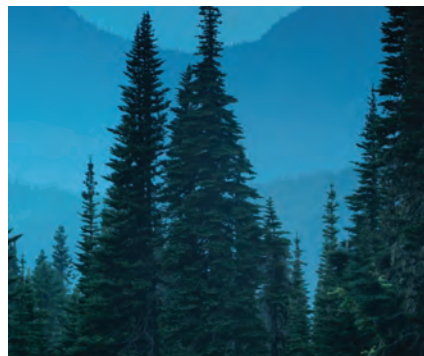
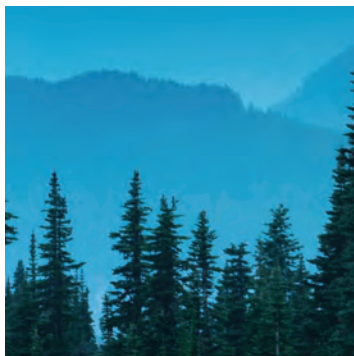
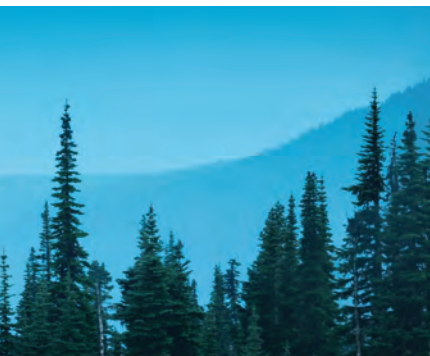




2021

ANNUAL REPORT



Oregon
Pacific Bancorp



Our Mission

To create value for all we serve through the delivery of meaningful and relevant financial services.

Our Vision

To be the premier business-minded community bank whose value to the community, shareholders, clients, and employees comes from supporting business and nonprofit agencies through banking services, volunteer work, and philanthropy.

Board of Directors

JON THOMPSON | Chairman of the Board /Co-owner, KCST Radio Station

DAN JONES | Vice Chair of the Board /Owner, DJ Financial

JOE BENETTI | Owner, Benetti's Italian Fine Foods

TIM CAMPBELL | Partner/Owner, Campbell Commercial Real Estate

RON GREEN | President/CEO, Oregon Pacific Bank

KERRIE JOHNSON | Owner/Loan Originator, Blue-inc. Capital

BOB MANS, OD | Co-owner, Florence Eye Clinic

SABRINA PARSONS | CEO, Palo Alto Software

ROBBIE WRIGHT | Owner, Siuslaw Broadband

RICK YECNY, CPA | Certified Public Accountant, Holloway and Associates CPAs

Bank Executive Officers

RON GREEN | President, Chief Executive Officer

AMBER WHITE | Executive Vice President, Chief Financial Officer

JAMES ATWOOD | Executive Vice President, Chief Credit Officer

JOHN RALEIGH | Executive Vice President, Chief Lending Officer

To our Shareholders, Clients, and Friends:

We are pleased to provide you with our 2021 Annual Report and audited financial statements. Oregon Pacific Bancorp and its wholly-owned subsidiary, Oregon Pacific Bank, reported a net operating income of \$7.8 million for the 12 months ended December 31, 2021, compared to \$4.4 million for the same period in 2020. This represents a 79% increase over the prior year and equates to \$1.11 earnings per share compared to \$0.62 for the same period in 2020. The tangible book value per share increased to \$6.99 on December 31, 2021, a 16% growth over the prior year-end.

2021 continued right where 2020 ended. The crowning achievement of the Bank's 42-year history was its participation in the Paycheck Protection Program (PPP) in 2020 and 2021. Over an approximately 15-month period, our staff originated 1,153 PPP loans totaling \$178.3 million. The tireless efforts of everyone involved was truly a remarkable event to observe, and the sense of gratification for saving our business clients and their employee's jobs will stick with us for the rest of our lives. We estimate that over 15,000 Oregon jobs were preserved or saved in part due to our participation in the PPP loan program. Our board of directors and management team cannot thank our staff enough for their involvement in sustaining the economic life of our communities. Although all our markets continue to be impacted by CDC and State of Oregon COVID risk-management protocols, the communities we serve continued to grow throughout 2021, and we believe are in a position to weather future uncertainty.

The goodwill generated from our participation in the PPP loan program continued throughout 2021. The Bank earned many new business relationships directly due to our ability to make quick loan approval and operating decisions. Total consolidated assets grew \$154.6 million in 2021; a 29% growth rate. This was primarily fueled by significant deposit growth, largely from new relationships. Total deposits increased \$132.3 million, or 27%. Total loan growth, net of PPP loans, and deferred costs and fees were \$76.3 million, or 24%. Our bankers are out and about and building meaningful long-term relationships with our communities and, in turn, creating sustainable value for our shareholders.

The Bank's wholly-owned subsidiary, Oregon Pacific Wealth Management, LLC, had a strong year of organic growth. Net Assets Under Management (AUM) growth was 57% compared to 37% in 2020. This company is now registered with the Securities and Exchange Commission since AUM eclipsed \$100 million during 2021. AUM was \$130 million on December 31, 2021. Our Trust Services division had an incredible year, with trust revenues increasing 26% over the prior year. This was due to a 25% net growth in Trust AUM. Residential Lending continued to leverage the low-interest-rate environment and had an exceptional production year, far exceeding our expectations. Our continued goal is to grow these critical lines of business and look for new opportunities that might scale operations at a sustainable rate.

We are extremely pleased with the Bank's growth in 2021 and the positive impact we've had on our clients, employees, and communities. Our employees are the driver of our success and continue to transform our organization with a laser-focus on our mission of creating value for all we serve. Certainly, the impact of inflation, rising rates, and the present geopolitical issues will create challenges for the financial services industry. However, we are confident that the Bank and its employees have been excellent stewards of our shareholder's capital and will continue to grow and prosper throughout the turbulent times.

We hope you will be able to attend our virtual annual meeting on Wednesday, April 20, 2022, at 4 PM Pacific Time. Information regarding the meeting can be found in our proxy statement. Please contact CEO Ron Green by telephone at (541) 999-1908 or by email at ron.green@opbc.com if you have any questions. For more information about Oregon Pacific Bank, please visit us at www.opbc.com.

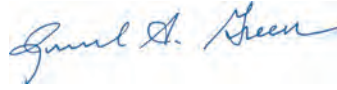
Respectfully,

Jon Thompson



Chairman of the Board
Oregon Pacific Bancorp

Ron Green



President & CEO
Oregon Pacific Bancorp

Oregon Pacific Bancorp and Subsidiary

Financial Highlights

AS OF AND FOR THE YEARS ENDED DECEMBER 31,

	2021	2020	2019	2018	2017
INCOME STATEMENT DATA					
Interest income	\$ 21,049,162	\$ 18,875,941	\$ 15,093,216	\$ 11,808,095	\$ 9,128,585
Interest expense	730,090	812,562	1,337,346	788,086	579,551
Net interest income	20,319,072	18,063,379	13,755,870	11,020,009	8,549,034
Provision for loan losses	-	2,178,388	235,392	553,586	272,000
Net interest income after provision for loan losses	20,319,072	15,884,991	13,520,478	10,466,423	8,277,034
Noninterest income	6,616,177	5,146,145	4,744,746	4,805,706	4,292,541
Noninterest expense	16,524,308	15,216,614	13,600,591	11,870,598	9,755,733
Income before provision for income taxes	10,410,941	5,814,522	4,664,633	3,401,531	2,813,842
Provision for income taxes	2,610,437	1,461,328	1,146,760	796,036	1,392,033
Net income	\$ 7,800,504	\$ 4,353,194	\$ 3,517,873	\$ 2,605,495	\$ 1,421,809
PER SHARE DATA					
Basic earnings per common share	\$ 1.11	\$ 0.62	\$ 0.50	\$ 0.37	\$ 0.31
Diluted earnings per common share	\$ 1.11	\$ 0.62	\$ 0.50	\$ 0.37	\$ 0.31
Book value per average common share	\$ 6.99	\$ 6.03	\$ 5.36	\$ 4.68	\$ 4.38
Weighted average shares outstanding:					
Basic	7,037,256	7,001,302	6,973,920	6,964,036	4,584,778
Diluted	7,037,256	7,001,302	6,973,920	6,964,036	4,584,778
BALANCE SHEET DATA					
Investment securities	\$ 123,075,981	\$ 37,805,811	\$ 27,601,278	\$ 26,806,308	\$ 28,346,358
Loans, net ⁽¹⁾	\$ 392,250,439	\$ 385,173,336	\$ 295,254,620	\$ 248,884,606	\$ 189,974,983
Total assets	\$ 691,721,417	\$ 537,140,707	\$ 364,188,423	\$ 309,532,757	\$ 261,273,034
Total deposits	\$ 618,680,093	\$ 486,343,803	\$ 318,040,202	\$ 269,728,286	\$ 220,804,220
Stockholders' equity	\$ 49,259,750	\$ 42,275,232	\$ 37,351,578	\$ 32,610,844	\$ 30,394,992
SELECTED RATIOS					
Return on average assets	1.21%	0.90%	1.02%	0.91%	0.58%
Return on average equity	17.08%	11.14%	10.14%	8.31%	7.29%
Net loans to deposits	63.40%	79.20%	92.84%	92.27%	86.04%
Net interest margin ⁽²⁾	3.28%	3.95%	4.28%	4.20%	3.93%
Efficiency ratio ⁽³⁾	61.35%	65.56%	73.51%	75.01%	75.97%
ASSET QUALITY RATIOS					
Reserve for loans losses to:					
Ending total loans	1.48%	1.47%	1.20%	1.26%	1.37%
Nonperforming assets ⁽⁴⁾	636.24%	229.73%	222.58%	126.05%	141.30%
Non-performing assets to ending total assets	0.13%	0.47%	0.44%	0.82%	0.72%
Net loan (recoveries) charge-offs to average loans	-0.03%	-0.01%	-0.07%	0.01%	0.00%
CAPITAL RATIOS (BANK)					
Average stockholders' equity to average assets	7.06%	8.10%	10.09%	10.97%	9.60%
Tier I capital ratio ⁽⁵⁾	17.12%	N/A ⁽⁸⁾	13.80%	15.05%	18.57%
Total risk-based capital ratio ⁽⁶⁾	18.38%	N/A ⁽⁸⁾	15.03%	16.30%	19.82%
Leverage ratio ⁽⁷⁾	9.73%	8.32%	11.13%	12.11%	13.21%

⁽¹⁾ Excludes loans held-for-sale.

⁽²⁾ Used tax effective yield for non-taxable securities interest earned.

⁽³⁾ Efficiency ratio is noninterest expense divided by the sum of net interest income plus noninterest income.

⁽⁴⁾ Nonperforming assets consists of nonaccrual loans, loans contractually past due 90 days or more, and other real estate owned.

⁽⁵⁾ Tier I capital divided by risk-weighted assets.

⁽⁶⁾ Total capital divided by risk-weighted assets.

⁽⁷⁾ Tier I capital divided by quarterly average total assets.

⁽⁸⁾ During 2020 the Bank opted into the CBLR framework and no longer reported risk based capital figures at this time.

**Oregon Pacific Bancorp
and Subsidiary**

**Consolidated
Financial Statements**

**Years Ended
December 31, 2021
and 2020**

Oregon Pacific Bancorp and Subsidiary

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Independent Auditor's Report

Audit Committee and Board of Directors
Oregon Pacific Bancorp and Subsidiary
Eugene, Oregon

Opinion

We have audited the consolidated financial statements of Oregon Pacific Bancorp and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Oregon Pacific Bancorp, Inc. and Subsidiary as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Prior Year Audited by Other Auditors

The 2020 consolidated financial statements were audited by other auditors, and their report thereon, dated March 9, 2021, expressed an unmodified opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Oregon Pacific Bancorp and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Oregon Pacific Bancorp and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

BKD, LLP

Springfield, Missouri
March 9, 2022

Oregon Pacific Bancorp and Subsidiary

Consolidated Balance Sheets

December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 8,643,057	\$ 7,785,099
Interest-bearing deposits in banks	143,191,524	86,569,911
Available-for-sale debt securities, at fair value	123,075,981	37,805,811
Restricted equity securities	1,357,000	1,145,600
Non PPP loans, net of deferred loan fees	388,186,789	311,883,790
PPP loans, net of deferred loan fees	9,968,257	79,080,065
Total loans, net of deferred loan fees	398,155,046	390,963,855
Allowance for loan losses	(5,904,607)	(5,790,519)
Premises and equipment, net of accumulated depreciation	9,719,743	6,768,697
Bank-owned life insurance	8,401,926	8,159,561
Deferred tax assets, net	1,270,260	942,789
Accrued interest receivable and other assets	3,811,487	2,789,903
	\$ 691,721,417	\$ 537,140,707
TOTAL ASSETS		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand - non-interest bearing	\$ 171,380,665	\$ 136,427,967
Demand - interest bearing	181,884,804	146,202,453
Money market	164,742,437	116,505,010
Savings deposits	80,856,008	66,936,397
Time certificate accounts	19,816,179	20,271,976
Total deposits	618,680,093	486,343,803
Junior subordinated debenture	4,124,000	4,124,000
Subordinated debenture, net of issuance cost	14,527,677	-
Deferred compensation liability	2,252,504	2,080,740
Accrued interest payable and other liabilities	2,877,393	2,316,932
Total liabilities	642,461,667	494,865,475
COMMITMENTS AND CONTINGENCIES (Note 10)		
Preferred stock; 200,000 shares authorized; no shares issued and outstanding	-	-
Common stock, no par value, 10,000,000 shares authorized; 7,042,478 and 7,008,125 shares issued and outstanding at December 31, 2021 and 2020, respectively	20,904,041	20,744,753
Undivided profits	28,317,702	20,517,198
Accumulated other comprehensive income, net of tax	38,007	1,013,281
Total stockholders' equity	49,259,750	42,275,232
	\$ 691,721,417	\$ 537,140,707
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		

The accompanying notes are an integral part of the consolidated financial statements

Oregon Pacific Bancorp and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

	2021	2020
INTEREST INCOME		
Non PPP loans	\$ 15,574,474	\$ 14,710,231
PPP loans	4,217,089	3,376,534
Taxable securities	646,027	267,974
Tax-exempt securities	400,049	401,819
Interest-bearing deposits in banks	211,523	119,383
	21,049,162	18,875,941
INTEREST EXPENSE		
Interest on deposits	450,162	666,768
Interest on borrowed funds	279,928	145,794
	730,090	812,562
Net interest income	20,319,072	18,063,379
PROVISION FOR LOAN LOSSES	-	2,178,388
Net interest income after provision for loan losses	20,319,072	15,884,991
NONINTEREST INCOME		
Trust fee income	3,029,436	2,401,054
Service charges and fees	1,122,284	895,869
Mortgage loan sales and servicing fees	687,720	477,065
Investment sales commissions	117,850	190,464
Merchant card services	470,707	324,562
Registered Investment Advisory (RIA) income	869,715	544,527
Increase in cash surrender value of bank-owned life insurance	242,366	229,666
Other income	76,099	82,938
	6,616,177	5,146,145
NONINTEREST EXPENSE		
Salaries and benefits	9,361,795	8,608,058
Outside services	1,888,512	1,647,438
Occupancy	1,422,061	1,310,495
Trust department expenses	1,451,737	1,421,509
Loan and collection expense	134,905	412,534
Advertising	288,871	198,129
Card services	335,123	291,710
Deferred compensation expense	312,412	191,433
Supplies	130,875	140,670
Postage and freight	110,883	94,834
Federal Deposit Insurance Corporation assessment	377,265	190,501
Other expenses	709,869	709,302
	16,524,308	15,216,614
INCOME BEFORE PROVISION FOR INCOME TAXES	\$ 10,410,941	\$ 5,814,522
PROVISION FOR INCOME TAXES	2,610,437	1,461,328
NET INCOME	\$ 7,800,504	\$ 4,353,194
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized (loss) gain on available-for-sale debt securities, (net of tax of (\$360,718) in 2021, \$180,636 in 2020)	(975,274)	488,415
COMPREHENSIVE INCOME	\$ 6,825,230	\$ 4,841,609
BASIC EARNINGS PER SHARE	\$ 1.11	\$ 0.62
DILUTED EARNINGS PER SHARE	\$ 1.11	\$ 0.62

The accompanying notes are an integral part of the consolidated financial statements

Oregon Pacific Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2021 and 2020

	<u>Common Stock</u>		<u>Undivided Profits</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balances - December 31, 2019	6,975,084	\$ 20,662,708	\$ 16,164,004	\$ 524,866	\$ 37,351,578
Net income	-	-	4,353,194	-	4,353,194
Other comprehensive income - net	-	-	-	488,415	488,415
Stock-based compensation	33,041	82,045	-	-	82,045
Balances - December 31, 2020	<u>7,008,125</u>	<u>\$ 20,744,753</u>	<u>\$ 20,517,198</u>	<u>\$ 1,013,281</u>	<u>\$ 42,275,232</u>
Net income	-	-	7,800,504	-	7,800,504
Other comprehensive loss - net	-	-	-	(975,274)	(975,274)
Stock-based compensation	41,446	206,373	-	-	206,373
Vested restricted stock surrendered to cover tax consequences	(7,093)	(47,085)	-	-	(47,085)
Balances - December 31, 2021	<u>7,042,478</u>	<u>\$ 20,904,041</u>	<u>\$ 28,317,702</u>	<u>\$ 38,007</u>	<u>\$ 49,259,750</u>

The accompanying notes are an integral part of the consolidated financial statements

Oregon Pacific Bancorp and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,800,504	\$ 4,353,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	2,178,388
Depreciation and amortization	1,317,779	942,948
Deferred income taxes	33,247	(588,743)
Stock-based compensation expense, net of shares forfeited for tax	159,288	82,045
(Gain) Loss on sales of premises, equipment, and other real estate owned	-	(20,224)
Change in cash surrender value of bank-owned life insurance	(242,365)	(229,666)
Change in deferred loan fees	(982,677)	1,873,012
Change in accrued interest receivable and other assets	(1,021,584)	318,620
Change in accrued interest payable and other liabilities	732,225	(274,972)
Net cash from operating activities	7,796,417	8,634,602
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and calls of available-for-sale debt securities	4,947,044	3,424,601
Purchases of available-for-sale debt securities	(92,171,812)	(13,277,746)
Purchases of restricted equity securities	(211,400)	(66,500)
Net increase in interest-bearing deposits in banks	(56,621,613)	(69,059,227)
Net increase in loans	(6,094,426)	(94,021,266)
Purchases of premises and equipment	(3,614,986)	(344,929)
Proceeds from sales of premises, equipment, and other real estate owned	-	73,222
Purchase of bank-owned life insurance	-	(863,463)
Net cash used in investing activities	(153,767,193)	(174,135,308)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	132,336,290	168,303,601
Proceeds from Federal Home Loan Bank borrowings	10,000	39,800
Repayments of Federal Home Loan Bank borrowings	(10,000)	(39,800)
Proceeds from subordinated debt issuance	15,000,000	-
Capitalized issuance cost	(507,556)	-
Net cash from financing activities	146,828,734	168,303,601
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	857,958	2,802,895
Cash and cash equivalents - beginning of year	7,785,099	4,982,204
CASH AND CASH EQUIVALENTS - End of Year	\$ 8,643,057	\$ 7,785,099
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	\$ 615,284	\$ 753,302
Income taxes - net	\$ 3,270,000	\$ 1,500,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on available-for-sale debt securities - net	\$ (975,274)	\$ 488,415

The accompanying notes are an integral part of the consolidated financial statements

Oregon Pacific Bancorp and Subsidiary

Notes to Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

Note 1 - Basis of Presentation, Description of Business, and Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of Oregon Pacific Bancorp ("Bancorp"), a bank holding company; its wholly-owned subsidiary, Oregon Pacific Banking Company dba Oregon Pacific Bank ("the Bank"); and the Bank's wholly-owned subsidiary, Oregon Pacific Wealth Management, LLC ("OPWM") (collectively, "the Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has also established a subsidiary grantor trust in connection with the issuance of trust preferred securities (see Note 8). In accordance with accounting principles generally accepted in the United States of America ("U.S.") ("GAAP"), the accounts and transactions of this trust are not included in the accompanying consolidated financial statements.

Description of business

The Bank is an Oregon state-chartered institution with headquarters in Florence, Oregon. The Bank provides banking products and services from its full-service branches in Florence, Eugene, Coos Bay, Roseburg, and Medford. The Bank also offers trust services in Florence, Coos Bay, Medford, and Eugene. Specializing in offering comprehensive financial services to local families and business owners, the Bank services customers in Lane, Douglas, Coos, Jackson, and Josephine Counties. These financial services include full service banking for both individual and business customers which includes checking, savings, money market, and time deposit accounts. In terms of technology, internet banking, online billpay, and mobile banking services are available. The Bank also offers a variety of lending services including commercial, consumer, and credit cards. The Bank's merchant services department handles payment processing solutions for business clients. Wealth management and investment services are also available, allowing the Bank to offer non-deposit products such as estate planning and trust administration. OPWM provides retirement planning services and was previously a State of Oregon Registered Investment Advisor but completed SEC registration during 2021.

Method of accounting

The Company prepares its consolidated financial statements in conformity with GAAP and prevailing practices within the banking industry. The Company utilizes the accrual method of accounting which recognizes income and gains when earned and expenses and losses when incurred. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, as of the date of the consolidated balance sheet, and the reported amounts of income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to material change in the near term relate to the allowance for loan losses.

Subsequent events

Management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that have occurred through March 9, 2022, which is the date that the consolidated financial statements were available to be issued.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks (including cash items in process of collection).

Interest-bearing deposits in banks

Interest-bearing deposits in banks include time certificates of deposit from other banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Investments in debt securities

Investments in debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using the interest method over the period to maturity.

Investments in debt securities that are purchased and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in noninterest income.

Investments in debt securities that are not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of the related deferred income tax effect, excluded from earnings and reported as other comprehensive income or loss. All of the Company's investments in debt securities held during 2021 and 2020 were classified as available-for-sale.

Management determines the appropriate classification of debt securities at the time of purchase. Realized gains and losses on the sales of investments in debt securities are determined using the specific-identification method. See Note 12 for a description of the Company's methodologies for determining the fair value of investments in debt securities.

In estimating other-than-temporary impairment ("OTTI") losses, management considers, among other things, (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates, and (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value. For individual debt securities which the Company does not intend to sell, and for which it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the OTTI losses would be evaluated and (1) the portion related to credit losses would be included in earnings as realized losses, and (2) the portion related to market or other factors would be recognized in other comprehensive income or loss. Credit loss is recorded if the present value of expected cash flows is less than the amortized cost. For individual debt securities which the Company intends to sell or for which it more likely than not will not recover all of its amortized cost, the OTTI is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the consolidated balance sheet date.

For individual debt securities for which credit loss has been recognized in earnings, interest accruals and amortization of premiums and accretion of discounts are suspended when the credit loss is recognized. Interest received after accruals have been suspended is recognized on a cash basis.

During the years ended December 31, 2021 and 2020, the Company did not recognize any OTTI on its investments in debt securities.

Restricted equity securities

As of December 31, 2021, restricted equity securities consisted of \$645,900 of Federal Home Loan Bank ("FHLB") of Des Moines stock and \$711,100 of Federal Reserve Bank ("FRB") stock. As of December 31, 2020 restricted equity securities consisted of \$436,900 of FHLB of Des Moines stock and \$708,800 of FRB stock.

As a member of the FHLB system, the Bank is required to maintain a minimum investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. As of December 31, 2021 and 2020, the Bank met its minimum required investment. The Bank may request redemption at par value of any FHLB stock in excess of the minimum required investment; however, stock redemptions are at the discretion of the FHLB.

The Bank's investment in FHLB stock (which has limited marketability) is carried at cost, which approximates fair value. The Bank evaluates its FHLB stock for impairment as needed. The Bank's determination of whether this investment is impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared with the capital stock amount and the length of time any decline has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB. Based on its evaluation, the Bank determined that there was no impairment of its FHLB stock as of December 31, 2021 and 2020.

The Bank's investment in FRB stock is carried at par value (which represents the Bank's cost), which approximates fair value. The Bank accounts for its investment in FRB stock in accordance with GAAP as described above for FHLB stock. Management believes that there is no impairment of the carrying value of FRB stock as of December 31, 2021 and 2020.

Loans

Loans are stated at the amount of unpaid principal, reduced by the allowance for loan losses and deferred loan fees.

Interest income on all loans is accrued as earned on the simple interest method based on daily balances of the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due.

The Bank charges fees for originating loans. These fees, net of certain loan origination costs, are deferred and generally amortized to interest income over the term of the related loan. If the loan is repaid prior to maturity, the remaining unamortized net deferred loan origination fee is recognized in interest income at the time of repayment.

In April 2020 the Small Business Administration (SBA) opened the Paycheck Protection Program (PPP) to support eligible businesses and non-profits during the COVID-19 crisis. Loans covered by the PPP may be eligible for loan forgiveness for certain costs incurred related to payroll, group health care benefit costs and qualifying mortgage, rent and utility payments. The remaining loan balance after forgiveness of any amounts is still fully guaranteed by the SBA. As part of the loan forgiveness process, payment of outstanding principal and accrued interest for the forgiven portion of a borrower's loan is received by the Bank from the SBA.

In return for processing and booking the loan, the SBA paid the lender a processing fee tiered by the size of the loan. The Bank accounted for these processing fees as deferred loan origination fees described above.

Allowance for loan losses

The allowance for loan losses represents management's recognition of the assumed risks of extending credit. The allowance is established to absorb management's best estimate of known and inherent losses in the loan portfolio as of the consolidated balance sheet date. The allowance requires complex subjective judgments as a result of the need to make estimates about matters that are uncertain. The allowance is maintained at a level currently considered adequate to provide for potential loan losses based on management's assessment of the various factors affecting the portfolio.

The allowance is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Therefore, the Bank cannot provide assurance that, in any particular period, the Bank will not have significant losses in relation to the amount reserved. The allowance is increased by provisions charged to income and reduced by loans charged-off, net of recoveries. Loan losses are charged against the reserve when management deems a loan balance to be uncollectible.

The following describes the Bank's methodology for assessing the appropriate level of the allowance for loan losses. For this purpose, loans are analyzed – and allowances categorized – into the pooled allowance, specifically identified allowances for impaired loans, and the unallocated allowance.

The pooled portion of the allowance is established by considering historical and industry loss data for the different loan segments in the portfolio. This loss data is then adjusted, as appropriate, based on management's continuing

evaluation of qualitative factors that are not directly measured by – or may not yet be reflected in – historical loss data. Such qualitative factors include, but are not limited to, changes in lending policies and procedures, experience of lending management personnel, the quality of the Bank's loan review system, changes and trends in the nature of the loan portfolio, the volume and severity of troubled loans, concentrations, current economic conditions and outlook, the estimated value of collateral for collateral-dependent loans, and external factors such as regulatory requirements. The resulting loss factors are then applied to the outstanding loan balances based on a risk rating system.

Impaired loans are either specifically reserved for in the allowance for loan losses or reflected as a partial charge-off of the loan balance. The Bank considers loans to be impaired when management believes that it is probable that either principal and/or interest amounts due will not be collected according to the contractual terms. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, the estimated fair value of the loan's underlying collateral, or the value of a related guaranty. A significant portion of the Bank's loans are either (1) collateralized by real estate, whereby the Bank primarily measures impairment based on the estimated fair value of the underlying collateral, net of selling costs, or (2) are supported by underlying cash flows, whereby impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Accordingly, changes in such estimated collateral values or future cash flows could result in actual losses which differ from those estimated at the date of the consolidated balance sheet. The valuation of real estate collateral is subjective in nature and may be adjusted in future periods because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or other persons involved in selling real estate, in determining the estimated fair value of particular properties. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. Accordingly, the amounts of any such potential changes and any related adjustments are generally recorded at the time such information is received. Smaller balance homogeneous loans (typically certain consumer loans) are collectively evaluated for impairment. Generally, the Bank evaluates a loan for impairment when it is placed on non-accrual status.

The unallocated portion of the allowance is based upon management's evaluation of various factors that are not directly measured in the determination of the pooled and specific allowances. Such factors include uncertainties in economic conditions, the imprecision of appraisals used in estimating collateral values, uncertainties in identifying triggering events that directly correlate to subsequent loss rates, risk factors that have not yet manifested themselves in historical loss factors, and historical loss experience data that may not precisely correspond to the current portfolio. The unallocated allowance may also be affected by review by the bank regulatory authorities who may require increases or decreases to the unallocated allowance based on their evaluation of the information available to them at the time of their examinations. Accordingly, the unallocated allowance helps to minimize the risk related to the margin of imprecision inherent in the estimation of pooled and specific allowances. Due to the subjectivity involved in the determination of the unallocated portion of the allowance for loan losses, the relationship of the unallocated component to the total allowance for loan losses may fluctuate from period to period.

A provision for loan losses is charged against income and is added to the allowance for loan losses based on quarterly comprehensive analyses of the loan portfolio. The allowance for loan losses is allocated to certain loan categories based on the relative risk characteristics, asset classifications, and actual loss experience of the loan portfolio. While management has allocated the allowance for loan losses to various loan portfolio segments, the allowance is general in nature and is available for the loan portfolio in its entirety.

The ultimate recovery of the carrying value of loans is susceptible to future market conditions beyond the Bank's control, which may result in losses or recoveries differing from those provided in the accompanying consolidated financial statements.

Troubled debt restructurings

A loan is classified as a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulties and the Bank grants a concession to the borrower in the restructuring that the Bank would not otherwise consider. These concessions may include – but are not limited to – certain interest rate reductions; principal forgiveness; deferral of interest payments; certain extensions of maturity dates; a reduction of accrued interest; and other actions intended to minimize potential losses to the Bank. A TDR loan is considered to be impaired and is individually evaluated for impairment. A TDR loan can either be on accruing or non-accrual status depending on whether collection of principal and interest is doubtful.

In March 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was passed, which, among other things, provided relief for Banks related to loan modifications for accounting purposes. Specifically, section 4013 of

the CARES Act gives entities temporary relief from the accounting and disclosure requirements for TDRs. In addition to the CARES Act, bank regulatory agencies issued interagency guidance indicating that a lender could conclude that the modifications under section 4013 of the CARES Act or the interagency guidance are not a TDR if certain criteria are met. The guidance also provides that loans generally will not be adversely classified if the short-term modification is related to COVID-19 relief programs. The Bank has followed the guidance under the CARES Act and the interagency guidance related to these loan modifications. Loans modified under section 4013 of the CARES Act or the interagency guidance generally maintain their pre-COVID-19 delinquency status and are classified as performing loans. If it is deemed the modification is not short-term, not COVID-19 related or the customer does not meet the criteria under the guidance to be scoped out of troubled debt restructuring classification, the Bank evaluates the loan modifications under its existing framework which requires modifications that result in a concession without appropriate compensation to a borrower experiencing financial difficulty to be accounted for as a TDR.

Allowance for unfunded loan commitments

The Bank maintains a separate allowance for estimated losses related to unfunded loan commitments. Management estimates the amount of probable losses related to unfunded loan commitments by applying the estimated loss factors used in the allowance for loan loss methodology to the expected amount of commitments that will actually require funding. The allowance for unfunded loan commitments totaled \$94,411 as of December 31, 2021 and \$101,411 as of December 31, 2020. In accordance with industry practice and regulatory guidance, the allowance for estimated losses related to unfunded loan commitments is included in accrued interest payable and other liabilities in the accompanying consolidated balance sheets. Increases (decreases) in the allowance for unfunded loan commitments are recorded in noninterest expense in the accompanying consolidated statements of comprehensive income.

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets, which range from two to 30 years. Leasehold improvements are amortized over the lesser of the terms of the related leases or their estimated useful lives. Capital improvements or equipment purchases greater than \$1,000 are capitalized, while maintenance and repairs are charged to expense. Gains or losses on dispositions are reflected in earnings as incurred.

Leases

The Bank reviews all contracts at inception to determine if the agreement contains a lease. The Company enters into leases in the normal course of business, primarily related to office space and bank branches. If the Bank determines a lease exists, the Bank evaluates whether they are operating or financing leases at the lease commencement date. The Bank accounts for the lease and non-lease components separately. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets and operating lease liabilities are recognized at lease commencement based on the present value of the lease payments over the lease term. The present value of lease payments is determined based on the Bank's incremental borrowing rate, and any other relevant information identified at lease commencement. Lease expense is recognized on a straight-line basis.

Impairment of long-lived assets

The Bank accounts for long-lived assets, including intangibles other than goodwill, at amortized cost. Management reviews long-lived assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

Bank-owned life insurance ("BOLI")

The Bank has purchased single premium BOLI policies on certain executives and other employees. The policies are recorded at their cash surrender values (net of surrender charges). Changes in cash surrender values are included in noninterest income in the accompanying consolidated statements of comprehensive income.

Other Real Estate Owned ("OREO")

OREO, acquired through foreclosure or deeds in lieu of foreclosure, is carried at the lower of cost or estimated net realizable value. When the property is acquired, any excess of the loan balance over the estimated net realizable value is charged to the allowance for loan losses. Holding costs, subsequent write-downs to net realizable value, if any, or any disposition gains or losses are included in noninterest income and expense. Costs relating to the development and improvement of the properties are capitalized. The valuation of OREO is subjective in nature and may be adjusted in the future because of changes in economic conditions. The valuation of OREO is also subject to review by bank regulatory authorities who may require increases or decreases to carrying amounts based on their evaluation of the information available to them at the time of their examination of the Bank. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or other persons involved in selling OREO, in determining the fair value of particular properties. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. Accordingly, the amounts of any such potential changes and any related adjustments are generally recorded at the time such information is received.

As of December 31, 2021 and 2020, the Bank held no OREO properties.

Loan servicing rights

The carrying value of loan servicing rights is the original estimated value of the originated loan servicing rights or the cost of purchased loan servicing rights, net of subsequent amortization, write-offs due to prepayments, or other write-downs or valuation allowances due to impairment. The originated loan servicing rights are measured by allocating the carrying value of loans between the assets sold and interest retained, based upon the relative estimated fair values at the date of sale. The loan servicing rights are amortized in proportion to, and over the period of, estimated net servicing income.

Management determines the estimated fair value of loan servicing rights through its review and assessment of current industry data. Accordingly, changes in management's evaluation of such data could significantly affect the estimated fair values of the loan servicing rights. GAAP requires the Bank to record an impairment loss in the event that the estimated fair value of loan servicing rights falls below the Bank's carrying value. To mitigate this risk, management amortizes loan servicing rights over their expected lives and fully amortizes loan servicing rights that are specifically associated with any serviced loans that are paid-off.

The Bank does not employ specific hedges to mitigate fair value changes that may occur due to market fluctuations. There can be no assurance regarding the possible impairment of loan servicing rights in future periods. The net book value of loan servicing rights as of December 31, 2021 and 2020 (\$5,064 and \$5,532, respectively) is included in accrued interest receivable and other assets in the accompanying consolidated balance sheets.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Preferred stock

The Company's preferred stock is issuable with the par value, dividend, voting, and other features determined by the Company's Board of Directors (the Board) or by action of the stockholders of the Company. As of December 31, 2021 and 2020, there were no shares of preferred stock outstanding.

Stock-based compensation

The Company has stock-based compensation plans, which are described more fully in Note 13. The Company recognizes as compensation expense all stock-based awards made to employees and Board members. The compensation cost is measured based upon the grant-date fair value of the related stock-based awards and is recognized over the service period of the stock-based awards, which is generally the same as the vesting period. The Company's accounting policy is to recognize forfeitures as they occur.

Advertising

Advertising costs are generally charged to expense during the year in which they are incurred. Advertising costs totaled \$288,871 for the year ending December 31, 2021 and \$198,129 for the year ending December 31, 2020.

Income taxes

The provision for income taxes is based on income and expenses as reported for consolidated financial statement purposes using the "asset and liability method" for accounting for deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Income tax positions that meet the "more-likely-than-not" recognition threshold are measured at the largest amount of income tax benefit that is more than 50 percent likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as additional income taxes in the consolidated statements of comprehensive income. The Company has evaluated its income tax positions as of December 31, 2021 and 2020. Based on this evaluation, the Company has determined that it does not have any uncertain income tax positions for which an unrecognized income tax liability should be recorded.

The Company files a federal income tax return in the U.S. and a state income tax return in Oregon.

Trust assets

The Bank operates a full-service trust department and through an arrangement with a registered securities broker-dealer, an investment and brokerage service department. Effective September 30, 2021 the bank discontinued the investment and brokerage service department but continues to offer Trust Services and investment advisory services through the Bank's wholly owned subsidiary Oregon Pacific Wealth Management LLC. Other than cash on deposit at the Bank, assets of the trust department are not included in the accompanying consolidated financial statements, because they are not assets of the Bank. Assets (unaudited) totaling approximately \$331 million and \$316 million, were held in trust and/or managed by the investment and brokerage service department as of December 31, 2021 and 2020, respectively.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

New authoritative accounting guidance

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. ASU 2016-13 replaces the existing incurred losses methodology for estimating allowances with a current expected credit losses methodology with respect to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity investment securities, and off-balance sheet commitments. In addition, ASU 2016-13 requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses rather than a reduction of the carrying amount. ASU 2016-13 also changes the accounting for purchased credit-impaired debt securities and loans. ASU 2016-13 retains many of the disclosure requirements in current GAAP and expands certain disclosure requirements. ASU 2016-13 was originally effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years; however, in November 2019 the FASB issued ASU 2019-10 delaying the effective date for non-SEC public business entities to fiscal years beginning after December 15, 2022. Upon adoption, the Company expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in the assumptions and estimates to consider expected credit losses over the life of the loan versus the current methodology which utilizes the incurred loss model. The Company is reviewing the requirements of ASU 2016-13 and has begun developing and implementing processes and procedures to ensure it is fully compliant with the amendments at the adoption date. At this time, the Company anticipates the allowance for loan losses will increase as a result of the implementation of ASU 2016-13; however, until its evaluation is complete, the magnitude of the increase will be unknown.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU was issued to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. The last expedient is a one-time election to sell or transfer debt securities classified as held to maturity. The expedients are in effect from March 12, 2020, through December 31, 2022. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

Note 2 - Investment Securities

Available-for-sale debt securities as of December 31, 2021 and 2020 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2021				
Unrealized Loss Position - Less than 12 Months				
U.S. Treasury and agencies	\$ 18,052,167	\$ -	\$ (151,332)	\$ 17,900,835
Obligations of state and political subdivisions	13,455,278	-	(305,308)	13,149,970
Mortgage-backed securities	49,778,946	-	(700,837)	49,078,109
Subordinated notes	6,000,000	-	(28,452)	5,971,548
Corporate notes	-	-	-	-
	<u>87,286,391</u>	<u>-</u>	<u>(1,185,929)</u>	<u>86,100,462</u>
Unrealized Loss Position - More than 12 Months				
U.S. Treasury and agencies	\$ -	\$ -	\$ -	\$ -
Obligations of state and political subdivisions	-	-	-	-
Mortgage-backed securities	4,306,567	-	(98,437)	4,208,130
Subordinated notes	-	-	-	-
Corporate notes	-	-	-	-
	<u>4,306,567</u>	<u>-</u>	<u>(98,437)</u>	<u>4,208,130</u>
Unrealized Gain Position				
U.S. Treasury and agencies	\$ 2,916,589	\$ 6,550	\$ -	\$ 2,923,139
Obligations of state and political subdivisions	17,376,079	1,096,426	-	18,472,505
Mortgage-backed securities	11,138,290	233,455	-	11,371,745
Subordinated notes	-	-	-	-
Corporate notes	-	-	-	-
	<u>31,430,958</u>	<u>1,336,431</u>	<u>-</u>	<u>32,767,389</u>
	<u>\$ 123,023,916</u>	<u>\$ 1,336,431</u>	<u>\$ (1,284,366)</u>	<u>\$ 123,075,981</u>
2020				
Unrealized Loss Position - Less than 12 Months				
U.S. Treasury and agencies	\$ -	\$ -	\$ -	\$ -
Obligations of state and political subdivisions	-	-	-	-
Mortgage-backed securities	6,504,720	-	(100,924)	6,403,796
Corporate notes	-	-	-	-
	<u>6,504,720</u>	<u>-</u>	<u>(100,924)</u>	<u>6,403,796</u>
Unrealized Loss Position - More than 12 Months				
U.S. Treasury and agencies	\$ -	\$ -	\$ -	\$ -
Obligations of state and political subdivisions	-	-	-	-
Mortgage-backed securities	699,930	-	(25,040)	674,890
Corporate notes	-	-	-	-
	<u>699,930</u>	<u>-</u>	<u>(25,040)</u>	<u>674,890</u>
Unrealized Gain Position				
U.S. Treasury and agencies	\$ -	\$ -	\$ -	\$ -
Obligations of state and political subdivisions	19,718,783	1,101,311	-	20,820,094
Mortgage-backed securities	8,493,509	411,622	-	8,905,131
Corporate notes	1,000,813	1,087	-	1,001,900
	<u>29,213,105</u>	<u>1,514,020</u>	<u>-</u>	<u>30,727,125</u>
	<u>\$ 36,417,755</u>	<u>\$ 1,514,020</u>	<u>\$ (125,964)</u>	<u>\$ 37,805,811</u>

As of December 31, 2021 and 2020, the Bank held 127 investment securities, of which 95 were in unrealized loss positions, and 48 investment securities, of which 13 were in unrealized loss positions, respectively. Management has evaluated these securities and has determined that the declines in value are temporary and are related to changes in market interest rates since purchase. The declines in value are not related to any company or industry-specific events. With respect to unrealized losses on the above investment securities as of December 31, 2021, management does not have the intent to sell any of the investment securities and believes that it is more likely than not that the Bank will not have to sell any such securities before a recovery of cost. Accordingly, no impairment adjustments for these investment securities have been recorded as of December 31, 2021 or 2020.

The amortized cost and estimated fair value of investment securities as of December 31, 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ -	\$ -
Due after one year through five years	7,370,617	7,333,155
Due after five years through ten years	42,162,785	42,859,260
Thereafter	8,266,711	8,225,582
Securities not due on a single maturity date	<u>65,223,803</u>	<u>64,657,984</u>
	<u>\$ 123,023,916</u>	<u>\$ 123,075,981</u>

As of December 31, 2021 and 2020, investment securities with an amortized cost of \$7,511,610 and \$7,734,100 and estimated fair values of \$7,979,468 and \$8,254,727, respectively, were pledged to secure deposits of public funds and for other purposes as required or permitted by law.

Note 3 - Loans and Allowance for Loan Losses

Loans as of December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Commercial real estate	\$ 283,115,074	\$ 229,245,645
Commercial	74,382,274	138,648,857
Residential real estate	41,154,928	21,080,989
Consumer	<u>693,417</u>	<u>4,161,688</u>
Total loans	399,345,693	393,137,179
Less allowance for loan losses	(5,904,607)	(5,790,519)
Less deferred loan fees	<u>(1,190,647)</u>	<u>(2,173,324)</u>
Loans - net	<u>\$ 392,250,439</u>	<u>\$ 385,173,336</u>

In response to the COVID-19 crisis, the federal government created the Paycheck Protection Program (PPP), sponsored by the Small Business Administration (SBA), under the CARES Act. The Bank participated in the PPP to originate SBA loans designated to help businesses maintain their workforce and cover other working capital needs during the COVID-19 pandemic. On December 31, 2021, remaining principal balances of PPP loans totaled \$9,968,257.

A substantial portion of the Bank's loans are collateralized by real estate in the geographic areas it serves and, accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the local economic conditions in such markets.

In the normal course of business, the Bank participates portions of loans to third parties in order to extend the Bank's lending capability or to mitigate risk. As of December 31, 2021 and 2020, the portion of these loans participated to third parties (which are not included in the accompanying consolidated financial statements) totaled \$6,900,035 and \$7,090,163, respectively. The Bank also purchases portions of loans from third parties. As of December 31, 2021 and 2020, the Bank had \$15,716,188 and \$12,353,656, respectively, of loans which were purchased from third parties (which are included in the accompanying consolidated financial statements).

As of December 31, 2021, loans totaling \$192,059,664 were pledged to secure borrowings from the FHLB and FRB.

The Bank has lending policies, practices, and procedures in place that are designed to generate loan income within an acceptable level of risk. The Board reviews and approves the Bank's loan policies on an annual basis or when changes and/or additions are recommended to the Board by management. A reporting and review process is provided by management to the Board with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification within the loan portfolio is

a means of managing risk associated with fluctuations in economic conditions.

Loans are underwritten after evaluating and understanding the borrower's loan request. Underwriting standards are designed to promote relationship banking by understanding a borrower's entire banking need. The Bank examines current and projected cash flows to determine the ability of the borrower to repay its obligation as agreed upon and, secondarily, evaluates the underlying collateral provided by the borrower.

The Bank obtains an independent third-party review of its loan portfolio on a regular basis for quality and accuracy in underwriting loans. Results of these reviews are presented to management and the Board. The loan review process complements and reinforces the ongoing risk identification and assessment decisions made by the Bank's lenders and credit personnel, as well as the Bank's policies and procedures.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate, and the collateral securing these loans may fluctuate in value. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operations of the real property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy than other loan types.

Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as forecasted and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Residential real estate loans are generally secured by first or second mortgage liens and are exposed to the risk that the collateral securing these loans may fluctuate in value due to economic or individual performance factors.

Consumer loans are loans made to purchase personal property such as automobiles, boats, and recreational vehicles. The terms and rates are established periodically by management. Consumer loans tend to be relatively small and the amounts are spread across many individual borrowers, thereby minimizing the risk of significant loss to the Bank.

Changes in the allowance for loan losses, by portfolio segment, and the recorded investment in loans, by portfolio segment and impairment method, as of and for the years ended December 31, 2021 and 2020 were as follows:

	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Un- allocated	Total
2021						
Allowance for loan losses						
Beginning balance	\$ 3,478,547	\$ 856,512	\$ 390,095	\$ 53,367	\$ 1,011,998	\$ 5,790,519
Charge-offs	-	(125,793)	-	-	-	(125,793)
Recoveries	-	229,249	4,632	6,000	-	239,881
Provision (credit)	765,939	(245,362)	(13,471)	(6,747)	(500,359)	-
Ending balance	<u>\$ 4,244,486</u>	<u>\$ 714,606</u>	<u>\$ 381,256</u>	<u>\$ 52,620</u>	<u>\$ 511,639</u>	<u>\$ 5,904,607</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>
Ending balance collectively evaluated for impairment	<u>\$ 4,244,486</u>	<u>\$ 714,606</u>	<u>\$ 381,256</u>	<u>\$ 52,620</u>		<u>\$ 5,392,968</u>
Loans						
Ending balance individually evaluated for impairment	<u>\$ 892,488</u>	<u>\$ -</u>	<u>\$ 908,574</u>	<u>\$ 15,652</u>		<u>\$ 1,816,714</u>
Ending balance collectively evaluated for impairment	<u>\$ 282,222,586</u>	<u>\$ 74,382,274</u>	<u>\$ 40,246,354</u>	<u>\$ 677,765</u>		<u>\$ 397,528,979</u>
Ending balance	<u>\$ 283,115,074</u>	<u>\$ 74,382,274</u>	<u>\$ 41,154,928</u>	<u>\$ 693,417</u>		<u>\$ 399,345,693</u>
2020						
Allowance for loan losses						
Beginning balance	\$ 2,604,016	\$ 627,105	\$ 326,588	\$ 34,430	\$ -	\$ 3,592,139
Charge-offs	-	(10,604)	(2,348)	(1,437)	-	(14,389)
Recoveries	-	22,996	4,632	6,753	-	34,381
Provision	874,531	217,015	61,223	13,621	1,011,998	2,178,388
Ending balance	<u>\$ 3,478,547</u>	<u>\$ 856,512</u>	<u>\$ 390,095</u>	<u>\$ 53,367</u>	<u>\$ 1,011,998</u>	<u>\$ 5,790,519</u>
Ending balance individually evaluated for impairment	<u>\$ 8,960</u>	<u>\$ 3,062</u>	<u>\$ 1,919</u>	<u>\$ -</u>		<u>\$ 13,941</u>
Ending balance collectively evaluated for impairment	<u>\$ 3,469,587</u>	<u>\$ 853,450</u>	<u>\$ 388,176</u>	<u>\$ 53,367</u>		<u>\$ 4,764,580</u>
Loans						
Ending balance individually evaluated for impairment	<u>\$ 1,905,825</u>	<u>\$ 269,983</u>	<u>\$ 1,521,160</u>	<u>\$ 32,451</u>		<u>\$ 3,729,419</u>
Ending balance collectively evaluated for impairment	<u>\$ 227,339,820</u>	<u>\$ 138,378,874</u>	<u>\$ 19,559,829</u>	<u>\$ 4,129,237</u>		<u>\$ 389,407,760</u>
Ending balance	<u>\$ 229,245,645</u>	<u>\$ 138,648,857</u>	<u>\$ 21,080,989</u>	<u>\$ 4,161,688</u>		<u>\$ 393,137,179</u>

Information related to impaired loans as of and for the years ended December 31, 2021 and 2020 by class of loans was as follows:

	As of December 31			For the Year Ended December 31	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2021					
With an allowance recorded					
Commercial real estate	\$ -	\$ -	\$ -	\$ 4,841	\$ 5,099
Commercial	-	-	-	43,321	1,609
Residential real estate	-	-	-	33,982	11,010
Consumer	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,144</u>	<u>17,718</u>
With no related allowance recorded					
Commercial real estate	892,488	892,488	-	1,192,949	124,427
Commercial	-	-	-	22,389	7,472
Residential real estate	908,574	908,574	-	1,248,483	53,548
Consumer	15,652	15,652	-	21,636	2,911
Subtotal	<u>1,816,714</u>	<u>1,816,714</u>	<u>-</u>	<u>2,485,457</u>	<u>188,358</u>
Total					
Commercial real estate	892,488	892,488	-	1,197,790	129,526
Commercial	-	-	-	65,710	9,081
Residential real estate	908,574	908,574	-	1,282,465	64,558
Consumer	15,652	15,652	-	21,636	2,911
Total	<u>\$ 1,816,714</u>	<u>\$ 1,816,714</u>	<u>\$ -</u>	<u>\$ 2,567,601</u>	<u>\$ 206,076</u>
2020					
With an allowance recorded					
Commercial real estate	\$ 58,094	\$ 58,094	\$ 8,960	\$ 19,365	\$ 1,115
Commercial	80,590	80,590	3,062	28,708	-
Residential real estate	209,982	209,982	1,919	216,473	12,492
Consumer	-	-	-	-	-
Subtotal	<u>348,666</u>	<u>348,666</u>	<u>13,941</u>	<u>264,546</u>	<u>13,607</u>
With no related allowance recorded					
Commercial real estate	1,847,731	1,847,731	-	1,739,515	114,804
Commercial	189,393	189,393	-	303,588	2,714
Residential real estate	1,311,178	1,311,178	-	483,030	34,727
Consumer	32,451	32,451	-	18,930	599
Subtotal	<u>3,380,753</u>	<u>3,380,753</u>	<u>-</u>	<u>2,545,063</u>	<u>152,844</u>
Total					
Commercial real estate	1,905,825	1,905,825	8,960	1,758,880	115,919
Commercial	269,983	269,983	3,062	332,296	2,714
Residential real estate	1,521,160	1,521,160	1,919	699,503	47,219
Consumer	32,451	32,451	-	18,930	599
Total	<u>\$ 3,729,419</u>	<u>\$ 3,729,419</u>	<u>\$ 13,941</u>	<u>\$ 2,809,609</u>	<u>\$ 166,451</u>

The cash basis interest income on impaired loans was not materially different than the interest recognized on impaired loans as shown in the tables above.

Past due loans are loans for which principal and interest were not paid timely according to the contractual payment terms. The following tables present, by portfolio segment, the recorded investment in loans by aging category, non-accrual status, and in total, as of December 31, 2021 and 2020:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days and Accruing	Non- accrual	Total Past Due	Current	Total Loans
2021							
Commercial real estate	\$ 257,981	\$ -	\$ -	\$ -	\$ 257,981	\$ 282,857,093	\$ 283,115,074
Commercial	-	-	-	-	-	74,382,274	74,382,274
Residential real estate	379,917	188,314	-	912,448	1,480,679	39,674,249	41,154,928
Consumer	-	-	-	15,602	15,602	677,815	693,417
Total	<u>\$ 637,898</u>	<u>\$ 188,314</u>	<u>\$ -</u>	<u>\$ 928,050</u>	<u>\$ 1,754,262</u>	<u>\$ 397,591,431</u>	<u>\$ 399,345,693</u>
2020							
Commercial real estate	\$ 327,459	\$ -	\$ -	\$ 1,090,485	\$ 1,417,944	\$ 227,827,701	\$ 229,245,645
Commercial	-	-	-	86,415	86,415	138,562,442	138,648,857
Residential real estate	62,460	209,982	-	1,311,178	1,583,620	19,497,369	21,080,989
Consumer	8,131	-	-	32,451	40,582	4,121,106	4,161,688
Total	<u>\$ 398,050</u>	<u>\$ 209,982</u>	<u>\$ -</u>	<u>\$ 2,520,529</u>	<u>\$ 3,128,561</u>	<u>\$ 390,008,618</u>	<u>\$ 393,137,179</u>

The Bank utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Loan risk ratings are updated whenever information comes to management's attention that indicates that a loan's risk has changed. The following is a detailed description of these credit risk ratings:

Pass (Ratings 1 – 6) - These loans range from minimal to acceptable credit risk.

Watch (Rating 7) – These loans have a lower than average, but still acceptable, credit risk and are performing as agreed.

Special Mention (Rating 8) - These loans have potential weaknesses that, if not checked or corrected, may inadequately protect the Bank's position at some future date. Loans in this category warrant more than usual management attention but do not justify a Substandard classification.

Substandard (Rating 9) - Substandard loans have well-defined weaknesses that jeopardize the ability of the borrower to repay in full. These loans are inadequately protected by either the sound net worth and payment capacity of the borrower or the value of pledged collateral. These are loans with a distinct possibility of loss. Loans moving toward foreclosure and/or legal action due to credit quality deterioration are rated 9 or higher by the Bank.

Doubtful (Rating 10) - Doubtful loans have an extremely high probability of loss. These loans have all the critical weaknesses found in a Substandard loan; however, the weaknesses are elevated to the point that, based upon current information, collection or liquidation in full is improbable.

Loss (Rating 11) – Loans classified as Loss are considered uncollectible and are charged off.

The following tables present, by class of loans, the recorded investment in loans by internally assigned risk rating as of December 31, 2021 and 2020:

	Pass	Watch/ Special Mention	Substandard	Doubtful	Total Loans
2021					
Commercial real estate	\$ 263,559,911	\$ 15,208,926	\$ 4,346,237	\$ -	\$ 283,115,074
Commercial	68,187,549	4,061,347	2,133,378	-	74,382,274
Residential real estate	39,452,797	789,683	912,448	-	41,154,928
Consumer	641,498	36,317	15,602	-	693,417
Total	<u>\$ 371,841,755</u>	<u>\$ 20,096,273</u>	<u>\$ 7,407,665</u>	<u>\$ -</u>	<u>\$ 399,345,693</u>
2020					
Commercial real estate	\$ 198,267,424	\$ 23,331,687	\$ 7,646,534	\$ -	\$ 229,245,645
Commercial	125,763,199	9,344,540	3,541,118	-	138,648,857
Residential real estate	19,394,860	374,951	1,311,178	-	21,080,989
Consumer	3,972,354	96,883	92,451	-	4,161,688
Total	<u>\$ 347,397,837</u>	<u>\$ 33,148,061</u>	<u>\$ 12,591,281</u>	<u>\$ -</u>	<u>\$ 393,137,179</u>

Troubled debt restructurings

Loans classified as TDRs aggregated \$1,359,264 and \$979,753 as of December 31, 2021 and 2020 respectively. All loans classified as TDRs were accruing interest as of December 31, 2021 and 2020, respectively.

Loan modifications made by the Bank which result in TDRs generally include rate modifications (a modification of the interest rate), term modifications (a modification of the maturity date, timing of payments, and/or frequency of payments), payment modifications (a modification of the payment amount), or combination modifications (any other type of modification, including the use of multiple types of modifications).

There were 2 new residential real estate loans to one borrower in the amount of \$377,721 identified as TDRs during the year ended December 31, 2021. Both loans were granted term only modifications in 2021. There was one new commercial loan in the amount of \$104,694 identified as a TDR during the year ended December 31, 2020. This loan had term modifications in 2020.

Due to the deterioration of the US economy beginning in March 2020 resulting from the COVID-19 pandemic, the Company has had an increase in loan payment deferral and forbearance requests. Accrued and unpaid interest during the deferral period will be collected upon the expiration of the deferral or on a regular repayment schedule at the end of the deferral period. In accordance with the CARES Act and interagency guidance, these loans are generally classified based on their past due status prior to their deferral period, so they are classified as performing loans that accrue interest.

The following table presents loans modified under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the 2020 Coronavirus Aid, Relief and Economic Security Act as of December 31, 2021 and December 31, 2020:

	December 31, 2021		December 31, 2020	
	<u>Number of Contracts</u>	<u>Recorded Investment</u>	<u>Number of Contracts</u>	<u>Recorded Investment</u>
Full deferral	1	\$ 78,785	2	\$ 812,000
Interest only	1	\$ 3,344,284	10	\$ 4,877,800

The Bank's operations, like those of other financial institutions operating in the Bank's market, are significantly influenced by various economic conditions including local economies, the strength of the real estate market, and the fiscal and regulatory policies of the federal and state governments and the regulatory authorities that govern financial institutions. Any downturn in the real estate markets could materially and adversely affect the Bank's business, because a significant portion of the Bank's loans are secured by real estate. The Bank's ability to recover on defaulted loans by selling the real estate collateral would then be diminished and the Bank would be more likely to suffer losses on defaulted loans. Consequently, the Bank's results of operations and financial condition are dependent upon the general trends in the economy, and, in particular, the residential and commercial real estate markets. If there is a decline in real estate values, the collateral for the Bank's loans would provide less security. Real estate values could be affected by, among other things, a worsening of economic conditions, an increase in foreclosures, a decline in home sale volumes, and an increase in interest rates. Furthermore, the Bank may experience an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws, or default on their loans or other obligations to the Bank given a sustained weakness or a weakening in business and economic conditions generally or specifically in the principal markets in which the Bank does business. An increase in the number of delinquencies, bankruptcies, or defaults could result in a higher level of nonperforming assets, net charge-offs, and provision for loan losses.

Note 4 - Loan Servicing Rights

Loans serviced by the Bank for the U.S. Department of Agriculture are not included in the accompanying consolidated balance sheets. The unpaid principal balance of such serviced loans as of December 31, 2021 and 2020 was \$1,395,602 and \$5,939,392, respectively. On November 1, 2020, the Bank sold its servicing rights to all FHLMC loans. As of December 31, 2021, the Bank only serviced loans for the U.S. Department of Agriculture.

Note 5 - Premises and Equipment

Premises and equipment consisted of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,509,152	\$ 1,787,984
Building and improvements	10,052,568	7,228,193
Construction in progress	-	845
Furniture and equipment	3,768,287	3,698,000
Leasehold improvements	954,718	954,718
Total premises and equipment	<u>17,284,725</u>	<u>13,669,740</u>
Less accumulated depreciation and amortization	<u>(7,564,982)</u>	<u>(6,901,043)</u>
 Premises and equipment, net	 <u>\$ 9,719,743</u>	 <u>\$ 6,768,697</u>

Depreciation expense for the years ended December 31, 2021 and 2020 was \$663,940 and \$616,106, respectively.

Note 6 - Time Deposits

Time deposits that meet or exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit of \$250,000 aggregated \$3,413,522 and \$4,133,337 as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, the scheduled annual maturities of time deposits were as follows:

2022	\$ 13,981,446
2023	2,096,172
2024	1,617,874
2025	1,406,260
2026	714,427
	<u>\$ 19,816,179</u>

Note 7 - Short-Term Borrowings and FHLB Borrowings

As of December 31, 2021, the Bank has available lines of credit of \$3,000,000 with U.S. Bank and \$20,000,000 with Pacific Coast Bankers' Bank. The Bank had no amounts outstanding on such lines of credit. As of December 31, 2021, the Bank also has an available line of credit with the FRB discount window totaling \$3,901,504 subject to certain collateral requirements (primarily the amount of certain pledged loans).

The Bank is a member of and has entered into credit arrangements with the FHLB. The Bank participates in the FHLB's Cash Management Advance (CMA) program and also has fixed and adjustable rate promissory notes with the FHLB. Borrowings under the credit arrangements are collateralized by mortgage loans or other pledged instruments. Borrowings available to the Bank under all FHLB credit arrangements are limited to the lesser of 45% of the Bank's total assets or collateral availability. The CMA program advances are due on demand, or if no demand is made, in one year. As of December 31, 2021 and 2020, the Bank had no outstanding borrowings under the CMA program.

The Bank had no FHLB term borrowing notes outstanding as of December 31, 2021 and 2020.

FHLB advances are collateralized by certain qualifying loans in the amount of \$185,372,507 and \$151,911,485 as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Bank had borrowing capacity available at the FHLB of \$131,611,363 and \$105,237,109, respectively.

Note 8 – Subordinated Debentures

Subordinated Debentures

In September 2021, the Company completed a private placement of \$15,000,000 in aggregate principal amount of fixed-to-floating rate subordinated notes (the "Notes") to certain qualified institutional buyers and accredited investors.

The Notes will initially bear interest at 3.375% per annum payable semi-annually until September 30, 2026, and thereafter pay a quarterly floating interest rate based on the then current Three-Month Term Secured Overnight Financing Rate (SOFR) plus 266 basis points, payable quarterly in arrears. Beginning on September 30, 2026, the Notes may be redeemed, in whole or in part, at the Company's option. The Notes will mature on September 30, 2031.

Included in the proceeds from the debenture were various expenses including commission fees, legal expenses, accounting expenses and various filing expenses. The total of the issuance cost was \$497,244 and will be amortized over the life of the debt as an increase to interest expense. As of December 31, 2021, the subordinated debenture had a net book balance, including unamortized issuance cost of \$14,527,677.

For the years ended December 31, 2021, the Company's interest expense, including amortization of issuance costs related to the notes was \$157,079.

The Notes were structured to qualify as Tier 2 capital instruments for regulatory capital purposes at the holding company. Subsequent to the issuance of the notes, the Company made a capital investment in the Bank totaling \$13.5 million. This capital investment qualifies as Tier 1 capital at the Bank.

Junior Subordinated Debentures

Oregon Pacific Statutory Trust I (the Trust) is a wholly-owned Connecticut statutory business trust subsidiary which issued \$4,000,000 of guaranteed undivided beneficial interests in Bancorp's floating rate Junior Subordinated Deferrable Interest Debentures (the "Trust Preferred Securities" or "TPS") and \$124,000 of common securities. The common securities were purchased by Bancorp and represent a 3% minority interest in the Trust. The Company's investment in common securities is included in accrued interest receivable and other assets in the accompanying consolidated balance sheets.

The proceeds from the issuance of the common securities and the TPS were used by the Trust to purchase \$4,124,000 of subordinated deferrable interest debentures ("the Debentures") of Bancorp. The Debentures, which represent the sole asset of the Trust, possess the same terms as the TPS and accrue interest at the three-month London Interbank Offered Rate ("LIBOR") plus 2.85% per year which changes quarterly. The rate ranged between

2.97% and 3.08% during 2021 and between 3.08% and 4.75% during 2020. The accrued interest on the Debentures is paid to the Trust by Bancorp, and the Trust in turn distributes the interest income as dividends on the TPS. As of December 31, 2021 and 2020, the accrued interest to be paid to the Trust is \$5,268 and \$5,290, respectively. Management believes that, as of December 31, 2021 and 2020, the Debentures meet applicable regulatory guidelines to qualify as tier 1 capital/common equity tier 1 capital.

In conjunction with the issuance of the TPS, Bancorp entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of (1) accrued and unpaid distributions required to be paid on the TPS, (2) the redemption price with respect to any TPS called for redemption by the Trust, and (3) payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust. The TPS are mandatorily redeemable upon maturity of the Debentures on December 17, 2033, or upon earlier redemption as provided in the indenture. Bancorp has the right to redeem the Debentures purchased by the Trust in whole or in part, on or after December 17, 2008. As specified in the indenture, if the Debentures are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest. For the years ended December 31, 2021 and 2020, Bancorp's interest expense related to the TPS was \$122,847 and \$145,788, respectively.

Note 9 - Income Taxes

The provision for income taxes in 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Current expense:		
Federal	\$ 1,904,893	\$ 1,452,162
State	672,297	597,909
	<u>2,577,190</u>	<u>2,050,071</u>
Deferred expense:		
Federal	23,890	(423,047)
State	9,357	(165,696)
	<u>33,247</u>	<u>(588,743)</u>
Income taxes	<u>\$ 2,610,437</u>	<u>\$ 1,461,328</u>

The provision for income taxes results in effective tax rates which are different than the federal income tax statutory rate. The nature of the differences in 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Federal income taxes at statutory rate	\$ 2,186,297	\$ 1,221,050
State income taxes	625,073	349,104
Change in cash surrender value of life insurance	(65,448)	(62,019)
Municipal interest	(111,488)	(112,377)
Other	<u>(23,997)</u>	<u>65,570</u>
Provision for income taxes	<u>\$ 2,610,437</u>	<u>\$ 1,461,328</u>

The components of the net deferred tax assets and liabilities as of December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Allowance for loan losses and unfunded loan commitments	\$ 1,022,650	\$ 1,135,335
Deferred compensation	608,266	561,883
Interest income on nonaccrual loans	29,892	24,304
Other	<u>16,011</u>	<u>13,687</u>
	<u>1,676,819</u>	<u>1,735,209</u>
Deferred tax liabilities:		
Accumulated depreciation and amortization	(365,912)	(391,055)
FHLB stock dividends	(26,590)	(26,590)
Unrealized gains on available-for-sale investment securities - net	<u>(14,057)</u>	<u>(374,775)</u>
	<u>(406,559)</u>	<u>(792,420)</u>
Net deferred tax assets	<u>\$ 1,270,260</u>	<u>\$ 942,789</u>

The Company has determined that it is not required to establish a valuation allowance for the net deferred tax assets as of December 31, 2021 and 2020, as management believes it is more likely than not that the net deferred tax assets will be realized principally through future taxable income and future reversals of existing taxable temporary differences.

Note 10 - Commitments and Contingencies

Financial instruments with off-balance sheet risk

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These financial instruments involve elements of credit and interest rate risk similar to the amounts recognized in the accompanying consolidated balance sheets. The contract or notional amounts of these financial instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

As of December 31, 2021 and 2020, the Bank had no commitments to extend credit at below-market interest rates and held no significant derivative financial instruments.

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

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. While most commercial letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include cash, accounts receivable, premises and equipment, and income producing commercial properties.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third-party, the Bank would be required to fund the commitment. The maximum potential

amount of future payments the Bank could be required to make is represented by the contractual amount of the commitment. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

A summary of the Bank's off-balance sheet financial instruments as of December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Commitments to extend credit	\$ 81,614,513	\$ 83,981,919
Commercial and standby letters of credit	113,500	213,500
Total off-balance sheet financial instruments	<u>\$ 81,728,013</u>	<u>\$ 84,195,419</u>

Additionally, the Bank previously sold real estate loans to the FHLMC. The FHLMC has the right to reject a loan that it has previously purchased and require the Bank to repurchase the loan in the event of certain misstatements or omissions of facts in the loan application. During the years ended December 31, 2021 and 2020 there were no loans that required repurchase by the Bank from the FHLMC. The Bank has not realized significant losses related to these repurchases, and management believes that any liabilities that may result from such recourse provisions are not significant to the accompanying consolidated financial statements.

Operating lease commitments

The Bank leases certain branch premises under noncancelable operating lease agreements. The Bank does not have any operating leases with an initial term of 12 months or less.

The lease agreements contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. The lease agreements do not contain any material residual value guarantees or restrictive covenants. Certain operating leases provide the Bank with the option to extend the lease term one or more times following expiration of the initial term. Lease extensions are not reasonably certain, and the Bank generally does not recognize payments occurring during option periods in the calculation of its operating lease right-of-use assets and operating lease liabilities.

The table below presents the lease right-of-use assets and lease liabilities, which are recorded in accrued interest receivable and other assets and accrued interest payable and other liabilities, respectively, in the accompanying consolidated balance sheet as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Operating lease right-of-use assets	\$ 907,722	\$ 1,028,552
Operating lease liabilities	\$ 939,166	\$ 1,051,825
Operating lease weighted-average remaining lease term	4.51 years	5.62 years
Operating lease weighted-average discount rate	3.14%	3.06%

Total operating lease costs were \$258,848 and \$227,632 for the years ended December 31, 2021 and 2020, respectively, and are included in occupancy expense in the accompanying consolidated statement of comprehensive income.

Operating cash flows paid for operating lease amounts included in the measurement of lease liabilities was \$250,478 and \$218,359 for the years ended December 31, 2021 and 2020.

The following table reconciles the undiscounted cash flows for the periods presented related to the Company's operating lease liabilities as of December 31, 2021.

Year ending December 31,	
2022	\$ 283,525
2023	244,165
2024	135,152
2025	137,856
2026	140,613
Thereafter	71,122
Total minimum lease payments	<u>1,012,433</u>
Less: amount of payments representing interest	73,267
Lease Liabilities	<u><u>\$ 939,166</u></u>

Litigation

In the ordinary course of business, the Bank becomes involved in various litigation arising from normal banking activities, including numerous matters related to loan collections and foreclosures. In the opinion of management, the ultimate disposition of these legal actions will not have a material effect on the Company's consolidated financial statements as of and for the year ended December 31, 2021.

Public deposits

The Bank is a participant in the Oregon Public Deposit Protection Program (the Program). The Program was established to provide additional protection for Oregon public funds in the event of a bank loss. Each Program participant is required to pledge securities or obtain a letter of credit for a defined percentage of its average of public funds held in excess of FDIC deposit insurance limits. This percentage is based on the Bank's capital adequacy and the discretion of the Office of the State Treasurer. In the event of an Oregon bank failure and to the extent sufficient collateral is unavailable to repay its public funds, any uninsured public deposits would be fully repaid by the other Program participants. As of December 31, 2021, the Bank had pledged securities aggregating \$4,447,022 under the Program for its public deposits and there was no liability associated with the Bank's participation in the Program. The maximum future contingent liability is dependent upon the occurrence of an actual loss, the amount of such loss, the failure of collateral to cover such a loss, and the resulting share of loss to be assessed to the Company, all of which cannot presently be determined.

Note 11 - Concentrations of Credit Risk

Except for guaranteed loans purchased from the U.S. Department of Agriculture and Small Business Administration, all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. Nearly all such customers are depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers as of December 31, 2021. The Bank's loan policy does not allow the extension of credit to any single borrower or group of related borrowers in excess of the Bank's legal lending limit, which is generally 15% of aggregate common stock and the allowance for loan losses. Investments in state and municipal securities involve government entities throughout the U.S.

As of December 31, 2021, the Bank held \$2.9 million in correspondent bank accounts. At times these balances may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of the correspondent banks. The Bank has not experienced any losses in such accounts.

Note 12 - Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels. These levels are:

- Level 1: Fair value of the asset or liability is determined using unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect management's own assumptions regarding the applicable asset or liability.

Recurring fair value measurements

The fair values of the Company's available-for-sale debt securities as of December 31, 2021 and 2020 are estimated by an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

The Company's assets measured at fair value on a recurring basis as of December 31, 2021 and 2020 were as follows:

2021	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale debt securities			
U.S. Treasury and agencies	\$ -	\$ 20,823,974	\$ -
Obligations of state and political subdivisions	-	31,622,475	-
Mortgage-backed securities	-	64,657,984	-
Subordinated notes	-	5,971,548	-
Total available-for-sale debt securities	<u>\$ -</u>	<u>\$ 123,075,981</u>	<u>\$ -</u>

2020			
Available-for-sale debt securities			
Obligations of state and political subdivisions	\$ -	\$ 20,820,094	\$ -
Mortgage-backed securities	-	15,983,817	-
Corporate notes	-	1,001,900	-
Total available-for-sale debt securities	<u>\$ -</u>	<u>\$ 37,805,811</u>	<u>\$ -</u>

Non-recurring fair value measurements

Certain impaired loans are reported at estimated fair value on a non-recurring basis, including impaired loans measured at an observable market price (if available), the present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the loan's collateral (if collateral dependent). Estimated fair value of the loan's collateral is determined by appraisals or independent valuation which is then adjusted for the estimated costs related to liquidation of the collateral. Management's ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or location. A significant portion of the Bank's impaired loans are measured using the estimated fair market value of the collateral less the estimated costs to sell.

OREO is measured on a non-recurring basis at estimated fair value less estimated costs to sell. Fair value is generally determined based on third-party appraisals of fair value in an orderly sale. Historically, appraisals have considered comparable sales of similar assets in reaching a conclusion as to fair value. Estimated costs to sell OREO are based on standard market factors. The valuation of OREO is subject to significant external and internal judgment. Management periodically reviews OREO to determine whether the property continues to be carried at the lower of its recorded book value or estimated fair value, net of estimated costs to sell. Fair value adjustments on OREO are recognized within the statements of comprehensive income as a component of noninterest expense.

The Company's assets measured at fair value on a non-recurring basis as of December 31, 2021 and 2020 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2021			
Impaired loans with specific valuation allowances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets measured at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2020			
Impaired loans with specific valuation allowances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,725</u>
Total assets measured at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,725</u>

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis as of December 31, 2021 and 2020:

	<u>Fair Value 2021</u>	<u>Fair Value 2020</u>	<u>Valuation Technique</u>	<u>Unobservable Input(s)</u>	<u>Range</u>
Impaired loans	\$ -	\$ 334,725	Market approach	Appraised value of collateral less selling costs	NA

The Company did not change the methodology used to determine the recurring/non-recurring fair values for any financial instruments during the years ended December 31, 2021 and 2020. Accordingly, for any given class of financial instruments, the Company did not have any transfers among Level 1, Level 2, or Level 3 during these years.

Other fair value disclosures

GAAP requires disclosure of estimated fair values for certain financial instruments. Such estimates are subjective in nature, and significant judgment is required regarding the risk characteristics of various financial instruments at a discrete point in time. Therefore, such estimates could vary significantly if assumptions regarding uncertain factors were to change. In addition, as the Company normally intends to hold the majority of its financial instruments until maturity, it does not expect to realize many of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for certain items which are not defined as financial instruments but which may have significant value. The Company does not believe that it would be practicable to estimate a fair value for these types of items as of December 31, 2021 and 2020. Because GAAP excludes certain items from fair value disclosure requirements, any aggregation of the fair value amounts presented would not represent the underlying value of the Company.

The estimated fair values of the Company's financial instruments as of December 31, 2021 and 2020 were as follows:

	Carrying Value	Estimated Fair Value	Fair Value Measurements at Report Date Using		
			Level 1	Level 2	Level 3
2021					
Financial assets:					
Cash and cash equivalents	\$ 8,643,057	\$ 8,643,057	\$ 8,643,057	\$ -	\$ -
Interest-bearing deposits in banks	143,191,524	143,191,524	143,191,524	-	-
Available-for-sale debt securities	123,075,981	123,075,981	-	123,075,981	-
Restricted equity securities	1,357,000	1,357,000	1,357,000	-	-
Loans	392,250,439	389,327,272	-	-	389,327,272
Bank-owned life insurance	8,401,926	8,401,926	8,401,926	-	-
Accrued interest receivable	1,611,274	1,611,274	1,611,274	-	-
Financial liabilities:					
Non-interest bearing deposits	\$ 171,380,665	\$ 171,380,665	\$ 171,380,665	\$ -	\$ -
Interest bearing deposits	427,483,249	427,483,249	427,483,249	-	-
Time certificate accounts	19,816,179	19,904,305	-	19,904,305	-
Accrued interest payable	150,645	150,645	150,645	-	-
Junior subordinated debentures	4,124,000	3,816,559	-	-	3,816,559
Subordinated debenture	14,527,677	14,800,500	-	14,800,500	-
2020					
Financial assets:					
Cash and cash equivalents	\$ 7,785,099	\$ 7,785,099	\$ 7,785,099	\$ -	\$ -
Interest-bearing deposits in banks	86,569,911	86,569,911	86,569,911	-	-
Available-for-sale debt securities	37,805,811	37,805,811	-	37,805,811	-
Restricted equity securities	1,145,600	1,145,600	1,145,600	-	-
Loans	385,173,336	373,366,939	-	-	373,366,939
Bank-owned life insurance	8,159,561	8,159,561	8,159,561	-	-
Accrued interest receivable	1,052,623	1,052,623	1,052,623	-	-
Financial liabilities:					
Non-interest bearing deposits	\$ 136,427,967	\$ 136,427,967	\$ 136,427,967	\$ -	\$ -
Interest bearing deposits	329,643,860	329,643,860	329,643,860	-	-
Time certificate accounts	20,271,976	20,208,829	-	20,208,829	-
Accrued interest payable	35,839	35,839	35,839	-	-
Subordinated debentures	4,124,000	2,998,418	-	-	2,998,418

The Company is required to disclose estimated fair values and classifications within the fair value hierarchy for certain financial instruments that are not carried at fair value on the Company's financial statements. Financial instruments not carried at fair value in the Company's financial statements include cash and cash equivalents, interest bearing deposits in banks, loans, accrued interest receivable, deposits, accrued interest payable and long-term debt which includes the Company's subordinated and junior subordinated debentures.

Cash, cash equivalents, and interest-bearing deposits in banks

Cash, cash equivalents, and interest-bearing deposits in banks include cash on hand, in process cash items and amounts due from correspondent banks. We use the carrying amount of these financial assets to represent their fair value due to their short-term nature. These financial assets are classified as Level 1 in the table above.

Loans

Loans are held at the amount of unpaid principal, less the allowance for loan losses and deferred fees. Unobservable inputs and management's assumptions are used in determining the fair value of loans, therefore loans are classified as Level 3 in the table above.

Accrued interest receivable and payable

The carrying value of accrued interest receivable and payable approximates the fair value due to their short-term nature.

Deposits

The fair value of interest and non-interest-bearing demand deposits is equal to the amount payable on demand as of the reporting date. The fair value of these deposits' balances is classified as Level 1 in the table above. The fair value of time certificate accounts is estimated by the calculation of the present value of the discounted cash flow using the interest rates currently offered on time certificates. The fair value of time certificate balances is classified as Level 2 in the table above.

Long term debt

Long term debt includes the Bank's junior subordinated and subordinated debentures. The fair value of the junior subordinated debenture is determined by the calculation of the present value of the discounted cash flow using the current rate for similar debt to other financial institutions. The fair value of the junior subordinated debenture is included in Level 3 in the table above. The fair value of the Bank's subordinated debenture is determined using quoted prices for similar liabilities in active markets. The fair value of the subordinate debenture is included in Level 2 in the table above.

Note 13 - Stock-Based Compensation

The Company has a stock incentive plan (the 2012 Plan) which was approved by its stockholders during 2012. The 2012 Plan provides that 250,000 shares of Bancorp's common stock will be reserved for the granting of incentive stock options and non-statutory stock options to certain key employees, directors, or consultants. The exercise price of each incentive option cannot be less than the fair market value of the Company's common stock on the date of grant. In addition, the 2012 Plan allows the Board to grant stock appreciation rights and restricted stock awards as may be allowable by law. As of December 31, 2021, no stock options and 114,987 restricted stock awards have been granted under the 2012 Plan.

The following table summarizes the restricted stock award activity under the 2012 Plan:

	2021		2020	
	Nonvested restricted shares outstanding	Weighted average grant date fair value	Nonvested restricted shares outstanding	Weighted average grant date fair value
Balance, beginning of period	61,541	\$ 5.63	28,500	\$ 5.37
Granted	41,446	6.20	33,041	5.85
Forfeited	-	-	-	-
Vested	(19,805)	6.15	-	-
Balance, end of period	<u>83,182</u>	<u>\$ 5.79</u>	<u>61,541</u>	<u>\$ 5.63</u>

The restricted stock awards either cliff vest over a period of five years, or vest ratably over a three year period and are valued based on the grant-date fair value of the Company's common stock. During the years ended December 31, 2021 and 2020, the Company recognized stock-based compensation expense of \$206,373 and \$82,045, respectively.

As of December 31, 2021, there was \$259,854 in unrecognized compensation costs related to nonvested restricted stock, which is expected to be recognized over a weighted average period of 2.21 years.

The unvested restricted stock shares are considered issued and outstanding. Holders of the shares have voting rights and would receive any declared dividends.

Note 14 - Benefit Plans

On January 1, 2019, the Bank implemented a 401(k) Plan which covers all employees once a minimum length of employment has been met. The Bank's contributions to the 401(k) Plan totaled \$304,041 and \$288,585 during the years ended December 31, 2021 and 2020.

The Bank has also established a nonqualified deferred compensation plan for certain key management employees. Participants may elect to defer a portion of their compensation to the deferred compensation plan, subject to a minimum annual deferral of \$5,000. In addition, the Bank may make discretionary employer contributions to the accounts of participants in the deferred compensation plan. Each participant's account is subject to a rate of return based on either the Bank's performance or on the return of another eligible investment option, as selected by each participant. For the years ended December 31, 2021 and 2020, the Bank recorded expenses of \$312,412 and \$191,433, respectively, related to the deferred compensation plan. The liability for benefits under the deferred compensation plan totaled \$2,252,504 and \$2,080,740 as of December 31, 2021 and 2020, respectively.

Upon enrollment in the deferred compensation plan, employees can elect the terms of their post-retirement distributions. Payout terms vary between one lump sum or monthly payments over a period of fifteen years.

Note 15 - Earnings Per Common Share and Common Equivalent Shares

The Company's basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The Company's diluted earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding plus dilutive common shares related to stock options. No stock options have been granted so the number of weighted average share is the same for both basic and diluted earnings per common share.

The numerators and denominators used in computing basic and diluted earnings per common share in 2021 and 2020 can be reconciled as follows:

	<u>Net Income (Numerator)</u>	<u>Weighted Average Shares (Denominator)</u>	<u>Earnings Per Common Share</u>
2021			
Basic and diluted earnings per common share	\$ 7,800,504	7,037,256	\$ 1.11
2020			
Basic and diluted earnings per common share	\$ 4,353,194	7,001,302	\$ 0.62

Note 16 - Transactions with Related Parties

Certain directors, executive officers, and principal stockholders of the Company (and the companies with which they are associated) are customers of, and have had banking transactions with, the Bank in the ordinary course of business. In addition, the Bank expects to have such transactions in the future. All loans and commitments to loan to such parties were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. In the opinion of management, these transactions do not involve more than the normal risk of collectability or present any other unfavorable features.

An analysis of activity with respect to such loans in 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Loans outstanding, beginning of year	\$ 4,995,444	\$ 4,890,375
Additions	6,095,402	864,204
Repayments	(1,635,934)	(759,135)
	<u>\$ 9,454,912</u>	<u>\$ 4,995,444</u>

At December 31, 2021 and 2020, deposits to directors, executive officers, and principal stockholders of the Company totaled \$1,227,620 and \$1,643,814, respectively.

Note 17 – Revenue from Contracts with Customers

Revenue in the scope of ASC 606 is measured based on the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. The majority of the Bank's revenue is specifically excluded from the scope of ASC 606. For in-scope revenue, the following is a description of principal activities, separated by the timing of revenue recognition from which the Bank generates its revenue from contracts with customers.

Revenue earned at a point in time - Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, overdraft fees, interchange fees and foreign exchange transaction fees, which are recorded in the service charges and fees category in the following table. Revenue is primarily based on the number and type of transactions and is generally derived from transactional information accumulated by the Bank's systems and is recognized immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Bank is the principal in each of these contracts, with the exception of interchange fees, in which case the Bank is acting as the agent and records revenue net of expenses paid to the principal.

Revenue earned over time - The Bank earns revenue from contracts with customers in a variety of ways where the revenue is earned over a period of time - generally monthly. Examples of this type of revenue are deposit account maintenance fees and safe deposit box fees, which are recorded in the service charges and fees category in the following table. Other examples are trust fee income, RIA income, investment sales commissions, and merchant card services. Revenue is generally derived from transactional information accumulated by the Bank's systems or those of third-parties and is recognized as the related transactions occur or services are rendered to the customer.

The Bank recognizes revenue from contracts with customers when it satisfies its performance obligations. The Bank's performance obligations are typically satisfied as services are rendered, and the Bank's contracts generally do not include multiple performance obligations. As a result, there are no contract balances as payments and services are rendered simultaneously. Payment is generally collected at the time services are rendered, monthly or quarterly. Unsatisfied performance obligations at the reporting date are not material to the Bank's consolidated financial statements.

The Bank's revenue from contracts with customers is recognized in noninterest income. The following table presents the Bank's noninterest income for the years ended December 31, 2021 and 2020, segregated by revenue from contracts with customers and revenue from other sources:

	<u>2021</u>	<u>2020</u>
Revenue from contracts with customers		
Trust fee income	\$ 3,029,436	\$ 2,401,054
Service charges and fees	1,122,284	895,869
Investment sales commissions	117,850	190,464
Merchant card services	470,707	324,562
RIA income	869,715	544,527
Other income	31,172	56,207
	<u>5,641,164</u>	<u>4,412,683</u>
Revenue from other sources		
Mortgage loan sales and servicing fees	687,720	477,065
Increase in cash surrender value of BOLI	242,366	229,666
Other income	44,927	26,731
	<u>975,013</u>	<u>733,462</u>
Total noninterest income	<u>\$ 6,616,177</u>	<u>\$ 5,146,145</u>

Note 18 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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.

On January 1, 2020, the community bank leverage ratio (CBLR) final rule became effective, providing an optional capital reporting framework for qualifying community banks. This new framework was designed to reduce regulatory burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. The framework provides a simple measure of capital adequacy consistent with section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act.

To qualify for the CBLR framework a bank must maintain the following:

- Leverage ratio greater than 9 percent
- Less than \$10 billion in average total consolidated assets
- Off-balance-sheet exposures of 25 percent or less of total consolidated assets
- Trading assets plus trading liabilities of 5 percent or less of total consolidated assets
- Not an advanced approaches banking organization

Qualifying community banking organizations that elect to use the CBLR framework and maintain the above listed specifications are considered to have satisfied the risk-based and leverage capital requirements in the generally applicable capital rule. In addition, these institutions are considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act.

Upon filing of the March 31, 2020 call report Oregon Pacific Bank opted into this new capital framework. Upon the opt in, Oregon Pacific Bank did not calculate risk-based capital ratios. Upon filing the June 30, 2021 call report the Bank opted out of the new capital framework, and calculated risk-based ratios which are included in the table below.

On April 6, 2020, the Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System and Office of the Comptroller of the Currency issued two interim final rules that change the CBLR and implement Section 4012 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The interim final rules change the CBLR to 8 percent for 2020, 8.5 percent in 2021 and back to 9 percent in 2022.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following tables) of tier 1 capital to average assets and common equity tier 1, tier 1, and total capital to risk-weighted assets (all as defined in the regulations). Management believes that, as of December 31, 2021 and 2020, the Bank met or exceeded all capital adequacy requirements to which it is subject.

To be categorized as "adequately capitalized" or "well-capitalized," the Bank must maintain minimum common equity tier 1, tier 1 leverage, tier 1 risk-based, and total risk-based capital ratios as set forth in the following tables. As of December 31, 2021, the most recent notification from the Bank's regulator categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes would change the Bank's regulatory capital categorization.

The Bank's actual and required capital amounts and ratios as of December 31, 2021 and 2020 are presented in the following table (dollars in thousands):

	Actual		Regulatory Minimum to be "Adequately Capitalized"		Regulatory Minimum to be "Well Capitalized" Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021						
Tier 1 capital (to average assets)	\$ 66,593	9.73%	\$ 27,369	4.00%	\$ 34,211	5.00%
Common equity tier 1 capital (to risk weighted assets)	66,593	17.12%	17,499	4.50%	25,277	6.50%
Tier 1 capital (to risk-weighted assets)	66,593	17.12%	23,332	6.00%	31,110	8.00%
Total capital (to risk-weighted assets)	71,468	18.38%	31,110	8.00%	38,887	10.00%
2020						
Community Bank Leverage Ratio	\$ 45,133	8.32%	N/A	N/A	\$ 43,397	8.00%

Bancorp is a bank holding company registered with the FRB. Bank holding companies are subject to capital adequacy requirements of the FRB under the Bank Holding Company Act of 1956, as amended, and the regulations of the FRB. For a bank holding company with less than \$3.0 billion in assets, the capital guidelines apply on a bank only basis, and the FRB expects the holding company's subsidiary bank to be well capitalized under the prompt corrective action provisions. If the Company was subject to regulatory guidelines for bank holding companies with \$3.0 billion or more in assets, as of December 31, 2021, Bancorp would have exceeded all regulatory capital requirements.

These financial statements have not been reviewed or confirmed for accuracy or relevance by the FDIC or FRB.



Oregon Pacific Bancorp

Forward-Looking Statement Safe Harbor

This release contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”). These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “anticipates,” “targets,” “expects,” “estimates,” “intends,” “plans,” “goals,” “believes” and other similar expressions or future or conditional verbs such as “will,” “should,” “would” and “could.” The forward-looking statements made represent Oregon Pacific’s current estimates, projections, expectations, plans or forecasts of its future results and revenues, including but not limited to statements about performance, loan or deposit growth, strategic focus, capital position, liquidity, credit quality and credit quality trends. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and are often beyond Oregon Pacific’s control. Actual outcomes and results may differ materially from those expressed in, or implied by, any of these forward-looking statements. You should not place undue reliance on any forward-looking statement and should consider all of the following uncertainties and risks. Oregon Pacific Bancorp undertakes no obligation to publicly revise or update any forward-looking statement to reflect the impact of events or circumstances that arise after the date of this release. This statement is included for the express purpose of invoking the PSLRA’s safe harbor provisions.

**Oregon Pacific Bancorp, whose stock is publicly traded, is the holding company for Oregon Pacific Bank.
Our stock is listed on the OTCBB (Over-the-Counter Bulletin Board) with the ticker symbol ORPB.**