

**FIRST NATIONAL BANK ALASKA**  
Anchorage, Alaska

**FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

FIRST NATIONAL BANK ALASKA  
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FINANCIAL STATEMENTS  
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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Shareholders  
First National Bank Alaska  
Anchorage, Alaska

**Report on the Audit of the Financial Statements*****Opinion***

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

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

We also have audited, in accordance with auditing standards generally accepted in the United States of America, First National Bank Alaska's internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 7, 2023 expressed an unmodified opinion.

***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 First National Bank Alaska and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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 First National Bank Alaska'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.

*Crowe LLP*  
Crowe LLP

Oak Brook, Illinois  
March 7, 2023

FIRST NATIONAL BANK ALASKA  
STATEMENTS OF FINANCIAL CONDITION  
December 31, 2022 and 2021  
(Dollars in thousands, except per share data)

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 93,547	\$ 531,956
Securities, available-for-sale	2,815,357	2,842,950
Real estate loans to be sold	1,728	8,336
Loans, net of allowance of \$18,800 and \$22,900 as of December 31, 2022 and 2021, respectively	2,208,247	2,104,371
Premises and equipment, net	52,335	47,042
Other real estate owned, net	-	29
Due from brokers	45,000	-
Deferred taxes, net	60,825	3,356
Other assets	60,698	43,300
<b>Total assets</b>	<u>\$ 5,337,737</u>	<u>\$ 5,581,340</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Noninterest bearing	\$ 2,368,659	\$ 2,502,374
Interest bearing:		
Savings	1,023,024	1,024,692
Business Interest Checking	124,357	-
Business Interest Sweep	278,553	135,488
NOW	159,929	292,223
Money market	147,026	144,944
Time	123,309	117,203
<b>Total interest bearing</b>	<u>1,856,198</u>	<u>1,714,550</u>
<b>Total deposits</b>	<u>4,224,857</u>	<u>4,216,924</u>
Securities sold under agreements to repurchase	670,974	781,700
Other liabilities	34,356	28,186
<b>Total Liabilities</b>	<u>4,930,187</u>	<u>5,026,810</u>
Shareholders' Equity:		
Common stock, \$10 par value (authorized: 4,000,000 shares) (issued and outstanding: 2022 and 2021 - 3,166,885)	31,669	31,669
Surplus	40,000	40,000
Retained earnings	482,160	474,595
Accumulated other comprehensive (loss) income	(146,279)	8,266
<b>Total shareholders' equity</b>	<u>407,550</u>	<u>554,530</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 5,337,737</u>	<u>\$ 5,581,340</u>

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA  
STATEMENTS OF INCOME  
Years ended December 31, 2022 and 2021  
(Dollars in thousands, except per share data)

	<u>2022</u>	<u>2021</u>
Interest income and loan fees:		
Interest and fees on loans:		
Taxable	\$ 111,692	\$ 113,937
Nontaxable	867	1,246
Total interest and fees on loans	<u>112,559</u>	<u>115,183</u>
Interest and dividends on investment securities:		
Taxable	38,431	27,393
Nontaxable	3,800	3,903
Total interest and dividends on investment securities:	<u>42,231</u>	<u>31,296</u>
Interest on cash and cash equivalents	<u>5,232</u>	<u>703</u>
Total interest and loan fee income	160,022	147,182
Interest expense:		
Interest on deposits	3,892	1,307
Interest on federal fund purchased and securities sold under agreements to repurchase	8,141	274
Interest on FHLB advances and other borrowed funds	<u>2,619</u>	<u>-</u>
Total interest expense	<u>14,652</u>	<u>1,581</u>
Net interest and loan fee income	145,370	145,601
Provision for loan losses	(1,249)	2,427
<b>Net interest and loan fee income after provision for loan losses</b>	146,619	143,174
Noninterest income:		
Bankcard fees	10,391	9,274
Service charges on deposit accounts	5,056	4,036
Gain on sale of mortgage loans	1,417	3,993
Mortgage loan servicing income	1,872	1,840
Net (losses) gains on investment securities	(64)	10
Gain on sale of other real estate owned	1	1,546
Other noninterest income	<u>5,935</u>	<u>6,337</u>
Total noninterest income	24,608	27,036
Noninterest expense:		
Salaries and employee benefits	60,741	63,207
Occupancy expense, net	7,006	6,983
Furniture and equipment expense	2,664	2,338
Bankcard expenses	2,656	2,370
Other noninterest expense	<u>20,008</u>	<u>17,434</u>
Total noninterest expense	<u>93,075</u>	<u>92,332</u>
<b>Income before taxes</b>	78,152	77,878
Provision for income taxes	19,917	19,464
<b>Net income</b>	<u>\$ 58,235</u>	<u>\$ 58,414</u>
Earnings per common share	\$ 18.39	\$ 18.45

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA  
STATEMENTS OF COMPREHENSIVE INCOME  
Years ended December 31, 2022 and 2021  
(Dollars in thousands)

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	<u>2022</u>	<u>2021</u>
Net income	\$ 58,235	\$ 58,414
Other comprehensive (loss) income -		
Unrealized (losses) gains on securities:		
Unrealized holding losses arising during the period, net of tax effect of \$61,397 and \$15,805 in 2022 and 2021, respectively	(154,591)	(39,796)
Reclassification adjustment for losses (gains) included in net income, net of tax effect of (\$18) and \$3 in 2022 and 2021, respectively	<u>46</u>	<u>(7)</u>
Other comprehensive loss	<u>(154,545)</u>	<u>(39,803)</u>
Comprehensive (loss) income	<u>\$ (96,310)</u>	<u>\$ 18,611</u>

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See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA  
STATEMENTS OF CASH FLOWS  
Years ended December 31, 2022 and 2021  
(Dollars in thousands)

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Net Income	\$ 58,235	\$ 58,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium on investment securities, net	10,950	14,087
Loss from equity method investments	467	60
Loss on mortgage servicing rights	316	282
Depreciation, accretion, and amortization	5,156	5,026
Provision for loan losses	(1,249)	2,427
Deferred taxes	3,910	169
Gain on sale of mortgage loans	(1,417)	(3,993)
Net gain on the sale of other real estate owned	(1)	(1,546)
Valuation adjustment on other real estate owned	-	20
Net loss on the sale of premises and equipment	142	19
Net loss (gain) on investment securities	64	(10)
Real estate loans to be sold-originated	(84,330)	(161,544)
Real estate loans to be sold-shipped	91,502	171,593
Net increase in other assets	(2,424)	(2,533)
Net increase in other liabilities	(790)	(46)
Net cash provided by operating activities	<u>80,531</u>	<u>82,425</u>
<b>Cash flows from investing activities</b>		
Proceeds from calls or maturities of securities, available-for-sale	243,804	278,673
Proceeds from sales of securities, available-for-sale	235,335	-
Purchase of securities, available-for-sale	(723,486)	(1,320,497)
Net purchases of Federal Home Loan Bank stock	(1,063)	(1,064)
Net decrease in loans	100,777	321,916
Purchase of participation loans	(211,599)	(226,812)
Proceeds from sales of premises and equipment	11	18
Purchase of land, premises and equipment	(8,236)	(3,154)
Proceeds from sale of other real estate owned	-	3,125
Net cash used in investing activities	<u>(364,457)</u>	<u>(947,795)</u>

(Continued)



FIRST NATIONAL BANK ALASKA  
STATEMENTS OF CASH FLOWS  
Years ended December 31, 2022 and 2021  
(Dollars in thousands)

	<u>2022</u>	<u>2021</u>
<b>Cash flows from financing activities</b>		
Net increase in total deposits	\$ 7,933	\$ 1,103,755
Net decrease in securities sold under agreement to repurchase	(110,726)	(188,066)
Proceeds from Federal Home Loan Bank advances	2,400,000	200
Repayments on Federal Home Loan Bank advances	(2,400,000)	(200)
Payments on notes payable and finance lease	(1,020)	(72)
Dividends paid	(50,670)	(50,670)
Net cash (used) provided by financing activities	<u>(154,483)</u>	<u>864,947</u>
Decrease in cash and cash equivalents	(438,409)	(423)
Cash and cash equivalents, January 1	<u>531,956</u>	<u>532,379</u>
<b>Cash and cash equivalents, December 31</b>	<u><u>\$ 93,547</u></u>	<u><u>\$ 531,956</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 14,596	\$ 1,778
Cash paid during the year for income taxes	11,551	21,340
Noncash investing and financing activities:		
Transfer of loans to other real estate owned	\$ -	\$ 1,167
Bank financed sales of other real estate owned	29	-
Purchase of copier equipment under finance lease obligation	1,164	-
Commitments for investments in qualified affordable housing projects	15,000	-
(Settlement) acquisition of purchased loans and securities via short-term payable	(8,225)	13,331
Due from brokers for security maturities	(45,000)	-
Right of use assets obtained in exchange for operating leases	-	1,463

See accompanying notes to financial statements

FIRST NATIONAL BANK ALASKA  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Years ended December 31, 2022 and 2021  
(Dollars in thousands, except per share data)

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	Common Stock (\$10 Par Value)	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2021	\$ 31,669	\$ 40,000	\$ 466,851	\$ 48,069	\$ 586,589
Net income	-	-	58,414	-	58,414
Other comprehensive loss, net of tax	-	-	-	(39,803)	(39,803)
Dividends declared - \$16.00 per share	-	-	(50,670)	-	(50,670)
Balance, December 31, 2021	31,669	40,000	474,595	8,266	554,530
Net income	-	-	58,235	-	58,235
Other comprehensive loss, net of tax	-	-	-	(154,545)	(154,545)
Dividends declared - \$16.00 per share	-	-	(50,670)	-	(50,670)
Balance, December 31, 2022	<u>\$ 31,669</u>	<u>\$ 40,000</u>	<u>\$ 482,160</u>	<u>\$ (146,279)</u>	<u>\$ 407,550</u>

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See accompanying notes to financial statements

FIRST NATIONAL BANK ALASKA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021  
(Dollars in thousands except per share data)

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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

First National Bank Alaska (the Bank) is a full service commercial bank operated as a single segment, and as such, its principal activities include the receiving and lending of money. Additionally, the Bank provides trust banking services, escrow and contract collection services, bankcard services, and safe deposit box facilities. These services are for business, industry, and individuals primarily within the State of Alaska. Banking services are provided from 27 branches throughout Alaska. The accounting and reporting policies of the Bank conform with U.S. generally accepted accounting principles and the prevailing practices within the banking industry. Significant accounting and reporting policies are summarized below.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 7, 2023, which is the date the financial statements were available to be issued.

Risks and Uncertainties: A strain of the coronavirus spread around the world with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization. The Bank's operating area experienced periodic closures of business, restrictions on personal contact, and requests by government officials to stay in isolation. The operations and business results of the Bank could be materially adversely effected. Significant estimates as disclosed in Note 1, including the allowance for loan losses and valuation of securities may be materially adversely impacted by national and local events designed to contain the coronavirus.

Estimates: Use of accounting estimates in the preparation of financial statements, in order to conform with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash and due from banks and overnight federal funds sold. Net cash flows are reported for customer loan and deposit transactions, securities sold under agreements to repurchase and federal funds purchased.

Securities, Available-for-Sale: Securities, available-for-sale are classified at the time of acquisition. The available-for-sale classification includes debt securities which are carried at estimated fair value. Unrealized holding gains or losses on securities, available-for-sale are included in other comprehensive income and as a separate component of shareholders' equity. Amortization of premiums and accretion of discounts are recognized using the level yield method. Realized gains and losses on sales of securities are computed using the specific identification method.

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

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(Continued)

FIRST NATIONAL BANK ALASKA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021  
(Dollars in thousands except per share data)

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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** (Continued)

Equity securities: Equity investments include our Visa Class B shares recorded with no book value as of December 31, 2022.

Real Estate Loans to be Sold: Real estate loans to be sold are carried at the lower of cost or fair value in the aggregate. The Bank records and holds for sale one-to-four family and multifamily real estate loans which are originated pursuant to investor programs. Net unrealized losses, if any, are recognized through a valuation allowance by charges to other noninterest expense.

Loans: The Bank grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout Alaska. The ability of the Bank's debtors to honor their contracts is dependent upon real estate and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

The accrual of interest on all classes of real estate and commercial loans is normally discontinued at the time a loan is 90 days delinquent. Past due status is based on the contractual terms of the loan. All classes within consumer and other loans are typically charged off no later than 120 days delinquent. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

The general component is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of non-impaired loans in light of historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. The historical loss experience is determined by portfolio segment and is based on the actual loss history of the Bank over the most recent 3, 5 or 7 years for consumer, commercial and real estate loans, respectively.

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(Continued)

FIRST NATIONAL BANK ALASKA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021  
(Dollars in thousands except per share data)

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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** (Continued)

The actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment.

Management considers the following when assessing the risk of the loan portfolio segments:

*Commercial and Industrial loans* – are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases, to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. At the time of origination, financial information is obtained from the borrower to evaluate ability to repay the loans.

*Real estate loans* are considered by loan portfolio class as follows:

*Commercial and Construction/Development loans* – are dependent on the industries tied to these loans as well as the local real estate market. The loans are secured by the real estate, appraisals or other external valuations are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination.

*1-4 and multifamily residential loans* – are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of credit scores and debt to income ratios. Appraisals or other external valuations are obtained to support the loan amount. Multifamily real estate loans are dependent on the industries tied to these loans as well as the local real estate market for the particular property segments. Appraisals or other external valuations are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination.

*Consumer and other loans* – are dependent on local economies. Consumer loans are generally secured by consumer assets, but may be unsecured. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management does not expect a substantial decline in real estate values and economic conditions in Alaska, a decline in these values or economic activities could have an impact on the value of collateral securing the loans as well as the ability for the repayment of loans resulting in a higher allowance for loan losses in the future.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

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(Continued)

FIRST NATIONAL BANK ALASKA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021  
(Dollars in thousands except per share data)

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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** (Continued)

Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulty, are considered troubled debt restructurings and classified as impaired.

Troubled debt restructurings are measured at the net present value of estimated future cash flows or where considered to be collateral dependent, the loan is reported, net, at the fair value of the collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify all individual consumer loans for impairment disclosures.

Reserve for Unfunded Commitments: A reserve is established at a level that is considered adequate by management to provide for probable losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates, and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in other liabilities in the accompanying statements of condition.

The recorded liability was \$1,300 and \$1,600 as of December 31, 2022 and 2021, respectively.

Due From Broker: Due from broker balances are related to receivable balances on three securities that matured on December 31, 2022 in which cash funds were not received prior to December 31, 2022.

Premises and Equipment: Premises and equipment, including leasehold improvements and software, are stated at cost less accumulated depreciation and amortization. Depreciation on premises and equipment is calculated on a declining balance basis over the estimated useful lives of the assets. The estimated useful life of buildings is 39 years, with some external elements using 15 years. The estimated useful life of software is 3 years and furniture and equipment is 5 to 7 years. Equipment under a finance leases is stated at the present value of minimum lease payments. Equipment held under finance leases and leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset. Maintenance and repairs are expensed as incurred, while improvements and construction costs are capitalized.

Leases: At contract inception, the Company determines whether the arrangement is or contains a lease and determines the lease classification. The lease term is determined based on the non-cancellable term of the lease adjusted to the extent optional renewal terms and termination rights are reasonably certain. Lease expense is recognized evenly over the lease term. Variable lease payments are recognized as period costs. The present value of remaining lease payments is recognized as a liability on the balance sheet with a corresponding right-of-use asset adjusted for prepaid or accrued lease payments. The Company uses the Federal Home Loan Bank fixed advance rate as of the lease inception date that most closely resembles the remaining term of the lease as the incremental borrowing rate, unless the interest rate implicit in the lease contract is readily determinable. The Company has elected to exclude short-term leases as well as all non-lease items, such as common area maintenance, from being included in the lease liability on the statements of financial condition.

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(Continued)

FIRST NATIONAL BANK ALASKA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021  
(Dollars in thousands except per share data)

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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** (Continued)

Federal Reserve Bank: This stock is a required holding of capital stock of the Federal Reserve Bank and is carried in other assets in the accompanying statements of condition at cost and periodically evaluated for impairment based on ultimate recovery of par value (\$2,150 as of December 31, 2022 and 2021). Calculation of the stock requirement is based solely on the capital structure of the Bank.

Federal Home Loan Bank Stock: This is a required stock holding of the Federal Home Loan Bank of Des Moines and is carried in other assets in the accompanying statements of condition at cost and periodically evaluated for impairment based on ultimate recovery of par value (\$6,698 and \$5,634 as of December 31, 2022 and 2021, respectively). The minimum stock requirement is calculated based on the Bank's assets or qualifying loans, whichever applies.

Other Real Estate Owned (OREO): OREO consists of properties acquired through foreclosure and is carried at the lower of fair value at acquisition date or current estimated fair value net of disposal costs. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or a similar legal agreement. At the time the property is acquired, it is recorded at estimated fair value less costs to sell, with any difference between this value and the outstanding balance on the loan charged against the allowance for loan losses. Subsequent to foreclosure, costs associated with holding the property are charged to expense as incurred. Subsequent write-downs and gains and losses recognized on the sale of these properties are included in noninterest expense. Other real estate owned also includes bank premises that were transferred to other real estate owned due to no longer using the premises for Bank purposes and related regulatory requirements for these types of assets. These transfers from premises and equipment are made at the lower of cost or fair value.

Loan Commitments and Related Financial Instruments: This includes off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Originated Mortgage Servicing Rights (OMSRs): OMSRs are capitalized based on their fair value when the corresponding loans are sold. The purchased or originated rights to service loans are amortized in relation to the estimated period of net servicing income. The carrying value of mortgage servicing rights (MSRs) is evaluated on a disaggregated basis relative to loans originated in a given quarter for impairment if there are changes in market conditions, payoffs or loan delinquencies. Impairment of MSRs is recognized through a charge to noninterest income when the MSRs' carrying amount exceeds its current fair value. MSRs are included in other assets in the accompanying statements of condition and are amortized into mortgage loan servicing income.

Transfers of Financial Assets: These are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets 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.

Mortgage Loan Servicing Fees: These are based on a percentage of the interest collected and are included in income as related loan payments from mortgagors are collected offset by the amortization of the servicing rights.

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(Continued)

FIRST NATIONAL BANK ALASKA  
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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** (Continued)

Investments in Limited Partnerships: Investments where the underlying assets are qualified affordable housing projects were accounted for using the equity method during 2021, and the bank included its proportionate share of income or loss in other noninterest income or expense. During 2022, the bank adopted the proportional amortization accounting method for qualified affordable housing projects investments. Under this method, the bank amortizes the investment in tax expense over the period during which tax benefits are received.

A description of the Bank's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts: The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point at which the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Bankcard Fees: The Bank earns interchange fees from debit/credit cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Bankcard fees include income from interchange fees on both credit and debit cards, merchant fees earned on credit transactions, and miscellaneous set up and equipment rental fees. The Bank recognizes fee revenue as it is earned and collectability is reasonably assured. Expenses related to rebate reward programs are recorded when earned by cardholders.

Wealth Management Fees: The Bank earns wealth management fees from services provided for trusts and investment management accounts for customers to manage assets for investment. These fees are primarily earned over time as the Bank provides monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management at month-end.

Gains/Losses on Sales of OREO: The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of OREO to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Income Taxes: Income taxes are accounted for in accordance with Accounting Standards Codification (ASC) Topic 740. A current income tax asset or liability is recognized for estimated taxes payable or refundable on current year income tax returns. A deferred tax asset or liability is recognized for future tax effects attributable to temporary differences arising between the tax bases of assets or liabilities and their reported amounts in the financial statements.

The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax law. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. In the event the Bank does not expect to realize future tax benefits, a valuation allowance would be established to reduce the amount of deferred tax assets.

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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** (Continued)

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share: These are computed on the basis of the weighted average number of shares outstanding. The weighted average number of shares outstanding were 3,166,885 for 2022 and 2021. The Bank does not have any potentially dilutive securities.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. From time to time in the normal course of business, various claims are asserted against the Bank. The Bank carried a \$1,500 litigation reserve and a \$1,500 escrow receivable as of December 31, 2021 related to potential exposure related to a merchant service settlement. During 2022 a portion of the merchant service equity securities were sold resulting in a reduction to the litigation reserve and escrow receivable. As of December 31, 2022, the carrying value of the litigation reserve and escrow receivable was \$305. Management and legal counsel are of the opinion that ultimate resolution of the matters presently known to exist will not have a material effect on the Bank’s financial statements.

Fair Values of Financial Instruments: These are estimated using relevant market information and other assumptions, as more fully disclosed in estimated fair value of financial instruments footnote. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications: Reclassifications have been made to conform 2021 financial statement data with the 2022 presentation. Reclassifications had no effect on prior year net income or shareholders’ equity.

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(Continued)

FIRST NATIONAL BANK ALASKA  
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**NOTE 2 - SECURITIES**

The amortized cost and fair value of securities, available-for-sale are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Amortized cost and fair values of securities, available-for-sale by maturity date, as of December 31, 2022:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2022</u>				
U.S. Treasury securities maturities:				
Within 1 year	\$ 271,148	\$ -	\$ 1,774	\$ 269,374
One to 5 years	1,092,965	-	92,697	1,000,268
Five to 10 years	27,919	-	3,820	24,099
Total	<u>1,392,032</u>	<u>-</u>	<u>98,291</u>	<u>1,293,741</u>
U.S. Government-sponsored enterprises maturities:				
Within 1 year	210,749	-	4,921	205,828
One to 5 years	448,712	-	31,721	416,991
Five to 10 years	154,409	50	15,130	139,329
After 10 years	2,072	-	363	1,709
Total	<u>815,942</u>	<u>50</u>	<u>52,135</u>	<u>763,857</u>
States and political subdivisions maturities:				
Within 1 year	4,132	-	25	4,107
One to 5 years	41,742	3	596	41,149
Five to 10 years	73,764	27	1,514	72,277
After 10 years	42,676	-	3,019	39,657
Total	<u>162,314</u>	<u>30</u>	<u>5,154</u>	<u>157,190</u>
Mortgage-backed securities: residential	318,683	-	36,253	282,430
Mortgage-backed securities: commercial	130,552	201	2,324	128,429
Corporate bonds maturities:				
Within 1 year	54,189	-	465	53,724
One to 5 years	115,273	143	8,460	106,956
Five to 10 years	24,777	-	1,609	23,168
After 10 years	5,970	-	108	5,862
Total	<u>200,209</u>	<u>143</u>	<u>10,642</u>	<u>189,710</u>
Total Securities, Available-For-Sale	<u>\$ 3,019,732</u>	<u>\$ 424</u>	<u>\$ 204,799</u>	<u>\$ 2,815,357</u>

(Continued)

FIRST NATIONAL BANK ALASKA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 - SECURITIES** (Continued)

For the years ended December 31, 2022 and 2021 there were no holdings of securities of any one issuer, other than U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Gross unrealized losses on investment securities and the 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, at December 31, 2022, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>2022</u>						
Available-for-sale:						
U.S. Treasury	\$ 447,883	\$ 14,963	\$ 845,858	\$ 83,328	\$ 1,293,741	\$ 98,291
U.S. government-sponsored enterprises	496,649	30,912	263,954	21,223	760,603	52,135
State and political subdivisions	146,170	5,154	-	-	146,170	5,154
Corporate bonds	156,529	8,422	23,996	2,220	180,525	10,642
Mortgage-backed residential	39,451	1,884	242,979	34,369	282,430	36,253
commercial	107,439	2,324	-	-	107,439	2,324
Total	<u>\$1,394,121</u>	<u>\$ 63,659</u>	<u>\$1,376,787</u>	<u>\$ 141,140</u>	<u>\$2,770,908</u>	<u>\$ 204,799</u>

Management believes the unrealized holding losses on investments are the result of interest rate changes and not a result of credit quality issues. The contractual terms of these investments do not permit the issuer to redeem the securities at a price less than par, or at a time in which the securities amortized cost would be less than par. Unrealized losses on U.S. Treasury, U.S. government-sponsored enterprises, states and political subdivisions and corporate bonds have not been recognized into income because the issuer(s) bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

At December 31, 2022, all of the mortgage-backed securities held by the Bank were issued or guaranteed by U.S. government corporations (Ginnie Mae and SBA) or U.S. government-sponsored entities (Fannie Mae and Freddie Mac). Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Bank does not consider these securities to be other-than-temporarily impaired.

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FIRST NATIONAL BANK ALASKA  
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**NOTE 2 - SECURITIES** (Continued)

The amortized cost and fair value of securities, available-for-sale are shown by contractual maturity. Amortized cost and fair values of securities, available-for-sale by maturity date, as of December 31, 2021:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2021</u>				
U.S. Treasury securities maturities:				
Within 1 year	\$ 65,417	\$ 468	\$ 74	\$ 65,811
One to 5 years	889,968	824	12,038	878,754
Five to 10 years	<u>188,863</u>	<u>22</u>	<u>2,546</u>	<u>186,339</u>
Total	<u>1,144,248</u>	<u>1,314</u>	<u>14,658</u>	<u>1,130,904</u>
U.S. Government-sponsored enterprises maturities:				
Within 1 year	135,553	1,179	-	136,732
One to 5 years	552,893	10,109	4,103	558,899
Five to 10 years	156,717	4,538	789	160,466
After 10 years	<u>7,270</u>	<u>192</u>	<u>-</u>	<u>7,462</u>
Total	<u>852,433</u>	<u>16,018</u>	<u>4,892</u>	<u>863,559</u>
States and political subdivisions maturities:				
Within 1 year	5,139	40	-	5,179
One to 5 years	36,023	1,288	-	37,311
Five to 10 years	73,238	5,246	-	78,484
After 10 years	<u>55,504</u>	<u>3,654</u>	<u>-</u>	<u>59,158</u>
Total	<u>169,904</u>	<u>10,228</u>	<u>-</u>	<u>180,132</u>
Mortgage-backed securities: residential	341,768	33	2,754	339,047
Mortgage-backed securities: commercial	127,682	2,278	2	129,958
Corporate bonds maturities:				
Within 1 year	49,060	540	-	49,600
One to 5 years	93,370	2,761	80	96,051
Five to 10 years	47,044	837	17	47,864
After 10 years	<u>5,892</u>	<u>-</u>	<u>57</u>	<u>5,835</u>
Total	<u>195,366</u>	<u>4,138</u>	<u>154</u>	<u>199,350</u>
<b>Total Securities, Available-For-Sale</b>	<b><u>\$ 2,831,401</u></b>	<b><u>\$ 34,009</u></b>	<b><u>\$ 22,460</u></b>	<b><u>\$ 2,842,950</u></b>

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FIRST NATIONAL BANK ALASKA  
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**NOTE 2 - SECURITIES (Continued)**

Gross unrealized losses on investment securities and the 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, at December 31, 2021, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>2021</u>						
Available-for-sale:						
U.S. Treasury	\$1,012,589	\$ 14,151	\$ 25,399	\$ 507	\$ 1,037,988	\$ 14,658
U.S. government-sponsored enterprises	249,696	3,869	63,088	1,023	312,784	4,892
Corporate bonds	26,134	154	-	-	26,134	154
Mortgage-backed residential	323,301	2,754	-	-	323,301	2,754
commercial	-	-	4,331	2	4,331	2
Total	<u>\$1,611,720</u>	<u>\$ 20,928</u>	<u>\$ 92,818</u>	<u>\$ 1,532</u>	<u>\$ 1,704,538</u>	<u>\$ 22,460</u>

Investment securities with carrying amounts of \$1,509,818 and \$1,546,553 at December 31, 2022 and 2021, respectively, were pledged to secure public and trust deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

Realized gains on the disposition of investment securities totaled \$85 and \$10 in 2022 and 2021, respectively. Realized losses on the disposition of investment securities totaled \$9,823 and zero for 2022 and 2021, respectively.

The Bank, as a member of Visa USA, received 83,987 unrestricted shares of Visa, Inc. Class B common stock in connection with Visa, Inc.'s initial public offering in 2007. The retroactive responsibility plan obligates all former Visa USA members to indemnify Visa USA, in proportion to their equity interests in Visa USA, for certain litigation losses and expenses, including settlement expenses, for the lawsuits covered by the retrospective responsibility plan. Due to the restrictions that the retrospective responsibility plan imposes on the Company's Visa, Inc. Class B shares, the Company has not recorded the Class B shares as an asset.

The Bank sold 42,000 shares of Visa Class B common stock in the fourth quarter of 2022 and recorded a gain of \$9,674, which was included within net (losses) gains on investment securities on the statements of income.

Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the remaining 41,987 Visa Class B shares that the Company owns as of December 31, 2022 are carried at zero.

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FIRST NATIONAL BANK ALASKA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

The loan portfolio consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Commercial and industrial	\$ 454,235	\$ 511,464
Real estate		
Construction and development	383,304	291,575
1-4 and multifamily residential	265,890	209,927
Commercial real estate	1,119,463	1,113,565
Consumer and other	<u>16,322</u>	<u>15,581</u>
Total	2,239,214	2,142,112
Less: Net deferred loan fees	<u>12,167</u>	<u>14,841</u>
Total loans, gross	2,227,047	2,127,271
Less: Allowance for loan losses	<u>18,800</u>	<u>22,900</u>
Total loans, net	<u>\$ 2,208,247</u>	<u>\$ 2,104,371</u>

There were unamortized premiums of \$151 and \$1,318 from purchased government guaranteed loans and multifamily real estate loans as of December 31, 2022 and 2021, respectively. The Bank purchased \$77,397 and \$20,145 of government guaranteed loans in 2022 and 2021, respectively. The government guaranteed loan balances were \$153,454 and \$106,459 as of December 31, 2022 and 2021, respectively. Government guaranteed loans are included in commercial and industrial loans.

Included in commercial and industrial loans are loans made under the Paycheck Protection Program (PPP), which are guaranteed by the Small Business Administration (SBA). The loans have a term of 24 and 60 months but are eligible for forgiveness by the SBA. The Bank originated a total of zero and \$238,302 in PPP loans during 2022 and 2021, respectively. The balance of PPP loans was \$4,927 and \$131,291 as of December 31, 2022 and 2021, respectively. The Bank recognized \$3,637 and \$13,427 of net fee income on the PPP loan originations during 2022 and 2021, respectively.

As of December 31, 2022 and 2021 the aggregate indebtedness of all related parties (directors and executive officers of the Bank and their family members) was \$10,831 and \$14,137, respectively.

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(Continued)

FIRST NATIONAL BANK ALASKA  
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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES** (Continued)

The following is an analysis of the changes in the allowance for loan losses by portfolio segment for the period ended:

	Commercial and <u>Industrial</u>	Real Estate	Consumer and <u>Other</u>	<u>Total</u>
<u>2022</u>				
Allowance for loan losses:				
Beginning balance, January 1, 2022	\$ 6,933	\$ 15,641	\$ 326	\$ 22,900
Provision for loan losses	(84)	(1,041)	(124)	(1,249)
Loans charged-off	(4,305)	-	(198)	(4,503)
Recoveries	<u>1,376</u>	<u>15</u>	<u>261</u>	<u>1,652</u>
Ending Balance, December 31, 2022	<u>\$ 3,920</u>	<u>\$ 14,615</u>	<u>\$ 265</u>	<u>\$ 18,800</u>
<u>2021</u>				
Allowance for loan losses:				
Beginning balance, January 1, 2021	\$ 6,368	\$ 14,884	\$ 298	\$ 21,550
Provision for loan losses	1,738	714	(25)	2,427
Loans charged-off	(1,767)	(1)	(113)	(1,881)
Recoveries	<u>594</u>	<u>44</u>	<u>166</u>	<u>804</u>
Ending Balance, December 31, 2021	<u>\$ 6,933</u>	<u>\$ 15,641</u>	<u>\$ 326</u>	<u>\$ 22,900</u>

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(Continued)

FIRST NATIONAL BANK ALASKA  
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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)**

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 and 2021:

	Commercial and <u>Industrial</u>	Real Estate	Consumer and <u>Other</u>	<u>Total</u>
<u>2022</u>				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$ 50	\$ 250	\$ -	\$ 300
Collectively evaluated for impairment	<u>3,870</u>	<u>14,365</u>	<u>265</u>	<u>18,500</u>
Total ending allowance balance	<u>\$ 3,920</u>	<u>\$ 14,615</u>	<u>\$ 265</u>	<u>\$ 18,800</u>
Loans:				
Individually evaluated for impairment	964	9,614	44	10,622
Collectively evaluated for impairment	<u>453,271</u>	<u>1,759,043</u>	<u>16,278</u>	<u>2,228,592</u>
Total loans outstanding balance	<u>\$ 454,235</u>	<u>\$1,768,657</u>	<u>\$ 16,322</u>	<u>\$ 2,239,214</u>
Deferred loan fees, net				<u>(12,167)</u>
Total loans				<u>\$ 2,227,047</u>
<u>2021</u>				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$ 4,000	\$ 500	\$ -	\$ 4,500
Collectively evaluated for impairment	<u>2,933</u>	<u>15,141</u>	<u>326</u>	<u>18,400</u>
Total ending allowance balance	<u>\$ 6,933</u>	<u>\$ 15,641</u>	<u>\$ 326</u>	<u>\$ 22,900</u>
Loans:				
Individually evaluated for impairment	11,633	12,183	92	23,908
Collectively evaluated for impairment	<u>499,831</u>	<u>1,602,884</u>	<u>15,489</u>	<u>2,118,204</u>
Total loans outstanding balance	<u>\$ 511,464</u>	<u>\$1,615,067</u>	<u>\$ 15,581</u>	<u>\$ 2,142,112</u>
Deferred loan fees, net				<u>(14,841)</u>
Total loans				<u>\$ 2,127,271</u>

(Continued)



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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)**

The following table summarizes our nonaccrual loans and loans past due by loan class as of December 31, 2022 and 2021:

	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total Loans	Non- Accrual
<u>December 31, 2022</u>						
Commercial and industrial	\$ 50	\$ 3	\$ 53	\$ 454,182	\$ 454,235	\$ 904
Real Estate						
Construction and development	1,181	199	1,380	381,924	383,304	463
1 - 4 and multifamily residential	622	265	887	265,003	265,890	1,075
Commercial real estate	1,649	111	1,760	1,117,703	1,119,463	3,303
Consumer and other	390	23	413	15,909	16,322	-
Total	<u>\$ 3,892</u>	<u>\$ 601</u>	<u>\$ 4,493</u>	<u>\$ 2,234,721</u>	<u>\$ 2,239,214</u>	<u>\$ 5,745</u>
Deferred loan fees, net					(12,167)	(48)
Total loans					<u>\$ 2,227,047</u>	<u>\$ 5,697</u>
<u>December 31, 2021</u>						
Commercial and industrial	\$ 9,303	\$ 1	\$ 9,304	\$ 502,160	\$ 511,464	\$ 11,198
Real Estate						
Construction and development	543	-	543	291,032	291,575	1,130
1 - 4 and multifamily residential	138	120	258	209,669	209,927	1,216
Commercial real estate	-	599	599	1,112,966	1,113,565	4,096
Consumer and other	22	7	29	15,552	15,581	-
Total	<u>\$ 10,006</u>	<u>\$ 727</u>	<u>\$ 10,733</u>	<u>\$ 2,131,379</u>	<u>\$ 2,142,112</u>	<u>\$ 17,640</u>
Deferred loan fees, net					(14,841)	(60)
Total loans					<u>\$ 2,127,271</u>	<u>\$ 17,580</u>

As of December 31, 2022 and 2021, \$222 and \$599 in loans were greater than 89 days past due and in accrual status.

(Continued)

FIRST NATIONAL BANK ALASKA  
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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)**

The following table presents information related to impaired loans, net of deferred fees, by class of loans as of December 31, 2022:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash Basis Interest Recognized</u>
<u>December 31, 2022</u>						
With no allowance recorded:						
Commercial and industrial	\$ 1,685	\$ 888	\$ -	\$ 1,174	\$ 121	\$ 121
Real Estate						
Construction and development	334	215	-	245	24	24
1 - 4 and multifamily residential	1,739	1,479	-	1,262	120	121
Commercial real estate	7,239	6,480	-	6,600	491	491
Consumer and other	<u>44</u>	<u>44</u>	<u>-</u>	<u>68</u>	<u>6</u>	<u>6</u>
Subtotal	<u>11,041</u>	<u>9,106</u>	<u>-</u>	<u>9,349</u>	<u>762</u>	<u>763</u>
With an allowance recorded:						
Commercial and industrial	55	47	50	77	7	7
Real Estate						
Construction and development	351	243	130	274	21	21
1 - 4 and multifamily residential	-	-	-	-	-	-
Commercial real estate	1,872	1,148	120	1,243	127	127
Consumer and other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>2,278</u>	<u>1,438</u>	<u>300</u>	<u>1,594</u>	<u>155</u>	<u>155</u>
Total	<u>\$ 13,319</u>	<u>\$ 10,544</u>	<u>\$ 300</u>	<u>\$ 10,943</u>	<u>\$ 917</u>	<u>\$ 918</u>

The recorded investment in loans excludes accrued interest receivable and loan origination fees.

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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)**

The following table presents information related to impaired loans, net of deferred fees, by class of loans as of December 31, 2021:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash Basis Interest Recognized</u>
<u>December 31, 2021</u>						
With no allowance recorded:						
Commercial and industrial	\$ 2,781	\$ 2,081	\$ -	\$ 2,427	\$ 197	\$ 198
Real Estate						
Construction and development	916	820	-	580	47	48
1 - 4 and multifamily residential	1,488	1,330	-	1,410	111	114
Commercial real estate	7,231	6,348	-	6,757	439	444
Consumer and other	<u>92</u>	<u>92</u>	<u>-</u>	<u>114</u>	<u>10</u>	<u>10</u>
Subtotal	<u>12,508</u>	<u>10,671</u>	<u>-</u>	<u>11,288</u>	<u>804</u>	<u>814</u>
With an allowance recorded:						
Commercial and industrial	9,662	9,517	4,000	9,632	306	395
Real Estate						
Construction and development	392	304	200	338	27	27
1 - 4 and multifamily residential	1,213	1,077	100	1,160	88	88
Commercial real estate	2,908	2,311	200	2,407	177	177
Consumer and other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>14,175</u>	<u>13,209</u>	<u>4,500</u>	<u>13,537</u>	<u>598</u>	<u>687</u>
Total	<u>\$ 26,683</u>	<u>\$ 23,880</u>	<u>\$ 4,500</u>	<u>\$ 24,825</u>	<u>\$ 1,402</u>	<u>\$ 1,501</u>

The recorded investment in loans excludes accrued interest receivable and loan origination fees.

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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES** (Continued)

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying loans as to credit risk. Formal analysis of classified loans is performed quarterly, including all loans 60 days delinquent. Ongoing evaluation of certain performing loans is conducted through internal credit examinations and loan committee reviews.

The Bank uses the following definitions for risk ratings:

Pass/Watch: Loans classified as pass/watch include current loans performing in accordance with contractual terms, pools of homogenous residential real estate and installment/consumer loans that are not individually risk rated and loans which exhibit certain risk factors that require greater than usual monitoring by management.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified 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/Loss: Loans classified as doubtful/loss have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table summarizes our internal risk rating by loan class based on the most recent analysis performed as of December 31, 2022 and 2021:

	<u>Pass/ Watch</u>	<u>Special Mention</u>	<u>Sub- Standard</u>	<u>Doubtful/ Loss</u>	<u>Total</u>
<u>December 31, 2022</u>					
Commercial and industrial	\$ 449,283	\$ 3,996	\$ 902	\$ 54	\$ 454,235
Real Estate					
Construction and development	339,593	17,918	25,793	-	383,304
1 - 4 and multifamily residential	263,319	694	1,877	-	265,890
Commercial real estate	1,053,981	5,785	59,379	318	1,119,463
Consumer and other	<u>16,234</u>	<u>22</u>	<u>66</u>	<u>-</u>	<u>16,322</u>
Total	<u>\$ 2,122,410</u>	<u>\$ 28,415</u>	<u>\$ 88,017</u>	<u>\$ 372</u>	<u>\$ 2,239,214</u>
Deferred loan fees, net					<u>(12,167)</u>
Total loans					<u>\$ 2,227,047</u>

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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)**

	<u>Pass/ Watch</u>	<u>Special Mention</u>	<u>Sub- Standard</u>	<u>Doubtful/ Loss</u>	<u>Total</u>
<u>December 31, 2021</u>					
Commercial and industrial	\$ 491,572	\$ 6,865	\$ 3,490	\$ 9,537	\$ 511,464
Real Estate					
Construction and development	256,217	-	35,358	-	291,575
1 - 4 and multifamily residential	203,559	1,611	4,757	-	209,927
Commercial real estate	1,044,314	34,483	34,405	363	1,113,565
Consumer and other	<u>15,459</u>	<u>-</u>	<u>122</u>	<u>-</u>	<u>15,581</u>
Total	<u>\$ 2,011,121</u>	<u>\$ 42,959</u>	<u>\$ 78,132</u>	<u>\$ 9,900</u>	<u>\$ 2,142,112</u>
Deferred loan fees, net					<u>(14,841)</u>
Total loans					<u>\$ 2,127,271</u>

**Troubled Debt Restructurings:**

At December 31, 2022 and 2021, the Bank had loans of \$7,813 and \$19,708 classified as troubled debt restructurings, respectively, included in impaired loans. These loans had allocated specific reserves of \$168 and \$4,305 at December 31, 2022 and 2021, respectively. The Bank has committed to lend \$29 and \$71 as of December 31, 2022 and 2021, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

At December 31, 2022 \$4,847 of troubled debt restructurings were performing and \$2,798 were nonaccrual and impaired. At December 31, 2021 \$6,387 of troubled debt restructurings were performing and \$9,016 were nonaccrual and impaired.

During the year ended December 31, 2022, no loans were modified as troubled debt restructurings.

During the year ended December 31, 2021, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk or a temporary deferral of all or part of the original periodic principal payments. For commercial loans there were three restructurings of commercial loans. There was one restructuring of stated interest rate, as well as three maturity date extensions of 16 and 17 months. There were no restructurings of construction loans, 1-4 and multifamily residential loans, commercial real estate loans, and consumer loans.

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**NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES** (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2021:

	Number of <u>Loans</u>	Pre- Modification Outstanding Recorded <u>Investment</u>	Post- Modification Outstanding Recorded <u>Investment</u>
<u>2021 Troubled Debt Restructurings:</u>			
Commercial and industrial	3	\$ 100	\$ 100
Real Estate			
Construction and development	-	-	-
1 - 4 and multifamily residential	-	-	-
Commercial real estate	-	-	-
Consumer and other	-	-	-
	<u>3</u>	<u>\$ 100</u>	<u>\$ 100</u>
Total	<u>3</u>	<u>\$ 100</u>	<u>\$ 100</u>

The troubled debt restructurings described in the above table had allocated specific reserves of zero and \$72 as of December 31, 2022 and 2021 and resulted in no charge-offs during the years ended December 31, 2022 and 2021.

There were no loans that defaulted (became at least 60 days past due) during December 31, 2022 and 2021 after having been modified as a troubled debt restructuring within the previous 12 months.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

The Bank worked with borrowers impacted by COVID-19 and providing modifications to include deferral of interest and/or principal payments. Certain borrowers may have an extended deferral period. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of federal banking regulators. As of December 31, 2022, The Bank provided 24 payment deferrals on loans with a total principal balance of \$34,222, or 2%, of total loans. The modifications are to interest-only payments and remain concentrated in commercial real estate loans to customers in the rental and leasing and hotel and food service industries. The majority of active deferrals expire during first quarter 2023.

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**NOTE 4 - OTHER REAL ESTATE OWNED**

The following is an analysis of the changes in other real estate owned:

	<u>2022</u>	<u>2021</u>
Balance, January 1	\$ 49	\$ 461
Acquired upon foreclosure	-	1,167
Dispositions	<u>(49)</u>	<u>(1,579)</u>
Balance December 31	<u>-</u>	<u>49</u>
Less Devaluation Reserves:		
Balance, January 1	(20)	-
Impairments subsequent to foreclosure	-	(20)
Dispositions	<u>20</u>	<u>-</u>
Balance December 31	<u>-</u>	<u>(20)</u>
Other real estate owned, net	<u>\$ -</u>	<u>\$ 29</u>

Net gains on sales of other real estate owned included in other noninterest income for the years ended December 31, 2022 and 2021, totaled \$1 and \$1,546, respectively. Operating expenses, net of rental income totaled zero and \$210 for the years ended December 31, 2022 and 2021, respectively.

**NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS**

GAAP requires disclosure of the estimated fair values of certain financial assets and liabilities, both on and off-balance sheet, for which it is practical to estimate the fair value. Because the estimated fair values provided herein exclude disclosure of the fair value of certain other financial instruments and all non-financial instruments, any aggregation of the estimated fair value amounts presented would not represent the underlying value of the Bank. Examples of non-financial instruments having significant value include the future earnings potential of significant customer relationships and the value of the Bank's trust department operations and other fee-generating businesses. In addition, other significant assets including property, plant, and equipment and mortgage servicing rights for portfolio loans are not considered financial instruments and, therefore, have not been valued.

Various methodologies and assumptions have been utilized in management's determination of the estimated fair value of the Bank's financial instruments, which are detailed below. The fair value estimates are made at a discrete point in time based on relevant market information. Because no market exists for a significant portion of these financial instruments, fair value estimates are based on judgments regarding future expected economic conditions, loss experience, and risk characteristics of the financial instruments. These estimates are subjective, involve uncertainties, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2022 and 2021. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

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**NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

Amounts and estimated fair value of financial instruments as of December 31,

	2022		2021	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets:</u>				
Cash and cash equivalents	\$ 93,547	\$ 93,547	\$ 531,956	\$ 531,956
Securities, available-for-sale	2,815,357	2,815,357	2,842,950	2,842,950
Real estate loans to be sold	1,728	1,728	8,336	8,336
Loans:				
Commercial and industrial	448,504	441,886	499,261	499,125
Real estate	1,743,668	1,699,917	1,589,831	1,611,204
Consumer and other	16,075	15,812	15,279	14,968
	2,208,247	2,157,615	2,104,371	2,125,297
Federal Reserve Bank stock	2,150	N/A	2,150	N/A
Federal Home Loan Bank stock	6,698	N/A	5,634	N/A
Interest receivable	24,012	24,012	18,494	18,494
<u>Financial liabilities:</u>				
Deposits:				
Non-interest bearing	\$ 2,368,659	\$ 2,368,659	\$ 2,502,374	\$ 2,502,374
Interest bearing:				
Savings	1,023,024	1,023,024	1,024,692	1,024,692
Business Interest Checking	124,357	124,357	-	-
Business Interest Sweep	278,553	278,553	135,488	135,488
NOW	159,929	159,929	292,223	292,223
Money Market	147,026	147,026	144,944	144,944
Time	123,309	124,032	117,203	117,895
	1,856,198	1,856,921	1,714,550	1,715,242
Total interest bearing				
Total deposits	4,224,857	4,225,580	4,216,924	4,217,616
Securities sold under agreements to repurchase	670,974	670,974	781,700	781,700
Finance lease obligation	969	969	12	12
Interest payable	203	203	147	147



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**NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

In accordance with ASC Topic 820, we measure some of the financial assets and financial liabilities disclosed in the following tables at fair value in three levels based on the markets in which the assets and liabilities are traded and reliability of the assumptions used to determine fair value. The levels are:

- Level 1 Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets, liabilities, or funds. Level 1 includes U.S. Treasury Securities.
- Level 2 Valuations for assets and liabilities traded in less active dealer, or broker markets, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active. Level 2 includes U. S. government-sponsored enterprises, securities of state and political subdivisions, residential mortgage-backed securities, and corporate bonds. Valuations are usually obtained from third party pricing services for identical or comparable assets or liabilities.
- Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, such as option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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**NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

Assets measured at fair value on a recurring basis:

	<u>Total</u>	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2022</u>				
<u>Securities:</u>				
U.S. Treasury	\$ 1,293,741	\$ 1,293,741	\$ -	\$ -
U.S. government-sponsored enterprises	763,857	-	763,857	-
States and political subdivisions	157,190	-	157,190	-
Mortgage-backed - residential	282,430	-	282,430	-
Mortgage-backed - commercial	128,429	-	128,429	-
Corporate bonds	189,710	-	189,710	-
Total securities	<u>\$ 2,815,357</u>	<u>\$ 1,293,741</u>	<u>\$ 1,521,616</u>	<u>\$ -</u>
<u>2021</u>				
<u>Securities:</u>				
U.S. Treasury	\$ 1,130,904	\$ 1,130,904	\$ -	\$ -
U.S. government-sponsored enterprises	863,559	-	863,559	-
States and political subdivisions	180,132	-	180,132	-
Mortgage-backed - residential	339,047	-	339,047	-
Mortgage-backed - commercial	129,958	-	129,958	-
Corporate bonds	199,350	-	199,350	-
Total securities	<u>\$ 2,842,950</u>	<u>\$ 1,130,904</u>	<u>\$ 1,712,046</u>	<u>\$ -</u>

For investment securities, where quoted prices are available in an active market for identical securities they are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics and securities are classified as Level 2.

Where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. No securities were classified as Level 3 during 2022 and 2021.

The majority of the Bank's investments are in high-quality short term U.S. Treasury, U.S. government-sponsored enterprise bonds where the fair values are determined by the Bank's pricing service using quoted prices of similar securities. As of December 31, 2022 the Bank had no investments in Fannie Mae or Freddie Mac common or preferred stock.

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**NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

Assets measured at fair value on a nonrecurring basis:

	<u>Total</u>	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2022</u>				
<u>Impaired loans:</u>				
Real estate	\$ 1,141	\$ -	\$ -	\$ 1,141
Total impaired loans	<u>\$ 1,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,141</u>
<u>December 31, 2021</u>				
<u>Impaired loans:</u>				
Commercial and industrial	\$ 5,511	\$ -	\$ -	\$ 5,511
Real estate	<u>3,176</u>	<u>-</u>	<u>-</u>	<u>3,176</u>
Total impaired loans	<u>\$ 8,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,687</u>

The fair value of impaired loans is based on the value of the collateral securing those loans and is determined using the sale or market comparison. The market comparison evaluates the sales price of similar properties or assets in the same market area. Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans were \$1,438 and \$13,209 for the years ended December 31, 2022 and 2021, respectively. An allowance of \$300 and \$4,500 were applied for the years ended December 31, 2022 and 2021, respectively, which resulted in a reduction to provision for loan losses of \$125 for the year ended December 31, 2022, and an additional provision for loan losses of \$748 for the year ended December 31, 2021.

The fair value of other real estate owned is based upon the current appraised values of the properties. Appraisals are obtained at least annually and reductions in value are recorded as a valuation loss through a charge to expense. Other real estate owned measured at fair value less costs to sell resulted in write-downs of zero and \$20 for the years ended December 31, 2022 and 2021, respectively.

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**NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2021 and 2020:

	<u>Fair value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
<u>December 31, 2022</u>				
Loans - real estate	\$ 1,141	Sales comparison approach	Adjustment for differences between the comparable sales	-1.99% to -30.85% (-9.12%)
<u>December 31, 2021</u>				
Loans - commercial and industrial	\$ 5,511	Sales comparison approach	Adjustment for differences between the comparable sales	-5.40% to -20.17% (-5.52%)
Loans - real estate	\$ 3,176	Sales comparison approach	Adjustment for differences between the comparable sales	-0.12% to -38.75% (-4.22%)

ASC Topic 825 provides an option to selectively report financial assets and financial liabilities at fair value and establishes presentation and disclosure requirements. The Bank did not elect the fair value option for any additional financial assets or liabilities as of December 31, 2022. The Bank may adopt this guidance for financial assets and liabilities in the future as permitted under the guidance.

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**NOTE 6 - MORTGAGE SERVICING RIGHTS**

Real estate loans serviced for others as of December 31, 2022 and 2021 were \$1,341,393 and \$1,285,320, respectively. Custodial balances, associated with these loans and held in noninterest bearing demand accounts, amounted to \$12,586 and \$11,289 as of December 31, 2022 and 2021, respectively.

The following is an analysis of the changes in mortgage servicing rights:

	<u>2022</u>	<u>2021</u>
Balance, January 1	\$ 3,416	\$ 3,532
Additions:		
Capitalization of servicing assets	854	1,426
Subtractions:		
Amortization	(1,148)	(1,260)
Accelerated amortization due to early payoffs	<u>(316)</u>	<u>(282)</u>
Balance December 31	<u>\$ 2,806</u>	<u>\$ 3,416</u>

Mortgage loan servicing income is comprised of the following:

	<u>2022</u>	<u>2021</u>
Mortgage loan servicing fees	3,336	3,382
Amortization of costs	(1,148)	(1,260)
Accelerated amortization due to early payoffs	<u>(316)</u>	<u>(282)</u>
Mortgage loan servicing income	<u>\$ 1,872</u>	<u>\$ 1,840</u>

Mortgage servicing rights (MSRs) are accounted for under the amortization method. MSRs are included in other assets. MSRs are initially recorded at estimated fair value and are then amortized in proportion to and over the period of estimated net servicing income. The fair value of MSRs is estimated at the present value of the estimated expected future cash flows using a discount rate equivalent with the risks involved. MSRs are amortized against mortgage loan servicing income over seven years based upon prepayment assumptions. Those prepayment assumptions predict mortgages will pay off or refinance at lower levels during the first 30 months and at a constant level over the remaining 54 months. Accordingly, MSRs are amortized against mortgage loan servicing income at higher levels during the initial 30 months. If actual payments received exceed the prepayment assumptions, an impairment is recorded. Fair value of MSRs exceed amortized cost for each individual stratum. Accordingly, there has been no impairment for 2022 and 2021.

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**NOTE 7 - PREMISES AND EQUIPMENT**

The following is a summary of the major components of premises and equipment as of December 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 13,405	\$ 13,405
Bank premises	83,307	79,466
Leasehold improvements	345	345
Furniture and equipment	41,159	37,659
Construction in process	<u>2,067</u>	<u>982</u>
Total premises and equipment	140,283	131,857
Less: Accumulated depreciation and amortization	<u>87,948</u>	<u>84,815</u>
Premises and equipment, net	<u>\$ 52,335</u>	<u>\$ 47,042</u>

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2022 and 2021 totaled \$3,955 and \$3,755, respectively.

**NOTE 8 - LEASES**

The Bank is party to various operating leases for the rental of premises and equipment. Total rental expenses for Bank premises and equipment were \$448 and \$356 as of December 31, 2022 and 2021, respectively.

The Bank has lease agreements for land and office facilities that it occupies to operate several retail branch locations that are classified as operating leases and are recognized on the balance sheet as right-of-use ("ROU") assets and lease liabilities. The Bank uses the rate implicit in each lease as the discount rate to determine the lease liability, which is the present value of lease payments not yet paid at the lease commencement date. If the rate implicit in each lease is not readily determinable, the Bank uses its incremental borrowing rate as of the lease commencement date as the discount rate. As of December 31, 2022, the Bank has operating lease ROU assets of \$2,754 and operating lease liabilities of \$2,754.

In 2022, the Bank entered into an obligation for a finance lease covering copy equipment. The gross amount of copy equipment, including installation costs, and related accumulated amortization under the finance lease was \$1,164 and \$220 as of December 31, 2022. Amortization of assets held under finance leases is included with depreciation expense.

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**NOTE 8 - LEASES** (Continued)

The table below reconciles future undiscounted cash flows for finance and operating leases with initial terms of one year or more as of December 31, 2022 to the finance lease obligations and operating lease liabilities recorded on the balance sheet.

	<u>Finance Leases</u>	<u>Operating Leases</u>
Year ended December 31:		
2023	\$ 222	\$ 255
2024	232	235
2025	242	201
2026	252	196
2027	21	167
Thereafter	-	5,116
Total undiscounted lease payments	<u>969</u>	<u>6,170</u>
Less: imputed interest	-	(3,416)
Net finance lease obligations and operating lease liabilities	<u>\$ 969</u>	<u>\$ 2,754</u>
Finance lease weighted average remaining lease term (years)		4.08
Finance lease weighted average discount rate		0.35%
Operating lease weighted average remaining lease term (years)		37.13
Operating lease weighted average discount rate		4.06%

**NOTE 9 - DEPOSITS**

Total deposits by type of depositor as of December 31:

	<u>2022</u>	<u>2021</u>
Deposits of individuals, partnerships, and corporations	\$ 3,790,353	\$ 3,882,337
Deposits of U.S. government	124	124
Deposits of states and political subdivisions	434,367	334,419
Other deposits	<u>13</u>	<u>44</u>
Total deposits	<u>\$ 4,224,857</u>	<u>\$ 4,216,924</u>

As of December 31, 2022 and 2021 the aggregate deposits of related parties (directors and executive officers of the Bank and their family members) were \$13,207 and \$13,266, respectively.

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**NOTE 9 - DEPOSITS** (Continued)

Time deposits have aggregate maturities as of December 31 as follows:

	<u>2022</u>
Maturity:	
2023	\$ 112,310
2024	4,422
2025	2,337
2026	2,072
2027	2,118
Thereafter	<u>50</u>
Total time deposits	<u>\$ 123,309</u>

Time deposits that meet or exceed the FDIC Insurance Limit of \$250 were \$49,290 and \$42,622 as of December 31, 2022 and 2021, respectively.

**NOTE 10 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Investment securities, primarily including U.S. Treasuries and U.S. government-sponsored enterprises, with carrying amounts of \$752,697 and \$918,094 at December 31, 2022 and 2021, respectively, were pledged to secure securities sold under agreements to repurchase. As of December 31, 2022 all repurchase agreements matured within 1 business day.

As of December 31, 2022 and 2021, aggregate repurchase agreement balances of related parties (directors and executive officers of the Bank and their family members) are zero.

**NOTE 11 - EMPLOYEE BENEFIT PLANS**

The Bank offers a 401(k) plan for all employees whom have attained 18 years of age. Participants are allowed to make voluntary salary deferral of up to 50% of their eligible pay subject to certain limitations. For 2022, the maximum amount that may be deferred by participants is \$20.5. Additionally, participants who reach the age of 50 by the end of the calendar year are eligible to make a "catch-up contribution" in an amount up to \$6.5. The participant's salary deferral plus any earnings they generate are 100% vested.

The Bank will make matching contributions equal to 100% of the portion of each participant's before-tax contributions (excluding "catch-up contributions") that do not exceed 6.0% of the participant's eligible pay. Matching contributions made by the Bank, including any earnings generated, are vested beginning at 20% after completion of one full year of service, increasing 20% each year until fully vested at five years of service. The 2022 combined limit of all employee and employer contributions to an individual participant's account is \$61.

The Bank has a qualified non-contributory profit sharing plan for all employees. The annual profit sharing contribution can be made only from profits and the amount is determined by the Board of Directors.

The contribution to the profit sharing and 401(k) plan was \$2,418 and \$2,378 for the years ended December 31, 2022 and 2021, respectively.

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**NOTE 12 - PROVISION FOR INCOME TAXES**

The provision for income taxes is comprised of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Current:		
Federal	\$ 11,849	\$ 14,128
State	<u>4,158</u>	<u>5,167</u>
Total current	<u>16,007</u>	<u>19,295</u>
Deferred:		
Federal	2,614	125
State	<u>1,296</u>	<u>44</u>
Total deferred	<u>3,910</u>	<u>169</u>
Provision for income taxes	<u>\$ 19,917</u>	<u>\$ 19,464</u>

Income tax expense differed from the Federal statutory rate of 21% for 2022 and 2021 for the following reasons:

	<u>2022</u>	<u>%</u>	<u>2021</u>	<u>%</u>
Tax expense at federal statutory rate	\$ 16,412	21.00%	\$ 16,354	21.00%
Increase (decrease) resulting from:				
State tax, net of Federal tax effect	4,321	5.53%	4,083	5.24%
Disallowed interest expense	101	0.13%	13	0.02%
Interest exempt from federal taxation	(971)	-1.24%	(1,069)	-1.37%
Low income housing tax credits	(6)	-0.01%	-	0.00%
Other items, net	<u>60</u>	<u>0.07%</u>	<u>83</u>	<u>0.10%</u>
Provision for income taxes	<u>\$ 19,917</u>	<u>25.48%</u>	<u>\$ 19,464</u>	<u>24.99%</u>

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**NOTE 12 - PROVISION FOR INCOME TAXES** (Continued)

The tax effect of temporary differences that give rise to the Bank's deferred tax assets and deferred tax liabilities are comprised of the following:

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Net unrealized holding loss on securities, available for sale	\$ 58,096	\$ -
Allowance for loan losses	5,345	6,510
Vacation accrual	1,114	1,159
Interest collected on nonperforming loans	827	759
Lease liability	782	828
Accumulated depreciation and amortization	222	541
Mortgage servicing rights	181	-
Low income housing projects	65	76
Other real estate owned valuation reserve	-	5
Other	823	1,079
	<u>67,455</u>	<u>10,957</u>
Total deferred tax assets		
Deferred tax liabilities:		
Net deferred loan fees	2,850	1,807
Right of use asset	782	828
Deferred loan costs	463	595
Net unrealized holding gain on securities available for sale	-	3,283
Mortgage servicing rights	-	19
Other	2,535	1,069
	<u>6,630</u>	<u>7,601</u>
Total deferred tax liabilities		
	<u>\$ 60,825</u>	<u>\$ 3,356</u>
Net deferred tax assets		

As of December 31, 2022 and 2021 the total amount of net deferred tax assets are included in other assets in the statements of financial condition.

The Bank believes that it is more likely than not that the previous taxes paid and results of future operations will generate sufficient taxable income to realize deferred tax assets.

The Bank does not have any material uncertain tax positions or unrecognized tax benefits for additional disclosure in the financial statements.

The total amount of interest and penalties recorded in the income statement for the years ended December 31, 2022 and 2021 were immaterial and no amounts are accrued for interest and penalties at December 31, 2022 or 2021.

The Bank is subject to U.S. federal income tax as well as income tax for the state of Alaska and various other state income and franchise taxes. The Bank is no longer subject to examination by taxing authorities for years before 2019.

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**NOTE 13 - REGULATORY MATTERS**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possible additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

The directors of the Bank may declare and pay dividends as frequently and of such amount of undivided profits as they judge prudent, subject to certain restrictions on capital accounts as defined in Federal banking regulations.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Under Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital rules. The capital conservation buffer is 2.5%.

The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2022, the most recent notifications from the Comptroller of the Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action for both 2022 and 2021. To be categorized as well capitalized, the Bank is required to maintain minimum total risk-based, Tier 1 risk based, Common Tier I, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

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**NOTE 13 - REGULATORY MATTERS** (Continued)

The Bank's actual amounts and ratios at December 31, 2022 and 2021 are as follows:

	<u>Actual</u>		<u>Minimum Requirement for Capital Adequacy Purposes Plus Fully Phased In Capital Conservation Buffer</u>		<u>Minimum Requirement to Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2022</u>						
Total capital						
(to risk-weighted assets)	\$ 573,929	19.24%	\$ 313,220	10.50%	\$ 298,305	10.00%
Tier I capital						
(to risk-weighted assets)	553,829	18.57%	253,559	8.50%	238,644	8.00%
Common Tier 1 (CET1)	553,829	18.57%	208,813	7.00%	193,898	6.50%
Tier I capital (to average assets)	553,829	9.64%	229,743	4.00%	287,179	5.00%
<u>2021</u>						
Total capital						
(to risk-weighted assets)	\$ 570,764	20.94%	\$ 286,220	10.50%	\$ 272,590	10.00%
Tier I capital						
(to risk-weighted assets)	546,264	20.04%	231,702	8.50%	218,072	8.00%
Common Tier 1 (CET1)	546,264	20.04%	190,813	7.00%	177,184	6.50%
Tier I capital (to average assets)	546,264	9.82%	222,579	4.00%	278,224	5.00%

The Bank's principal source of funds for dividend payments is net income and cash provided by operations. Banking regulations limit the amount of dividends that may be paid without prior approval of the OCC. Under these regulations, the amount of dividends that may be paid in any calendar year is subject to the current year's net profits (net income less dividends paid), combined with the retained net profits of the preceding two years, subject to the minimum requirements for capital adequacy in the table above. The maximum dividend that can be paid as of December 31, 2022 is \$15,309 without OCC approval.

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**NOTE 14 - CREDIT ARRANGEMENTS**

The Bank had a committed line of credit, secured by investment securities and loans, of \$244,347 and \$242,077 from the Federal Reserve Bank at a rate of 4.50% and 0.25% as of December 31, 2022 and 2021, respectively. The Bank had a line of credit from Federal Home Loan Bank Des Moines, secured by loans, of \$582,728 and \$489,143 at a rate of 4.60% and 0.30% as of December 31, 2022 and 2021, respectively. There were no outstanding balances against these lines of credit as of December 31, 2022 or 2021.

In addition, the Bank also had federal funds arrangements available from unaffiliated banks totaling \$10,000 at a rate estimated at 4.25% – 4.50% as of December 31, 2022. The Bank had federal funds arrangements available from unaffiliated banks totaling \$95,000 at a rate estimated at 0.25% – 0.50% as of December 31, 2021. There were no outstanding balances against these lines of credit as of December 31, 2022 or 2021.

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments include standby letters of credit, loan and bankcard commitments, subscriptions for the purchase of stock in the Federal Reserve Bank, and commitments to fund mortgage loans to be sold. The credit and market risks involved in issuing letters of credit and loan commitments are essentially the same as those involved in extending loans to customers. Such transactions are made under the same terms, including interest rates and collateral, as those prevailing at the same time for comparable on-balance-sheet transactions.

To reduce credit risk, related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. Collateral varies but may include cash, securities, accounts receivable, inventory, premises and equipment, and real estate.

Amounts of off-balance-sheet commitments as of December 31,

	<u>2022</u>	<u>2021</u>
Loan commitments	\$607,273	\$ 707,255
Bankcard commitments	76,539	78,945
Commitments to fund mortgage loans to be sold	<u>2,183</u>	<u>25,249</u>
Total loan commitments	<u>\$ 685,995</u>	<u>\$ 811,449</u>
Commitments at fixed interest rates	321,518	387,400
Commitments at variable interest rates	<u>364,477</u>	<u>424,049</u>
Total loan commitments	<u>\$ 685,995</u>	<u>\$ 811,449</u>
Standby and commercial letters of credit	\$ 12,374	\$ 12,134
Subscriptions to purchase Federal Reserve Bank stock	2,150	2,150

Commitments to make loans are generally made for periods of 90 days or less. At December 31, 2022, the fixed rate loan commitments have interest rates ranging from 3.1% to 16.5%.

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**NOTE 16 – SHAREHOLDER EQUITY**

Since November 2008, the Bank has been authorized to repurchase up to a value of \$100,000 of its outstanding common stock on the open market and through privately negotiated transactions. The authorization has been renewed annually, and the existing authority expires April 11, 2023.

Repurchase transactions are accounted for as a reduction in common stock and retained earnings. Repurchases are funded from available capital and retired. These transactions have not impacted the surplus balance of \$40,000 as of December 31, 2022 and 2021, which is maintained to comply with regulatory requirements. Changes to surplus require regulatory approval.

During 2022, the Bank did not repurchase any common stock. Cumulative shares of 280,705 have been repurchased under the program since inception for a combined purchase total of \$45,495.

At the January 26, 2023 Board of Directors meeting, cash dividends of \$3.20 per share were declared, payable March 15, 2023 to shareholders of record as of March 1, 2023.

**NOTE 17 – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS**

The Bank invests in qualified affordable housing projects. At December 31, 2022 and 2021, the balances of the investment for qualified affordable housing projects were \$14,997 and \$650. These balances are reflected in the other assets line on the statements of financial condition. Total unfunded commitments related to the investments in qualified affordable housing projects totaled \$14,229 and zero at December 31, 2022 and 2021. These balances are reflected as liabilities in the other liabilities line on the statements of financial condition. The Bank expects to fulfill these commitments during the year ending 2031.

During the year ended December 31, 2022 the Bank recognized amortization expense of \$3, which was included within income tax expense on the statements of income.

During the year ended December 31, 2022 and 2021, the Bank recognized expense (income) of \$467 and (\$280), respectively, which was included within other noninterest expense on the statements of income.

Additionally, during the years ended December 31, 2022 and 2021, the Bank recognized tax credits and other benefits from its investment in affordable housing tax credits of \$6 and zero, respectively.