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# 2023 CONSOLIDATED FINANCIAL STATEMENTS

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

# Report of Independent Auditors

The Board of Directors and Shareholders
Citizens Bancorp

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the consolidated financial statements of Citizens Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Citizens Bancorp and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, as of January 1, 2023, Citizens Bancorp and Subsidiary adopted new accounting guidance Accounting Standards Update 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.

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

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Citizens Bancorp and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Citizens Bancorp and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Moss Adams LLP

Portland, Oregon
March 15, 2024

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

| | At December 31, 2023 | At December 31, 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 15,750 | $ 20,622 |
| Interest-bearing deposits in banks | 146,421 | 135,112 |
| Total cash and cash equivalents | 162,171 | 155,734 |
| Securities available-for-sale; amortized cost $445,949 and $528,102, respectively | 394,310 | 463,639 |
| Federal Home Loan Bank (FHLB) stock, at cost | 633 | 1,281 |
| Loans | 406,409 | 378,687 |
| Allowance for credit losses | (5,606) | (5,629) |
| Net loans | 400,803 | 373,058 |
| Premises and equipment - net | 13,348 | 12,358 |
| Accrued interest receivable | 4,364 | 3,838 |
| Bank-owned life insurance (BOLI) | 21,493 | 20,935 |
| Other assets | 22,604 | 24,310 |
| Total assets | $ 1,019,726 | $ 1,055,153 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Liabilities | | |
| Deposits: | | |
| Demand | $ 374,919 | $ 453,364 |
| Savings | 68,737 | 82,245 |
| Interest-bearing demand | 295,830 | 404,230 |
| Time | 12,932 | 15,889 |
| Total deposits | 752,418 | 955,728 |
| Borrowings and repurchase agreements | 178,677 | 28,480 |
| Cash dividends payable | 2,073 | 2,521 |
| Other liabilities | 15,217 | 9,766 |
| Total liabilities | 948,385 | 996,495 |
| Commitments and contingencies (Note 10) | - | - |
| Shareholders' equity | | |
| Series A preferred stock (no par value); authorized 500,000 shares; issued and outstanding: 2023 - 322,268 shares; 2022 - 322,268 shares | 1,934 | 1,934 |
| Common stock (no par value); authorized 10,000,000 shares; issued and outstanding: 2023 - 5,573,522 shares; 2022 - 5,655,188 shares | 44,849 | 45,339 |
| Retained earnings | 62,252 | 58,440 |
| Accumulated other comprehensive loss | (37,694) | (47,055) |
| Total shareholders' equity | 71,341 | 58,658 |
| Total liabilities and shareholders' equity | $ 1,019,726 | $ 1,055,153 |

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

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

| | For the Years Ended December 31, 2023 | 2022 |
|---|---|---|
| Interest income | | |
| Loans | $ 22,000 | $ 18,141 |
| Interest-bearing deposits in banks | 6,360 | 2,730 |
| Securities | 9,276 | 9,069 |
| Total interest income | 37,636 | 29,940 |
| Interest expense | | |
| Deposits | 1,838 | 415 |
| Borrowings and repurchase agreements | 5,444 | 46 |
| Total interest expense | 7,282 | 461 |
| Net interest income | 30,354 | 29,479 |
| Provision for (reversal of) credit losses | 9 | (2,550) |
| Net interest income after provision for (reversal of) credit losses | 30,345 | 32,029 |
| Noninterest income | | |
| Service charges on deposit accounts | 576 | 549 |
| Debit and ATM interchange fee income, net | 870 | 887 |
| Earnings on BOLI | 558 | 520 |
| Merchant fee income | 237 | 250 |
| Mortgage department income | 17 | 53 |
| Other | 519 | 778 |
| Total noninterest income | 2,777 | 3,037 |
| Noninterest expense | | |
| Salaries and employee benefits | 17,427 | 16,032 |
| Occupancy | 1,464 | 1,336 |
| Data processing | 1,022 | 898 |
| Furniture and equipment | 1,218 | 1,044 |
| Telephone - data line | 429 | 404 |
| Professional fees | 553 | 435 |
| FDIC insurance | 444 | 300 |
| Other | 2,636 | 2,478 |
| Total noninterest expense | 25,193 | 22,927 |
| Income before provision for income taxes | 7,929 | 12,139 |
| Provision for income taxes | 1,775 | 3,037 |
| Net income | $ 6,154 | $ 9,102 |
| Basic and diluted earnings per common share | $ 1.03 | $ 1.52 |

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

## Citizens Bancorp and Subsidiary
## Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

| | For the Years Ended December 31, 2023 | For the Years Ended December 31, 2022 |
|---|---|---|
| Net income | $ 6,154 | $ 9,102 |
| Other comprehensive income (loss) - net of tax | | |
| Change in unrealized gains and losses on securities available-for-sale, net of tax of ($3,463) and $16,281, respectively | 9,361 | (44,009) |
| Comprehensive income (loss) | $ 15,515 | $ (34,907) |

## Citizens Bancorp and Subsidiary
## Consolidated Statements of Changes in Shareholders' Equity
## For the Years Ended December 31, 2023 and 2022

(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 Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balances at December 31, 2021 | 322,268 | 5,623,871 | $ 1,934 | $ 44,775 | $ 51,859 | $ (3,046) | $ 95,522 |
| Net income | - | - | - | - | 9,102 | - | 9,102 |
| Change in unrealized gains and losses on securities available-for-sale - net of income taxes of $16,281 | - | - | - | - | - | (44,009) | (44,009) |
| Cash dividend reinvestment | - | 31,317 | - | 564 | - | - | 564 |
| Cash dividend declared | | | | | | | |
| ($0.42 per common share) | - | - | - | - | (2,376) | - | (2,376) |
| ($0.45 per share - Series A preferred) | - | - | - | - | (145) | - | (145) |
| Balances at December 31, 2022 | 322,268 | 5,655,188 | 1,934 | 45,339 | 58,440 | (47,055) | 58,658 |
| Net income | - | - | - | - | 6,154 | - | 6,154 |
| Change in unrealized gains and losses on securities available-for-sale - net of income taxes of ($3,463) | - | - | - | - | - | 9,361 | 9,361 |
| Cash dividend reinvestment | - | 27,765 | - | 386 | - | - | 386 |
| Cash dividend declared | | | | | | | |
| ($0.35 per common share) | - | - | - | - | (1,951) | - | (1,951) |
| ($0.38 per share - Series A preferred) | - | - | - | - | (122) | - | (122) |
| Stock repurchased | - | (109,431) | - | (876) | (308) | - | (1,184) |
| Cumulative-effect adjustment of adopting ASU 2016-13 | - | - | - | | 39 | - | 39 |
| Balances at December 31, 2023 | 322,268 | 5,573,522 | $ 1,934 | $ 44,849 | $ 62,252 | $ (37,694) | $ 71,341 |

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

| | For the Years Ended December 31, 2023 | 2022 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 6,154 | $ 9,102 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for (reversal of) credit losses - loans | 265 | (2,550) |
| (Reversal of) provision for credit losses - unfunded commitments | (256) | 18 |
| Depreciation and amortization | 558 | 524 |
| Write-down of OREO | - | 22 |
| Gain on sale of OREO | - | (140) |
| Originations of loans held-for-sale | - | (155) |
| Proceeds from sales of loans held-for-sale | - | 158 |
| Gains on sales of loans held-for-sale | - | (3) |
| Provision for deferred income taxes | 92 | 623 |
| Earnings on BOLI | (558) | (520) |
| Amortization of bond premiums, net of accretion | 4,069 | 5,250 |
| Increase in accrued interest receivable | (526) | (72) |
| Other - net | 3,582 | 1,305 |
| Net cash provided by operating activities | 13,380 | 13,562 |
| **Cash flows from investing activities** | | |
| Activity in securities available-for-sale: | | |
| Purchases | - | (60,923) |
| Maturities, prepayments, and calls | 78,084 | 83,795 |
| Increase in loans - net | (27,695) | (17,389) |
| Purchases of premises and equipment - net | (1,548) | (489) |
| Purchase of FHLB Stock | (1,040) | (105) |
| Sale of FHLB Stock | 1,688 | 4 |
| Proceeds from sales of OREO | - | 847 |
| Net cash provided by investing activities | 49,489 | 5,740 |
| **Cash flows from financing activities** | | |
| Net (decrease) increase in deposits | (203,310) | 39,283 |
| Net decrease in repurchase agreements | (9,803) | (15,450) |
| Proceeds from borrowings | 201,135 | 351 |
| Borrowings repaid | (41,135) | (351) |
| Cash dividends paid | (2,135) | (2,720) |
| Repurchases of common stock | (1,184) | - |
| Net cash (used in) provided by financing activities | (56,432) | 21,113 |
| Net change in cash and cash equivalents | 6,437 | 40,415 |
| Cash and cash equivalents at beginning of year | 155,734 | 115,319 |
| Cash and cash equivalents at end of year | $ 162,171 | $ 155,734 |
| **Supplemental disclosures of cash flow information** | | |
| Interest paid | $ 2,201 | $ 470 |
| Income taxes paid | $ 1,198 | $ 1,775 |
| **Supplemental disclosures of non-cash investing and financing activities** | | |
| Change in unrealized gains and losses on securities available-for-sale - net of tax | $ 9,361 | $ (44,009) |
| Accrued dividends declared and unpaid | $ 2,073 | $ 2,521 |
| Dividends reinvested | $ 386 | $ 564 |

In preparing these consolidated financial statements, management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that occurred through March 15, 2024, which is the date that the consolidated financial statements were available to be issued. All dollar amounts in the following notes are expressed in thousands, except per share data.

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

### Basis of presentation

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

### Nature of operations

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

### Method of accounting

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the banking industry. The Company utilizes the accrual method of accounting which recognizes income and gains when earned and expenses and losses when incurred. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, as of the dates of the consolidated balance sheets, and the reported amounts of income, gains, expenses, and losses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to changes in the near term relate to the allowance for credit losses and fair market value of securities.

### Cash equivalents and cash flows

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

### Investment securities

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

Investment in debt 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 pledged or 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. All the Bank's securities are classified as available-for-sale.

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.

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more-likely-than-not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value. For the available-for-sale securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In such assessment, the Company considers the extent to which fair value is less than amortized cost, if there are any changes to the investment grade of the security by a rating agency, and if there are any adverse conditions that impact the security. If this assessment indicates a credit loss exists, the present value of the cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a potential credit loss exists and an Allowance for Credit Losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost.

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.

**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, 2023, and 2022, 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, 2023, and 2022.

### Loans held-for-sale

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

### Loans

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

Loans are underwritten through evaluation of the borrower's loan request and any supporting documentation. Underwriting standards are designed to promote relationship banking by helping the lender understand a borrower's entire banking need. The Bank examines current and projected cash flows to determine the ability of the borrower to repay its obligation as agreed upon and, secondarily, evaluates the underlying collateral provided by the borrower. A substantial portion of the Bank's loans are collateralized by real estate in the geographic areas it serves and, accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the local economic conditions in such markets.

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

Interest income on all loans is accrued and earned on the simple interest method based on daily balances of the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's opinion, collection of principal or interest is doubtful. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received satisfying all delinquent principal and interest amounts, and the prospects for future payments in accordance with the loan agreements appear relatively certain. A nonaccrual loan may be restored to accrual status when none of its principal and interest is due and unpaid and the Bank expects full repayment of the remaining contractual principal and interest, or when it otherwise becomes well secured and in the process of collection.

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

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

**Allowance for credit losses - loans**

The allowance for credit losses represents management's recognition of the assumed risks of extending credit. The allowance is established to absorb management's best estimate of expected losses over the life of the loan. 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 expected credit losses based on management's assessment of the various factors affecting the portfolio.

Management follows a consistent methodology for assessing the appropriate level of allowance for credit losses. The allowance for credit losses, under the current expected credit losses (CECL) methodology, is a valuation account, measured as the difference between the financial assets' amortized cost basis and the amount expected to be collected on the financial assets (i.e., lifetime credit losses).

The allowance is generally increased by provisions charged to income and reduced by loans charged-off, net of recoveries. Credit losses are promptly charged against the allowance when available information confirms that specific loans, or portions thereof, are uncollectable.

The Bank evaluates the allowance for credit losses reported on the balance sheet at the end of each period. The amounts of the allowance and provision for credit losses is based on management's current judgments about the credit quality of the Bank's loans and considers known and expected relevant internal and external factors that significantly affect collectability over reasonable and supportable forecast periods, as well as appropriate reversion techniques applied to periods beyond the reasonable and supportable forecast.

The Bank uses a non-discounted cash flow methodology to estimate the expected collectability of its loans. Loans are segmented, or pooled, by their respective call code. Estimated expected losses are then measured over the contractual term of the loans, considering expected prepayments, and based on historical losses using the Bank's own loan history.

Management considers forward-looking information that is both reasonable and supportable, and relevant to assessing the collectability of cash flows. Such information is incorporated into the qualitative factor framework. This includes use of internal and external data over a one-year (12 month) forecast period. When the contractual term of a loan extends beyond the forecast period (reversion period), the calculation immediately reverts to historical loss information.

Expected credit losses are qualitatively adjusted for information not already captured in the loss estimation process. These qualitative factor adjustments may increase or decrease management's estimate of expected credit losses, and include:

1. Nature and volume of loans;
2. Existence, growth, and effect of any concentrations of credit;
3. Volume and severity of past due financial assets, nonaccrual assets, and adversely classified assets;
4. Value of the underlying collateral for loans that are not collateral-dependent;
5. The institution's lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries;
6. The quality of the institution's credit review function;
7. The experience, ability, and depth of the institution's lending, collection, and other relevant management and staff;
8. The effect of other external factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters;
9. Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the institution operates that affect collectability; and
10. Adjustments based on unforeseen imprecision in the CECL model in which identified risks are over or understated in results.

Loans that do not share similar risk characteristics as other pooled loans are evaluated individually. Such loans may include loans on non-accrual status or those deemed to be collateral dependent. As a practical expedient, collateral dependent loans are measured using the fair value of the underlying collateral, net of selling costs, regardless of whether foreclosure is probable. Individually assessed loans that are not collateral-dependent are measured using a discounted cash flow at the loan's effective interest rate. When a confirmed loss is identified on an individually assessed loan, it is charged off against the allowance for credit losses.

Changes in estimated future cash flows or collateral values could result in actual losses which differ from those estimated at the date of the consolidated balance sheet. The valuation of real estate collateral is subjective in nature and may be adjusted in future periods because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or other persons involved in selling real estate, in determining the estimated fair value of particular properties. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. Accordingly, the amounts of any such potential changes and any related adjustments are generally recorded at the time such information is received.

The allowance may be affected by review by the bank regulatory authorities who may require increases or decreases to the allowance based on their evaluation of the information available to them at the time of their examinations.

The allowance for credit losses may be allocated to certain loan categories based on the relative risk characteristics, asset classifications, and actual loss experience of the loan portfolio. While management has allocated the allowance for credit losses to various loan portfolio segments, the allowance is general in nature and is available for the loan portfolio in its entirety. The ultimate recovery of the carrying value of loans is susceptible to future market conditions beyond the Bank's control, which may result in losses or recoveries differing from those provided in the accompanying consolidated financial statements.

**Allowance for credit losses – Off-balance sheet credit exposures**

The Bank maintains a separate allowance for credit losses for off-balance sheet credit exposures, including unfunded loan commitments. Management estimates the amount of probable losses related to unfunded loan commitments by applying an estimated loss rate and utilization rate to the amount of outstanding commitments. In accordance with industry practice and regulatory guidance, the allowance for credit losses for off-balance sheet credit exposures is included in other liabilities in the accompanying consolidated balance sheets. Increases (decreases) in the allowance for unfunded commitments are recorded in the provision for credit losses in the accompanying consolidated statements of income.

**Restructured loans**

A loan is considered a restructured loan when the Bank, for reasons related to a borrower's financial difficulties, grants certain modifications to the terms of the loan. The restructure may arise from either a mutual agreement between the Bank and the borrower or be imposed by law or a court. Once a loan is determined to be restructured, the loan requires additional financial and regulatory handling and reporting.

The Bank will evaluate whether the borrower is experiencing financial difficulties, as follows:

- The borrower is currently in payment default on any of its debt;
- The borrower has declared or is in the process of declaring bankruptcy;
- There is significant doubt as to whether the borrower will continue to be a going concern;
- The borrower has securities that have been delisted, are in the process of being delisted, or are under the threat of being delisted from an exchange;
- The borrower's entity-specific cash flows will be insufficient to service the debt in accordance with the contractual terms of the existing agreement through maturity;

- Absent the current modification, the borrower cannot obtain funding from sources other than the Bank at an effective interest rate equal to the current market interest rate for similar debt for a borrower without financial difficulties.

The above list of indicators is not intended to be all inclusive and other factors may be considered.

Modifications to a loan that may result in a Restructured Loan classification, in the current reporting period, are as follows:

- Principal forgiveness
- An interest rate reduction
- An other-than-insignificant payment delay
- A term extension

Certain delays in payment may be deemed insignificant, excluding a loan from restructured loan treatment. If a loan has been previously restructured, the Bank considers the cumulative effect of the past restructurings made within the last 12-month period when determining whether a restructuring is insignificant.

Prior to the adoption of this guidance, a restructured loan was considered to be a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, granted a concession to the debtor that it would have not otherwise considered. These concessions may include – but were not limited to – certain interest rate reductions; principal forgiveness; deferral of interest payment; reduction of accrued interest; and other actions intended to minimize potential losses to the Bank. TDR loans were individually evaluated for impairment. TDR loans could be accruing or on non-accrual status depending on whether collection of principal and interest was doubtful.

**Premises and equipment**

Premises and equipment are stated at cost, less accumulated depreciation and amortization, which is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful life of the asset. Expenditures for repairs and maintenance are charged to expense as incurred. Additions and betterments are capitalized. The cost and related accumulated depreciation and amortization on premises and equipment sold or otherwise disposed of are removed from the Bank's accounts, and any gain or loss is reported as current year income or expense.

**Leases**

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

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

**Bank-owned life insurance ("BOLI")**

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

**Other real estate owned ("OREO")**

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

**Preferred stock**

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

**Earnings per common share**

The Company's basic earnings per common share is calculated as net income less preferred share dividends declared and undistributed earnings allocable to the participating preferred shares, divided by the weighted average number of common shares outstanding. Diluted earnings per common share would be calculated as net income less preferred share dividends declared and undistributed earnings allocable to the participating preferred shares divided by the weighted average number of common shares outstanding plus any dilutive common stock equivalents. During the years ended December 31, 2023, and 2022, the Company had no dilutive common stock equivalents.

### Revenue recognition

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

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

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

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

### 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 $27 and $31 during the years ended December 31, 2023, and 2022, respectively, and are included in 'Other noninterest expense.'

### 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, Arizona and Texas jurisdictions. Uncertain tax positions may arise when the Company takes or expects to take a tax position that is ultimately disallowed by the relevant taxing authority. Management periodically reviews the Company's consolidated balance sheets, statements of income, income tax provisions, and income tax returns as well as the permanent and temporary adjustments affecting current and deferred income taxes, and assesses whether uncertain tax positions exist. As of December 31, 2023, and 2022, 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, 2023, and 2022, management has elected to not report any of the Company's assets or liabilities at fair value under the "fair value option" provided by GAAP. The hierarchy of fair value valuation techniques under GAAP provides for three levels: Level 1 provides the most reliable measure of fair value, whereas Level 3, if applicable, generally would require significant management judgment.

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

Level 1: Fair value of the asset or liability is determined using unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect management's own assumptions regarding the applicable asset or liability.

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

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

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

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

Certain individually assessed loans are measured at estimated fair value on a non-recurring basis including individually assessed loans measured at 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 individually assessed loans – based on fair value measurements – for partial charge-offs of the uncollectable portions of those loans. Such amounts are generally based on the estimated fair value of the underlying collateral supporting the loan. As a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Estimated fair value of the loan's collateral is determined by appraisals or independent valuation which is then adjusted for the estimated costs related to liquidation of the collateral. Management's ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or location.

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.

**Adoption of New Accounting Standards**

In June 2016, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard replaced the incurred loss impairment methodology 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 were effective for annual periods beginning after December 15, 2022, and interim periods within those annual periods. The Company’s implementation was effective January 1, 2023. The Company recorded a one-time cumulative effect adjustment to the allowance for credit losses as of January 1, 2023.

The adoption of the standard had the following impact on the Company's financial statements:

| | 12/31/2022 | ASU 2016-13 Adjustment | 1/1/2023 |
|---|---|---|---|
| Allowance for credit losses - loans | $ 5,629 | $ (315) | $ 5,314 |
| Allowance for credit loses - unfunded commitments | 270 | 276 | 546 |
| Cumulative-effect adjustment of adopting ASU 2016-13 | | $ (39) | |

In March 2023, the FASB issued ASU 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.* The amendments in this Update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The standard requires a reporting entity to disclose certain information in annual and interim reporting periods that allow investors to understand the nature of its tax equity investments and their effect on its financial position and results of operations. The standard is effective for annual periods beginning after December 15, 2023, and interim periods within those annual periods. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* The amendments in this Update address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this Update are effective for annual periods beginning after December 31, 2023. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

On January 1, 2023, the Company adopted FASB ASU 2022-02, *Financial Instruments - Credit Losses, Troubled Debt Restructurings and Vintage Disclosures*, which eliminated the accounting guidance for TDRs by creditors, and enhanced the disclosure requirements for certain loan refinancing and restructures by creditors when a borrower is experiencing financial difficulty. The amendments require an entity to disclose current-period gross write-offs by class and year of origination. The Company adjusted its disclosures related to the amendments and they did not have a material impact on the Company's consolidated financial statements.

**Reclassifications**

Certain account reclassifications and adjustments may have been made to the consolidated financial statements of the prior year to conform with the 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 as of December 31, 2023, and 2022, were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Allowance for Credit Losses | Estimated Fair Value |
|---|---|---|---|---|---|
| **2023** | | | | | |
| Available-for-sale | | | | | |
| U.S. Treasury securities | $ 52,534 | $ - | $ (4,377) | $ - | $ 48,157 |
| U.S. Agency securities | 52,258 | - | (2,085) | - | 50,173 |
| Mortgage-backed securities | 280,264 | - | (38,880) | - | 241,384 |
| Municipal securities | 35,261 | - | (5,509) | - | 29,752 |
| SBA securities | 25,632 | - | (788) | - | 24,844 |
| Total available-for-sale | $ 445,949 | $ - | $ (51,639) | $ - | $ 394,310 |
| **2022** | | | | | |
| Available-for-sale | | | | | |
| U.S. Treasury securities | $ 60,347 | $ - | $ (5,863) | NA | $ 54,484 |
| U.S. Agency securities | 80,084 | - | (3,493) | NA | 76,591 |
| Mortgage-backed securities | 318,979 | - | (47,384) | NA | 271,595 |
| Municipal securities | 35,468 | - | (7,254) | NA | 28,214 |
| SBA securities | 33,224 | - | (469) | NA | 32,755 |
| Total available-for-sale | $ 528,102 | $ - | $ (64,463) | NA | $ 463,639 |

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, 2023, and 2022, 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 |
| **2023** | | | | | | |
| U.S. Treasury securities | $ - | $ - | $ 48,157 | $ (4,377) | $ 48,157 | $ (4,377) |
| U.S. Agency securities | - | - | 50,173 | (2,085) | 50,173 | (2,085) |
| Mortgage-backed securities | - | - | 241,384 | (38,880) | 241,384 | (38,880) |
| Municipal securities | - | - | 29,752 | (5,509) | 29,752 | (5,509) |
| SBA securities | - | - | 24,844 | (788) | 24,844 | (788) |
| Total | $ - | $ - | $ 394,310 | $ (51,639) | $ 394,310 | $ (51,639) |
| **2022** | | | | | | |
| U.S. Treasury securities | $ 16,372 | $ (458) | $ 38,112 | $ (5,405) | $ 54,484 | $ (5,863) |
| U.S. Agency securities | 67,263 | (2,292) | 9,328 | (1,201) | 76,591 | (3,493) |
| Mortgage-backed securities | 50,433 | (3,825) | 221,162 | (43,559) | 271,595 | (47,384) |
| Municipal securities | 3,238 | (453) | 24,976 | (6,801) | 28,214 | (7,254) |
| SBA securities | 8,844 | (73) | 23,911 | (396) | 32,755 | (469) |
| Total | $ 146,150 | $ (7,101) | $ 317,489 | $ (57,362) | $ 463,639 | $ (64,463) |

The Bank's securities have fair values less than amortized cost and, therefore, contain unrealized losses. There were 149 securities available-for-sale with unrealized losses as of December 31, 2023, compared to 157 at December 31, 2022. The Bank 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 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. As a result, no allowance for credit losses on securities has been recorded for the years ended December 31, 2023 and 2022.

The amortized cost and estimated fair value of investment securities as of December 31, 2023, 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 | $ 27,124 | $ 26,725 |
| Due from one year through five years | 72,278 | 66,908 |
| Due from six years through ten years | 70,945 | 64,651 |
| Due from ten years through twenty years | 190,944 | 165,605 |
| Due from twenty years or more | 84,658 | 70,421 |
| Total | $ 445,949 | $ 394,310 |

Investment securities with a carrying value of approximately $327,831 and $70,521 as of December 31, 2023, and 2022, respectively, were pledged to secure repurchase agreements, other borrowing lines, 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, 2023, and 2022.

## 3. Loans and Allowance for Credit Losses

Loans, excluding loans held-for-sale, as of December 31, 2023, and 2022, consisted of the following:

| | 2023 | 2022 |
|---|---|---|
| Commercial | $ 47,356 | $ 39,044 |
| Commercial real estate | | |
| Owner occupied | 100,984 | 105,392 |
| Non-owner occupied | 69,372 | 71,248 |
| Multi-family | 31,193 | 30,395 |
| Commercial and residential construction | | |
| Commercial construction | 29,095 | 14,203 |
| Residential construction | 903 | - |
| Residential real estate | 28,863 | 27,397 |
| Consumer | 1,748 | 2,222 |
| Agriculture | | |
| Operating | 33,784 | 30,413 |
| Farmland | 63,111 | 58,373 |
| Total loans | $ 406,409 | $ 378,687 |

The above loans have been reduced by net deferred loan origination fees/costs of approximately $972 and $1,358 as of December 31, 2023, and 2022, respectively.

Loans pledged to secure borrowings from FHLB and the Federal Reserve Bank totaled $285,355 and $266,173 as of December 31, 2023 and 2022, respectively.

In the normal course of business, the Bank may participate portions of loans to third parties in order to extend the Bank's lending capability or to mitigate risk. The Bank may also purchase portions of loans from third parties. As of December 31, 2023, and 2022, the Bank had $6,077 and $4,753, respectively, of purchased participated loans from third parties.

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

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

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

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

Agriculture loans are made to borrowers with a strong capital base, sufficient management depth, proven ability to operate through agricultural cycles, reliable cash flows and adequate financial reporting. Underwriting considers the cash flow of the borrower based upon the expected operating results and the value of collateral used to secure the loans. Agricultural loans generally are made as a percentage of the borrower's anticipated income to support budgeted operating expenses or to purchase equipment or real estate. Consideration is given to projected yields and prices from each commodity. Repayment is subject to other economic and weather conditions, disease, and commodity prices for agricultural products, which can be highly volatile. Normally, required beginning and projected operating margins provide reasonable reserves to offset unexpected yield and price deficiencies to mitigate these risks. In addition, we also consider management succession, life insurance and business continuation plans when evaluating agricultural loans. These loans are generally secured by a blanket lien on all crops, livestock, equipment, accounts and products and proceeds thereof; and may include real estate and federal agricultural program payments to the borrower.

Changes in the allowance for credit losses, by portfolio segment, for the years ended December 31, 2023, and 2022, were as follows:

| | Beginning Allowance | ASU 2016-13 Adjustment | Provision | Charge-offs | Recoveries | Ending Allowance |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| Commercial | $ 666 | $ (151) | $ 192 | $ (103) | $ - | $ 604 |
| Commercial real estate | 2,922 | 220 | (82) | - | - | 3,060 |
| Commercial and residential construction | 210 | 54 | 216 | - | - | 480 |
| Residential real estate | 360 | (43) | (144) | - | 149 | 322 |
| Consumer | 22 | 3 | 13 | (20) | 1 | 19 |
| Agriculture | 1,449 | (398) | 70 | - | - | 1,121 |
| Total | $ 5,629 | $ (315) | $ 265 | $ (123) | $ 150 | $ 5,606 |

| | Beginning Allowance | Provision | Charge-offs | Recoveries | Ending Allowance |
|---|---|---|---|---|---|
| **2022** | | | | | |
| Commercial | $ 902 | $ (237) | $ - | $ 1 | $ 666 |
| Commercial real estate | 4,737 | (1,815) | - | - | 2,922 |
| Commercial and residential construction | 353 | (143) | - | - | 210 |
| Residential real estate | 537 | (227) | - | 50 | 360 |
| Consumer | 39 | (18) | - | 1 | 22 |
| Agriculture | 1,479 | (110) | - | 80 | 1,449 |
| Total | $ 8,047 | $ (2,550) | $ - | $ 132 | $ 5,629 |

The allowance for credit losses and the recorded investment in loans, by portfolio segment and method of assessment for credit losses, as of December 31, 2022, 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 |
| **2022** | | | | | | |
| Commercial | $ - | $ 666 | $ 666 | $ 10 | $ 39,034 | $ 39,044 |
| Commercial real estate | - | 2,922 | 2,922 | 183 | 206,852 | 207,035 |
| Commercial and residential construction | - | 210 | 210 | - | 14,203 | 14,203 |
| Residential real estate | - | 360 | 360 | - | 27,397 | 27,397 |
| Consumer | - | 22 | 22 | - | 2,222 | 2,222 |
| Agriculture | - | 1,449 | 1,449 | - | 88,786 | 88,786 |
| Total | $ - | $ 5,629 | $ 5,629 | $ 193 | $ 378,494 | $ 378,687 |

Information related to individually assessed loans, by class of loans, as of and for the year ended December 31, 2022, was as follows:

| | December 31, 2022 | | | For the Year Ended December 31, 2022 |
|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
| **With no related allowance recorded** | | | | |
| Commercial | $ 10 | $ 10 | $ - | $ 14 |
| Commercial real estate | 183 | 183 | - | 407 |
| Subtotal | 193 | 193 | - | 421 |
| **Totals** | | | | |
| Commercial | 10 | 10 | - | 14 |
| Commercial real estate | 183 | 183 | - | 407 |
| Total | $ 193 | $ 193 | $ - | $ 421 |

The recorded investment in loans by aging category and in total, by class of loans, as of December 31, 2023, and 2022, was as follows:

| | Days Past Due | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 - 59 | 60 - 89 | 90 or More | Total Past Due | Nonaccrual | Current | Total Loans |
| **2023** | | | | | | | |
| Commercial | $ 274 | $ - | $ - | $ 274 | $ 347 | $ 46,735 | $ 47,356 |
| Commercial real estate | | | | | | | |
| Owner occupied | 200 | - | - | 200 | 163 | 100,621 | 100,984 |
| Non-owner occupied | - | - | - | - | - | 69,372 | 69,372 |
| Multi-family | - | - | - | - | - | 31,193 | 31,193 |
| Commercial and residential construction | | | | | | | |
| Commercial construction | - | - | - | - | - | 29,095 | 29,095 |
| Residential construction | - | - | - | - | - | 903 | 903 |
| Residential real estate | - | - | - | - | - | 28,863 | 28,863 |
| Consumer | - | - | - | - | - | 1,748 | 1,748 |
| Agriculture | | | | | | | |
| Operating | 982 | - | - | 982 | - | 32,802 | 33,784 |
| Farmland | - | - | - | - | - | 63,111 | 63,111 |
| Total | $ 1,456 | $ - | $ - | $ 1,456 | $ 510 | $ 404,443 | $ 406,409 |

| | Days Past Due | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 - 59 | 60 - 89 | 90 or More | Total Past Due | Nonaccrual | Current | Total Loans |
| **2022** | | | | | | | |
| Commercial | $ - | $ - | $ - | $ - | $ 10 | $ 39,034 | $ 39,044 |
| Commercial real estate | | | | | | | |
| Owner occupied | - | - | - | - | 183 | 105,209 | 105,392 |
| Non-owner occupied | - | - | - | - | - | 71,248 | 71,248 |
| Multi-family | - | - | - | - | - | 30,395 | 30,395 |
| Commercial and residential construction | | | | | | | |
| Commercial construction | - | - | - | - | - | 14,203 | 14,203 |
| Residential construction | - | - | - | - | - | - | - |
| Residential real estate | - | - | - | - | - | 27,397 | 27,397 |
| Consumer | - | - | - | - | - | 2,222 | 2,222 |
| Agriculture | | | | | | | |
| Operating | 644 | - | - | 644 | - | 29,769 | 30,413 |
| Farmland | - | - | - | - | - | 58,373 | 58,373 |
| Total | $ 644 | $ - | $ - | $ 644 | $ 193 | $ 377,850 | $ 378,687 |

As of December 31, 2023, and 2022, there were no loans contractually past due 90 days or more on which the Company continued to accrue interest. Interest income recognized on a cash basis on non-accrual loans was insignificant to the accompanying consolidated financial statements.

### Credit quality indicators

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

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

**Special Mention (Rating 7)** - These loans have potential weakness that, if not checked or corrected, may inadequately protect the Bank's position at some future date. Loans in this category warrant more than usual management attention but do not justify a Substandard classification.

**Substandard (Rating 8)** - Substandard loans have well-defined weaknesses that jeopardize the ability of the borrower to repay in full. These loans are inadequately protected by either the sound net worth and payment capacity of the borrower or the value of pledged collateral. These are loans with a distinct possibility of loss. Loans moving toward foreclosure and/or legal action due to credit quality deterioration are rated 9 or higher by the Bank.

**Doubtful (Rating 9)** - Doubtful loans have an extremely high probability of loss. These loans have all the critical weaknesses found in a Substandard loan; however, the weaknesses are elevated to the point that, based upon current information, collection or liquidation in full is improbable.

**Loss (Rating 10)** – Loans classified as Loss are considered uncollectible and are charged off.

As of December 31, 2023, and 2022, 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 and by year of origination, the recorded investment in loans by internally assigned risk rating as of December 31, 2023, and 2022:

| | December 31, 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Term Loans by Year of Origination | | | | | | Revolving Loans | Total Loans |
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | | |
| **Commercial** | | | | | | | | |
| Pass | 11,977 | 8,615 | 3,752 | 1,844 | 508 | 789 | 17,333 | 44,818 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | 250 | 252 | - | 41 | 824 | 4 | 1,167 | 2,538 |
| Total | 12,227 | 8,867 | 3,752 | 1,885 | 1,332 | 793 | 18,500 | 47,356 |
| 2023 Chargeoffs | - | - | - | - | - | 103 | - | 103 |
| **Commercial real estate** | | | | | | | | |
| Pass | 6,549 | 36,273 | 19,433 | 12,408 | 16,952 | 105,687 | 933 | 198,235 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | 1,821 | 732 | 761 | 3,314 |
| Total | 6,549 | 36,273 | 19,433 | 12,408 | 18,773 | 106,419 | 1,694 | 201,549 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Commercial and residential construction** | | | | | | | | |
| Pass | 5,549 | 21,613 | 2,274 | 121 | 6 | 310 | 125 | 29,998 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - |
| Total | 5,549 | 21,613 | 2,274 | 121 | 6 | 310 | 125 | 29,998 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Residential real estate** | | | | | | | | |
| Pass | 3,059 | 4,500 | 5,182 | 808 | 1,826 | 10,259 | 3,028 | 28,662 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | 201 | - | - | - | - | - | 201 |
| Total | 3,059 | 4,701 | 5,182 | 808 | 1,826 | 10,259 | 3,028 | 28,863 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Consumer** | | | | | | | | |
| Pass | 215 | 31 | 10 | 10 | - | - | 1,482 | 1,748 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - |
| Total | 215 | 31 | 10 | 10 | - | - | 1,482 | 1,748 |
| 2023 Chargeoffs | 3 | - | 17 | - | - | - | - | 20 |
| **Agriculture** | | | | | | | | |
| Pass | 9,483 | 14,755 | 12,351 | 6,493 | 5,769 | 21,870 | 23,783 | 94,504 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | 49 | - | 336 | 1,894 | 112 | 2,391 |
| Total | 9,483 | 14,755 | 12,400 | 6,493 | 6,105 | 23,764 | 23,895 | 96,895 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Total Loans** | **37,082** | **86,240** | **43,051** | **21,725** | **28,042** | **141,545** | **48,724** | **406,409** |
| **Total Chargeoffs** | **3** | **-** | **17** | **-** | **-** | **103** | **-** | **123** |

| | December 31, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Term Loans by Year of Origination | | | | | | | |
| | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving Loans | Total Loans |
| **Commercial** | | | | | | | | |
| Pass | 9,084 | 5,674 | 3,027 | 1,391 | 1,328 | 395 | 16,962 | 37,861 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | 17 | - | 1,048 | 107 | 10 | - | 1,183 |
| Total | 9,084 | 5,691 | 3,027 | 2,439 | 1,435 | 405 | 16,962 | 39,044 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Commercial real estate** | | | | | | | | |
| Pass | 30,724 | 19,289 | 14,479 | 19,618 | 15,900 | 101,440 | 2,271 | 203,721 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | 906 | 360 | 199 | 1,849 | 3,314 |
| Total | 30,724 | 19,289 | 14,479 | 20,524 | 16,260 | 101,639 | 4,120 | 207,035 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Commercial and residential construction** | | | | | | | | |
| Pass | 9,801 | 3,807 | 127 | 24 | 253 | 146 | 45 | 14,203 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - |
| Total | 9,801 | 3,807 | 127 | 24 | 253 | 146 | 45 | 14,203 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Residential real estate** | | | | | | | | |
| Pass | 4,565 | 5,591 | 1,322 | 1,982 | 2,650 | 8,986 | 2,301 | 27,397 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - |
| Total | 4,565 | 5,591 | 1,322 | 1,982 | 2,650 | 8,986 | 2,301 | 27,397 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Consumer** | | | | | | | | |
| Pass | 55 | 55 | 23 | 5 | - | 12 | 2,072 | 2,222 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - |
| Total | 55 | 55 | 23 | 5 | - | 12 | 2,072 | 2,222 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Agriculture** | | | | | | | | |
| Pass | 10,023 | 14,959 | 7,079 | 7,440 | 6,174 | 19,070 | 22,476 | 87,221 |
| Special Mention | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | 1,565 | - | 1,565 |
| Total | 10,023 | 14,959 | 7,079 | 7,440 | 6,174 | 20,635 | 22,476 | 88,786 |
| 2023 Chargeoffs | - | - | - | - | - | - | - | - |
| **Total Loans** | **64,252** | **49,392** | **26,057** | **32,414** | **26,772** | **131,823** | **47,976** | **378,687** |
| **Total Chargeoffs** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## Restructured Loans

There were two loans with a recorded investment of $92 identified as Restructured Loans in 2023. The loans were modified due to an other-than-insignificant payment delay.

As of December 31, 2022, the Company had two commercial loans categorized as TDR with a total outstanding recorded investment of $203. Both loans were performing as modified. One loan, with an outstanding recorded investment of $19, was modified in 2016 to extend the amortization period and add a balloon payment. The second loan was modified in 2022 to approve forbearance of payment for six months. This loan was categorized as TDR with an outstanding recorded investment of $183 as of December 31, 2022. With the implementation of CECL on January 1, 2023, TDR loan classification is no longer utilized.

## 4. Premises and Equipment

Premises and equipment consisted of the following as of December 31, 2023, and 2022:

| | 2023 | 2022 |
|---|---|---|
| Land | $ 4,437 | $ 4,437 |
| Buildings and leasehold improvements | 16,533 | 15,459 |
| Furniture and equipment | 4,157 | 3,765 |
| | 25,127 | 23,661 |
| Less: accumulated depreciation and amortization | 11,779 | 11,303 |
| Premises and equipment - net | $ 13,348 | $ 12,358 |

Depreciation expense totaled $558 and $524 in 2023, and 2022, respectively.

## 5. Leases

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications were as follows for the periods ending December 31, 2023, and 2022:

| | Balance Sheet Classification | 2023 | 2022 |
|---|---|---|---|
| Right-of-use assets: | | | |
| Operating leases | Other assets | $ 896 | $ 1,051 |
| Total right-of-use assets | | $ 896 | $ 1,051 |
| Lease liabilities: | | | |
| Operating leases | Other liabilities | $ 896 | $ 1,051 |
| Total lease liabilities | | $ 896 | $ 1,051 |

The components of total lease expense were as follows for the periods ending December 31, 2023, and 2022:

| | 2023 | 2022 |
|---|---|---|
| Operating lease expense | | |
| Operating leases | $ 250 | $ 165 |
| Less: Rental income | (108) | (88) |
| Total lease expense, net | $ 142 | $ 77 |

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023, are as follows:

| | Operating Leases |
|---|---|
| 2024 | $ 197 |
| 2025 | 181 |
| 2026 | 158 |
| 2027 | 57 |
| 2028 | 32 |
| Thereafter | 617 |
| Total undiscounted lease payments | 1,242 |
| Less: imputed interest | (346) |
| Net lease liabilities | $ 896 |

The weighted average remaining term and the weighted average discount rate on operating leases as of December 31, 2023, and 2022, are as follows:

| | 2023 | 2022 |
|---|---|---|
| Operating lease weighted average remaining term (years) | 16.4 | 15.7 |
| 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, 2023, and 2022:

| | 2023 | 2022 |
|---|---|---|
| Balance at beginning of year | $ - | $ 729 |
| Write-downs - net | - | (22) |
| Dispositions | - | (707) |
| Balance at end of year | $ - | $ - |

## 7. Time Deposits

Time deposits that met or exceeded the FDIC insurance limit of $250 aggregated approximately $2,662 and $2,967 as of December 31, 2023, and 2022, respectively. As of December 31, 2023, the scheduled annual maturities of all time deposits were approximately as follows:

| | |
|---|---|
| 2024 | $ 8,858 |
| 2025 | 2,215 |
| 2026 | 149 |
| 2027 | 355 |
| 2028 | 1,350 |
| Thereafter | 5 |
| Total | $ 12,932 |

## 8. Other Borrowings

The Bank had securities sold under agreements to repurchase ("REPOs") of approximately $18,677 and $28,480 as of December 31, 2023, and 2022, respectively. A REPO represents an agreement between the Bank and a customer to collateralize funds placed by the customer in an interest-bearing repurchase sweep account. The Bank secures the REPO account with a pool of U.S. government or U.S. agency securities. In consideration of funds received, the Bank pledges a portion of the pool to the customer. The Bank agrees to repurchase the portion of the pool on the next business day in the amount of the funds received. REPOs are considered secured borrowings, not deposits, and are not covered by FDIC insurance. The average cost of REPOs was 0.65% and 0.11% in 2023 and 2022, respectively.

The Bank maintains a borrowing line with the FHLB. The maximum borrowing line is 45% of the Bank's total assets ; 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, 2023, the Bank's line was limited to $167,850. To access this line, the Bank would be required to purchase additional stock in the FHLB. As of December 31, 2023, and 2022, the Bank had no outstanding borrowings with the FHLB. As of December 31, 2023, assets pledged as collateral had a total book value of approximately $269,105.

Management maintains secured borrowing capacity through the Federal Reserve's discount window. The Bank pledged loans totaling $6,684 and obtained a discounted borrowing line of $2,813 as of December 31, 2023. The Company had no outstanding borrowings under this facility as of December 31, 2023, or 2022.

The Bank maintains secured borrowing capacity through the Federal Reserve's Bank Term Funding Program ("BTFP"). The Bank pledged securities with a par value of $300,254 as of December 31, 2023, and obtained a borrowing line in that amount. The Company had $160,000 outstanding borrowings under this facility as of December 31, 2023, as follows:

| Amount | Rate | Origination | Maturity |
|---|---|---|---|
| $ 10,000 | 4.66% | 4/5/2023 | 4/4/2024 |
| 23,000 | 4.61% | 4/6/2023 | 4/5/2024 |
| 32,000 | 4.70% | 5/4/2023 | 5/3/2024 |
| 95,000 | 4.70% | 5/5/2023 | 5/3/2024 |
| **$ 160,000** | **4.68%** | | |

As an additional source of liquidity, the Bank had federal fund borrowing agreements with correspondent banks totaling $95,000 and $86,000 as of December 31, 2023, and 2022, respectively. These unsecured lines may be reduced or withdrawn at any time but are generally reaffirmed annually. As of December 31, 2023, and 2022, 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, 2023, and 2022:

| | 2023 | 2022 |
|---|---|---|
| Current expense | | |
| Federal | $ 1,644 | $ 1,664 |
| State | 39 | 750 |
| Deferred expense | | |
| Federal | 87 | 591 |
| State | 5 | 32 |
| Provision for income taxes | $ 1,775 | $ 3,037 |

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, 2023, and 2022:

| | 2023 | 2022 |
|---|---|---|
| Expected federal income tax provision at statutory rate | $ 1,665 | $ 2,549 |
| Increase (decrease) resulting from: | | |
| Tax-exempt income | (76) | (63) |
| State income taxes, net of federal effect | 411 | 672 |
| Earnings on BOLI | (151) | (141) |
| Federal deduction for Oregon tax credits | (116) | - |
| Other - net | 42 | 20 |
| Provision for income taxes | $ 1,775 | $ 3,037 |

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2023, and 2022, were as follows:

| | 2023 | 2022 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for credit losses | $ 1,514 | $ 1,519 |
| Deferred compensation | 1,837 | 1,701 |
| Reserve for unfunded loan commitments | 78 | 73 |
| Net unrealized losses on investment securities available-for-sale | 13,944 | 17,408 |
| Oregon tax credits | 2,200 | - |
| Lease liability | 242 | 284 |
| Other | 159 | 107 |
| Total deferred tax assets | 19,974 | 21,092 |
| Deferred tax liabilities | | |
| Accumulated depreciation and amortization | (562) | (352) |
| Deferred loan income | (407) | (344) |
| Right of use asset | (242) | (284) |
| Other | (139) | (163) |
| Total deferred tax liabilities | (1,350) | (1,143) |
| Net deferred tax assets | $ 18,624 | $ 19,949 |

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

## 10. Commitments and Contingencies

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

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

A summary of the Bank's off-balance sheet commitments as of December 31, 2023, and 2022, is as follows:

| | 2023 | 2022 |
|---|---|---|
| Commitments to extend credit | | |
| Real estate secured | $ 24,918 | $ 38,893 |
| Commercial | 39,872 | 40,359 |
| Other - net | 26,459 | 29,007 |
| Standby letters of credit | 2,732 | 2,732 |
| Total | $ 93,981 | $ 110,991 |

A commitment to extend credit is an agreement to lend to a customer if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. In the event the customer does not perform in accordance with the terms of the agreement with the third-party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount of the commitment. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances when management deems it necessary.

As described in Note 1, the Bank maintains a reserve for unfunded loan commitments. The Bank's reserve for unfunded loan commitments totaled $291 and $270 as of December 31, 2023, and 2022, respectively.

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, 2023, the Bank pledged approximately $10,385 in U.S. agency securities to satisfy its commitment under the Program and there was no liability associated with the Bank's participation in the Program. The maximum future contingent liability is dependent upon the occurrence of an actual loss, the amount of such loss, the failure of collateral to cover such a loss, and the resulting share of loss to be assessed to the Company, all of which cannot presently be determined.

During 2016, the Bank purchased an equity interest in a Low-Income Housing Tax Credit ("LIHTC") partnership. The partnership's underlying activities include the development and operation of quality affordable housing units. The Bank elected to use the proportional allocation method of accounting. As of December 31, 2023, the Bank included $1,139 in other assets (representing the remaining unamortized investment in the LIHTC partnership) and $65 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, 2023.

## 11. Significant Concentrations of Credit Risk

Except for guaranteed loans purchased from the Farm Services Agency and Small Business Administration, substantially all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. Nearly all such customers are depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers as of December 31, 2023. The Bank's loan policy does not allow the extension of credit to any single borrower or group of related borrowers in excess of the Bank's legal lending limit, which is generally 15% of aggregate common stock and the allowance for credit losses. Investments in state and municipal securities involve government entities throughout the U.S.

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

## 12. Benefit Plans

### 401(k) Profit Sharing Plan

The Bank has a 401(k) Plan (the "Plan") which covers substantially all employees who have completed one month or more of service. Employer contributions are at the discretion of the Board and currently begin after employees have completed six months of service. For the years ended December 31, 2023, and 2022, 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 2023 and 2022 were $744 and $665, respectively, and are included in ‘Other noninterest expense.’

### 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 expenses related to this plan totaled $862 and $973 in 2023 and 2022, respectively. Liabilities to current and former employees, which have been or are being accrued over their expected time to retirement, were $6,802 and $6,297 as of December 31, 2023, and 2022, 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 $21,493 and $20,935 as of December 31, 2023, and 2022, respectively. Income derived from BOLI policies totaled $558 and $522 in 2023 and 2022, respectively, and are included in ‘Other noninterest expense.’

## 13. Common Stock Plans

### Cash Dividend Reinvestment Plan

The Company has a dividend reinvestment plan which allows, at the participating common shareholder's option, 100% of cash dividends to be reinvested in shares of the Company's common stock. As of December 31, 2023, and 2022, 601,650 and 629,415 shares were reserved and available for future issuance under the dividend reinvestment plan, respectively.

### Stock Repurchase Plan

As of December 31, 2023, the Board has authorized the repurchase of up to 248,148 shares of the Company's common stock and up to 322,268 shares of the Company's Series A Preferred Stock. Repurchases are made from time to time at Management's discretion under the terms of the plan. The Board's authorization has no expiration date.

## 14. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may trigger certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of common equity tier 1 capital (“CET1”), tier 1 capital to risk-weighted assets, total capital to risk-weighted assets and tier 1 capital to average assets (all as defined in the regulations). Management believes that, as of December 31, 2023, 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, 2023, 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, 2023, and 2022, are presented in the following tables:

| | Actual | | Regulatory Minimum to be "Adequately Capitalized" | | Regulatory Minimum to be "Well Capitalized" Under Prompt Corrective Action | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **2023** | | | | | | |
| Common equity tier 1 capital (to risk-weighted assets) | | | | | | |
| Company | $109,035 | 19.91% | $ 24,648 | 4.50% | N/A | N/A |
| Bank | $108,947 | 19.89% | $ 24,648 | 4.50% | $ 35,603 | 6.50% |
| Tier 1 capital (to risk-weighted assets) | | | | | | |
| Company | $109,035 | 19.91% | $ 32,864 | 6.00% | N/A | N/A |
| Bank | $108,947 | 19.89% | $ 32,864 | 6.00% | $ 43,819 | 8.00% |
| Total capital (to risk-weighted assets) | | | | | | |
| Company | $114,919 | 20.98% | $ 43,819 | 8.00% | N/A | N/A |
| Bank | $114,844 | 20.97% | $ 43,819 | 8.00% | $ 54,774 | 10.00% |
| Tier 1 capital (to average assets) | | | | | | |
| Company | $109,035 | 10.55% | $ 41,339 | 4.00% | N/A | N/A |
| Bank | $108,947 | 10.54% | $ 41,336 | 4.00% | $ 51,670 | 5.00% |

| | Actual | | Regulatory Minimum to be "Adequately Capitalized" | | Regulatory Minimum to be "Well Capitalized" Under Prompt Corrective Action | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **2022** | | | | | | |
| Common equity tier 1 capital (to risk-weighted assets) | | | | | | |
| Company | $105,713 | 19.55% | $ 24,336 | 4.50% | N/A | N/A |
| Bank | $105,631 | 19.53% | $ 24,336 | 4.50% | $ 35,151 | 6.50% |
| Tier 1 capital (to risk-weighted assets) | | | | | | |
| Company | $105,713 | 19.55% | $ 32,447 | 6.00% | N/A | N/A |
| Bank | $105,631 | 19.53% | $ 32,447 | 6.00% | $ 43,263 | 8.00% |
| Total capital (to risk-weighted assets) | | | | | | |
| Company | $111,605 | 20.64% | $ 43,263 | 8.00% | N/A | N/A |
| Bank | $111,530 | 20.62% | $ 43,263 | 8.00% | $ 54,079 | 10.00% |
| Tier 1 capital (to average assets) | | | | | | |
| Company | $105,713 | 9.68% | $ 43,670 | 4.00% | N/A | N/A |
| Bank | $105,631 | 9.68% | $ 43,667 | 4.00% | $ 54,583 | 5.00% |

N/A indicates that this measure is not applicable at the Company level as of December 31, 2023 and 2022.

The Bank maintains a “conservation buffer,” consisting of a CET1 capital amount equal to 2.5% of risk-weighted assets, which is included in the tables above. 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, 2023, and 2022.

## Restrictions on retained earnings

The Company limits its payment of dividends to retained earnings generated by current year net income. There were no restrictions on the Company's or the Bank's retained earnings as of December 31, 2023, and 2022.

## 15. Fair Value

### Recurring fair value measurements

As of December 31, 2023, and 2022, 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, 2023, and 2022, were as follows:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **2023** | | | |
| Securities available-for-sale | | | |
| U.S. Treasury securities | $ - | $ 48,157 | $ - |
| U.S. Agency securities | - | 50,173 | - |
| Mortgage-backed securities | - | 241,384 | - |
| Municipal securities | - | 29,752 | - |
| SBA securities | - | 24,844 | - |
| | $ - | $ 394,310 | $ - |
| **2022** | | | |
| Securities available-for-sale | | | |
| U.S. Treasury securities | $ - | $ 54,484 | $ - |
| U.S. Agency securities | - | 76,591 | - |
| Mortgage-backed securities | - | 271,595 | - |
| Municipal securities | - | 28,214 | - |
| SBA securities | - | 32,755 | - |
| | $ - | $ 463,639 | $ - |

### Non-recurring fair value measurements

As of December 31, 2023, and 2022, the Company had no assets or liabilities measured at fair value on a non-recurring basis.

### 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, 2023, and 2022.

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, 2023, were as follows:

| | | | Fair Value Measurements Using: | | |
|---|---|---|---|---|---|
| | Recorded Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Cash and cash equivalents | $ 162,171 | $ 162,171 | $ 162,171 | $ - | $ - |
| Securities available-for-sale | 394,310 | 394,310 | - | 394,310 | - |
| Net loans | 400,803 | 394,791 | - | - | 394,791 |
| BOLI | 21,493 | 21,493 | - | 21,493 | - |
| Financial liabilities | | | | | |
| Deposits | 752,418 | 790,039 | - | 790,039 | - |
| Borrowings and repurchase agreements | 178,677 | 178,677 | - | 178,677 | - |

The estimated fair values of the Company's financial instruments as of December 31, 2022, were as follows:

| | | | Fair Value Measurements Using: | | |
|---|---|---|---|---|---|
| | Recorded Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Cash and cash equivalents | $ 155,734 | $ 155,734 | $ 155,734 | $ - | $ - |
| Securities available-for-sale | 463,639 | 463,639 | - | 463,639 | - |
| Net loans | 373,058 | 368,395 | - | - | 368,395 |
| BOLI | 20,935 | 20,935 | - | 20,935 | - |
| Financial liabilities | | | | | |
| Deposits | 955,728 | 943,781 | - | 943,781 | - |
| REPOs | 28,480 | 28,480 | - | 28,480 | - |

## 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, 2023, and 2022, can be reconciled as follows:

| | 2023 | 2022 |
|---|---|---|
| Numerator | | |
| Net income | $ 6,154 | $ 9,102 |
| Less: | | |
| Preferred shares dividends declared | (122) | (145) |
| Earnings allocable to preferred shares | (239) | (379) |
| Net income available to common shareholders | $ 5,793 | $ 8,578 |
| Denominator | | |
| Weighted average shares outstanding - basic and diluted | 5,637,001 | 5,654,673 |
| Basic and diluted earnings per common share | $ 1.03 | $ 1.52 |

## 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, 2023, and 2022, were approximately as follows:

| | 2023 | 2022 |
|---|---|---|
| Balance at beginning of year | $ 2,068 | $ 2,291 |
| Net additions | - | 296 |
| Net repayments | (376) | (519) |
| Balance at end of year | $ 1,692 | $ 2,068 |

All related party loans were current as to principal and interest as of December 31, 2023, and 2022.

As of December 31, 2023, and 2022, the Bank held $19,993 and $21,520 in deposits from its key officers and directors.