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Report of Independent Auditors

The Board of Directors
Evergreen Federal Bank and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Evergreen Federal Bank and Subsidiary, which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in 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 Evergreen Federal Bank and Subsidiary as of September 30, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Evergreen Federal Bank and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 consolidated 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 consolidated 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 Evergreen Federal Bank 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Evergreen Federal Bank 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

Portland, Oregon
December 6, 2023

Financial Statements

Evergreen Federal Bank and Subsidiary
Consolidated Balance Sheets
September 30, 2023 and 2022

	2023	2022
ASSETS		
Cash	$ 27,377,060	$ 56,637,248
Due from banks	457,200	612,204
Interest-bearing deposits with banks	1,681,743	1,721,224
Total cash and cash equivalents	29,516,003	58,970,676
Investment securities available-for-sale, at fair value	66,952,770	131,665,850
Restricted equity securities (FHLB)	760,800	737,800
Loans held-for-sale, net of deferred loan fees	-	273,377
Loans receivable, net of deferred loan fees and allowance for loan losses	455,975,501	412,435,397
Accrued interest receivable	1,736,314	1,525,784
Property and equipment, net of accumulated depreciation	23,113,576	19,875,985
Bank-owned life insurance, net of surrender charges	17,757,871	17,350,631
Net deferred tax assets	3,299,204	4,204,703
Other assets	1,353,461	1,472,255
Total assets	$ 600,465,500	$ 648,512,458
LIABILITIES		
Deposits	$ 524,380,931	$ 578,000,780
Advance payments by borrowers for taxes and insurance	4,936,635	3,802,368
Accrued expenses and other liabilities	2,470,620	2,981,445
Note payable	600,000	800,000
Total liabilities	532,388,186	585,584,593
COMMITMENTS AND CONTINGENCIES (Note 13)		
EQUITY		
Retained income	73,944,816	71,267,829
Accumulated other comprehensive income (loss), net of tax	(5,867,502)	(8,339,964)
Total equity	68,077,314	62,927,865
Total liabilities and equity	$ 600,465,500	$ 648,512,458

See accompanying notes.

Evergreen Federal Bank and Subsidiary
Consolidated Statements of Income
Years ended September 30, 2023 and 2022

	2023	2022
INTEREST INCOME		
Loan fees and interest	$ 20,682,119	$ 16,423,627
Cash and investment securities	2,503,987	2,135,303
Restricted equity security dividends (FHLB)	28,710	21,190
Total interest income	23,214,816	18,580,121
INTEREST EXPENSE		
Deposits	2,908,505	555,427
Borrowings	189,133	34,374
Total interest expense	3,097,638	589,801
Net interest income before (recapture of) provision for loan losses	20,117,178	17,990,320
(RECAPTURE OF) PROVISION FOR LOAN LOSSES	(271,000)	(300,200)
Net interest income after (recapture of) provision for loan losses	20,388,178	18,290,520
NONINTEREST INCOME		
Service charges on deposit accounts	736,707	750,336
Gain on sale of loans	36,558	407,591
Service charges on loan accounts	413,575	443,452
Increase in cash surrender value of life insurance	310,117	262,538
Other income	385,494	362,068
Total noninterest income	1,882,451	2,225,985
NONINTEREST EXPENSE		
Salaries and employee benefits	9,594,256	8,985,764
Occupancy	2,606,505	2,170,098
Data processing	1,111,787	1,065,203
Advertising, marketing, and promotional costs	753,710	614,462
Net loss on sale of investments	2,538,174	-
Other expense	2,129,278	2,106,380
Total noninterest expense	18,733,710	14,941,907
INCOME BEFORE PROVISION FOR INCOME TAXES	3,536,919	5,574,597
PROVISION FOR INCOME TAXES	859,932	1,452,481
NET INCOME	$ 2,676,987	$ 4,122,117

See accompanying notes.

Evergreen Federal Bank and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
Years Ended September 30, 2023 and 2022

	2023	2022
NET INCOME	$ 2,676,987	$ 4,122,117
Other comprehensive income (loss), net of income taxes		
Unrealized holding gains (losses) on available-for-sale investment securities	839,788	(11,501,710)
Reclassification for net gain on available-for-sale investment securities recognized in earnings	2,538,174	-
Income tax effects	(905,500)	3,083,160
Total other comprehensive income (loss), net of taxes	2,472,462	(8,418,550)
COMPREHENSIVE INCOME (LOSS)	$ 5,149,449	$ (4,296,433)

See accompanying notes.

Evergreen Federal Bank and Subsidiary
Consolidated Statements of Changes in Equity
Years Ended September 30, 2023 and 2022

	Retained Income	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE, September 30, 2021	$ 67,145,712	$ 78,586	$ 67,224,298
Net income	4,122,117	-	4,122,117
Other comprehensive income (loss), net of taxes	-	(8,418,550)	(8,418,550)
BALANCE, September 30, 2022	71,267,829	(8,339,964)	62,927,865
Net income	2,676,987	-	2,676,987
Other comprehensive income (loss), net of taxes	-	2,472,462	2,472,462
BALANCE, September 30, 2023	$ 73,944,816	$ (5,867,502)	$ 68,077,314

See accompanying notes.

Evergreen Federal Bank and Subsidiary
Consolidated Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,676,987	$ 4,122,117
Adjustments to reconcile net income to net cash from operating activities		
Net accretion of discounts and amortization of premiums on investment securities	88,147	160,436
(Recapture of) provision for loan losses	(271,000)	(300,200)
Depreciation of property and equipment	1,057,581	907,529
Amortization of promotional assets	176,975	144,389
Amortization of mortgage servicing asset	170,630	295,055
Origination of loans held for sale	(1,722,500)	(14,205,778)
Proceeds from sales of loans held for sale	2,032,435	15,233,442
Gain on sale of loans held for sale	(36,558)	(407,591)
Increase in the cash surrender value of bank-owned life insurance	(310,117)	(352,692)
Loss from sale of investment securities	2,538,174	-
Change in deferred taxes	-	246,700
Changes in other assets and liabilities		
Accrued interest receivable and other assets	(686,057)	(670,078)
Accrued expenses and other liabilities	(361,232)	(870,311)
Net cash from operating activities	5,353,465	4,303,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(932,500)	(92,804,036)
Proceeds from sales of investment securities	66,397,220	-
Proceeds from investment maturities	-	11,000,000
Purchase of restricted equities (FHLB)	(23,000)	(42,500)
Loans made to customers, net	(43,269,104)	(51,068,288)
Purchase of bank-owned life insurance	-	(1,475,837)
Purchases of property and equipment	(4,295,172)	(1,604,260)
Net cash from investing activities	$ 17,877,444	$ (135,994,921)

See accompanying notes.

Evergreen Federal Bank and Subsidiary
Consolidated Statements of Cash Flows (continued)
Years Ended September 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	$ (53,619,849)	$ 34,570,823
Payments on long term borrowings	(200,000)	(200,000)
Increase (decrease) in advance payments by borrowers for taxes and insurance	1,134,267	(271,520)
Net cash from financing activities	(52,685,582)	34,099,303
NET CHANGE IN CASH AND CASH EQUIVALENTS	(29,454,673)	(97,592,600)
CASH AND CASH EQUIVALENTS, beginning of year	58,970,676	156,563,276
CASH AND CASH EQUIVALENTS, end of year	$ 29,516,003	$ 58,970,676
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 2,206,909	$ 589,801
Income taxes paid	$ 748,000	$ 1,454,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Change in fair value of investment securities available-for-sale, net of taxes	$ 2,472,462	$ (8,418,550)

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Description of business – Evergreen Federal Bank (the Bank) is a mutual institution that focuses on traditional banking functions and community building activities. The Bank, chartered in 1934 and serving Josephine, Jackson, and Curry Counties in Oregon, is headquartered in Grants Pass, Oregon and operates branches in Grants Pass as well as in Ashland, Brookings, Rogue River, and Medford, Oregon. The Bank is primarily engaged in the business of granting residential and commercial real estate loans and provides a wide range of banking as well as other financial services primarily to individual customers.

Basis of consolidation – The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Affordable Housing. All material intercompany balances and transactions have been eliminated in consolidation.

Use of estimates – The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and reporting practices applicable to the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the consolidated balance sheets, revenues and expenses for the reporting period, and disclosures of contingent assets and liabilities. Actual results could differ significantly from those estimates.

Significant estimates are necessary in determining the fair value of financial instruments, the recorded value of the allowance for loan losses, the valuation of the mortgage servicing asset, deferred tax assets and liabilities, and the amount of impairment, if any, on investment securities and other real estate owned. Management believes the assumptions used in arriving at these estimates are reasonable.

Cash and cash equivalents – For the purposes of the consolidated statements of cash flows, the Bank considers all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, including amounts due from banks and interest-bearing deposits with banks.

Investment securities – Investment securities are classified into one of two categories: (1) held-to-maturity or (2) available-for-sale. The Bank does not purchase investment securities for trading purposes.

Investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the period remaining until maturity.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Securities classified as available-for-sale are those debt securities that the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses, net of the related deferred tax effect, are reported as accumulated other comprehensive income (loss) within equity. Realized gains and losses on sales of securities are recognized in earnings at the time of sale and are determined by the specific identification method. Purchase premiums and discounts are recognized in interest income using the interest method over the term to maturity of the securities.

The Bank assesses other-than-temporary impairment (OTTI) or permanent impairment of its investment securities based on whether it intends to sell a security or if it is likely that it would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if the Bank intends to sell the security or it is likely that it will be required to sell the security before recovering its cost basis, the entire impairment loss must be recognized in earnings as an OTTI. If the Bank does not intend to sell the security and it is not likely that it will be required to sell the security, but the Bank does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for OTTI.

Restricted equity securities (FHLB) – The Bank's investment in Federal Home Loan Bank of Des Moines (FHLB) stock is a restricted equity security carried at cost ($100 per share) which approximates fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on its asset size and outstanding FHLB advances. The Bank may request redemption of any stock in excess of the amount required. Stock redemptions are made at the discretion of the FHLB.

FHLB stock is generally viewed as a long-term investment. Accordingly, when evaluating FHLB stock for impairment, its value is determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Bank has concluded its FHLB stock investment is not impaired as of September 30, 2023 and 2022.

Loans held-for-sale – Mortgage loans held-for-sale are reported at the lower of cost or market value. Gains or losses on sales of loans that are held-for-sale are recognized at the time of sale and determined by the difference between net sale proceeds and the net book value of the loans.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Loans receivable – Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity are reported at the outstanding principal balance adjusted for the allowance for loan losses, any net deferred fees or costs on originated loans and unamortized premiums or unaccreted discounts on purchased loans. Loan origination fees, net of certain direct origination costs, are deferred and amortized as an adjustment of the yield on the related loan using the interest method. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding.

Allowance for loan losses – The allowance for loan losses represents management's recognition of the assumed risks of extending credit and its evaluation of the quality of the loan portfolio. The allowance is maintained at a level considered adequate to provide for potential loan losses based on management's assessment of various factors affecting the loan portfolio, including a review of problem loans, business conditions, loss experience, and an overall evaluation of the quality of the portfolio. The allowance is increased or decreased by provisions charged to operations and reduced by loans charged-off, net of recoveries. Regulatory examiners may require the Bank to recognize additions to or reductions of the allowance based upon their judgment about information available to them at the time of their examinations.

Uncollectible interest on loans is charged-off or an allowance is established by a charge to income equal to all interest previously accrued. Interest is subsequently recognized only to the extent cash payments are received until delinquent interest is paid in full and, in management's judgment, the borrower's ability to make periodic interest and principal payments is probable, in which case the loan and loan interest is returned to accrual status.

Impaired loans and related income – A loan is considered impaired when management determines that it is probable that all contractual amounts of principal and interest will not be paid as scheduled in the loan agreement. These loans often include loans on nonaccrual status that are past due 90 days or more, nonaccrual status loans which have been restructured, and other loans that management considers to be impaired. The recorded net investment in impaired loans, including accrued interest, is limited to the present value of the expected cash flows of the impaired loan, the observable fair market value of the loan, or the fair value of the loan's collateral, if the loan is collateral dependent.

Loans are reported as troubled debt restructurings when the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants significant concessions to a borrower that it would not otherwise consider. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans, discounted at the interest rate of the original loan agreement, to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan losses.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed and charged against interest income. Income on nonaccrual loans is then recognized only when the loan is brought current or when, in the opinion of management, the borrower has demonstrated the ability to resume payments of principal and interest. Interest income on restructured loans is recognized pursuant to the terms of new loan agreements. Interest income on other impaired loans is monitored and is based upon the terms of the underlying loan agreement.

Mortgage loan transactions and servicing – When loans are sold with the servicing rights retained, the Bank recognizes mortgage servicing rights based on estimated fair value. Fair values are calculated by the Bank based on the size of the loan, its contractual and expected maturity and servicing value factors from the Federal Home Loan Mortgage Corporation fee quote tables as well as data provided by third-party vendors. Impairment of mortgage servicing rights is measured based upon the characteristics of the individual loans, including note rate, term, underlying collateral, current market conditions, and estimates of net servicing income. The Bank accounts for its recorded value and possible impairment of mortgage servicing rights on a loan-by-loan basis. The book value allocated to mortgage servicing rights is recorded among “other assets” and amortized in proportion to, and over the period of, estimated net servicing income.

Property and equipment – Property and equipment are stated at cost less accumulated depreciation. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets, ranging typically from 3 to 39 years.

Bank-owned life insurance – Bank-owned life insurance is carried at the cash surrender value and reflects the Banks’s investment in the recorded asset, net of surrender charges. Changes in the cash surrender value of the contracts are included in earnings as gains or losses in the period they arise.

Income taxes – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Bank evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include the Bank’s forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Bank’s effective tax rate on future earnings.

The Bank recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the position. A tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Bank recognizes interest and penalties related to income tax matters in “other expense”. The Bank does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Advertising, marketing, and promotional costs – The Bank expenses most advertising and marketing costs as they are incurred. Advertising, marketing and promotional costs of $753,710 and $614,462 were recorded for the years ended September 30, 2023 and 2022, respectively, which includes both costs that are expensed as incurred and the amortization of prepaid costs, as described below.

The Bank capitalizes amounts as prepaid costs for such expenditures that benefit future periods. Prepaid costs are included in other assets and amortized over the period the Bank receives a benefit, which was estimated to be three to ten years as of September 30, 2023. For the years ended September 30, 2023 and 2022, the Bank capitalized $55,000 and $283,668, respectively, as prepaid costs and recognized $176,975 and $144,389, respectively, in amortization expense, included in advertising, marketing and promotional costs.

As of September 30, 2023 and 2022, prepaid costs were $449,349 and $571,324, net of accumulated amortization, respectively, which are recorded within “other assets.”

Off-balance sheet financial instruments – The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to fund loans and extend credit and to acquire investment securities. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Fair value measurements – The Bank uses fair value measurements to define fair value. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The Bank determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank’s market assumptions.

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

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The following methods and assumptions were used by the Bank in estimating fair values of assets and liabilities for disclosure purposes:

Cash and cash equivalents – The carrying amounts of short-term instruments approximate their fair value.

Investment securities available-for-sale – Fair values for investment securities are based on quoted market prices or the market values for comparable securities.

Restricted equity securities (FHLB) – The fair value of FHLB stock approximates redemption value.

Loans receivable and loans held-for-sale – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type, such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms.

The fair value of fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. For mortgage loans held-for-sale, the Bank uses secondary market rates in effect for loans of similar size to discount cash flows. For other fixed rate loans, cash flows are discounted at rates currently offered for similar maturities. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short-term.

Fair values are adjusted for credit risk based on assessment of risk identified with specific loans and risk adjustments on the remaining portfolio based on credit loss experience. Assumptions regarding credit risk are judgmentally determined using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for nonspecific borrowers.

Bank-owned life insurance – The carrying amount approximates fair value.

Deposits – The fair value of deposits with no stated maturity, such as checking, passbook savings, and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Off-balance sheet instruments – The Bank's off-balance sheet instruments include unfunded commitments to extend credit and borrowing facilities available to the Bank. The fair value of these instruments is not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Reclassifications – Certain account reclassifications have been made to the financial statements, when necessary, to conform to current year presentation. These reclassifications did not affect previously reported net income or members' equity.

Comprehensive income (loss) – Recognized revenue, expenses, gains and losses are included in net income (loss). Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported on a cumulative basis, net of tax effects, as a separate component of equity on the Consolidated Balance Sheet. Changes in such items, along with net income (loss), are components of comprehensive income (loss).

Revenue Recognition – The Bank applies Accounting Standards Codification Topic 606 ("ASC 606") to account for 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. The majority of the Bank's revenues come from interest income and other sources, including loans and investments that are outside the scope of ASC 606. The Bank's services that fall within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Bank satisfies its obligation to the customer. Services within the scope of ASC 606 include: service charges on deposit and loan accounts.

The following revenue streams are within scope of ASC 606, while the remainder of non-interest streams are generally out of scope.

Service charges on deposit accounts – The Bank earns fees from its members for deposit related account maintenance and transaction-based activity. 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 are charged for specific services provided including non-sufficient funds, overdraft transfers, and wire services. The performance obligation is satisfied as the transaction completes resulting in the immediate recognition of the income. This also includes interchange income, which is earned when a debit card issued by the Bank is used to purchase goods or services at a merchant. The income earned on each transaction is determined by a combination of the transaction amount, merchant type, and other factors. The performance obligation is satisfied and the resulting income is earned when the transaction completes and is charged to the cardholders' card. Accordingly, the income is recognized in the period in which the performance obligation is satisfied.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Service charges on loan accounts – The Bank earns fees from its members for loan related account maintenance and transaction-based activity. The bank earns various fees related to the servicing of loans such as late payments and lines of credit fees. Loan related fees are earned as the maintenance of the loan occurs and the actual fee is paid by the member. The performance obligation is satisfied as the transaction completes resulting in the immediate recognition of the income. The Bank earns servicing fees for collecting loan and escrow payments for loans that were sold to Federal Home Loan Mortgage Corporation. The servicing fees are earned as the servicing occurs.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Bank recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the consolidated financial statements. The Bank's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date, but arose after that date and before the consolidated financial statements were available to be issued. The Bank has evaluated subsequent events through December 6, 2023, which is the date the consolidated financial statements became available for issuance.

Note 2 – Investment Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of available-for-sale investment securities at September 30, 2023 are summarized below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 71,014,215	$ -	$ (7,316,685)	$ 63,697,530
U.S. Government agency securities	3,954,938	-	(699,698)	3,255,240
	$ 74,969,153	$ -	$ (8,016,383)	$ 66,952,770

The amortized cost, gross unrealized gains and losses, and estimated fair value of available-for-sale investment securities at September 30, 2022 are summarized below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 139,112,497	$ -	$ (10,711,927)	$ 128,400,570
U.S. Government agency securities	3,947,697	-	(682,417)	3,265,280
	$ 143,060,194	$ -	$ (11,394,344)	$ 131,665,850

Note 2 – Investment Securities (continued)

The following table presents the gross unrealized losses and fair value of the Bank's investment securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2023:

	Less than 12 Months		12 Months or Greater		Totals	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Treasury Securities	$ 923,560	$ (10,567)	$ 62,773,970	$ (7,306,118)	$ 63,697,530	$ (7,316,685)
U.S. Government agency securities	-	-	3,255,240	(699,698)	3,255,240	(699,698)
Totals	$ 923,560	$ (10,567)	$ 66,029,210	$ (8,005,816)	$ 66,952,770	$ (8,016,383)

At September 30, 2023, 36 securities held by the Bank have unrealized losses and are considered to be temporarily impaired investments. Temporary impairment of these securities is due to interest rate risk associated with fixed-rate obligations. Management believes that, while actual fluctuations in unrealized losses may occur over the life of investment securities, the temporary impairment of each investment security in an unrealized loss position at September 30, 2023, will reverse as the individual investment security approaches its contractual maturity date.

The following table presents the gross unrealized losses and fair value of the Bank's investment securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2022:

	Less than 12 Months		12 Months or Greater		Totals	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$ 102,741,270	$ (7,094,294)	$ 25,659,300	$ (3,617,633)	$ 128,400,570	$ (10,711,927)
U.S. Government agency securities	-	-	3,265,280	(682,417)	3,265,280	(682,417)
	$ 102,741,270	$ (7,094,294)	$ 28,924,580	$ (4,300,050)	$ 131,665,850	$ (11,394,344)

At September 30, 2022, 59 securities held by the Bank had unrealized losses and were considered to be temporarily impaired investments.

Note 2 – Investment Securities (continued)

The amortized cost and estimated fair value of available-for-sale investment securities by expected maturity at September 30, 2023, are as described in the following table.

	Amortized Cost	Estimated Fair Value
Due one year or less	$ 3,017,725	$ 2,885,850
Due after one to five years	61,507,146	55,375,000
Due after five to 10 years	10,444,282	8,691,920
	$ 74,969,153	$ 66,952,770

During the year ended September 30, 2023, the Bank sold investment securities for proceeds of $66,397,220 that resulted in gross realized losses of $2,538,174.

The Bank pledged three securities as of September 30, 2023, with an amortized cost of $7,751,686 to secure customer deposits greater than $250,000.

Note 3 – Restricted Equity Securities (FHLB)

As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on asset size and specific percentage of its outstanding FHLB advances. As of September 30, 2023 and 2022, the minimum stock requirements were $760,800 and $737,800, respectively.

Note 4 – Loans Receivable, Deferred Loan Fees, and Allowance for Loan Losses

The composition of loan balances at September 30 is summarized as follows:

	2023	2022
Loans		
Residential 1–4 family	$ 187,169,330	$ 170,154,396
Commercial	269,923,242	244,253,584
Home equity	5,261,750	4,855,838
Consumer	1,128,638	861,084
Other	42,574	47,239
Total loans	463,525,534	420,172,140
Less		
Allowance for loan losses	(6,560,866)	(6,867,199)
Deferred loan fees, net of costs	(989,167)	(869,544)
Total loans receivable, net of deferred loan fees and allowance for loan losses	$ 455,975,501	$ 412,435,397

The following table summarizes activity related to the allowance for loan losses by significant segments of the loan portfolio as of and for the years ended September 30, 2023 and 2022:

	Residential 1-4 Family	Commercial	Home Equity	Consumer	Other	Total
2023						
Allowance						
Beginning balance	$ 2,464,170	$ 4,295,878	$ 53,109	$ 53,355	$ 687	$ 6,867,199
Charge-offs	-	(35,333)	-	-	-	(35,333)
Recoveries	-	-	-	-	-	-
Provision (recapture)	177,646	(455,021)	(4,617)	11,079	(88)	(271,000)
Ending balance	$ 2,641,816	$ 3,805,525	$ 48,492	$ 64,434	$ 599	$ 6,560,866
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 2,641,816	$ 3,805,525	$ 48,492	$ 64,434	$ 599	$ 6,560,866
Loans						
Total loans	$ 187,169,330	$ 269,923,242	$ 5,261,750	$ 1,128,638	$ 42,574	$ 463,525,534
Ending loan balance: individually evaluated for impairment	$ 335,146	$ 1,452,311	$ -	$ -	$ -	$ 1,787,457
Ending loan balance: collectively evaluated for impairment	$ 186,834,184	$ 268,470,931	$ 5,261,750	$ 1,128,638	$ 42,574	$ 461,738,077

Note 4 – Loans Receivable, Deferred Loan Fees, and Allowance for Loan Losses (continued)

	Residential 1-4 Family	Commercial	Home Equity	Consumer	Other	Total
2022						
Allowance						
Beginning balance	$ 2,351,247	$ 4,720,466	$ 48,752	$ 43,515	$ 3,419	$ 7,167,399
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision (recapture)	112,923	(424,588)	4,357	9,840	(2,732)	(300,200)
Ending balance	$ 2,464,170	$ 4,295,878	$ 53,109	$ 53,355	$ 687	$ 6,867,199
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 2,464,170	$ 4,295,878	$ 53,109	$ 53,355	$ 687	$ 6,867,199
Loans						
Total loans	$ 170,154,396	$ 244,253,584	$ 4,855,838	$ 861,084	$ 47,239	$ 420,172,140
Ending loan balance: individually evaluated for impairment	$ 351,539	$ 1,173,172	$ -	$ -	$ -	$ 1,524,711
Ending loan balance: collectively evaluated for impairment	$ 169,802,857	$ 243,080,412	$ 4,855,838	$ 861,084	$ 47,239	$ 418,647,429

The following table presents the loan portfolio by loan classification and credit quality indicator as of September 30:

	Residential 1-4 Family		Commercial		Home Equity	
	2023	2022	2023	2022	2023	2022
Grade						
Pass	$ 186,908,589	$ 169,642,530	$ 259,580,637	$ 243,181,431	$ 5,261,750	$ 4,855,838
Special Mention	-	-	8,937,560	-	-	-
Substandard	260,741	511,866	1,405,045	1,072,153	-	-
Doubtful	-	-		-	-	-
Loss	-	-	-	-	-	-
Total	$ 187,169,330	$ 170,154,396	$ 269,923,242	$ 244,253,584	$ 5,261,750	$ 4,855,838

	Consumer		Other		Total	
	2023	2022	2023	2022	2023	2022
Grade						
Pass	$ 1,128,638	$ 861,084	$ 42,574	$ 47,239	$ 452,922,188	$ 418,588,122
Special Mention	-	-	-	-	8,937,560	-
Substandard	-	-	-	-	1,665,786	1,584,019
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 1,128,638	$ 861,084	$ 42,574	$ 47,239	$ 463,525,534	$ 420,172,140

Note 4 – Loans Receivable, Deferred Loan Fees, and Allowance for Loan Losses (continued)

The following describes the criteria by which loans are categorized by credit quality indicator:

Pass – Pass assets are well protected by the current net worth and paying capacity of the obligor or guarantors, if any, or by the fair value, less costs to acquire and sell any underlying collateral in a timely manner.

Special mention – A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – An asset classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

Loss – An asset, or portion thereof, classified as loss is considered uncollectible and of such little value that its continuance on the Bank's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value; but rather, there is much doubt about whether, how much, or when the recovery would occur. As such, it is not practical or desirable to defer the write off.

The following table provides an aging analysis of the Bank's loans as of September 30:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Loans on Nonaccrual Status	Recorded Investment > 90 Days and Accruing
2023								
Residential 1-4 family	$ 39,693	$ -	$ -	$ 39,693	$ 187,129,637	$ 187,169,330	$ 260,741	$ -
Commercial	-	-	120,367	120,367	269,802,875	269,923,242	331,160	-
Home equity	-	-	-	-	5,261,750	5,261,750	-	-
Consumer	-	-	-	-	1,128,638	1,128,638	-	-
Other	-	-	-	-	42,574	42,574	-	-
Total	$ 39,693	$ -	$ 120,367	$ 160,060	$ 463,365,474	$ 463,525,534	$ 591,901	$ -
2022								
Residential 1-4 family	$ -	$ 46,012	$ -	$ 46,012	$ 170,108,384	$ 170,154,396	$ 511,866	$ -
Commercial	-	-	-	-	244,253,584	244,253,584	-	-
Home equity	-	-	-	-	4,855,838	4,855,838	-	-
Consumer	-	-	-	-	861,084	861,084	-	-
Other	-	-	-	-	47,239	47,239	-	-
Total	$ -	$ 46,012	$ -	$ 46,012	$ 420,126,129	$ 420,172,140	$ 511,866	$ -

Note 4 – Loans Receivable, Deferred Loan Fees, and Allowance for Loan Losses (continued)

The following table summarizes impaired loan information by significant segment of the loan portfolio as of and for the years ended September 30, 2023 and 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2023					
With no related allowance recorded					
Residential 1-4 family	$ 335,146	$ 342,258	$ -	$ 341,035	$ 15,786
Commercial	1,452,311	1,532,279	-	1,519,838	77,137
Total impaired loans					
Residential 1-4 family	335,146	342,258	-	341,035	15,786
Commercial	1,452,311	1,532,279	-	1,519,838	77,137
Total	$ 1,787,457	$ 1,874,537	$ -	$ 1,860,873	$ 92,923
2022					
With no related allowance recorded					
Residential 1-4 family	$ 351,539	$ 358,282	$ -	$ 355,825	$ 15,887
Commercial	1,173,172	1,235,667	-	1,191,436	75,184
Total impaired loans					
Residential 1-4 family	351,539	358,282	-	355,825	14,887
Commercial	1,173,172	1,235,667	-	1,191,436	75,184
Total	$ 1,524,711	$ 1,593,949	$ -	$ 1,547,261	$ 90,071

The Bank offers a variety of modifications to borrowers as troubled debt restructurings. The modification categories offered 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.

Interest only modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

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

Note 4 – Loans Receivable, Deferred Loan Fees, and Allowance for Loan Losses (continued)

There was one troubled debt restructuring during the year ended September 30, 2023.The following table presents the troubled debt restructured by type of modification that occurred during the year ended September 30, 2023 and 2022:

	2023			2022		
	Number of Contracts	Pre Modification	Post Modification	Number of Contracts	Pre Modification	Post Modification
Payment modification						
Residential	1	212,969	212,969	1	239,365	239,365
	1	212,969	212,969	1	239,365	239,365

Troubled debt restructurings that are on accrual and nonaccrual status as of September 30, 2023 and 2022 were as follows:

	Accrual Status	Nonaccrual Status
2023		
Residential 1-4 family	$ 335,967	$ -
Commercial	1,121,453	210,792
	$ 1,457,420	$ 210,792
2022		
Residential 1-4 family	$ 112,174	$ 239,365
Commercial	1,173,172	-
	$ 1,285,346	$ 239,365

During the years ended September 30, 2023 and 2022, there were no troubled debt restructured loans for which there was a payment default within a period of 12 months following the restructure.

Note 5 – Mortgage Loans Serviced for Others

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans at September 30 are summarized as follows:

	2023	2022
Mortgage loan portfolios serviced for Federal Home Loan Mortgage Corporation	$ 146,953,705	$ 158,334,892

Assets, liabilities, revenues, and expenses recognized by the Bank that relate to loans serviced for others as of and for the years ended September 30, include the following:

	2023	2022
Mortgage servicing asset (included in "other assets")	$ 231,461	$ 397,512
Mortgage servicing revenues (included in "service charges on loan accounts")	381,886	418,132
Mortgage servicing asset amortization expense (included in "other expense")	170,630	295,054
Custodial escrow balances held for others (included in "advance payments by borrowers for taxes and insurance")	1,581,048	1,434,971

Note 6 – Property and Equipment

Property and equipment at September 30 are summarized as follows:

	2023	2022
Land	$ 9,417,819	$ 9,417,819
Buildings and improvements	27,124,327	21,919,629
Equipment and furniture	3,445,377	3,049,250
	39,987,523	34,386,698
Less accumulated depreciation	(16,881,136)	(15,859,705)
	23,106,387	18,526,993
Construction in progress	7,189	1,348,992
Property and equipment, net of accumulated depreciation	$ 23,113,576	$ 19,875,985

Depreciation expense of $1,057,581 and $907,529 was recognized for the years ended September 30, 2023 and 2022, respectively.

Note 7 – Deposits

Deposit accounts at September 30 consist of the following:

	2023		2022	
	Total Deposits	Weighted Average Interest Rate	Total Deposits	Weighted Average Interest Rate
Savings accounts	$ 179,625,377	0.18%	$ 237,841,126	0.04%
Interest-bearing demand	170,417,551	0.60%	200,018,814	0.21%
Time certificates	91,750,589	3.18%	43,977,705	0.82%
Noninterest-bearing demand	53,684,670	-	61,357,355	-
Money market accounts	28,902,744	0.87%	34,805,780	0.07%
Total deposits	$ 524,380,931		$ 578,000,780	

As of September 30, 2023, the scheduled maturities of time certificates of deposit were as follows:

Years ending September 30,	2024	$ 82,966,404
	2025	5,875,449
	2026	876,112
	2027	489,110
	2028	242,171
	Thereafter	1,301,343
		$ 91,750,589

Time certificates of deposit of $250,000 or more aggregated to $26,283,130 and $8,098,391 at September 30, 2023 and 2022, respectively.

Interest expense on all deposit accounts is summarized as follows for the years ended September 30:

	2023	2022
Time certificates	$ 1,622,013	$ 373,889
Savings accounts	215,957	41,066
Demand deposits	872,437	121,262
Money market accounts	198,098	19,210
Total interest expense on deposits	$ 2,908,505	$ 555,427

Note 8 – Borrowing Facilities and Note Payable

As a member of the FHLB, the Bank has entered into an “Advances, Security and Deposit Agreement” which provides for a credit arrangement. Borrowings under the credit arrangement are collateralized by the Bank’s FHLB stock, the Bank’s deposits at the FHLB, and other instruments, which may be pledged. The Bank had a blanket pledge of loans collateralizing its FHLB borrowing arrangement totaling $387,248,215 at September 30, 2023. Term and overnight advances under the FHLB agreement are limited to 45% of the Bank’s assets. The maximum total borrowing available from the FHLB was $234,701,675 at September 30, 2023.

The Bank also maintains an overnight line of credit facility with the Federal Reserve Bank of San Francisco. Advances are secured by commercial real estate loans. Interest is charged daily on advances at an amount set by the Federal Reserve Bank’s Board of Governors (5.50% at September 30, 2023). The Bank also has an unsecured overnight line of credit with US Bank. Available borrowing capacity for overnight line of credit accounts was $12,281,931 at September 30, 2023. No borrowings were outstanding under these facilities at September 30, 2023.

During fiscal 2017, the Bank purchased a building and land with a down payment of $200,000 and an installment note payable of $1,800,000. The note requires payments of $200,000 on the first business day of January each year and matures January 1, 2026. The interest rate was 4.00% per annum for the first five years. The note had a one-time rate adjustment on June 1, 2022 which was below the floor of 4.00% so the interest rate will remain at 4.00% per annum for the remaining term of the note. The note payable is collateralized by the building, and may be prepaid at any time by the agreement of both parties and is callable by the lender by giving the Bank a 30-day advance notice. The outstanding balance on the note payable was $600,000 and $800,000 at September 30, 2023 and 2022, respectively.

Note 9 – Income Taxes

The following is a summary of income tax expense:

	2023	2022
Current taxes		
Federal expense	$ 700,764	$ 881,880
State expense	159,168	323,901
	859,932	1,205,781
Deferred taxes		
Federal (benefit)	(37,400)	223,300
State (benefit)	37,400	23,400
	-	246,700
Provision for income taxes	$ 859,932	$ 1,452,481

The nature and components of deferred tax assets and liabilities as of September 30 are as follows:

	2023	2022
Deferred tax assets		
Allowance for loan loss	$ 1,865,088	$ 1,808,316
Unrealized losses on investment securities	2,148,879	3,054,379
Non-accrual interest	2,214	477
Deferred compensation	213,374	205,720
Other	4,183	12,362
Total deferred tax assets	4,233,738	5,081,254
Deferred tax liabilities		
Accumulated depreciation	(750,565)	(683,443)
Stock dividends	(101,698)	(101,698)
Prepaids and other	(58,905)	(69,652)
Loan fees	(23,366)	(21,758)
Total deferred tax liabilities	(934,534)	(876,551)
Net deferred tax assets	$ 3,299,204	$ 4,204,703

There were no valuation allowances offsetting deferred tax assets as of September 30, 2023 and 2022, because management believes that it is more likely than not that the Bank's deferred tax assets will be realized by offsetting future taxable income with reversing taxable differences and through anticipated future operating income.

Note 9 – Income Taxes (continued)

An analysis of the variations from the expected statutory tax rates and the effective tax rates is as follows:

	2023		2022	
	Amount	Percent	Amount	Percent
Tax expense at federal statutory rate	$ 742,753	21.00%	$ 1,170,471	21.00%
State tax, net of federal tax benefit	218,488	6.18	339,317	6.09
Bank-owned life insurance	(78,764)	(2.23)	(68,214)	(1.22)
Other	(22,545)	(0.64)	10,907	0.06
Income tax expense	$ 859,932	26.07%	$ 1,452,481	26.29%

Note 10 – Regulatory Capital Requirements

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

The federal banking agencies issued the Community Bank Leverage Ratio (CBLR) Framework which allows qualified institutions to opt into the CBLR framework in place of the risk-based capital guidelines. The CBLR framework provides a simple measure of capital adequacy for certain qualifying community banking organizations. Evergreen opted into CBLR framework effective January 1, 2020. Management believes, as of September 30, 2023 and 2022 that the Bank meets all capital adequacy requirements to which it is subject.

The most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. Management believes that the Bank continues to maintain its well-capitalized status as of September 30, 2023.

Note 10 – Regulatory Capital Requirements (continued)

	Actual		Well-Capitalized under the CBLR Framework	
	Amount	Ratio	Amount	Ratio
As of September 30, 2023 (dollars in thousands)				
Community Bank Leverage Ratio	$ 73,945	12.14%	$ 54,813	>9.0 %
Core Capital	$ 73,945	12.14%	$ 54,813	>9.0 %
As of September 30, 2022 (dollars in thousands)				
Community Bank Leverage Ratio	$ 71,268	10.96%	$ 58,527	>9.0%
Core Capital	$ 71,268	10.96%	$ 58,527	>9.0%

Note 11 – Retirement and Incentive Compensation Plans

The Bank contributes to a simplified employee pension plan with individual participant accounts for each employee who meets certain criteria relative to age and length of service. Contributions, which are at the discretion of the Board of Directors, are for amounts of up to 15% of includable compensation for eligible participants. Contributions to the plan were $878,288 and $899,649 for the years ended September 30, 2023 and 2022, respectively.

The Bank also has incentive compensation plans established by the Board of Directors for executives and employees. Under these plans, incentive compensation is established and allocated to eligible employees based on certain performance criteria. At the Board’s discretion, key executives are also granted one-time bonuses based upon performance. During the years ended September 30, 2023 and 2022, $242,651 and $553,183, respectively, were charged to expense pursuant to these incentive compensation plans.

Note 11 – Retirement and Incentive Compensation Plans (continued)

The Bank has purchased bank-owned life insurance (BOLI) to support split-dollar life insurance arrangements it has made with certain key employees. Some of these arrangements provide for death benefits only during employment, to be split between the Bank and an employee’s named beneficiaries, and some of these arrangements provide for death benefits to be made available to an employee’s named beneficiaries continuing after retirement. For those arrangements that provide for a post-retirement death benefit, the Bank recognizes current service cost and accrues an obligation on its balance sheet within accrued expenses and other liabilities. As of September 30, 2023 and 2022, the Bank accrued $97,123 and $90,155 respectively, for this obligation.

Note 12 – Other Expenses

Other expenses included in noninterest expense included the following for the years ended September 30:

	2023	2022
Deposit Insurance Fund Assessment	$ 254,239	$ 168,230
EFT/ATM expense	180,817	264,248
Mortgage servicing rights amortization	170,630	295,054
Postage and shipping expense	152,349	149,098
Audit and accounting services	136,540	142,500
Mortgage loan and appraisal expense	135,889	182,078
Donations	111,268	116,401
Assessment expenses	104,132	131,415
Checking and savings administrative costs	99,171	79,282
Stationary, printing, and office supplies	80,109	66,935
Other expenses	704,135	511,138
	$ 2,129,278	$ 2,106,380

Note 13 – Commitments and Contingencies

Financial instruments with off-balance sheet risk – The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to fund loans, commitments to extend credit and acquire investment securities, construction loans in progress, and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk which have not been recognized in the consolidated balance sheets. All financial instruments held or issued by the Bank are held or issued for purposes other than trading.

Note 13 – Commitments and Contingencies (continued)

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to fund loans, commitments to extend credit and acquire investment securities, construction loans in progress, and letters of credit written is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Management does not anticipate any material loss as a result of these transactions.

The following summarizes the Bank's off-balance sheet commitments as of September 30, 2023:

	Contract or Notional Amount
Financial instruments whose contract amounts contain credit risk	
Commitments to fund other loans	$ 12,551,800
Commitment to fund unused lines of credit	20,377,988
Commitments to extend credit on construction loans	28,975,970
Standby letters of credit	930,011
	$ 62,835,769

Commitments to fund loans, commitments to extend credit, and construction loans in progress are agreements to lend to a customer as long as there is no violation of any condition established in the loan contract or agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon funding of loans or extensions of credit, is based on management's credit evaluation of the customer. Collateral held varies but consists primarily of real estate.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial papers, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

Note 13 – Commitments and Contingencies (continued)

Operating lease commitments – The Bank leases certain property to a non-related third party under a non-cancellable lease agreement. The lease, which was set to expire March 6, 2019, allows for the tenant to exercise a renewal option for four successive terms of five years and requires a base monthly payment calculated at the greater of $10,000 or 6% of net sales. The Bank has renewed the lease for an additional term through March 2024. Minimum total future rental income expected from this commitment is as follows:

Years ending September 30,	2024	$ 51,935
Total minimum payment to be received		$ 51,935

Employment Agreements – The Bank has entered into employment agreements with certain members of executive management that require payments in the event of certain contingencies. Until such events occur, no accrual of such amounts is required.

Legal contingencies – The Bank may become a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, there are no matters presently known to the Bank that are expected to have a material adverse effect on the consolidated financial condition of the Bank.

Note 14 – Fair Value Measurements

Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be re-measured at fair value after initial recognition in the financial statements at some time during the reporting period. There were no assets measured on a nonrecurring basis that were re-measured for the years ended September 30, 2023 and 2022, respectively.

The following disclosures are made of fair value information about financial instruments where it is practicable to estimate that value. In cases where quoted market values are not available, the Bank primarily uses present value techniques to estimate the fair values of its financial instruments. Valuation methods require considerable judgment, and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used. Accordingly, the estimates provided herein do not necessarily indicate amounts which could be realized in a current market exchange.

In addition, as the Bank normally intends to hold the majority of its financial instruments until maturity, it does not expect to realize many of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for items which are not defined as financial instruments but which have significant value.

Note 14 – Fair Value Measurements (continued)

The following fair value measurements exclude certain financial instruments and all non-financial instruments. Any aggregation of the fair value amounts presented in the following table would not represent the underlying value of the Bank. The carrying amount and estimated fair value of financial instruments as of September 30 is summarized as follows (in thousands):

	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 29,516,003	$ 29,516,003	$ 58,970,676	$ 58,970,676
Investment securities	66,952,770	66,952,770	131,665,850	131,665,850
Restricted equity securities	760,800	760,800	737,800	737,800
Loans held-for-sale	-	-	273,377	273,377
Loans receivable	463,525,534	374,020,000	420,172,140	395,989,000
Financial liabilities				
Checking, savings, and money market accounts	432,630,342	432,630,342	534,023,075	534,023,000
Time certificates of deposit	91,750,589	91,026,000	43,977,705	42,464,000

Note 15 – Concentrations of Credit Risk

Most of the Bank’s lending activity is with customers located within the markets it serves in southern Oregon. The majority of such customers are also depositors of the Bank. The Bank originates first mortgage, home equity, consumer, and commercial loans. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Generally, loans are secured by real estate, personal property, and deposit accounts. Rights to collateral vary and are legally documented and enforceable to the extent practicable. Although the Bank has a diversified loan portfolio, local economic conditions may affect borrowers’ ability to meet the stated repayment terms.

The Bank maintains balances in correspondent bank accounts that at times may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of the correspondent banks.

Note 16 – Related-Party Transactions

The Bank has purchased various products and services owned by various directors. Total amounts paid were $87,078 and $74,318 for the years ended September 30, 2023 and 2022, respectively.

Certain directors and executive officers are also customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. All loans and commitments to loan included in such transactions are made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons, and in the opinion of the management of the Bank, do not involve more than the normal risk of collection or present any other unfavorable features. The amount of loans outstanding to directors, executive officers, and companies with which they are associated was as follows:

	2023	2022
BALANCE, beginning of year	$ 490,934	$ 178,279
Loans made	10,646	406,885
Loans repaid	(72,159)	(94,230)
BALANCE, end of year	$ 429,421	$ 490,934

Directors' and senior officers' deposit accounts at September 30, 2023 and 2022 were $7,076,148 and $5,410,971, respectively.

The amount of loan commitments outstanding to directors, executive officers, and companies with which they are associated was $100,000 and $92,100 at September 30, 2023 and 2022.