2021 CONSOLIDATED FINANCIAL STATEMENTS

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These consolidated financial statements have not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

Report of Independent Auditors

The Board of Directors and Shareholders
Citizens Bancorp

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Citizens Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Citizens Bancorp and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Citizens 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Citizens 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.

Moss Adams LLP

Portland, Oregon
March 8, 2022

Citizens Bancorp and Subsidiary
Consolidated Balance Sheets
(In thousands, except share amounts)

	At December 31, 2021	At December 31, 2020
ASSETS		
Cash and due from banks	$ 14,974	$ 18,052
Interest-bearing deposits in banks	100,345	178,021
Total cash and cash equivalents	115,319	196,073
Securities available-for-sale, at fair value	552,051	313,926
Federal Home Loan Bank (FHLB) stock, at cost	1,180	948
Loans held-for-sale	-	996
Loans	361,166	440,580
Allowance for loan losses	(8,047)	(12,488)
Net loans	353,119	428,092
Premises and equipment - net	12,393	12,527
Accrued interest receivable	3,766	3,613
Bank-owned life insurance (BOLI)	20,415	19,874
Other real estate owned (OREO)	729	753
Other assets	8,293	6,805
Total assets	$ 1,067,265	$ 983,607
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand	$ 448,542	$ 382,328
Savings	76,217	67,797
Interest-bearing demand	374,708	366,082
Time	16,978	17,140
Total deposits	916,445	833,347
Repurchase agreements	43,930	42,564
Cash dividends payable	3,283	2,145
Other liabilities	8,085	8,670
Total liabilities	971,743	886,726
Commitments and contingencies (Note 10)	-	-
Shareholders' equity		
Series A preferred stock (no par value); authorized 500,000 shares; issued and outstanding: 2021 - 322,268 shares; 2020 - 332,622 shares	1,934	1,997
Common stock (no par value); authorized 10,000,000 shares; issued and outstanding: 2021 - 5,623,871 shares; 2020 - 5,597,874 shares	44,775	44,316
Retained earnings	51,859	44,930
Accumulated other comprehensive (loss)/income	(3,046)	5,638
Total shareholders' equity	95,522	96,881
Total liabilities and shareholders' equity	$ 1,067,265	$ 983,607

Citizens Bancorp and Subsidiary
Consolidated Statements of Income
(In thousands, except per share amounts)

	For the Years Ended December 31, 2021	2020
Interest income		
Loans	$ 20,473	$ 22,582
Interest-bearing deposits in banks	228	374
Total securities	6,568	4,908
Total interest income	27,269	27,864
Interest expense		
Deposits	407	478
Other borrowings	55	62
Total interest expense	462	540
Net interest income	26,807	27,324
Provision for loan losses	(4,500)	6,860
Net interest income after provision for loan losses	31,307	20,464
Noninterest income		
Service charges on deposit accounts	528	594
Debit and ATM interchange fee income, net	877	753
Earnings on BOLI	541	543
Merchant fee income	252	276
Mortgage department income	250	354
Other	649	565
Total noninterest income	3,097	3,085
Noninterest expense		
Salaries and employee benefits	14,151	12,522
Occupancy	1,170	1,159
Data processing	1,139	964
Furniture and equipment	823	803
Telephone - data line	355	354
Professional fees	394	410
FDIC insurance	275	141
Other	2,453	2,046
Total noninterest expense	20,760	18,399
Income before income taxes	13,644	5,150
Provision for income taxes	3,329	1,048
Net income	$ 10,315	$ 4,102
Basic and diluted earnings per common share	$ 1.73	$ 0.69

Citizens Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income

(In thousands)

	For the Years Ended December 31, 2021	2020
Net income	$ 10,315	$ 4,102
Other comprehensive income - net of tax		
Change in unrealized gains and losses on securities available-for-sale, net of tax of $3,212 and ($1,431), respectively	(8,684)	3,869
Comprehensive income	$ 1,631	$ 7,971

Citizens Bancorp and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2021 and 2020

(In thousands, except share and per share amounts)

	Shares of Series A Preferred Stock	Shares of Common Stock	Series A Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2019	368,449	5,514,053	$ 2,198	$ 43,037	$ 43,323	$ 1,769	$ 90,327
Net income	-	-	-	-	4,102	-	4,102
Change in unrealized gains and losses on securities available-for-sale - net of income taxes of ($1,431)	-	-	-	-	-	3,869	3,869
Cash dividend reinvestment	-	83,821	-	1,279	-	-	1,279
Cash dividend declared							
($0.36 per common share)	-	-	-	-	(2,015)	-	(2,015)
($0.39 per share - Series A preferred)	-	-	-	-	(130)	-	(130)
Stock repurchased	(35,827)	-	(201)	-	(350)	-	(551)
Balances at December 31, 2020	332,622	5,597,874	1,997	44,316	44,930	5,638	96,881
Net income	-	-	-	-	10,315	-	10,315
Change in unrealized gains and losses on securities available-for-sale - net of income taxes of $3,212	-	-	-	-	-	(8,684)	(8,684)
Cash dividend reinvestment	-	42,747	-	727	-	-	727
Cash dividend declared							
($0.55 per common share)	-	-	-	-	(3,093)	-	(3,093)
($0.59 per share - Series A preferred)	-	-	-	-	(190)	-	(190)
Stock repurchased	(10,354)	(16,750)	(63)	(268)	(103)	-	(434)
Balances at December 31, 2021	322,268	5,623,871	$ 1,934	$ 44,775	$ 51,859	$ (3,046)	$ 95,522

Citizens Bancorp and Subsidiary
Consolidated Statements of Cash Flows
(In thousands)

	For the Years Ended December 31, 2021	2020
Cash flows from operating activities		
Net income	$ 10,315	$ 4,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(4,500)	6,860
Depreciation and amortization	594	562
Write-down of OREO	24	24
Originations of loans held-for-sale	(17,008)	(21,140)
Proceeds from sales of loans held-for-sale	18,475	21,202
Gains on sales of loans held-for-sale	(471)	(570)
Provision for deferred income taxes	(185)	(2,251)
Earnings on BOLI	(541)	(543)
Amortization of bond premiums	4,672	1,626
Increase in accrued interest receivable	(153)	(124)
Other - net	1,324	1,782
Net cash provided by operating activities	12,546	11,530
Cash flows from investing activities		
Activity in securities available-for-sale:		
Purchases	(339,183)	(131,052)
Maturities, prepayments, and calls	84,490	106,766
Decrease (increase) in loans - net	79,473	(25,819)
Purchases of premises and equipment - net	(460)	(467)
Purchase of FHLB Stock	(232)	(22)
Purchases of BOLI	-	(1,500)
Net cash used in investing activities	(175,912)	(52,094)
Cash flows from financing activities		
Net increase in deposits	83,098	175,587
Net increase in repurchase agreements	1,366	11,716
Cash dividends paid	(1,418)	(2,265)
Repurchases of common stock	(268)	-
Repurchases of preferred stock	(166)	(551)
Net cash provided by financing activities	82,612	184,487
Net change in cash and cash equivalents	(80,754)	143,923
Cash and cash equivalents at beginning of year	196,073	52,150
Cash and cash equivalents at end of year	$ 115,319	$ 196,073
Supplemental disclosures of cash flow information		
Interest paid	$ 463	$ 540
Income taxes paid	$ 1,935	$ 1,819
Supplemental disclosures of non-cash investing and financing activities		
Change in unrealized gains and losses on securities available-for-sale - net of tax	$ (8,684)	$ 3,869
Accrued dividends declared and unpaid	$ 3,283	$ 2,145
Dividends reinvested	$ 727	$ 1,279

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

In preparing these consolidated financial statements, management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that occurred through March 9, 2022, which is the date that the consolidated financial statements were available to be issued. All dollar amounts in the following notes are expressed in thousands, except per share data.

1. Basis of Presentation, Nature of Operations, Method of Accounting, and Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of Citizens Bancorp ("Bancorp"), a bank holding company; and its wholly owned subsidiary, Citizens Bank Inc., dba Citizens Bank (the “Bank”) (collectively, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of operations

Bancorp is a financial holding company which operates primarily through its subsidiary, the Bank. The Bank is an Oregon state-chartered institution with headquarters in Corvallis, Oregon. The Bank provides banking products and services from its branches located in Benton, Clackamas, Lane, Linn, Marion, Polk, Washington, and Yamhill Counties in Oregon. Financial services include full-service deposit services for both individual and business customers, including checking, savings, money market and time deposit accounts. The Bank also offers a variety of lending services including commercial and consumer loans, and technology products such as internet banking, online bill pay, and mobile banking services.

Method of accounting

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("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 dates of the consolidated balance sheets, and the reported amounts of income, gains, expenses, and losses during the reporting periods. Actual results could differ from those estimates. A material estimate that is particularly susceptible to change in the near term relates to the allowance for loan losses.

Cash equivalents and cash flows

For purposes of presentation in the accompanying consolidated statements of cash flows, cash and cash equivalents include cash on hand and amounts due from banks (including cash items in process of collection). Such amounts include both interest-bearing and non-interest-bearing deposits with other financial intuitions, and short-term time deposits and federal funds sold on an overnight basis, which may exceed amounts insured by the Federal Deposit Insurance Corporation (“FDIC”).

Investment securities

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

Investment 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.

Investment securities that are not classified as either held-to-maturity 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, reported as a net amount in a separate component of shareholders' equity entitled "accumulated other comprehensive income (loss)." Securities available-for-sale consist of debt securities that may be sold to implement the Bank's asset/liability management strategies or in response to changes in interest rates and similar factors.

Management determines the appropriate classification of securities at the time of purchase.

Realized gains and losses on the sales of available-for-sale securities are determined using the specific identification method and are included in noninterest income. Premiums are amortized against interest income though the earliest call date. Discounts are accreted into interest income using the interest method over the period to maturity.

Management assesses the Company's investment securities quarterly for the presence of other-than-temporary impairment ("OTTI"). OTTI is considered to have occurred if the security is in an unrealized loss position and (1) the Company intends to sell the security, (2) it is "more likely than not" that the Company will be required to sell the security before recovery of its amortized cost basis, or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

When OTTI is identified, the amount of the impairment is bifurcated into two components: the amount representing credit loss and the amount related to all other factors. The amount representing credit loss would be recognized in earnings as a realized loss and the amount representing all other factors would be recognized in other comprehensive income (loss) as an unrealized loss.

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

Management believes that all unrealized losses on investment securities as of December 31, 2021, and 2020, are temporary.

Federal Home Loan Bank stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. As such, the Bank is required to maintain a minimum level of investment in the stock of its regional FHLB cooperative 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 FHLB investment.

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 held as of December 31, 2021, and 2020.

Loans held-for-sale

Loans that management has the intent and ability to sell are designated as held-for-sale and are carried at the lower of amortized cost or fair value, valued on a loan-by-loan basis. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains or losses on sales of loans held-for-sale are recognized based on the difference between the net sales proceeds and the carrying value of the sold portion of the loan, less the fair value of any servicing asset recognized.

Loans

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 of Directors 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, 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 through evaluation of the borrower's loan request and any supporting documentation. Underwriting standards are designed to promote relationship banking by helping the lender understand 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. 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.

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.

Loans are stated at the amount of unpaid principal, reduced by net deferred loan origination fees and the allowance for loan losses. Mortgage loans originated may be held in the Bank's loan portfolio as earning assets or sold into the secondary market with the servicing released. Mortgage loans intended for sale are reported as loans held-for-sale and are carried at the lower of cost or estimated fair value.

Interest income on all loans is accrued and 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, collection of principal or interest is doubtful. 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 satisfying all delinquent principal and interest amounts, and the prospects for future payments in accordance with the loan agreements appear relatively certain. A nonaccrual loan may be restored to accrual status when none of its principal and interest is due and unpaid and the Bank expects full repayment of the remaining contractual principal and interest, or when it otherwise becomes well secured and in the process of collection.

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.

Pursuant to the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) passed in March 2020, the Small Business Administration (“SBA”) opened the Paycheck Protection Program (“PPP”) to support eligible businesses and non-profits during the COVID-19 pandemic. Loans covered by 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, payments 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 Bank received a processing fee tiered by the size of the loan ranging from 1% to 5%. The Bank accounts 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.

Management follows a consistent methodology for assessing the appropriate level of allowance for loan losses. Loans are analyzed and allowances are 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. As of December 31, 2021, the lingering impact of COVID-19 was considered an additional qualitative factor requiring increased judgement and driving a higher degree of variability and volatility. The quantitative and qualitative loss factors are then applied to the outstanding loan balances based on the Bank's 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. When the amount of the impairment represents a confirmed loss, it is charged off against the allowance for loan losses.

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, 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.

Management performs a comprehensive analysis of the loan portfolio and estimates the allowance for loan losses quarterly. The allowance is generally increased by provisions charged to income and reduced by loans charged-off, net of recoveries. Loan losses are charged against the allowance when management deems a loan balance to be uncollectable.

The allowance for loan losses may be 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 (“TDR")

A loan is classified as a 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 payment; reduction of accrued interest; and other actions intended to minimize potential losses to the Bank. A TDR loan is considered 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.

Reserve for unfunded loan commitments

The Bank maintains a separate reserve for estimated losses related to unfunded loan commitments. Management estimates the amount of probable losses related to unfunded loan commitments by applying a loss factor to the amount of outstanding commitments. In accordance with industry practice and regulatory guidance, the reserve for estimated losses related to unfunded loan commitments is included in other liabilities in the accompanying consolidated balance sheets. Increase (decreases) in the reserve 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, which is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful life of the asset. Expenditures for repairs and maintenance are charged to expense as incurred. Additions and betterments are capitalized. The cost and related accumulated depreciation and amortization on premises and equipment sold or otherwise disposed of are removed from the Bank’s accounts, and any gain or loss is reported as current year income or expense.

Leases

The Company leases branches, and corporate office space under non-cancelable leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Leases can contain various provisions for increases in rental rates. Some leases provide the Company with one or more options to renew, with renewal terms that can extend the lease term for up to five years for each renewal. The exercise of lease renewal options is at management's sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. The Company rents or subleases certain real estate to third parties, the terms of which range from one to three years. The Company's lease and sublease agreements do not contain any material residual value guarantees or material restrictive covenants. In addition to annual impairment reviews, management reviews right of use assets anytime a change in circumstances indicates the carrying amount of these assets may not be recoverable.

Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company’s incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

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 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 a 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 gain or losses are included in noninterest income and expense. Cost 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 persons involved in selling OREO, 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.

Preferred stock

The Company's Series A Preferred Stock has no par value, and holders of Series A Preferred Stock are entitled to a 7% preference in the distribution of dividends, when and if declared and paid by the Company. Holders of Series A Preferred Stock do not have any preemptive rights to purchase any additional shares of Series A Preferred Stock; the Series A Preferred Stock ranks senior to common stock with respect to dividend rights; the Series A Preferred Stock does not have voting rights except under very limited circumstances; and the Series A Preferred Stock does not have any liquidation preference and is converted to common stock upon a change of control.

Earnings per common share

The Company's basic earnings per common share is calculated as net income less preferred share dividends declared and undistributed earnings allocable to the participating preferred shares, divided by the weighted average number of common shares outstanding. Diluted earnings per common share would be calculated as net income less preferred share dividends declared and undistributed earnings allocable to the participating preferred shares divided by the weighted average number of common shares outstanding plus any dilutive common stock equivalents. During the years ended December 31, 2021, and 2020, the Company had no dilutive common stock equivalents.

Revenue recognition

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

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

Merchant fee income
Merchant fee income represents fees earned by the Company for card payment services provided to its merchant customers. The Company has a contract with a third party to provide card payment services to merchants that contract for those services. The third-party provider passes the payments made by the merchants through to the Company. The Company, in turn, pays the third-party provider for the services it provides to the merchants. These payments to the third-party provider are recorded as expenses as a net reduction against fee income. In addition, a portion of the payment received represents interchange fees which are passed through to the card issuing bank. Income is primarily earned based on the dollar volume and number of transactions processed. The performance obligation is satisfied, and the related fee is earned when each payment is accepted by the processing network.

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

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.

Advertising

Costs for advertising are expensed as incurred. Advertising costs charged to expense were approximately $25 and $26 during the years ended December 31, 2021, and 2020, respectively.

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 result from tax credits and differences between the financial statement carrying amounts and the tax bases of assets and liabilities, and 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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company files income tax returns for federal and the States of Oregon and Arizona jurisdictions. Uncertain tax positions may arise when the Company takes or expects to take a tax position that is ultimately disallowed by the relevant taxing authority. Management periodically reviews the Company's consolidated balance sheets, statements of income, income tax provisions, and income tax returns as well as the permanent and temporary adjustments affecting current and deferred income taxes, and assesses whether uncertain tax positions exist. As of December 31, 2021, and 2020, management does not believe that any uncertain tax positions exist that are not more-likely-than-not sustainable upon examination. The Company's policy with respect to interest and penalties ensuing from income tax settlements is to recognize them as noninterest expense.

Fair Value

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. GAAP permits an entity to choose to measure many financial instruments and certain other items at fair value and contains financial statement presentation and disclosure requirements for assets and liabilities for which the fair value option is elected. As of December 31, 2021, and 2020, management has elected to not report any of the Company's assets or liabilities at fair value under the "fair value option" provided by GAAP. The hierarchy of fair value valuation techniques under GAAP provides for three levels: Level 1 provides the most reliable measure of fair value, whereas Level 3, if applicable, generally would require significant management judgment.

The three levels for categorizing assets and liabilities under GAAP's fair value measurement requirements are as follows:

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.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. GAAP requires that valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Certain assets and liabilities are measured at fair value on a recurring or non-recurring basis. Assets and liabilities measured at fair value on a recurring basis are initially measured at fair value and then re-measured at fair value at each financial statement reporting date. Assets and liabilities measured at fair value on a non-recurring basis result from write-downs due to impairment or lower-of-cost-or-market accounting on assets or liabilities not initially measured at fair value.

The Company's valuation methodologies may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. While management believes that the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and, therefore, estimates of fair value after the consolidated balance sheet date may differ significantly from the amounts presented herein.

The Company's investment securities classified as available-for-sale have been valued by reference to prices for similar securities or through model-based techniques in which all significant inputs are observable, therefore, such valuations have been classified as Level 2.

Certain impaired loans are measured 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). Periodically, the Company records non-recurring adjustments to the carrying value of impaired loans – based on fair value measurements – for partial charge-offs of the uncollectable portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the estimated fair value of the underlying collateral supporting the loan. As a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. 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.

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

In addition, as the 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 items which are not defined as financial instruments, but which may have significant value. These include such off-balance sheet items as core deposit intangibles. The Company does not believe that it would be practicable to estimate a representational fair value for these types of items as of December 31, 2021, and 2020.

Adoption of New Accounting Standards

In June 2016, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard, and subsequent amendments are effective for annual periods beginning after December 15, 2022, and interim periods within those annual periods. The Company's implementation will be effective January 1, 2023. The Company is actively assessing our data and model needs and are evaluating the impact of adopting the standard. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

On March 27, 2020, the CARES Act was signed into law. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to TDRs for a limited period of time to account for the effects of COVID-19. To qualify for Section 4013 of the CARES Act, borrowers must have been current at December 31, 2019. All modifications are eligible so long as they are executed between March 1, 2020, and the earlier of (i) December 31, 2020, or (ii) the 60th day after the end of the COVID-19 national emergency declared by the President of the U.S. Multiple modifications of the same credits are allowed and there is no cap on the duration of the modification. On December 21, 2020, certain provisions of the CARES Act, including the temporary suspension of certain requirements related to TDRs, were extended through December 31, 2021. See Note 3 of the footnotes to the consolidated financial statements for disclosure of the impact to date.

In March 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification ("ASC") 310-40, *Receivables - Troubled Debt Restructurings by Creditors,* certain restructurings of debt may constitute a TDR. The agencies confirmed with the staff of FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. All the Company's recent modifications fall under Section 4013 of the CARES Act and thus, the interagency statement has had very little impact on the Company to date.

In March 2020, FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. The amendments in this ASU are elective and provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU may be elected as of March 12, 2020, through December 31, 2022. An entity may choose to elect the amendments in this update at an interim period subsequent to March 12, 2020, with adoption methods varying based on transaction type. We have not elected to apply these amendments; however, we will assess the applicability of the ASU to us and continue to monitor guidance for reference rate reform from FASB and its impact on our financial condition and results of operations.

Segment Reporting

The Company has one reportable segment. Management evaluates the operations of the Company using consolidated information for purposes of allocating resources and assessing performance. Therefore, segment disclosures are not required.

Reclassifications

Certain account reclassifications and adjustments have been made to the consolidated financial statements of the prior year to conform with current year presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

2. Investment Securities

The amortized cost and estimated fair values of securities available-for-sale and held-to-maturity as of December 31, 2021, and 2020, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2021				
Available-for-sale				
U.S. Treasury securities	$ 43,693	$ -	$ (478)	$ 43,215
U.S. Agency securities	86,935	2,722	(102)	89,555
Mortgage-backed securities	350,855	915	(6,111)	345,659
Municipal securities	31,918	11	(617)	31,312
SBA securities	42,823	7	(520)	42,310
Total available-for-sale	$ 556,224	$ 3,655	$ (7,828)	$ 552,051
2020				
Available-for-sale				
U.S. Agency securities	$ 98,567	$ 5,802	$ -	$ 104,369
Mortgage-backed securities	201,285	2,572	(648)	203,209
Municipal securities	6,351	-	(3)	6,348
Total available-for-sale	$ 306,203	$ 8,374	$ (651)	$ 313,926

The fair value and gross unrealized losses of the Bank's investment securities, aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2021, and 2020, were as follows:

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
2021						
U.S. Treasury securities	$ 43,215	$ (478)	$ -	$ -	$ 43,215	$ (478)
U.S. Agency securities	10,527	(102)	-	-	10,527	(102)
Mortgage-backed securities	264,486	(5,081)	31,195	(1,030)	295,681	(6,111)
Municipal securities	23,051	(537)	5,468	(80)	28,519	(617)
SBA securities	36,424	(520)	-	-	36,424	(520)
Total	$ 377,703	$ (6,718)	$ 36,663	$ (1,110)	$ 414,366	$ (7,828)
2020						
U.S. agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities	33,590	(648)	-	-	33,590	(648)
Municipal securities	6,348	(3)	-	-	6,348	(3)
Total	$ 39,938	$ (651)	$ -	$ -	$ 39,938	$ (651)

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. The Company evaluated the securities which had an unrealized loss for other than temporary impairment and determined all declines in value to be temporary. There were 82 securities available-for-sale with unrealized losses at December 31, 2021, compared to 10 at December 31, 2020. The Company has no current intent to sell, nor is it more likely than not that it will be required to sell, these securities before the recovery of cost. The unrealized losses on these securities are deemed by management to be temporary. The decreases in fair value are associated with changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities and are not due to concerns regarding the underlying credit of the issuers.

The amortized cost and estimated fair value of investment securities as of December 31, 2021, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities, because some securities may be called or prepaid with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 14,841	$ 15,075
Due from one year through five years	72,158	74,534
Due from six years through ten years	100,073	98,800
Due from ten years through twenty years	253,864	251,034
Due from twenty years or more	115,288	112,608
Total	$ 556,224	$ 552,051

Investment securities with a carrying value of approximately $76,059 and $73,425 as of December 31, 2021, and 2020, respectively, were pledged to secure repurchase agreements and for other purposes as required or permitted by law.

There were no sales of investment securities available-for-sale for the years ended December 31, 2021, and 2020.

3. Loans and Allowance for Loan Losses

Loans, excluding loans held-for-sale, as of December 31, 2021, and 2020, consisted of the following:

	2021	2020
Commercial	$ 39,058	$ 101,367
Commercial real estate		
Owner occupied	94,762	105,373
Non-owner occupied	69,238	70,829
Multi-family	23,708	24,498
Commercial and residential construction		
Commercial construction	17,134	13,715
Residential construction	1,053	222
Residential real estate	30,613	35,280
Consumer	2,397	2,920
Agriculture		
Operating	26,609	35,012
Farmland	56,594	51,364
Total loans	$ 361,166	$ 440,580

The above loans have been reduced by net deferred loan origination fees/costs of approximately $1,494 and $2,116 as of December 31, 2021, and 2020, respectively.

The Bank participated in PPP, originating and funding SBA loans totaling $132,547. These loans were classified as commercial and agricultural term loans on the Bank's balance sheet. On December 31, 2021, the Bank had $6,658 in remaining PPP principal balances.

As of December 31, 2021, loans totaling $249,490 were pledged to secure borrowings from FHLB and the Federal Reserve Bank.

In the normal course of business, the Bank may participate portions of loans to third parties in order to extend the Bank's lending capability or to mitigate risk. The Bank may also purchase portions of loans from third parties. As of December 31, 2021, and 2020, the Bank had $4,306 and $4,412, respectively, of purchased participated loans from third parties.

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 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.

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.

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.

Agriculture 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 agricultural loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. 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.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2021, and 2020, were as follows:

	Beginning Allowance	Provision	Charge-offs	Recoveries	Ending Allowance
2021					
Commercial	$ 1,526	$ (634)	$ -	$ 10	$ 902
Commercial real estate	7,163	(2,426)	-	-	4,737
Commercial and residential construction	518	(165)	-	-	353
Residential real estate	1,057	(572)	-	52	537
Consumer	85	(43)	(8)	5	39
Agriculture	2,139	(660)	-	-	1,479
Total	$ 12,488	$ (4,500)	$ (8)	$ 67	$ 8,047

	Beginning Allowance	Provision	Charge-offs	Recoveries	Ending Allowance
2020					
Commercial	$ 1,097	$ 430	$ (31)	$ 30	$ 1,526
Commercial real estate	2,677	4,484	-	2	7,163
Commercial and residential construction	133	385	-	-	518
Residential real estate	439	529	-	89	1,057
Consumer	38	47	-	-	85
Agriculture	1,154	985	-	-	2,139
Total	$ 5,538	$ 6,860	$ (31)	$ 121	$ 12,488

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

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
2021						
Commercial	$ -	$ 902	$ 902	$ 512	$ 38,546	$ 39,058
Commercial real estate	-	4,737	4,737	690	187,018	187,708
Commercial and residential construction	-	353	353	-	18,187	18,187
Residential real estate	-	537	537	-	30,613	30,613
Consumer	-	39	39	-	2,397	2,397
Agriculture	-	1,479	1,479	295	82,908	83,203
Total	$ -	$ 8,047	$ 8,047	$ 1,497	$ 359,669	$ 361,166

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
2020						
Commercial	$ -	$ 1,526	$ 1,526	$ 349	$ 101,018	$ 101,367
Commercial real estate	-	7,163	7,163	385	200,315	200,700
Commercial and residential construction	-	518	518	-	13,937	13,937
Residential real estate	-	1,057	1,057	-	35,280	35,280
Consumer	-	85	85	-	2,920	2,920
Agriculture	-	2,139	2,139	3,226	83,150	86,376
Total	$ -	$ 12,488	$ 12,488	$ 3,960	$ 436,620	$ 440,580

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

	December 31, 2021			For the Year Ended December 31, 2021
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Commercial	$ 512	$ 512	$ -	$ 362
Commercial real estate	690	690	-	763
Agriculture	295	375	-	566
Subtotal	1,497	1,577	-	1,691
Totals				
Commercial	512	512	-	362
Commercial real estate	690	690	-	763
Agriculture	295	375	-	566
Total	$ 1,497	$ 1,577	$ -	$ 1,691

	December 31, 2020			For the Year Ended December 31, 2020
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Commercial	$ 349	$ 349	$ -	$ 405
Commercial real estate	385	385	-	402
Agriculture	3,226	3,364	-	3,263
Subtotal	3,960	4,098	-	4,070
Totals				
Commercial	349	349	-	405
Commercial real estate	385	385	-	402
Agriculture	3,226	3,364	-	3,263
Total	$ 3,960	$ 4,098	$ -	$ 4,070

Interest income recognized on impaired loans and interest income recognized on a cash basis on impaired loans was insignificant to the accompanying consolidated financial statements.

The recorded investment in non-accrual loans, by class of loans, as of December 31, 2021, and 2020, was as follows:

	2021	2020
Commercial	$ 512	$ 349
Commercial real estate	690	385
Agriculture		
Operating	295	609
Farmland	-	2,617
Total	$ 1,497	$ 3,960

The recorded investment in loans by aging category and in total, by class of loans, as of December 31, 2021, and 2020, was as follows:

	Days Past Due					
	30 - 59	60 - 89	90 or More	Total Past Due	Current	Total Loans
2021						
Commercial	$ 18	$ -	$ 494	$ 512	$ 38,546	$ 39,058
Commercial real estate						
Owner occupied	-	-	-	-	94,762	94,762
Non-owner occupied	-	-	-	-	69,238	69,238
Multi-family	-	-	-	-	23,708	23,708
Commercial and residential construction						
Commercial construction	-	-	-	-	17,134	17,134
Residential construction	-	-	-	-	1,053	1,053
Residential real estate	-	-	-	-	30,613	30,613
Consumer	-	94	-	94	2,303	2,397
Agriculture						
Operating	-	-	280	280	26,329	26,609
Farmland	-	-	-	-	56,594	56,594
Total	$ 18	$ 94	$ 774	$ 886	$ 360,280	$ 361,166

	Days Past Due					
	30 - 59	60 - 89	90 or More	Total Past Due	Current	Total Loans
2020						
Commercial	$ 56	$ 168	$ 213	$ 437	$ 100,930	$ 101,367
Commercial real estate						
Owner occupied	784	-	-	784	104,589	105,373
Non-owner occupied	-	-	385	385	70,444	70,829
Multi-family	-	-	-	-	24,498	24,498
Commercial and residential construction						
Commercial construction	-	-	-	-	13,715	13,715
Residential construction	-	-	-	-	222	222
Residential real estate	-	-	-	-	35,280	35,280
Consumer	-	-	-	-	2,920	2,920
Agriculture						
Operating	86	-	609	695	34,317	35,012
Farmland	-	-	2,617	2,617	48,747	51,364
Total	$ 926	$ 168	$ 3,824	$ 4,918	$ 435,662	$ 440,580

As of December 31, 2021, and 2020, there were no loans contractually past due 90 days or more on which the Company continued to accrue interest.

Credit quality indicators

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

Pass (Ratings 1-6) - These loans range from minimal to lower than average, but still acceptable, credit risk and are performing as agreed.

Special Mention (Rating 7) - These loans have potential weakness 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 8) - 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 9) - 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 10) – Loans classified as Loss are considered uncollectible and are charged off.

As of December 31, 2021, and 2020, the Company does not have any Doubtful or Loss loans. Any loans identified as Loss by management 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	Special Mention	Substandard	Total
2021				
Commercial	$ 36,930	$ -	$ 2,128	$ 39,058
Commercial real estate				
Owner occupied	82,710	-	12,052	94,762
Non-owner occupied	68,519	-	719	69,238
Multi-family	23,708	-	-	23,708
Commercial and residential construction				
Commercial construction	17,134	-	-	17,134
Residential construction	1,053	-	-	1,053
Residential real estate	30,613	-	-	30,613
Consumer	2,385	-	12	2,397
Agriculture				
Operating	26,229	-	380	26,609
Farmland	54,671	-	1,923	56,594
Total	$ 343,952	$ -	$ 17,214	$ 361,166

2020	Pass	Special Mention	Substandard	Total
Commercial	$ 97,195	$ -	$ 4,172	$ 101,367
Commercial real estate				
Owner occupied	94,169	-	11,204	105,373
Non-owner occupied	69,492	-	1,337	70,829
Multi-family	24,498	-	-	24,498
Commercial and residential construction				
Commercial construction	13,715	-	-	13,715
Residential construction	222	-	-	222
Residential real estate	35,081	-	199	35,280
Consumer	2,920	-	-	2,920
Agriculture				
Operating	33,812	-	1,200	35,012
Farmland	46,711	-	4,653	51,364
Total	$ 417,815	$ -	$ 22,765	$ 440,580

Troubled debt restructurings

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 do not represent TDRs 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 qualifying 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 TDR classification, the Bank evaluates the loan modifications under its existing TDR framework.

All loans modified under provisions of the CARES Act performed as agreed and returned to full principal and interest payments by December 31, 2021. Additionally, there were no new loans identified as TDRs during the years ended December 31, 2021, and 2020.

As of December 31, 2021, the Company had one commercial loan categorized as TDR with a total outstanding recorded investment of $19. The loan was modified in 2016 to extend the amortization period and add a balloon payment. The loan continues to perform as modified and has been returned to accrual status. As of December

31, 2020, the Company had one commercial loan categorized as TDR with an outstanding recorded investment of $24.

The Company's 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).

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.

4. Premises and Equipment

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

	2021	2020
Land	$ 4,451	$ 4,451
Buildings and leasehold improvements	15,156	15,017
Furniture and equipment	3,570	3,639
	23,177	23,107
Less: accumulated depreciation and amortization	10,784	10,580
Premises and equipment - net	$ 12,393	$ 12,527

Depreciation expense totaled $594 and $562 in 2021, and 2020, respectively.

5. Leases

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications are as follows:

	Balance Sheet Classification	2021	2020
Right-of-use assets:			
Operating leases	Other assets	$ 596	$ 714
Total right-of-use assets		$ 596	$ 714
Lease liabilities:			
Operating leases	Other liabilities	$ 596	$ 714
Total lease liabilities		$ 596	$ 714

The components of total lease expense were as follows for the periods ending December 31, 2021, and 2020:

	2021	2020
Operating lease expense		
Operating leases	$ 157	$ 154
Less: Rental income	(98)	(96)
Total lease expense, net	$ 59	$ 58

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2021, are as follows:

	Operating Leases
2022	$ 144
2023	147
2024	119
2025	100
2026	88
Thereafter	705
Total undiscounted lease payments	1,303
Less: imputed interest	(707)
Net lease liabilities	$ 596

The weighted average remaining term and the weighted average discount rate on operating leases as of December 31, 2021, and 2020, are as follows:

	2021	2020
Operating lease weighted average remaining term (years)	18.6	20.9
Operating lease weighted average discount rate	4.75%	4.75%

6. OREO

The following table presents the activity related to OREO for the years ended December 31, 2021, and 2020:

	2021	2020
Balance at beginning of year	$ 753	$ 777
Additions	-	-
Capitalized improvements	-	-
Write-downs - net	(24)	(24)
Dispositions	-	-
Balance at end of year	$ 729	$ 753

7. Time Deposits

Time deposits that met or exceeded the FDIC insurance limit of $250 aggregated approximately $2,676 and $2,686 as of December 31, 2021, and 2020, respectively. As of December 31, 2021, the scheduled annual maturities of all time deposits were approximately as follows:

2022	$ 11,654
2023	3,501
2024	580
2025	958
2026	260
Thereafter	25
Total	$ 16,978

8. Other Borrowings

The Bank had securities sold under agreements to repurchase ("REPOs") of approximately $43,930 and $42,564 as of December 31, 2021, and 2020, respectively. A REPO represents an agreement between the Bank and a customer to collateralize funds placed by the customer in an interest-bearing repurchase sweep account. The Bank secures the REPO account with U.S. government or U.S. agency securities. In consideration of funds received, the Bank pledges the security to the customer. The Bank agrees to repurchase the security on the next business day in the amount of the funds received. REPOs are considered secured borrowings, not deposits, and are not covered by FDIC insurance. The average cost of REPOs was 0.12% and 0.15% in 2021, and 2020, respectively.

The Bank maintains a borrowing line with the FHLB. As of December 31, 2021, the maximum borrowing line based on the Bank's total assets was $480,269; however, this line is generally limited based upon the amount of FHLB stock held and the discounted value of collateral pledged. As of December 31, 2021, the Bank's line was limited to $144,252. To access this line, the Bank would be required to purchase additional stock in the FHLB. As of December 31, 2021, and 2020, the Company had no outstanding borrowings with the FHLB. As of December 31, 2021, assets pledged as collateral had a total book value of approximately $223,925.

In 2020, the Federal Reserve established a range of facilities and programs to support U.S. financial institutions in their response to economic disruptions associated with COVID-19. The Bank is eligible to participate in the Payroll Protection Program Liquidity Facility (“PPPLF”) by pledging eligible PPP loans as collateral to secure borrowings. The Bank has not pledged assets or obtained funding through PPPLF. Management maintains secured borrowing capacity through the Federal Reserve’s discount window. The

Bank pledged loans totaling $7,334 and obtained a discounted borrowing line of $2,526 at December 31, 2021. The Company had no outstanding borrowings with the Federal Reserve at December 31, 2021.

As an additional source of liquidity, the Bank had federal fund borrowing agreements with correspondent banks totaling $76,000 and $53,000 as of December 31, 2021, and 2020, respectively. These unsecured lines may be reduced or withdrawn at any time but are generally reaffirmed annually. As of December 31, 2021, and 2020, there were no outstanding borrowings under these agreements.

9. Income Taxes

The provision for income taxes was comprised of the following for the years ended December 31, 2021, and 2020:

	2021	2020
Current expense		
Federal	$ 1,632	$ 2,246
State	723	445
Deferred expense (benefit)		
Federal	923	(1,557)
State	51	(86)
Provision for income taxes	$ 3,329	$ 1,048

The following is a reconciliation of the expected provision for federal income taxes at the statutory rate to the actual provision for income taxes for the years ended December 31, 2021, and 2020:

	2021	2020
Expected federal income tax provision at statutory rate	$ 2,865	$ 1,082
Increase (decrease) resulting from:		
Tax-exempt income	(46)	(43)
State income taxes, net of federal effect	766	257
Earnings on BOLI	(146)	(147)
Federal deduction for Oregon tax credits	(107)	(69)
Other - net	(3)	(32)
Provision for income taxes	$ 3,329	$ 1,048

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2021, and 2020, were as follows:

	2021	2020
Deferred tax assets		
Allowance for loan losses	$ 2,173	$ 3,372
Deferred compensation	1,548	1,393
Reserve for unfunded loan commitments	68	68
Net unrealized losses on investment securities available-for-sale	1,127	-
Oregon tax credits	-	463
Lease liability	161	193
Other	130	203
Total deferred tax assets	5,207	5,692
Deferred tax liabilities		
Accumulated depreciation and amortization	(345)	(327)
Deferred loan income	(290)	(463)
Right of use asset	(161)	(193)
Net unrealized gains on investment securities available-for-sale	-	(2,086)
Other	(120)	(108)
Total deferred tax liabilities	(916)	(3,177)
Net deferred tax assets	$ 4,291	$ 2,515

It is anticipated that any credits and other deferred asset items will be fully utilized in the normal course of operations based on Management's expectations of future taxable income and/or because they were supported by recoverable taxes paid in prior years. Accordingly, management has not reduced the deferred tax asset by a valuation allowance. Net deferred tax assets are included in other assets in the accompanying consolidated balance sheets.

10. Commitments and Contingencies

In the normal course of business, the Bank is a party to certain financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and interest rate risk similar to the loans recognized in the accompanying consolidated balance sheets.

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

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

	2021	2020
Commitments to extend credit		
Real estate secured	$ 12,785	$ 22,217
Commercial	46,639	52,201
Other - net	31,536	23,713
Standby letters of credit	3,126	2,978
Total	$ 94,086	$ 101,109

A commitment to extend credit is an agreement to lend to a customer if 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.

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 the 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. Collateral held varies as specified above and is required in instances when management deems it necessary.

As described in Note 1, the Bank maintains a reserve for unfunded loan commitments. The Bank's reserve for unfunded loan commitments totaled $252 as of December 31, 2021, and 2020.

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 pledged approximately $7,385 in U.S. agency securities to satisfy its commitment under the Program 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.

During 2016, the Bank purchased an equity interest in a Low-Income Housing Tax Credit ("LIHTC") partnership. The partnership's underlying activities include the development and operation of quality affordable housing units. The Bank elected to use the proportional allocation method of accounting. As of December 31, 2021, the Bank included $1,689 in other assets (representing the remaining unamortized investment in the LIHTC partnership) and $100 in other liabilities (representing the Bank's remaining funding obligation). The Bank expects to amortize the LIHTC asset by the end of 2034 and will fulfill the remainder of its funding commitment by the end of 2024.

Due to the nature of its activities, the Company is subject to pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the Company's consolidated financial statements as of and for the year ended December 31, 2021.

11. Significant Concentrations of Credit Risk

Except for guaranteed loans purchased from the Farm Services Agency 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.

The Bank maintains balances in correspondent bank accounts, which at times may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of the correspondent banks. The Bank has not experienced any losses in such accounts.

12. Benefit Plans

401(k) Profit Sharing Plan

The Bank has a 401(k) Plan (the "Plan") which covers substantially all employees who have completed one month or more of service. Employer contributions are at the discretion of the Board and currently begin after employees have completed six months of service. For the years ended December 31, 2021, and 2020, contributions to the Plan consisted of employer matching contributions of 200% of eligible participants' contributions up to 3% of a participant's eligible compensation. Total contributions by the Bank to the Plan in 2021, and 2020, were $628 and $604, respectively.

Supplemental Executive Retirement Plan

The Company has a Supplemental Executive Retirement Plan ("SERP") covering its executive officers. The post-retirement benefit provided by the SERP is designed to supplement a participating officer's other sources of retirement income. Compensation expense related to this plan totaled $855 and $813 in 2021, and 2020, respectively. Liabilities to employees, which are being accrued over their expected time to retirement, were $5,671 and $5,159 as of December 31, 2021, and 2020, respectively, and are included in other liabilities in the accompanying consolidated balance sheets.

To assist in the funding of the SERP and other employee benefits, the Company has purchased BOLI policies which had a cash surrender value of $20,415 and $19,874 as of December 31, 2021, and 2020, respectively. Income derived from BOLI policies totaled $541 and $543 in 2021, and 2020, respectively.

13. Common Stock Plans

Cash Dividend Reinvestment Plan

The Company has a dividend reinvestment plan which allows, at the participating common shareholder's option, for 100% of cash dividends to be reinvested in shares of the Company's common stock. As of December 31, 2021, and 2020, 660,733 and 703,480 shares were reserved and available for future issuance under the dividend reinvestment plan, respectively.

Stock Repurchase Plan

As of December 31, 2021, the Board has authorized the repurchase of up to 153,608 shares of the Company's common stock and up to 322,268 shares of the Company's Series A preferred stock. Repurchases are made from time to time at Management's discretion under the terms of the plan. The Board's authorization has no expiration date.

14. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may trigger 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 Company and the Bank must meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of common equity tier 1 capital (“CET1”), tier 1 capital to risk-weighted assets, total capital to risk-weighted assets and tier 1 capital to average assets (all as defined in the regulations). Management believes that, as of December 31, 2021, the Company and the Bank met or exceeded all capital requirements to which they are subject.

To be categorized as "well capitalized," banks must generally maintain minimum CET1 risk-based, tier 1 risk-based, total risk-based, and tier 1 leverage 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 Company's and the Bank's actual capital amounts and ratios as of December 31, 2021, and 2020, are presented in the following tables:

	Actual		Regulatory Minimum to be "Adequately Capitalized"		Regulatory Minimum to be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021						
Common equity tier 1 capital (to risk-weighted assets)						
Company	$ 98,568	19.46%	$ 22,793	4.50%	N/A	N/A
Bank	$ 98,492	19.45%	$ 22,793	4.50%	$ 32,923	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$ 98,568	19.46%	$ 30,391	6.00%	N/A	N/A
Bank	$ 98,492	19.45%	$ 30,391	6.00%	$ 40,521	8.00%
Total capital (to risk-weighted assets)						
Company	$104,922	20.71%	$ 40,521	8.00%	N/A	N/A
Bank	$104,847	20.70%	$ 40,521	8.00%	$ 50,651	10.00%
Tier 1 capital (to average assets)						
Company	$ 98,568	9.08%	$ 43,412	4.00%	N/A	N/A
Bank	$ 98,492	9.08%	$ 43,409	4.00%	$ 54,261	5.00%

	Actual		Regulatory Minimum to be "Adequately Capitalized"		Regulatory Minimum to be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2020						
Common equity tier 1 capital (to risk-weighted assets)						
Company	$ 91,243	18.33%	$ 22,403	4.50%	N/A	N/A
Bank	$ 91,193	18.32%	$ 22,403	4.50%	$ 32,359	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$ 91,243	18.33%	$ 29,870	6.00%	N/A	N/A
Bank	$ 91,193	18.32%	$ 29,870	6.00%	$ 39,827	8.00%
Total capital (to risk-weighted assets)						
Company	$ 97,546	19.59%	$ 39,827	8.00%	N/A	N/A
Bank	$ 97,496	19.58%	$ 39,827	8.00%	$ 49,784	10.00%
Tier 1 capital (to average assets)						
Company	$ 91,243	9.14%	$ 39,950	4.00%	N/A	N/A
Bank	$ 91,193	9.12%	$ 40,008	4.00%	$ 50,011	5.00%

N/A indicates that this measure is not applicable at the Company level as of December 31, 2021 and 2020.

The Bank maintains a "conservation buffer," consisting of a CET1 capital amount equal to 2.5% of risk-weighted assets. An institution that does not meet the conservation buffer requirement will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers. The Bank met the conservation buffer requirement as of December 31, 2021, and 2020.

Restrictions on retained earnings

There were no restrictions on the Company's or the Bank's retained earnings regarding payment of dividends as of December 31, 2021, and 2020.

15. Fair Value

Recurring fair value measurements

As of December 31, 2021, and 2020, the Company had no liabilities measured at fair value on a recurring basis. The Company's assets measured at fair value on a recurring basis as of December 31, 2021, and 2020, were as follows:

	Level 1	Level 2	Level 3
2021			
Securities available-for-sale			
U.S. Treasury securities	$ -	$ 43,215	$ -
U.S. Agency securities	-	89,555	-
Mortgage-backed securities	-	345,659	-
Municipal securities	-	31,312	-
SBA securities	-	42,310	-
	$ -	$ 552,051	$ -
2020			
Securities available-for-sale			
U.S. agency securities	$ -	$ 104,369	$ -
Mortgage-backed securities	-	203,209	-
Municipal securities	-	6,348	-
	$ -	$ 313,926	$ -

Non-recurring fair value measurements

As of December 31, 2021, and 2020, the Company had no liabilities measured at fair value on a non-recurring basis. The Company's assets measured at fair value on a non-recurring basis as of December 31, 2021, and 2020, were as follows:

	Level 1	Level 2	Level 3
2021			
OREO	-	-	729
	$ -	$ -	$ 729
2020			
OREO	-	-	753
	$ -	$ -	$ 753

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at the dates indicated:

	December 31, 2021			
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
OREO	$ 729	Market approach	Lower of appraised value of collateral or listing price less selling costs	6% - 10%

	December 31, 2020			
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
OREO	$ 753	Market approach	Lower of appraised value of collateral or listing price less selling costs	6% - 10%

Other fair value disclosures

The Company did not change the methodology used to determine fair value for any financial instruments during the years ended December 31, 2021, and 2020.

The following disclosures are made in accordance with the provisions of GAAP which require the disclosure of fair value information about financial instruments where it is practicable to estimate that value.

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

			Fair Value Measurements Using:		
	Recorded Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 115,319	$ 115,319	$ 115,319	$ -	$ -
Securities available-for-sale	552,051	552,051	-	552,051	-
FHLB stock	1,180	1,180	-	-	1,180
Net loans	353,119	348,705	-	-	348,705
Accrued interest receivable	3,766	3,766	3,766	-	-
BOLI	20,415	20,415	20,415	-	-
Financial liabilities					
Deposits	916,445	904,989	-	904,989	-
REPOs	43,930	43,930	-	43,930	-

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

			Fair Value Measurements Using:		
	Recorded Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 196,073	$ 196,073	$ 196,073	$ -	$ -
Securities available-for-sale	313,926	313,926	-	313,926	-
FHLB stock	948	948	-	-	948
Net loans	428,092	422,741	-	-	422,741
Accrued interest receivable	3,613	3,613	3,613	-	-
BOLI	19,874	19,874	19,874	-	-
Financial liabilities					
Deposits	833,347	817,307	-	817,307	-
REPOs	42,564	42,564	-	42,564	-

16. Basic and Diluted Earnings per Common Share

The numerators and denominators used in computing basic and diluted earnings per common share for the years ended December 31, 2021, and 2020, can be reconciled as follows:

	2021		2020	
Numerator				
Net income	$	10,315	$	4,102
Less:				
Preferred shares dividends declared		(190)		(130)
Earnings allocable to preferred shares		(410)		(122)
Net income available to common shareholders	$	9,715	$	3,850
Denominator				
Weighted average shares outstanding - basic and diluted		5,623,510		5,596,271
Basic and diluted earnings per share	$	1.73	$	0.69

17. Transactions with Related Parties

In the normal course of business, certain key officers and directors (and the companies with which they are associated) are customers of, and have had banking transactions with, the Bank. In addition, the Bank expects to continue to have such banking transactions in the future. All loans and commitments to lend to such parties were made in compliance with applicable laws, and 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 unfavorable features. Loans outstanding to key officers and directors (and the companies with which they are associated) for the years ended December 31, 2021, and 2020, were approximately as follows:

	2021		2020	
Balance at beginning of year	$	7,171	$	2,960
Net additions		-		4,805
Net repayments		(4,880)		(594)
Balance at end of year	$	2,291	$	7,171

All related party loans were current as to principal and interest as of December 31, 2021, and 2020.

As of December 31, 2021, and 2020, the Bank held $29,369 and $29,891 in deposits from its key officers and directors.