted assets. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

Note 15 – Earnings (Loss) Per Share

The following table presents a reconciliation of the components used to compute basic and diluted earnings (loss) per share (dollars in thousands, except per-share amounts) at December 31:

	2023	2022
Net income (loss)	$ (10,808)	$ 11,129
Basic weighted-average common shares outstanding	$ 5,447,447	$ 5,494,698
Plus common stock options considered outstanding for dilutive purposes (excludes antidilutive options)	-	154,210
Diluted weighted-average common shares outstanding	$ 5,447,447	$ 5,648,908
Basic earnings (loss) per share of common stock	$ (1.98)	$ 2.03
Diluted earnings (loss) per share of common stock	$ (1.98)	$ 1.97

For 2023 all outsanding options were considered antidiutive. There were no antidilutive options for 2022.