



CITIZENS BANCORP

Letter to Shareholders

3rd Quarter

2022

September 30

To Our Shareholders, Customers, and Friends:

The Federal Reserve Open Market Committee (FOMC) has continued its aggressive monetary policy action in light of the significant increases in inflation during 2022. While we started this year at historically low interest rates in response to the COVID pandemic, overnight rates now rest at 3.25% - a full 300 basis points higher than just over six months ago. This response is forecast to continue through year end and possibly into 2023, as the FOMC continues to project additional rate increases. Inflation is negatively impacting our customers and communities with higher prices in all aspects of their lives. The actions by the FOMC to stave off inflation have also impacted our communities through increased borrowing costs on home mortgages, consumer and business loans, and operating lines of credit.

Shareholders' equity has decreased \$38.9 million during 2022, primarily related to Accumulated Other Comprehensive Loss (AOCL) totaling \$48.9 million as of September 30, 2022. This provision relates to the rapid rise in market interest rates during 2022, which negatively impacts the fair value of our investment securities, all of which are held at market values and reported as available for sale. AOCL has no effect on our regulatory capital ratios as regulations allow for the Bank to exclude these temporary reserves from our regulatory capital ratios. The Bank continues to have no current intent to sell any securities.

The Bank's tier 1 capital totaled \$105.5 million with a corresponding tier 1 leverage ratio of 9.56% as of September 30, 2022; well in excess of the 5.0% required to be deemed well capitalized. The Bank maintains all regulatory capital ratios well above regulatory requirements. The Bank continues to have abundant liquidity to meet the funding needs of our institution and the communities we serve.

Our capital remains solid, our deposits continue to grow, and our loan portfolio has fully recovered from the effects of the COVID pandemic. Loan quality and performance remains strong, resulting in the Bank recording a \$2.1 million reversal of provisions for potential loan losses during this quarter and \$2.6 million in total reversals year to date. These reserves had been set aside in 2020 and the Bank has incurred no net losses from the pandemic to date.

Select highlights for the three months ended September 30, 2022 include:

- Net income of \$3.5 million increased \$1.1 million from 2021's \$2.4 million, directly related to the reverse provision of \$2.1 million recorded during the third quarter of 2022.
- Pre-tax, pre-provision net income increased \$401 thousand or 18.3% from the same quarter in 2021, primarily related to historic FOMC interest rate escalations.
- Total deposits increased \$71.9 million or 7.8% to \$996.9 million as of September 30, 2022.
- Loans, net of allowance increased \$3.0 million or 0.85% when compared to September 30, 2021.

As the Bank closes out the third quarter of 2022, we recognize and honor the significant commitment of Bill Humphrey's Sr. to Citizens Bank over the past 26 plus years of service and who will retire from the Board effective November 4, 2022. He is the architect of our Corporate Culture, which is the foundation of this institution. Words cannot sufficiently thank Mr. Humphreys for his dedication and contributions to Citizens Bank.

Gordon Zimmerman
President/CEO

Bill Humphreys Sr.
Chairman of the Board

CONSOLIDATED BALANCE SHEETS

Unaudited
(Dollars in thousands)

| | At September 30, | |
|---|---------------------|---------------------|
| | 2022 | 2021 |
| ASSETS | | |
| Cash and due from banks | \$ 21,082 | \$ 34,182 |
| Interest-bearing deposits in banks | 170,793 | 114,128 |
| Securities | 481,761 | 526,474 |
| Loans, net of allowance | 361,177 | 358,128 |
| Bank-owned life insurance | 20,817 | 20,291 |
| Accrued interest receivable | 3,939 | 4,075 |
| Other real estate owned | 711 | 735 |
| Premises and equipment, net | 12,299 | 12,483 |
| Other assets | 25,487 | 8,338 |
| Total assets | \$ 1,098,066 | \$ 1,078,834 |
| LIABILITIES | | |
| Deposits | 996,855 | 924,965 |
| Repurchase agreements | 36,006 | 43,410 |
| Other liabilities | 8,599 | 8,433 |
| Total liabilities | 1,041,460 | 976,808 |
| SHAREHOLDERS' EQUITY | | |
| Series A Preferred stock | 1,934 | 1,941 |
| Common stock | 45,339 | 44,775 |
| Retained earnings | 58,255 | 53,944 |
| Accumulated other comprehensive income (loss) | (48,922) | 1,366 |
| Total shareholders' equity | 56,606 | 102,026 |
| Total liabilities & shareholders' equity | \$ 1,098,066 | \$ 1,078,834 |

Citizens Bank established October 5, 1957

Citizens Bancorp established July 1, 1997

Citizens Bancorp is the holding company for Citizens Bank

FINANCIAL HIGHLIGHTS

(Dollars in thousands)

| | At September 30, | | |
|-----------------------|------------------|--------------|------------|
| | 2022 | 2021 | 2020 |
| Net Income | \$ 6,397 | \$ 9,105 | \$ 1,997 |
| Total Assets | \$ 1,098,066 | \$ 1,078,834 | \$ 985,121 |
| Total Net Loans | \$ 361,177 | \$ 358,128 | \$ 462,657 |
| Total Deposits | \$ 996,855 | \$ 924,965 | \$ 837,922 |
| Loan-to-Deposit Ratio | 36.23% | 38.72% | 55.21% |
| Net Interest Margin | 2.75% | 2.88% | 3.29% |
| Return on Assets | 0.77% | 1.11% | 0.27% |
| Return on Equity | 13.98% | 13.15% | 2.73% |

CONSOLIDATED STATEMENTS OF INCOME

Unaudited
(Dollars in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| INTEREST INCOME | | | | |
| Loans | \$ 4,603 | \$ 5,054 | \$ 13,356 | \$ 15,922 |
| Interest-bearing deposits in banks | 745 | 72 | 1,010 | 174 |
| Securities | 2,342 | 1,672 | 6,634 | 4,675 |
| Total interest income | 7,690 | 6,798 | 21,000 | 20,771 |
| INTEREST EXPENSE | | | | |
| Deposits | 107 | 102 | 307 | 303 |
| Repurchase agreements | 11 | 14 | 36 | 41 |
| Total interest expense | 118 | 116 | 343 | 344 |
| NET INTEREST INCOME | 7,572 | 6,682 | 20,657 | 20,427 |
| Provision for loan losses | (2,100) | (1,000) | (2,550) | (4,500) |
| Net interest income after provision | 9,672 | 7,682 | 23,207 | 24,927 |
| NONINTEREST INCOME | | | | |
| Service charges on deposit accounts | 141 | 134 | 412 | 398 |
| Debit and ATM interchange fee income, net | 222 | 222 | 660 | 657 |
| Other noninterest income | 381 | 421 | 1,145 | 1,352 |
| Total noninterest income | 744 | 777 | 2,217 | 2,407 |
| NONINTEREST EXPENSE | | | | |
| Salaries and employee benefits | 4,051 | 3,630 | 11,894 | 10,322 |
| Occupancy and equipment | 579 | 578 | 1,767 | 1,487 |
| Data processing expense | 247 | 237 | 646 | 899 |
| Other noninterest expense | 842 | 818 | 2,561 | 2,499 |
| Total noninterest expense | 5,719 | 5,263 | 16,868 | 15,207 |
| Income before taxes | 4,697 | 3,196 | 8,556 | 12,127 |
| Provision for income taxes | 1,219 | 758 | 2,159 | 3,022 |
| NET INCOME | \$ 3,478 | \$ 2,438 | \$ 6,397 | \$ 9,105 |

BASIC EARNINGS PER COMMON SHARE

| | | | | |
|-------|--------|--------|--------|--------|
| Basic | \$0.58 | \$0.41 | \$1.07 | \$1.52 |
|-------|--------|--------|--------|--------|

SHAREHOLDER INFORMATION

Shareholder Relations:

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Visit us online at: www.citizensEbank.com

