

Letter to the Shareholders

To Our Shareholders, Customers, and Friends:

While the medical impacts of the COVID pandemic have dissipated, the economic recovery continues and will take years to fully resolve. The unprecedented level of government stimulus led to significant growth in our deposit base, increasing over 50% since the pandemic's inception in early 2020. These deposits initially funded our PPP loan program, providing much needed economic support to our customers and communities. As those funds were repaid, we invested all excess funds in US Government guaranteed and municipal securities.

Unintended consequences of this stimulus led to inflation, which appears to have peaked at 9.1% during late 2022. The Federal Reserve has undertaken aggressive steps to contain this inflation, rapidly increasing short term rates at a pace not seen in most of our customers' lifetimes. Short term interest rates set by the Federal Reserve were 0.25% at the beginning of 2022, yet by December those rates increased to 4.5% and are forecast as high as 5.5% during 2023, surpassing all projections including those at the Federal Reserve.

The effects of the rapid increase in rates will take several years to process through our loan and investment portfolios. Through this rapid rate of change, Citizens Bank has remained committed to our conservative community bank fundamentals. Our bank continues to be well capitalized and our loan portfolio remains solid, we navigated the challenges of the COVID pandemic with no net losses. As a result, our reserve for loan losses returned to pre-pandemic levels by 2022's year end. Loan growth in the closing months of 2022 was strong in light of the economic headwinds before us, signaling further recovery and confidence Oregon's future. While the coming year will bring economic challenges from the effects of higher interest rates and fears of a possible recession, we will remain steadfast in our commitment to our customers and the communities we serve.

Select 2022 year-end highlights include:

- Net income of \$9.1 million decreased 11.8% or \$1.2 million from the prior year's \$10.3 million, resulting from a \$1.9 million reduction in reverse provisioning for future loan losses in 2022 vs. 2021.
- Income before taxes and the provision for loan losses of \$9.6 million increased by 4.9% or \$445 thousand from the prior year's \$9.1 million.
- Total assets decreased 1.1% or \$12.1 million to \$1.05 billion at year-end 2022.
- Total deposits increased 4.3% or \$39.3 million to \$955.7 million at year-end 2022.
- Core loans, net of PPP loans, increased 6.4% or \$24.1 million at year-end 2022.

Our employees exceed all expectations during this challenging environment, continually providing our customers and communities with exceptional support when most needed. We remain focused on a disciplined conservative approach in line with our corporate culture, simply doing the right thing for our customers, employees, communities, and shareholders.

We greatly appreciate our shareholders' continued support.

Gordon Zimmerman
President/CEO

Eric Thompson
Chairman of the Board