CITIZENS BANCORP

2020 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 Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Citizens Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Bancorp and Subsidiary as of December 31, 2020 and 2019, 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.

Moss Adams LLP

Portland, Oregon
March 10, 2021

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

	At December 31, 2020	At December 31, 2019
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 18,052	$ 16,330
Interest-bearing deposits in banks	178,021	35,820
Total cash and cash equivalents	196,073	52,150
Securities available-for-sale, at fair value	313,926	285,966
Federal Home Loan Bank (FHLB) stock, at cost	948	926
Loans held-for-sale	996	488
Loans	440,580	414,671
Allowance for loan losses	(12,488)	(5,538)
Net loans	428,092	409,133
Premises and equipment - net	12,527	12,622
Accrued interest receivable	3,613	3,489
Bank-owned life insurance (BOLI)	19,874	17,830
Other real estate owned (OREO)	753	777
Other assets	6,805	6,798
Total assets	$ 983,607	$ 790,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand	$ 382,328	$ 269,355
Savings	67,797	49,633
Interest-bearing demand	366,082	319,200
Time	17,140	19,572
Total deposits	833,347	657,760
Repurchase agreements	42,564	30,848
Cash dividends payable	2,145	3,544
Other liabilities	8,670	7,700
Total liabilities	886,726	699,852
Commitments and contingencies (Note 10)		
Shareholders' equity		
Series A preferred stock (no par value); authorized 500,000 shares; issued and outstanding: 2020 - 332,622 shares; 2019 - 368,449 shares	1,997	2,198
Common stock (no par value); authorized 10,000,000 shares; issued and outstanding: 2020 - 5,597,874 shares; 2019 - 5,514,053 shares	44,316	43,037
Retained earnings	44,930	43,323
Accumulated other comprehensive income	5,638	1,769
Total shareholders' equity	96,881	90,327
Total liabilities and shareholders' equity	$ 983,607	$ 790,179

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

	For the Years Ended December 31,	
	2020	2019
Interest income		
Loans	$ 22,582	$ 23,775
Interest-bearing deposits in banks	374	1,063
Total securities	4,908	5,979
Total interest income	27,864	30,817
Interest expense		
Deposits	478	497
Other borrowings	62	56
Total interest expense	540	553
Net interest income	27,324	30,264
Provision for loan losses	6,860	625
Net interest income after provision for loan losses	20,464	29,639
Noninterest income		
Service charges on deposit accounts	594	824
Debit and ATM interchange fee income, net	753	742
Earnings on BOLI	543	442
Merchant fee income	276	305
Mortgage department income	354	164
Other	565	611
Total noninterest income	3,085	3,088
Noninterest expense		
Salaries and employee benefits	12,522	13,245
Occupancy	1,159	1,115
Data processing	964	790
Furniture and equipment	803	729
Telephone - data line	354	322
Professional fees	410	313
FDIC insurance	141	96
Other	2,046	2,167
Total noninterest expense	18,399	18,777
Income before income taxes	5,150	13,950
Provision for income taxes	1,048	3,460
Net income	$ 4,102	$ 10,490
Basic and diluted earnings per common share	$ 0.69	$ 1.77

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

Citizens Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income
(In thousands)

	For the Years Ended December 31, 2020	For the Years Ended December 31, 2019
Net income	$ 4,102	$ 10,490
Other comprehensive income - net of tax		
Change in unrealized gains and losses on securities available-for-sale, net of tax of ($1,431) and ($1,234), respectively	3,869	3,338
Comprehensive income	$ 7,971	$ 13,828

Citizens Bancorp and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2020 and 2019
(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, 2018	370,224	5,463,009	$ 2,224	$ 42,209	$ 36,377	$ (1,569)	$ 79,241
Net income	-	-	-	-	10,490	-	10,490
Change in unrealized gains and losses on securities available-for-sale - net of income taxes of ($1,234)	-	-	-	-	-	3,338	3,338
Cash dividend reinvestment	-	68,044	-	1,078	-	-	1,078
Cash dividend declared							
($0.60 per common share)	-	-	-	-	(3,308)	-	(3,308)
($0.64 per share - Series A preferred)	-	-	-	-	(236)	-	(236)
Stock repurchased	(1,775)	(17,000)	(26)	(250)	-	-	(276)
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

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

	For the Years Ended December 31,	
	2020	2019
Cash flows from operating activities		
Net income	$ 4,102	$ 10,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,860	625
Depreciation and amortization	562	530
Write-down of OREO	24	30
Originations of loans held-for-sale	(21,140)	(12,245)
Proceeds from sales of loans held-for-sale	21,202	12,088
Gains on sales of loans held-for-sale	(570)	(331)
Provision for deferred income taxes	(2,251)	(350)
Earnings on BOLI	(544)	(441)
Amortization of bond premiums	1,626	87
Increase in accrued interest receivable	(124)	(477)
Other - net	1,783	655
Net cash provided by operating activities	11,530	10,661
Cash flows from investing activities		
Activity in securities available-for-sale:		
Purchases	(131,052)	(137,653)
Maturities, prepayments, and calls	106,766	133,719
Increase in loans - net	(25,819)	(4,866)
Purchases of premises and equipment - net	(467)	(1,156)
Purchase of FHLB Stock	(22)	-
Purchases of BOLI	(1,500)	(1,500)
Net cash used in investing activities	(52,094)	(11,456)
Cash flows from financing activities		
Net increase in deposits	175,587	9,508
Net increase (decrease) in repurchase agreements	11,716	(3,662)
Cash dividends paid	(2,265)	(1,853)
Repurchases of common stock	-	(250)
Repurchases of preferred stock	(551)	(26)
Net cash provided by financing activities	184,487	3,717
Net change in cash and cash equivalents	143,923	2,922
Cash and cash equivalents at beginning of year	52,150	49,228
Cash and cash equivalents at end of year	$ 196,073	$ 52,150
Supplemental disclosures of cash flow information		
Interest paid	$ 540	$ 553
Income taxes paid	$ 1,819	$ 2,952
Supplemental disclosures of non-cash investing and financing activities		
Change in unrealized gains and losses on securities available-for-sale - net of tax	$ 3,869	$ 3,338
Accrued dividends declared and unpaid	$ 2,145	$ 3,544
Dividends reinvested	$ 1,279	$ 1,078

In preparing these consolidated financial statements, Management has evaluated subsequent events that have occurred through March 10, 2021 (which is the date that the consolidated financial statements were available to be issued) for potential recognition or disclosure in the consolidated financial statements. 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 (the "Bank") (collectively, the “Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

Nature of operations

Bancorp is a financial holding company which operates primarily through its subsidiary, the Bank. The Bank operates fifteen branches located in Benton, Clackamas, Lane, Linn, Marion, Polk, Washington, and Yamhill Counties in Oregon. The Bank provides loan and deposit services to customers who are predominately individuals and small- and medium-sized businesses in western Oregon.

Method of accounting

The consolidated financial statements have been prepared 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 of the Company ("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, amounts due from banks (including cash items in process of collection), and interest-bearing deposits in banks. Generally, interest-bearing deposits in banks are invested for a maximum of 90 days.

The Company maintains its cash in depository institution accounts which, at times, may exceed Federal Deposit Insurance Corporation ("FDIC") insured limits. Management believes that its risk of loss associated with such balances in excess of FDIC insured limits is minimal due to the financial strength of the correspondent banks. The Company has not experienced any historical losses in such accounts.

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, 2020, and 2019 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, 2020, and 2019, 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, 2020, and 2019.

Mortgage banking activities

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. Fair value is determined on an aggregate loan basis. Loans held-for-sale are generally sold shortly after origination so cost typically approximates fair value. The Company does not service any third-party mortgage loans.

Loans and allowance for loan losses

Loans that Management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any net deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method. If the loan is repaid prior to maturity, the remaining unamortized deferred loan origination fee is recognized in income at the time of repayment.

The Company has lending policies, practices, and procedures in place that are designed to generate loan income within an acceptable level of risk. The Board reviews and approves the 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 by the Bank’s lenders and credit personnel consistent with the Bank’s underwriting standards. These standards are designed to promote relationship banking by encouraging a complete understanding of each borrower's banking needs. The Company examines current and projected cash flows to determine the ability of the borrower to repay the obligation as agreed upon and, secondarily, evaluates the underlying collateral provided by the borrower.

The Company periodically obtains an independent review of its loan portfolio for quality and accuracy in underwriting loans. Results of these reviews are presented to Management and the Board's Audit and Loan Committees. The loan review process complements and reinforces the risk identification and assessment decisions made by the Bank's lenders and credit personnel, as well as the Company's policies and procedures.

Nonaccrual loans and recoveries
Interest income on loans is accrued over the terms of the loans based upon the principal outstanding. The accrual of interest on loans is discontinued when, in Management's opinion, collection of principal or interest is doubtful. At a minimum, loans that are past due as to maturity or payment of principal or interest by 90 days or more are placed on nonaccrual status, unless such loans are well-secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income on nonaccrual loans that have not been fully charged off is subsequently recognized only to the extent that cash payments are received satisfying all delinquent principal and interest amounts and, in Management's judgment, the prospects for future payments in accordance with the loan agreements appear relatively certain. In accordance with regulatory guidance, cash payments received by the Company on loans that had been fully charged off in previous years are credited to the allowance for loan losses to the extent of any previous charge-offs; any additional cash payments received on such loans are recorded in noninterest income as recoveries.

Allowance for loan losses methodology
Because some loans may not be repaid in full, an allowance for loan losses is recorded. The allowance for loan losses represents Management's recognition of the assumed risks of extending credit. The allowance is established to absorb Management's best estimate of known and inherent losses in the loan portfolio as of the consolidated balance sheet date. The allowance requires complex subjective judgments as a result of the need to make estimates about matters that are uncertain. The allowance is maintained at a level currently considered adequate to provide for potential loan losses based on Management's assessment of the various factors affecting the portfolio.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by loan charge-offs (net of recoveries). The amount of the allowance is based on ongoing, periodic assessments of the probable and estimated losses inherent in the loan portfolio. While Management has allocated the allowance for loan losses to various loan classes, the allowance is general in nature and is available for the loan portfolio in its entirety.

The Company's methodology for estimating the allowance for loan losses consists of several key elements, which include a general allowance and a specific allowance for impaired loans. The general component covers all loans not specifically identified for impairment testing. The specific component relates to loans that are individually assessed for impairment. The combined general and specific components of the allowance constitute the Company's allocated allowance for loan losses. An unallocated allowance may be maintained to provide for credit losses inherent in the loan portfolio that may not have been contemplated in the general or the specific allowance analyses.

When a loan is originated, it is assigned a risk rating that is reassessed periodically throughout the term of the loan through the credit review process and independent third-party loan reviews. The credit review process includes Management's evaluation of the risks associated with each loan. Loans with greater risk of loss are assigned higher risk factors.

As of December 31, 2020, and 2019, the general allowance was calculated by applying the Bank's five-year historical loss rates to pools of loans with similar risk ratings. The results were adjusted based on Management's subjective review of several qualitative risk factors, including Management's estimate of the predictive value of the Bank's historical loss rates.

Qualitative or environmental factors that are likely to cause estimated credit losses to differ from historical losses include, but are not limited to:

- Changes in international, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.
- Changes in the nature and volume of the portfolio and in the terms of loans.
- Changes in the experience, ability, and depth of lending management and other relevant staff.
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans.
- Changes in the quality of the Company's loan review system.
- Changes in the value of underlying collateral for collateral-dependent loans.
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company's existing portfolio.
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses.

As part of the Company's ongoing credit review process, certain loans may be identified as impaired. A loan is deemed to be impaired when, based on current information and events, Management believes that the Company is unlikely to collect all principal and interest amounts according to the contractual terms. Generally, the Bank evaluates a loan for impairment when it is placed on non-accrual status. Impairment is measured on a loan-by-loan basis using the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of either the loan's underlying collateral (less estimated selling costs) or any related guarantee. Since a significant portion of the Bank's loans are collateralized by real estate, the Bank primarily measures impairment based on the estimated fair value of the underlying collateral less estimated selling costs. 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 persons involved in selling real estate in determining the estimated fair value of particular real estate collateral. 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. Impairment is recognized as a specific component within the allowance for loan losses if the estimated value of the impaired loan is less than the recorded investment in the loan. When the amount of the impairment represents a confirmed loss, it is charged off against the allowance for loan losses. Impaired loans are excluded from the general allowance calculation.

The Company's Lending/CRA Committee and Board are responsible for, among other things, regularly reviewing the allowance for loan losses methodology including quantitative and qualitative loss factors and ensuring that it is designed and applied in accordance with GAAP.

The ultimate recovery of the carrying value of loans is susceptible to future market conditions beyond the Company's control, which may result in losses or recoveries differing from those provided in the accompanying consolidated financial statements. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examinations of the Bank.

Charge-off methodology
When Management determines that a loan has a probable loss and is deemed uncollectable, regardless of delinquency status, the loan is charged off. A partial charge-off may be recorded to the extent the loan is not well secured or guaranteed by a federal or state government agency and is in the process of collection. Overdrafts are charged off within the month a delinquent deposit account becomes 90 days delinquent.

Troubled debt restructured loans ("TDRs")
A TDR is a loan for which the Bank, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider. These concessions may include – but are not limited to – certain interest rate reductions; certain extensions of maturity dates; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, and renewals. TDRs are considered impaired and are individually evaluated for impairment.

In conjunction with the passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in March 2020, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under GAAP related to Troubled Debt Restructurings ("TDRs") for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the Pandemic). As a result, the Company has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest only periods. The Company accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. When payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. Accrued interest balances are assessed for collectability on a periodic basis.

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 an estimated loss factor to the expected amount of commitments that will actually require funding. 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. Changes in the reserve for estimated losses related to unfunded loan commitments are recorded in noninterest expense in the accompanying consolidated statements of 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 enters into leases in the normal course of business, primarily related to office space and bank branches. The Company's leases have remaining terms ranging from one to 28 years, some of which include renewal options to extend the lease for up to five years. In addition, the Company has entered into subleases for space in certain branch locations, the terms of which range from one to three years. Neither the Company's leases nor subleases include residual value guarantees or covenants.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. 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 our right to use an underlying asset for the lease term and lease liabilities represent our 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 consists of properties acquired through or in lieu of foreclosure and is recorded initially at the estimated fair value of the properties, less estimated costs of disposal. 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. Costs relating to development and improvement of the properties or assets are capitalized; while costs relating to holding the properties or assets, rental income earned on the properties, subsequent write-downs, or any disposition gains or losses are included in noninterest expense. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or 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.

The valuation of OREO is subjective in nature and may be adjusted in future periods 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.

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, 2020, and 2019, 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 on a monthly basis. The performance obligation is satisfied, and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees 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 other real estate owned, net
The Company records a gain or loss from the sale of other real estate owned 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 other real estate owned 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 other real estate owned 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 $26 and $36 during the years ended December 31, 2020, and 2019, 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, consolidated 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, 2020, and 2019, 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, 2020, and 2019, 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, and, 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, and, 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, 2020, and 2019.

Recent Accounting Guidance Not Yet Effective

In September 2016, the FASB issued 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 period 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.

In March 2020, the 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 generally accepted accounting principles (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.

Reclassifications

Certain account reclassifications and adjustments have been made to the consolidated financial statements of the prior year in order 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, 2020, and 2019 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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
2019				
Available-for-sale				
U.S. agency securities	$ 174,595	$ 2,706	$ (133)	$ 177,168
Mortgage-backed securities	108,948	353	(503)	108,798
Total available-for-sale	$ 283,543	$ 3,059	$ (636)	$ 285,966

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, 2020, and 2019, 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
2020						
Mortgage-backed securities	$ 33,590	$ (648)	$ -	$ -	$ 33,590	$ (648)
Municipal securities	6,348	(3)	-	-	6,348	(3)
Total	$ 39,938	$ (651)	$ -	$ -	$ 39,938	$ (651)
2019						
U.S. agency securities	$ 18,759	$ (52)	$ 47,441	$ (81)	$ 66,200	$ (133)
Mortgage-backed securities	75,316	(503)	-	-	75,316	(503)
Total	$ 94,075	$ (555)	$ 47,441	$ (81)	$ 141,516	$ (636)

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 mortgage-backed and municipal 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, 2020, 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	$ 21,957	$ 22,127
Due from one year through five years	64,201	68,920
Due from six years through ten years	16,944	17,975
Due from ten years through twenty years	176,211	178,305
Due from twenty years or more	26,890	26,599
Total	$ 306,203	$ 313,926

Investment securities with a carrying value of approximately $73,425 and $45,864 as of December 31, 2020, and 2019, 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, 2020, and 2019.

3. Loans and Allowance for Loan Losses

Loans, excluding loans held-for-sale, as of December 31, 2020, and 2019 consisted of the following:

	2020	2019
Commercial	$ 101,367	$ 54,764
Commercial real estate		
Owner occupied	105,373	111,664
Non-owner occupied	70,829	76,765
Multi-family	24,498	35,276
Commercial and residential construction		
Commercial construction	13,715	8,738
Residential construction	222	1,613
Residential real estate	35,280	41,752
Consumer	2,920	3,476
Agriculture		
Operating	35,012	26,833
Farmland	51,364	53,790
Total loans	$ 440,580	$ 414,671

The above loans have been reduced by net deferred loan origination fees/costs of approximately $2,116 and $1,497 as of December 31, 2020, and 2019, respectively.

Commercial loans are made based primarily on the historical and projected cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted, and collateral securing such loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The repayment of these loans is largely dependent on the successful operation of the related property, and collateral securing such loans may fluctuate in value due to economic or individual performance factors.

Loan performance may be adversely affected by factors impacting the general economy and conditions specific to the real estate market such as geographic location and/or property type.

Commercial and residential construction loans are loans used by the borrower exclusively for the improvement of real estate on which the Company holds a mortgage. Due to the inherent risk in this type of loan, they are monitored closely and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, government regulation of real property, general economic conditions, the availability of long-term financing, and fluctuations in collateral values. In addition, they are considered to involve a higher degree of risk because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project.

Residential real estate loans are secured by collateral that may fluctuate in value due to economic or individual performance factors.

Consumer loans are loans to purchase various items such as automobiles, boats, and recreational vehicles. The terms and rates are established periodically by Management. Consumer loans tend to involve relatively small loan amounts that are spread across many individual borrowers, minimizing the risk of significant loss to the Company.

Agriculture loans are made to farmers for operating capital (not to exceed their annual production and marketing cycle) or for the purchase of equipment and real estate on a longer-term basis. Operating loans are generally secured by livestock or crops. The ability to sell livestock or crops, however, may not be as forecasted, and collateral securing such loans may fluctuate in value due to economic or individual performance factors.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2020, and 2019 were as follows:

	Beginning Allowance	Provision (Credit)	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

	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
2019					
Commercial	$ 828	$ 215	$ (46)	$ 100	$ 1,097
Commercial real estate	1,893	781	-	3	2,677
Commercial and residential construction	213	(80)	-	-	133
Residential real estate	486	(96)	-	49	439
Consumer	25	12	(1)	2	38
Agriculture	1,441	(207)	(80)	-	1,154
Total	$ 4,886	$ 625	$ (127)	$ 154	$ 5,538

The allowance for loan losses and the recorded investment in loans, by portfolio segment and impairment method, as of December 31, 2020, and 2019, 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
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

	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
2019						
Commercial	$ -	$ 1,097	$ 1,097	$ 415	$ 54,349	$ 54,764
Commercial real estate	-	2,677	2,677	406	223,299	223,705
Commercial and residential construction	-	133	133	-	10,351	10,351
Residential real estate	-	439	439	-	41,752	41,752
Consumer	-	38	38	-	3,476	3,476
Agriculture	-	1,154	1,154	720	79,903	80,623
Total	$ -	$ 5,538	$ 5,538	$ 1,541	$ 413,130	$ 414,671

Information related to impaired loans, by class of loans, as of and for the year ended December 31, 2020 and 2019 was as follows:

	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

	December 31, 2019			For the Year Ended December 31, 2019
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Commercial	$ 415	$ 415	$ -	$ 411
Commercial real estate	406	406	-	380
Agriculture	720	800	-	799
Subtotal	1,541	1,621	-	1,590
Totals				
Commercial	415	415	-	411
Commercial real estate	406	406	-	380
Agriculture	720	800	-	799
Total	$ 1,541	$ 1,621	$ -	$ 1,590

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.

Loans that are 30 days or more past due are reported to the Board. A written plan for the resolution of such past due amounts is prepared for all loans 60 days or more past due. Loans may be placed on non-accrual status at any point in time that payments are past due. Loans 90 days past due generally must be transferred to non-accrual status.

The recorded investment in non-accrual loans, by class of loans, as of December 31, 2020, and 2019 was as follows:

	2020	2019
Commercial	$ 349	$ 415
Commercial real estate	385	406
Agriculture		
Operating	609	720
Farmland	2,617	-
Total	$ 3,960	$ 1,541

The recorded investment in loans by aging category and in total, by class of loans, as of December 31, 2020, and 2019 was as follows:

	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

	Days Past Due					
	30 - 59	60 - 89	90 or More	Total Past Due	Current	Total Loans
2019						
Commercial	$ 264	$ 18	$ 265	$ 547	$ 54,217	$ 54,764
Commercial real estate						
Owner occupied	-	-	-	-	111,664	111,664
Non-owner occupied	-	-	406	406	76,359	76,765
Multi-family	-	-	-	-	35,276	35,276
Commercial and residential construction						
Commercial construction	556	-	-	556	8,182	8,738
Residential construction	-	-	-	-	1,613	1,613
Residential real estate	66	-	-	66	41,686	41,752
Consumer	-	-	-	-	3,476	3,476
Agriculture						
Operating	720	325	-	1,045	25,788	26,833
Farmland	-	211	-	211	53,579	53,790
Total	$ 1,606	$ 554	$ 671	$ 2,831	$ 411,840	$ 414,671

As of December 31, 2020, and 2019 there were no loans contractually past due 90 days or more on which the Company continued to accrue interest.

Credit quality indicators

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. The Company's risk rating matrix assigns risk ratings on a scale from one to ten. Loans that are risk rated one through six are considered to be "Pass" loans. Problem and potential problem loans that are risk rated seven, eight, nine, and ten are considered to be "Special Mention," "Substandard," "Doubtful," and "Loss" loans, respectively. Loans that do not currently expose the Company to sufficient risk to warrant classification as Substandard, Doubtful, or Loss but possess weaknesses that deserve Management's close attention are deemed to be Special Mention. Substandard loans include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full – on the basis of currently existing facts, conditions, and values – highly questionable and improbable. Loans classified as Loss are considered uncollectable and of such little value that continuance as an asset is not warranted. Risk ratings are updated as the Bank becomes aware of changing facts and circumstances. As of December 31, 2020, and 2019, 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 risk rating as of December 31, 2020, and 2019 based on the most recent rating assigned to each loan as of those dates:

	Pass	Special Mention	Substandard	Total
2020				
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

	Pass	Special Mention	Substandard	Total
Commercial	$ 51,579	$ 1,034	$ 2,151	$ 54,764
Commercial real estate				
Owner occupied	110,774	-	890	111,664
Non-owner occupied	76,359	-	406	76,765
Multi-family	35,276	-	-	35,276
Commercial and residential construction				
Commercial construction	8,182	556	-	8,738
Residential construction	1,613	-	-	1,613
Residential real estate	41,752	-	-	41,752
Consumer	3,476	-	-	3,476
Agriculture				
Operating	26,113	-	720	26,833
Farmland	52,348	-	1,442	53,790
Total	$ 407,472	$ 1,590	$ 5,609	$ 414,671

The Company's operations, like those of other financial institutions operating in the Company'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 government and the regulatory authorities that govern financial institutions. Any downturn in the real estate markets could materially and adversely affect the Company's business because a significant portion of the Company's loans are secured by real estate. The Company's ability to recover on defaulted loans by selling the real estate collateral would then be diminished and the Company would be more likely to suffer losses on defaulted loans. Consequently, the Company'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 Company's loans could provide less security. Real estate values can 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 Company 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 Company given a sustained weakness or a weakening in business and economic conditions generally or specifically in the principal market in which the Company 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.

TDRs are included in the impaired loan totals and are generally deemed by Management to be nonaccrual loans. The Bank's policy is that a loan placed on nonaccrual status will typically remain on nonaccrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the terms of the loan agreement appear relatively certain. The Bank generally considers six months of payment performance as sufficient to warrant a return to accrual status.

As of December 31, 2020, the Company had one commercial loan categorized as TDR with a total outstanding recorded investment of $24. 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, 2019, the Company had two commercial loans categorized as TDRs with an outstanding recorded investment of $47.

Pursuant to the CARES Act passed in March 2020, the Company funded 756 loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program ("PPP") administered by the U.S. Small Business Administration ("SBA"). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Bank received a fee of 1%-5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans at December 31, 2020 was $69,486. The Company ended its origination of new PPP loans on June 30, 2020. On June 5, 2020, the PPP Flexibility Act was signed into law that modified, among other things, rules governing the PPP payment deferral period. In October 2020, due to updated guidance from the SBA that PPP loan payments were to be deferred until SBA had remitted forgiveness funds to the lender if the Borrower applied for forgiveness within ten months after the end of their covered period, the Bank modified the first payment due dates for PPP loans that originated prior to June 5, 2020 and extended the payment deferral period from six to sixteen months. The extended payment deferral period will affect the timing over which the accretion of PPP net loan origination fees are recognized.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the "Coronavirus Relief Act") passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under GAAP. This relief applies to loan modifications executed between March 1, 2020 and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Company elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. As of December 31, 2020, 22 loans totaling $31,891 remained modified as CARES Act deferrals and not subject to TDR accounting and reporting.

4. Premises and Equipment

Premises and equipment consisted of the following as of December 31, 2020, and 2019:

	2020	2019
Land	$ 4,451	$ 4,461
Buildings and leasehold improvements	15,017	14,900
Furniture and equipment	3,639	3,288
	23,107	22,649
Less: accumulated depreciation and amortization	10,580	10,027
Premises and equipment - net	$ 12,527	$ 12,622

Depreciation expense totaled $562 and $530 in 2020, and 2019, 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	2020	2019
Right-of-use assets:			
Operating leases	Other assets	$ 714	$ 796
Total right-of-use assets		$ 714	$ 796
Lease liabilities:			
Operating leases	Other liabilities	$ 714	$ 796
Total lease liabilities		$ 714	$ 796

The components of total lease expense were as follows for the periods ending December 31, 2020 and 2019:

	2020	2019
Operating lease expense		
Operating leases	$ 154	$ 154
Less: Rental income	(96)	(97)
Total lease expense, net	$ 58	$ 57

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2020 are as follows:

	Operating Leases
2021	$ 129
2022	102
2023	81
2024	82
2025	49
Thereafter	712
Total undiscounted lease payments	1,155
Less: imputed interest	(441)
Net lease liabilities	$ 714

The weighted average remaining term and the weighted average discount rate on operating leases as of December 31, 2020 and 2019 are as follows:

	2020	2019
Operating lease weighted average remaining term (years)	21.5 years	21.7 years
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, 2020, and 2019:

	2020	2019
Balance at beginning of year	$ 777	$ 807
Additions	-	-
Capitalized improvements	-	-
Write-downs - net	(24)	(30)
Dispositions	-	-
Balance at end of year	$ 753	$ 777

7. Time Deposits

Time deposits that met or exceeded the FDIC insurance limit of $250 aggregated approximately $2,686 and $3,893 as of December 31, 2020, and 2019, respectively. As of December 31, 2020, the scheduled annual maturities of all time deposits were approximately as follows:

2021	$ 11,314
2022	2,751
2023	1,677
2024	484
2025	883
Thereafter	31
Total	$ 17,140

8. Other Borrowings

The Bank had securities sold under agreements to repurchase ("REPOs") of approximately $42,564 and $30,848 as of December 31, 2020, and 2019, respectively. A REPO represents an agreement between the Bank and a customer to collateralize funds deposited 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 the funds deposited, the Bank pledges the security to the customer. The Bank agrees to repurchase the security on the next business day for the amount of the deposit plus simple interest on that amount calculated for one day at the rate established for REPO accounts as set by the Bank for the day. The funds provided by REPOs are considered borrowings, not deposits, and are not covered by FDIC insurance. The average cost of REPOs was 0.15% and 0.17% in 2020, and 2019, respectively.

The Bank has a borrowing line with the FHLB equal to 45 percent of the Bank's total assets, subject to certain discounted collateral and FHLB stock holdings limitations. As of December 31, 2020, the maximum borrowing line based on the Bank's total assets was $443,304; 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, 2020, the Bank's line was limited to $161,956. To access this line, the Bank would be required to purchase additional stock in the FHLB. As of December 31, 2020, and 2019, the Company had no outstanding borrowings with the FHLB. As of December 31, 2020, assets pledged as collateral had a total book value of approximately $261,062.

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 reestablished secured borrowing capacity through the Federal Reserve's discount window. The Bank pledged loans totaling $7,773 and obtained a discounted borrowing line of $2,377 at December 31, 2020. The Company had no outstanding borrowings with the Federal Reserve at December 31, 2020.

As an additional source of liquidity, the Bank had federal fund borrowing agreements with correspondent banks totaling $53,000 and $48,000 as of December 31, 2020, and 2019, respectively. These unsecured lines may be reduced or withdrawn at any time but are generally reaffirmed annually. As of December 31, 2020, and 2019, 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, 2020, and 2019:

	2020	2019
Current expense		
Federal	$ 2,246	$ 3,070
State	445	740
Deferred expense (benefit)		
Federal	(1,557)	(332)
State	(86)	(18)
Provision for income taxes	$ 1,048	$ 3,460

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, 2020, and 2019:

	2020	2019
Expected federal income tax provision at statutory rate	$ 1,082	$ 2,929
Increase (decrease) resulting from:		
Tax-exempt income	(43)	(48)
State income taxes, net of federal effect	257	792
Earnings on BOLI	(147)	(119)
Federal deduction for Oregon tax credits	(69)	(69)
Other - net	(32)	(25)
Provision for income taxes	$ 1,048	$ 3,460

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2020, and 2019 were as follows:

	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 3,372	$ 1,496
Reserve for unfunded loan commitments	68	68
Deferred compensation	1,393	1,288
Oregon tax credits	463	926
Lease liability	193	215
Other	203	103
Total deferred tax assets	5,692	4,096
Deferred tax liabilities		
Accumulated depreciation and amortization	(327)	(45)
Deferred loan income	(463)	(308)
Right of use asset	(193)	(215)
Net unrealized gains on investment securities available-for-sale	(2,086)	(654)
Other	(108)	(106)
Total deferred tax liabilities	(3,177)	(1,328)
Net deferred tax assets	$ 2,515	$ 2,768

Purchased Oregon tax credits, which aggregate $463 as of December 31, 2020, will be utilized to offset future state income taxes. These credits are generally recognized over a five-year period beginning in the year of purchase and have an eight-year carry-forward period. If unused, $463 of the credits expire in 2029. It is anticipated that all 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 financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the accompanying consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual 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, 2020, and 2019 is as follows:

	2020	2019
Commitments to extend credit		
Real estate secured	$ 22,217	$ 25,262
Commercial and industrial	52,201	38,493
Other - net	23,713	30,074
Standby letters of credit	2,978	2,933
Total	$ 101,109	$ 96,762

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. 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 accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. These guarantees are primarily issued to support public and private borrowing arrangements. 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. If the commitment were funded, the Bank would be entitled to seek recovery from the customer. The Bank's policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those involved in extending loans to customers. 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, 2020, and 2019.

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, 2020, the Bank pledged approximately $4,525 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, 2020, the Bank included $1,981 in other assets (representing the remaining unamortized investment in the LIHTC partnership) and $117 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, 2020.

11. Significant Concentrations of Credit Risk

Most of the Bank's business activity is with customers located in Oregon. Investments in state and municipal securities involve governmental entities. Loans to individual borrowers are generally limited by state banking regulations to 15% of the Bank's shareholders' equity excluding accumulated other comprehensive income (loss) for loans not fully secured by a first lien on real estate, and to 25% of such amount for loans fully secured by a first lien on real estate.

The Bank has credit risk exposure, including off-balance sheet credit risk exposure, as disclosed in Notes 1 and 10. The ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in economic and market conditions in its operating region. The Bank generally requires collateral on all real estate loans and typically originates loans with loan-to-value ratios of no greater than 70% to 80%.

The Bank has a concentration in real estate loans, particularly in commercial real estate loans. These loans require additional evaluation including, but not limited to, industry, geographic, and collateral analysis. Commercial real estate is further categorized to reflect owner occupied and nonowner-occupied properties. Any nonowner-occupied category that is over 100% of tier 1 capital is further analyzed as to the type of property being taken as collateral.

The contractual amounts of credit-related financial instruments such as commitments to extend credit and standby letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults, and the value of any existing collateral becomes worthless.

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, 2020, and 2019, 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 2020, and 2019 were $604 and $541, 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 $813 and $677 in 2020, and 2019, respectively. Liabilities to employees, which are being accrued over their expected time to retirement, were $5,159 and $4,685 as of December 31, 2020, and 2019, 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 $19,874 and $17,830 as of December 31, 2020, and 2019, respectively. Income derived from BOLI policies totaled $543 and $442 in 2020, and 2019, 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, 2020, and 2019, 703,480 and 787,301 shares were reserved and available for future issuance under the dividend reinvestment plan, respectively.

Stock Repurchase Plan

As of December 31, 2020, the Board has authorized the repurchase of up to 170,358 shares of the Company's common stock and up to 332,622 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 can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the 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, 2020, 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, 2020, 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, 2020, and 2019 are presented in the following tables:

	Actual		Regulatory Minimum to be "Adequately Capitalized"		Regulatory Minimum to be "Well Capitalized" Under Prompt Corrective Action Provisions	
	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%

	Actual		Regulatory Minimum to be "Adequately Capitalized"		Regulatory Minimum to be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2019						
Common equity tier 1 capital (to risk-weighted assets)						
Company	$ 88,558	17.69%	$ 22,528	4.50%	N/A	N/A
Bank	$ 88,505	17.68%	$ 22,528	4.50%	$ 32,540	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$ 88,558	17.69%	$ 30,037	6.00%	N/A	N/A
Bank	$ 88,505	17.68%	$ 30,037	6.00%	$ 40,049	8.00%
Total capital (to risk-weighted assets)						
Company	$ 94,348	18.85%	$ 40,049	8.00%	N/A	N/A
Bank	$ 94,295	18.84%	$ 40,049	8.00%	$ 50,062	10.00%
Tier 1 capital (to average assets)						
Company	$ 88,558	11.09%	$ 31,936	4.00%	N/A	N/A
Bank	$ 88,505	11.09%	$ 31,936	4.00%	$ 39,920	5.00%

N/A indicates that this measure is not applicable at the Company level as of December 31, 2020 and 2019.

The Bank maintains a "conservation buffer," consisting of a common equity Tier 1 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, 2020, and 2019.

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, 2020, and 2019.

15. Fair Value

Recurring fair value measurements

As of December 31, 2020, and 2019, 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, 2020, and 2019 were as follows:

	Level 1	Level 2	Level 3
2020			
Investment securities available-for-sale			
U.S. agency securities	$ -	$ 104,369	$ -
Mortgage-backed securities	-	203,209	-
Municipal securities	-	6,348	-
	$ -	$ 313,926	$ -
2019			
Investment securities available-for-sale			
U.S. agency securities	$ -	$ 177,168	$ -
Mortgage-backed securities	-	108,798	-
	$ -	$ 285,966	$ -

Non-recurring fair value measurements

As of December 31, 2020, and 2019, 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, 2020, and 2019 were as follows:

	Level 1	Level 2	Level 3
2020			
OREO	-	-	753
	$ -	$ -	$ 753
2019			
OREO	-	-	777
	$ -	$ -	$ 777

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, 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%

	December 31, 2019			
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
OREO	$ 777	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, 2020, and 2019.

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, 2020, were as follows:

	Recorded Amount	Fair Value	Fair Value Measurements Using: 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	-

The estimated fair values of the Company's financial instruments as of December 31, 2019, were as follows:

	Recorded Amount	Fair Value	Fair Value Measurements Using: Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 52,150	$ 52,150	$ 52,150	$ -	$ -
Securities available-for-sale	285,966	285,966	-	285,966	-
FHLB stock	926	926	-	-	926
Net loans	409,133	404,019	-	-	404,019
Accrued interest receivable	3,489	3,489	3,489	-	-
BOLI	17,830	17,830	17,830	-	-
Financial liabilities					
Deposits	657,760	626,261	-	626,261	-
REPOs	30,848	30,848	-	30,848	-

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, 2020, and 2019 can be reconciled as follows:

	2020	2019
Numerator		
Net income	$ 4,102	$ 10,490
Less:		
Preferred shares dividends declared	(130)	(236)
Earnings allocable to preferred shares	(122)	(464)
Net income available to common shareholders	$ 3,850	$ 9,790
Denominator		
Weighted average shares outstanding - basic and diluted	5,596,271	5,525,557
Basic and diluted earnings per share	$ 0.69	$ 1.77

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, 2020, and 2019 were approximately as follows:

	2020		2019	
Balance at beginning of year	$	2,960	$	3,229
Net additions		4,805		-
Net repayments		(594)		(269)
Balance at end of year	$	7,171	$	2,960

All related party loans were current as to principal and interest as of December 31, 2020, and 2019.

As of December 31, 2020, and 2019, the Bank held $29,891 and $15,424 in deposits from its key officers and directors.