2023
ANNUAL REPORT

Oregon Pacific Bancorp

COOS BAY | EUGENE | FLORENCE | MEDFORD | PORTLAND | ROSEBURG

MEMBER FDIC

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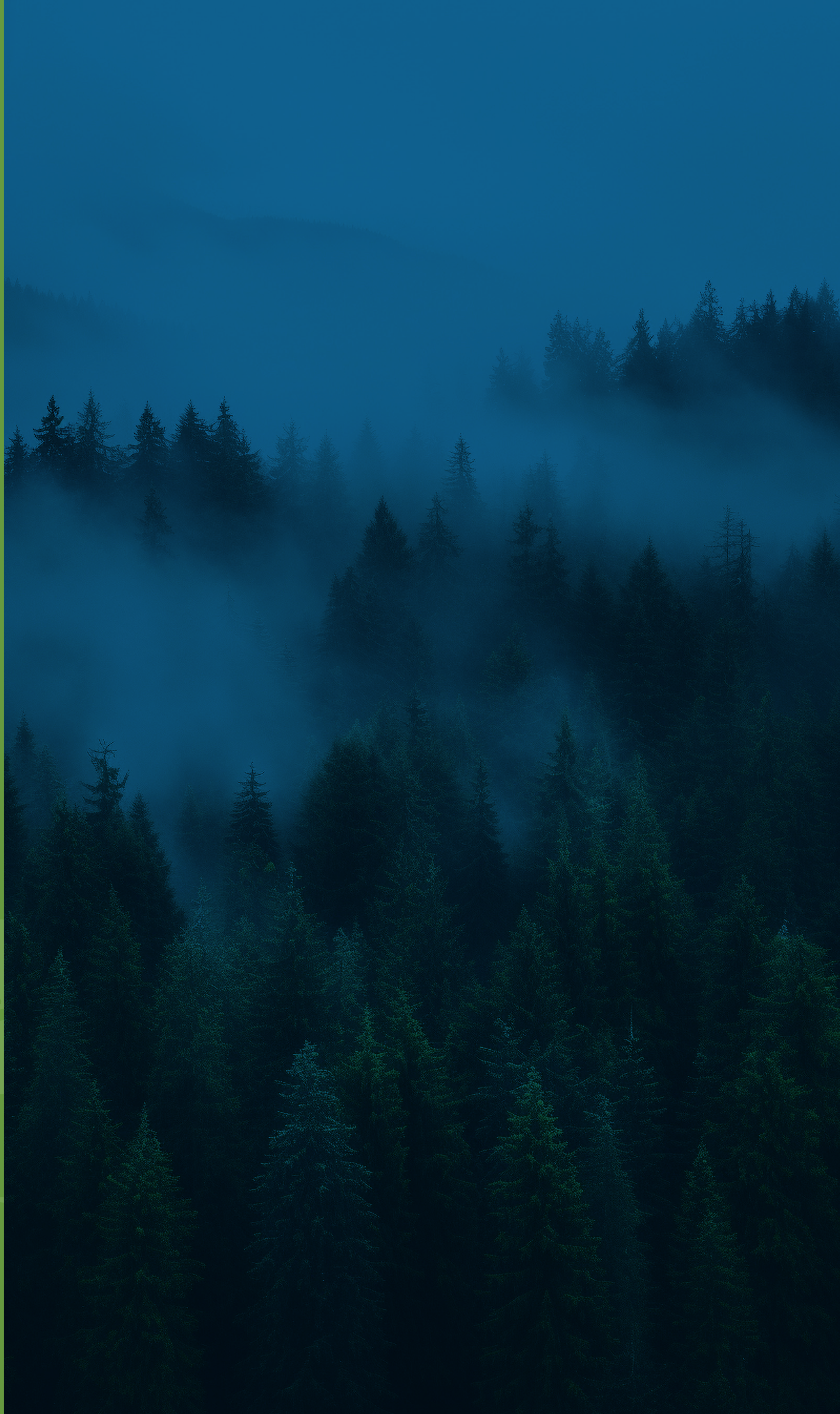


2023
HIGHLIGHTS

Financial Performance:

- Net operating income increased to $9.2 million in 2023, compared to $7.1 million in 2022, with $1.30 earnings per share.
- Consolidated Return on Average Equity of 18.76%.

Deposit Trends and Management Strategy:

- Strategic rate increases throughout the year created balance between meeting customer needs and maintaining a low cost of funds.
- Overall funding costs remained below peer averages, leading to an improvement in the Bank's net interest margin.

Lending Activities:

- Oregon Pacific Bank experienced an 11.2% growth in net loans outstanding, emphasizing its position as a leading small business and commercial real estate lender.
- Introduction of the Small Business Lending Service program streamlined loan processing, contributing to future growth prospects.

Non-Interest Income Sources:

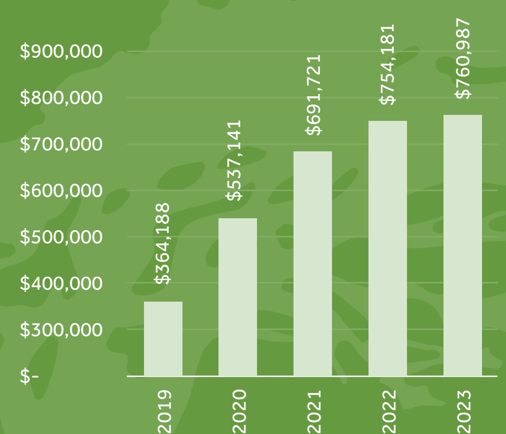
- Trust Services and Oregon Pacific Wealth Management, LLC continued their trend of year over year revenue growth, and sound investments in operational efficiencies.
- Expansion plans aim to tap into new markets and enhance scalability, positioning the Bank for sustained growth.

EARNINGS PER SHARE

LOANS – NET[1]
000'S

(1) Excludes loans held-for-sale.

TOTAL ASSETS
000'S



2023 Highlights Cont.

Operational Milestones:

- Completion of a new administrative facility in Eugene and conversion of a loan production office into a full-service branch in Portland showcase operational expansion and flexibility.

Personnel Changes and Governance:

- Strategic personnel changes, including a new Director of Human Resources and promotions within Trust Services, demonstrate a commitment to talent development and service excellence.
- Addition of experienced professionals to the Board of Directors strengthens overall governance.

Future Outlook and Strategic Objectives:

- Commitment to advancements in technology and strategic investments underscores a forward-looking approach to meeting market demands and capitalize on growth opportunities.
- Emphasis on creating long-term value for shareholders and commitment to serving clients remain foundational to the Bank's culture and objectives.

COMMUNITY IMPACT

In 2023, we contributed over $175,000 through charitable donations and nonprofit sponsorships. Furthermore, we take pride in being a local employer, providing opportunities to 148 local Oregonians across our service region.

ABOUT OPB

Oregon Pacific Bancorp is the holding company for Oregon Pacific Bank, a community bank deeply rooted in fostering meaningful relationships. With a dedicated focus on businesses and nonprofits, we prioritize personalized service and swift, local decision-making. Our commitment lies in cultivating authentic connections and consistently surpassing expectations. At Oregon Pacific Bank, we pride ourselves on being adept problem solvers, keenly attuned to the aspirations and challenges of our clients. We firmly believe that by empowering businesses and nonprofits to flourish, we contribute to the overall prosperity of our communities.

Since our inception on December 17, 1979, we have steadily expanded our footprint, proudly offering banking services through our full-service branches strategically located in Coos Bay, Eugene, Florence, Medford, Portland, and Roseburg.

OUR MISSION

> To create value for all we serve through the delivery of meaningful and relevant financial services.

OUR VISION

> To be the premier business-minded community bank whose value to the community, shareholders, clients, and employees comes from supporting business and nonprofit agencies through banking services, volunteer work, and philanthropy.

LOCATIONS

FLORENCE | **1979**

COOS BAY | **2002**

ROSEBURG | **2002**

EUGENE | **2018**

MEDFORD | **2020**

PORTLAND | **2023**

TO OUR SHAREHOLDERS, CLIENTS, AND FRIENDS:

We are pleased to provide our 2023 Annual Report and audited financial statement. Oregon Pacific Bancorp and its wholly owned subsidiary, Oregon Pacific Bank, reported a net operating income of $9.2 million for the 12 months ended December 31, 2023, compared to $7.1 million for the same period in 2022. This equates to $1.30 earnings per share compared to $1.01 for the same period in 2022. We are proud to report a consolidated Return on Average Equity of 18.76% for 2023.

After a rapid succession of Federal Reserve rate increases in 2022 totaling 4.25%, 2023 continued with four 25 basis point increases throughout the year. The Bank experienced a $22.4 million contraction in deposit totals for the year, compared to year-end 2022. Some of the Bank's legacy consumer depositors sought higher yields elsewhere in money market funds and certificates of deposit. More significantly was the planned outflow from two clients during the year: one due to an investment in a large estate project, and the second tied to the sale of their business. Both events were expected by the Bank and totaled approximately $18.7 million in a year-over-year deposit decline.

Throughout the year, Bank management tactically approached deposit rate increases from the perspective of relationships and only applied incremental rate increases across the entire deposit base. This allowed our overall funding costs to remain below our state and national peer group, which resulted in a year-over-year improvement in the Bank's net interest margin. We are proud of the balance that was achieved in maintaining a lower than peer cost of funds and meeting the relationship needs of our clients.

Oregon Pacific Bank continues to be the preeminent small business and commercial real estate lender in the markets we serve. During 2023, the Bank experienced an 11.2% growth in net loans outstanding. This was comprised of an appropriate balance of commercial real estate and commercial and industrial loans with growth from all markets. 2023 represented the first full year of our Small Business Lending Service program being operational. This is a digital based application and approval model and has significantly reduced the decisioning and funding times for smaller business and commercial real estate loans. In 2024, we will be making the application portal accessible from the Bank's website and begin to promote Oregon Pacific Bank as a local digital lending solution. We believe this division of the Bank will continue to grow and provide exceptional value to our local small businesses.

Oregon Pacific Bank is proud to have two strong sources of non-interest income to augment shareholder value. During 2023, Trust Services experienced a modest 3.9% growth in total assets under management but saw an overall revenue increase of 12.9%. The department continues its efforts to invest in infrastructure and department efficiencies. The goal is to create a more scalable division of the Bank that will support expansion into the Portland market and elsewhere over the next three years. The Bank's wholly owned subsidiary, Oregon Pacific Wealth Management, LLC, continued its trend of increasing household relationships by 10% in 2023. Assets under management increased by 25.2%, partially fueled by overall market gains. The company continues to operate on an efficient staffing model. At year-end the company had five full-time personnel, which includes two full-time advisors. The organization added an additional advisor in 2024 to support succession and to take advantage of market opportunities. The company's objective is to profitably expand its physical presence by recruiting advisors in our two largest markets, Eugene and Portland. Profitability continues to improve as economies of scale improve with year-over-year increases in revenue. Oregon Pacific Wealth Management, LLC is an SEC registered investment adviser.

Credit Quality continues to be a focus for Oregon Pacific Bank. Underwriting standards are still based on our lenders validating strong sources of repayment that can withstand a reasonable amount of stress. Past dues and nonaccrual loans continue at historical low levels. Although the Bank's commercial real estate concentration is above peer, our concentration in metro area office and retail and other highly volatile categories is low. To date, occupancy rates have remained strong.

Operationally, we are very proud of the completion of two major operating facilities in 2023. In September we completed the Bank's second administrative office in Eugene, Oregon. This is a 15,000 SF owner-occupied facility that will accommodate future expansion. Most of the Bank's executive and senior leadership, as well as administrative departments, operate within this building. Although the Bank remains committed to its roots as a Florence, Oregon headquartered Bank, maintaining two administrative offices allows for better recruiting opportunities and provides options for staffing location. Many of the Bank's executive officers maintain offices in both locations. On November 1, 2023, we proudly converted our Portland Metro Loan Production Office into a full-service commercial banking branch. The branch is located at 16101 SW 72nd Ave, Suite 140, Tigard, Oregon 97224. The team has grown to eight full-time bankers and is serving the business, nonprofit and commercial real estate community in the greater Portland Metro area.

There were key personnel changes in 2023. As reported in last year's annual report letter, the Bank's Director of Human Resources for the past 24 years, Mary Hipkiss, retired from the Bank in 2023. Mary was succeeded by Tricia Welch as Senior Vice President and Director of Human Resources. Tricia joined us in June and has contributed greatly to the Bank's always improving personnel culture. In the fourth quarter of 2023, Trust Officer Tami Calkin was promoted to Senior Trust Officer and will oversee Trust Services in Lane County, particularly serving Florence and Eugene. The Bank will still maintain local staffing in Florence to serve our clients, but the majority of operations will be administered from our Eugene office. We believe this will improve the quality of service, improve efficiency, and create a stronger environment for trust asset growth and department profitability.

We were pleased to welcome Angelique Whitlow and Jason Hall as new members to the Bank's Board of Directors during the fourth quarter of 2023. Angelique is currently the CFO at Hunter-Davisson, one of the largest HVAC contractors in Portland, and also has an extensive background in public accounting and audit. Jason is a Partner at Hoffman Stewart & Schmidt PC, one of the largest CPA firms in Portland, and specializes in the construction and manufacturing industries. Jason works mostly in an audit capacity. Both Angelique and Jason are strong additions to the Board, particularly in the areas of corporate governance and audit. Both have joined the Board's Audit Committee.

Our forward-looking objectives center around making technological improvements to meet the evolving demands of the Oregon business community, and to take advantage of growth opportunities when they present themselves. We will continue to make strategic investments in infrastructure, personnel, and new markets if we believe it will create long-term value for our shareholders. Our culture continues to be based on how we create value for those we serve. This is our fundamental purpose and commitment, and we believe long-term success is sustainable.

We hope you will be able to attend our virtual annual meeting on Wednesday, April 24, 2024, at 4 PM Pacific Time. Information regarding the meeting can be found in our proxy statement. Please contact CEO Ron Green by telephone at (541) 902-9800 or by email at ron.green@opbc.com if you have any questions. For more information about Oregon Pacific Bank, please visit us at www.opbc.com.

Respectfully,

Jon Thompson

Ronald S. Green

Jon Thompson
Chair, Board of Directors
Oregon Pacific Bancorp

Ronald S. Green
President & CEO
Oregon Pacific Bancorp and
Oregon Pacific Bank

BOARD OF DIRECTORS

JON THOMPSON
Chair, Board of Directors
Business Owner, Coast Broadcasting

DAN JONES
Vice Chair, Board of Directors
Business Owner, DJ Financial

JOE BENETTI
Business Owner,
Benetti's Italian Fine Foods

TIM CAMPBELL
Partner and Owner,
Campbell Commercial Real Estate

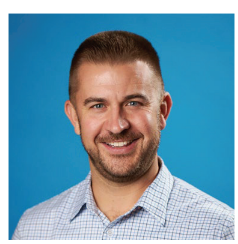
RON GREEN
President and Chief Executive Officer,
Oregon Pacific Bank

JASON HALL
CPA Partner at Hoffman,
Stewart & Schmidt, PC (HSS)

BOB MANS, OD
Co-Owner,
Florence Eye Clinic

ANGELIQUE WHITLOW
Chief Financial Officer,
Hunter-Davisson, Inc.

KERRIE JOHNSON
Owner/Loan Originator,
Blue-inc. Capital



ROBBIE WRIGHT
Founder/General Manager,
Hyak

RICK YECNY
Certified Public Accountant,
Holloway and Associates CPAs

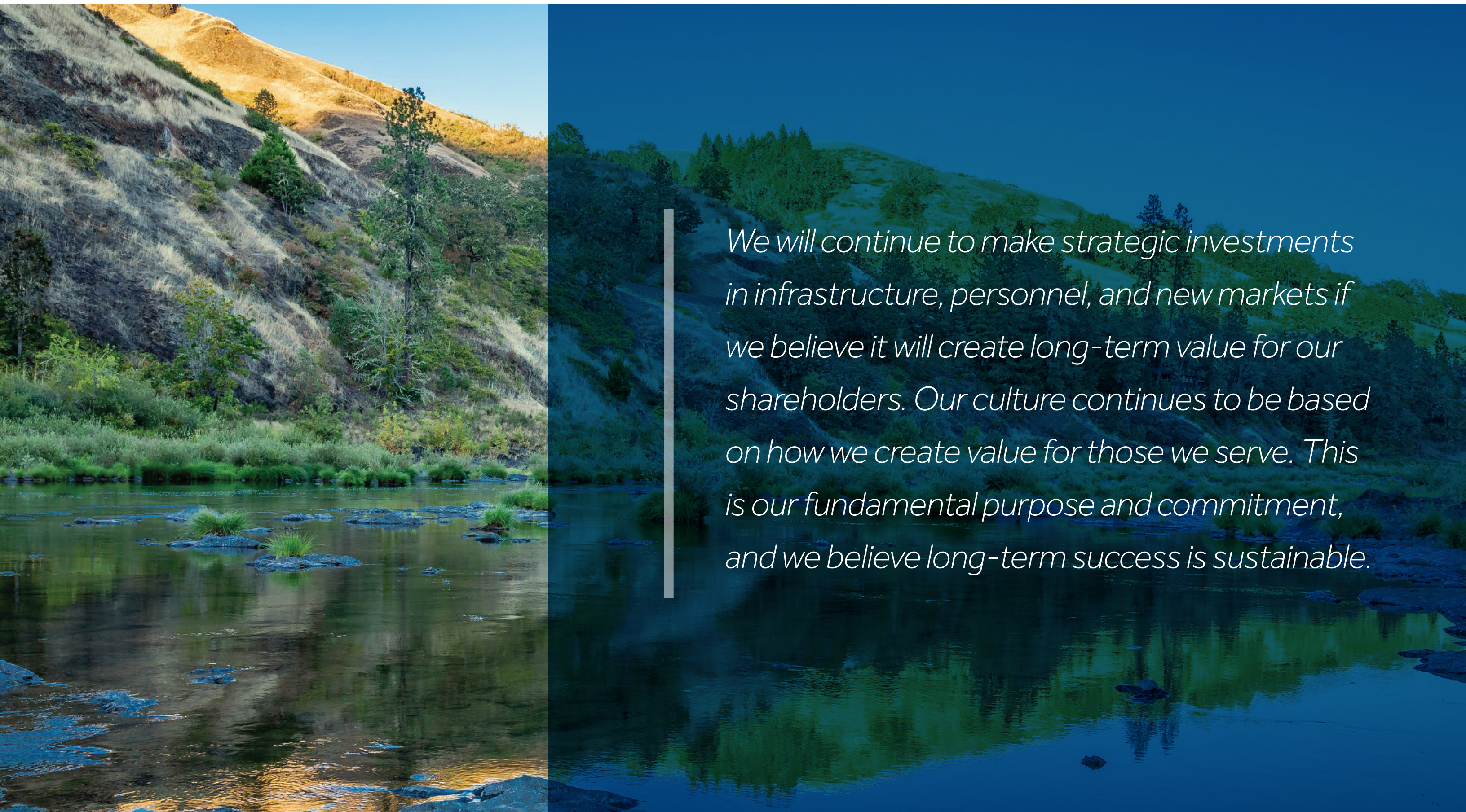
BANK EXECUTIVE OFFICERS

RON GREEN
President,
Chief Executive Officer

AMBER WHITE
Executive Vice President,
Chief Financial Officer

JAMES ATWOOD
Executive Vice President,
Chief Credit Officer

JOHN RALEIGH
Executive Vice President,
Chief Lending Officer



We will continue to make strategic investments in infrastructure, personnel, and new markets if we believe it will create long-term value for our shareholders. Our culture continues to be based on how we create value for those we serve. This is our fundamental purpose and commitment, and we believe long-term success is sustainable.

Oregon Pacific Bancorp and Subsidiary

Financial Highlights

	AS OF AND FOR THE YEARS ENDED DECEMBER 31,				
	2023	2022	2021	2020	2019
INCOME STATEMENT DATA					
Interest income	$ 33,297,491	$ 24,895,555	$ 21,049,162	$ 18,875,941	$ 15,093,216
Interest expense	6,397,077	1,524,202	730,090	812,562	1,337,346
Net interest income	26,900,414	23,371,353	20,319,072	18,063,379	13,755,870
Provision for credit losses	(230,061)	694,000	-	2,178,388	235,392
Net interest income after provision for credit losses	27,130,475	22,677,353	20,319,072	15,884,991	13,520,478
Noninterest income	7,155,688	7,354,653	6,616,177	5,146,145	4,744,746
Noninterest expense	22,015,625	20,519,878	16,524,308	15,216,614	13,600,591
Income before provision for income taxes	12,270,538	9,512,128	10,410,941	5,814,522	4,664,633
Provision for income taxes	3,038,648	2,368,228	2,610,437	1,461,328	1,146,760
Net income	$ 9,231,890	$ 7,143,900	$ 7,800,504	$ 4,353,194	$ 3,517,873
PER SHARE DATA					
Basic earnings per common share	$ 1.30	$ 1.01	$ 1.11	$ 0.62	$ 0.50
Diluted earnings per common share	$ 1.30	$ 1.01	$ 1.11	$ 0.62	$ 0.50
Book value per average common share	$ 7.95	$ 6.52	$ 6.99	$ 6.03	$ 5.36
Weighted average shares outstanding:					
Basic	7,093,015	7,067,099	7,037,256	7,001,302	6,973,920
Diluted	7,098,632	7,067,099	7,037,256	7,001,302	6,973,920
BALANCE SHEET DATA					
Investment securities	$ 177,599,475	$ 195,881,655	$ 123,075,981	$ 37,805,811	$ 27,601,278
Loans, net[(1)]	$ 529,687,311	$ 476,312,624	$ 392,250,439	$ 385,173,336	$ 295,254,620
Total assets	$ 760,986,932	$ 754,181,454	$ 691,721,417	$ 537,140,707	$ 364,188,423
Total deposits	$ 660,450,236	$ 682,867,284	$ 618,680,093	$ 486,343,803	$ 318,040,202
Stockholders' equity	$ 56,381,672	$ 46,087,978	$ 49,259,750	$ 42,275,232	$ 37,351,578
SELECTED RATIOS					
Return on average assets	1.22%	0.99%	1.21%	0.90%	1.02%
Return on average equity	18.76%	15.75%	17.08%	11.14%	10.14%
Net loans to deposits	80.20%	69.75%	63.40%	79.20%	92.84%
Net interest margin[(2)]	3.74%	3.42%	3.28%	3.95%	4.28%
Efficiency ratio[(3)]	64.65%	66.78%	61.35%	65.56%	73.51%
ASSET QUALITY RATIOS					
Reserve for loans losses to:					
Ending total loans	1.30%	1.38%	1.48%	1.47%	1.20%
Nonperforming assets[(4)]	1574.20%	12739.41%	636.24%	229.73%	222.58%
Non-performing assets to ending total assets	0.06%	0.01%	0.13%	0.47%	0.44%
Net loan (recoveries) charge-offs to average loans	-0.02%	-0.02%	-0.03%	-0.01%	-0.07%
CAPITAL RATIOS (BANK)					
Average stockholders' equity to average assets	6.52%	6.30%	7.06%	8.10%	10.09%
Tier I capital ratio[(5)]	14.28%	13.92%	17.12%	N/A[(8)]	13.80%
Total risk-based capital ratio[(6)]	15.53%	15.17%	18.38%	N/A[(8)]	15.03%
Leverage ratio[(7)]	10.70%	9.55%	9.73%	8.32%	11.13%

(1) Excludes loans held-for-sale.
(2) Used tax effective yield for non-taxable securities interest earned.
(3) Efficiency ratio is noninterest expense divided by the sum of net interest income plus noninterest income.
(4) Nonperforming assets consists of nonaccrual loans, loans contractually past due 90 days or more, and other real estate owned.
(5) Tier I capital divided by risk-weighted assets.
(6) Total capital divided by risk-weighted assets.
(7) Tier I capital divided by quarterly average total assets.
(8) During 2020 the Bank opted into the CBLR framework and no longer reported risk based capital figures at this time.

Oregon Pacific Bancorp
and Subsidiary

Consolidated
Financial Statements

Years Ended
December 31, 2023
and 2022

Oregon Pacific Bancorp and Subsidiary

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FORVIS

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Independent Auditor's Report

Audit Committee and Board of Directors
Oregon Pacific Bancorp and Subsidiary
Eugene, Oregon

Opinion

We have audited the consolidated financial statements of Oregon Pacific Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in stockholders' 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 Oregon Pacific 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 Consolidated Financial Statements" section of our report. We are required to be independent of Oregon Pacific 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, in 2023, Oregon Pacific Bancorp and Subsidiary adopted *ASU 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 Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 consolidated 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 Oregon Pacific 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Oregon Pacific 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.

FORVIS, LLP

Springfield, Missouri
March 14, 2024

Oregon Pacific Bancorp and Subsidiary
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 8,106,215	$ 10,657,338
Interest-bearing deposits in banks	6,246,433	39,863,336
Available-for-sale debt securities, at fair value	177,599,475	195,881,655
Restricted equity securities	2,347,650	1,988,800
Loans, net of deferred loan fees	536,662,423	482,978,774
Allowance for credit losses	(6,975,112)	(6,666,150)
Premises and equipment, net of accumulated depreciation	13,469,746	9,556,131
Bank-owned life insurance	8,865,732	8,616,268
Deferred tax assets, net	5,758,257	5,630,714
Accrued interest receivable and other assets	8,906,113	5,674,588
TOTAL ASSETS	$ 760,986,932	$ 754,181,454
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand - non-interest bearing	$ 155,693,078	$ 180,588,268
Demand - interest bearing	272,968,053	236,510,432
Money market	129,543,290	165,670,596
Savings deposits	66,254,322	82,661,573
Time certificate accounts	35,991,493	17,436,415
Total deposits	660,450,236	682,867,284
Federal Home Loan Bank borrowings	17,000,000	-
Junior subordinated debenture	4,124,000	4,124,000
Subordinated debenture, net of issuance cost	14,727,316	14,627,497
Deferred compensation liability	2,426,104	2,336,042
Accrued interest payable and other liabilities	5,877,604	4,138,653
Total liabilities	704,605,260	708,093,476
Preferred stock; 200,000 shares authorized; no shares issued and oustanding	-	-
Common stock, no par value, 10,000,000 shares authorized; 7,094,180 and 7,068,659 shares issued and outstanding at December 31, 2023 and 2022, respectively	21,291,000	21,099,455
Undivided profits	44,082,481	35,461,602
Accumulated other comprehensive income, net of tax	(8,991,809)	(10,473,079)
Total stockholders’ equity	56,381,672	46,087,978
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 760,986,932	$ 754,181,454

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

Oregon Pacific Bancorp and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2023 and 2022

	2023	2022
INTEREST INCOME		
Non PPP loans	$ 25,531,285	$ 19,391,827
PPP loans	-	349,327
Taxable securities	6,214,479	3,584,980
Tax-exempt securities	289,134	398,980
Interest-bearing deposits in banks	1,262,593	1,170,441
	33,297,491	24,895,555
INTEREST EXPENSE		
Interest-bearing demand deposits	4,396,551	574,128
Savings deposits	356,380	69,167
Time certificate accounts	578,526	85,615
Other borrowings	1,065,620	795,292
	6,397,077	1,524,202
Net interest income	26,900,414	23,371,353
PROVISION (RECAPTURE) FOR CREDIT LOSSES	(230,061)	694,000
Net interest income after provision for credit losses	27,130,475	22,677,353
NONINTEREST INCOME		
Trust fee income	3,619,388	3,206,106
Service charges and fees	1,374,342	1,272,678
Mortgage loan sales and servicing fees	147,305	297,546
Merchant card services	515,226	515,040
Registered Investment Advisory (RIA) income	1,094,987	976,911
Increase in cash surrender value of bank-owned life insurance	249,464	214,342
Fee income on off balance sheet deposits	39,984	709,659
Other income	114,992	162,371
	7,155,688	7,354,653
NONINTEREST EXPENSE		
Salaries and benefits	12,593,217	10,829,627
Outside services	2,448,669	2,198,816
Loss on sale of securities	30,322	1,828,812
Occupancy	1,895,157	1,656,719
Trust department expenses	2,034,655	1,687,756
Loan and collection expense	76,208	63,015
Advertising	416,578	439,684
Card services	393,409	359,697
Deferred compensation expense	177,570	170,509
Supplies	181,927	123,957
Postage and freight	167,528	147,791
Federal Deposit Insurance Corporation assessment	352,211	199,427
Other expenses	1,248,174	814,068
	22,015,625	20,519,878
INCOME BEFORE PROVISION FOR INCOME TAXES	$ 12,270,538	$ 9,512,128
PROVISION FOR INCOME TAXES	3,038,648	2,368,228
NET INCOME	$ 9,231,890	$ 7,143,900
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized income (loss) on available-for-sale debt securities, (net of tax of $547,867 in 2023, and ($3,877,662) in 2022	1,481,270	(10,511,086)
COMPREHENSIVE INCOME (LOSS)	$ 10,713,160	$ (3,367,186)
BASIC EARNINGS PER SHARE	$ 1.30	$ 1.01
DILUTED EARNINGS PER SHARE	$ 1.30	$ 1.01

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

Oregon Pacific Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2023 and 2022

	Common Stock		Undivided	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Profits	Income (Loss)	Equity
Balances - December 31, 2021	7,042,478	$ 20,904,041	$ 28,317,702	$ 38,007	$ 49,259,750
Net income	-	-	7,143,900	-	7,143,900
Other comprehensive loss - net	-	-	-	(10,511,086)	(10,511,086)
Stock-based compensation	34,529	263,292	-	-	263,292
Vested restricted stock surrendered to cover tax consequences	(8,348)	(67,878)	-	-	(67,878)
Balances - December 31, 2022	$ 7,068,659	$ 21,099,455	$ 35,461,602	$ (10,473,079)	$ 46,087,978
Net income	-	-	9,231,890	-	9,231,890
Other comprehensive income - net	-	-	-	1,481,270	1,481,270
Stock-based compensation	44,226	319,254	-	-	319,254
Vested restricted stock surrendered to cover tax consequences	(18,705)	(127,709)	-	-	(127,709)
Adoption of ASU 2016-13	-	-	(611,011)	-	(611,011)
Balances - December 31, 2023	$ 7,094,180	$ 21,291,000	$ 44,082,481	$ (8,991,809)	$ 56,381,672

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

Oregon Pacific Bancorp and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 9,231,890	$ 7,143,900
Adjustments to reconcile net income to net cash provided by operating activities:		
(Recapture) Provision for credit losses	(230,061)	694,000
Depreciation and amortization	1,035,025	1,650,525
Loss on sale of investment securities	30,322	1,828,812
Deferred income taxes	(449,420)	(472,792)
Stock-based compensation expense, net of shares forfeited for tax	191,545	195,414
Loss on sales of premises, equipment, and other real estate owned	-	2,630
Change in cash surrender value of bank-owned life insurance	(249,464)	(214,342)
Change in deferred loan fees	134,408	77,208
Change in accrued interest receivable and other assets	(3,231,525)	(1,863,102)
Change in accrued interest payable and other liabilities	1,432,145	1,344,798
Net cash from operating activities	7,894,865	10,387,051
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities, calls and sales of available-for-sale debt securities	21,255,958	21,515,364
Purchases or payups of available-for-sale debt securities	(1,218,283)	(111,371,220)
Purchases of restricted equity securities	(358,850)	(631,800)
Net decrease in interest-bearing deposits in banks	33,616,903	103,328,188
Net increase in loans	(53,719,166)	(84,833,393)
Purchases of premises and equipment	(4,605,502)	(567,100)
Net cash used in investing activities	(5,028,940)	(72,559,961)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(22,417,048)	64,187,191
Proceeds from Federal Home Loan Bank borrowings	34,530,000	40,000
Repayments of Federal Home Loan Bank borrowings	(17,530,000)	(40,000)
Net cash (used in) from financing activities	(5,417,048)	64,187,191
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,551,123)	2,014,281
Cash and cash equivalents - beginning of year	10,657,338	8,643,057
CASH AND CASH EQUIVALENTS - End of Year	$ 8,106,215	$ 10,657,338
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	$ 6,298,576	$ 1,519,313
Income taxes - net	$ 3,267,000	$ 2,859,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized loss on available-for-sale debt securities - net	$ 1,481,270	$ (10,511,086)
Adoption of ASU 2016-13	$ (611,011)	$ -

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

Note 1 - Basis of Presentation, Description of Business, and Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of Oregon Pacific Bancorp ("Bancorp"), a bank holding company; its wholly-owned subsidiary, Oregon Pacific Banking Company dba Oregon Pacific Bank ("the Bank"); and the Bank's wholly-owned subsidiary, Oregon Pacific Wealth Management, LLC ("OPWM") (collectively, "the Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has also established a subsidiary grantor trust in connection with the issuance of trust preferred securities (see Note 8). In accordance with accounting principles generally accepted in the United States of America ("U.S.") ("GAAP"), the accounts and transactions of this trust are not included in the accompanying consolidated financial statements.

Description of business

The Bank is an Oregon state-chartered institution with headquarters in Florence, Oregon. The Bank provides banking products and services from its full-service branches in Florence, Eugene, Portland, Coos Bay, Roseburg, and Medford. The Bank also offers trust services in Florence, Coos Bay, Medford, Eugene and Roseburg. Specializing in offering comprehensive financial services to local families and business owners, the Bank services customers in Lane, Douglas, Coos, Jackson, Josephine and Washington Counties. These financial services include full-service banking for both individual and business customers which includes checking, savings, money market, and time deposit accounts. For technology needs, internet banking, online billpay, and mobile banking services are available. The Bank also offers a variety of lending services including commercial, consumer, and credit cards. The Bank’s merchant services department handles payment processing solutions for business clients. Wealth management services are also available through the Bank’s wholly owned subsidiary, Oregon Pacific Wealth Management, allowing the Bank to offer non-deposit products.

Method of accounting

The Company prepares its consolidated financial statements in conformity with 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 date of the consolidated balance sheet, and the reported amounts of income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to material change in the near term relate to the allowance for credit losses.

Subsequent events

Management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that have occurred through March 14, 2024, which is the date that the consolidated financial statements were available to be issued.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks (including cash items in process of collection).

Interest-bearing deposits in banks

Interest-bearing deposits in banks include time certificates of deposit from other banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Investments in debt securities

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

Investments 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.

Investments in debt securities that are not classified as either held-to-maturity securities 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, excluded from earnings and reported as other comprehensive income or loss. All of the Company's investments in debt securities held during 2023 and 2022 were classified as available-for-sale.

Management determines the appropriate classification of debt securities at the time of purchase. Realized gains and losses on the sales of investments in debt securities are determined using the specific-identification method. See Note 12 for a description of the Company's methodologies for determining the fair value of investments in debt securities.

Restricted equity securities

As of December 31, 2023, restricted equity securities consisted of $1,217,500 of Federal Home Loan Bank ("FHLB") of Des Moines stock and $1,130,150 of Federal Reserve Bank ("FRB") stock. As of December 31, 2022, restricted equity securities consisted of $830,000 of FHLB of Des Moines stock and $1,158,800 of FRB stock.

As a member of the FHLB system, the Bank is required to maintain a minimum investment in FHLB stock 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 investment. The Bank also required to maintain activity based stock, which is tied to the volume of outstanding borrowings. The Bank may request redemption at par value of any FHLB stock in excess of the minimum required investment; however, stock redemptions are at the discretion of the FHLB.

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 as of December 31, 2023 and 2022.

The Bank's investment in FRB stock is carried at par value (which represents the Bank's cost), which approximates fair value. The Bank accounts for its investment in FRB stock in accordance with GAAP as described above for FHLB stock. Management believes that there is no impairment of the carrying value of FRB stock as of December 31, 2023 and 2022.

Loans

Loans are stated at the amount of unpaid principal, reduced by the allowance for credit losses and deferred loan fees.

Interest income on all loans is accrued as 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, the borrower may be unable to make payments as they become due. 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 in excess of principal due.

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.

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 known and inherent losses in the loan portfolio as of the consolidated balance sheet date. The allowance requires complex subjective judgments as a result of the need to make estimates about matters that are uncertain. The allowance is maintained at a level currently considered adequate to provide for potential credit losses based on management's assessment of the various factors affecting the portfolio.

The allowance is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Therefore, the Bank cannot provide assurance that, in any particular period, the Bank will not have significant losses in relation to the amount reserved. The allowance is increased by provisions charged to income and reduced by loans charged-off, net of recoveries. Credit losses are charged against the reserve when management deems a loan balance to be uncollectible.

The allowance for credit loss is an estimation process that considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of financial assets as of the reporting date. The allowance for credit losses requires understanding estimates of lifetime credit loss. A custom segmentation of pooled loans was selected for estimating credit losses. The pooled loans are aggregated based on groupings of federal call report codes having similar risk characteristics with sufficient loan observations to maintain statistical relevance. The final segmentation of loans identified includes construction, commercial and industrial, consumer, commercial real estate/non-owner occupied, commercial real estate/owner-occupied, other, and residential. Management estimates expected loss rates by measuring Industry loss rates and forecast economic factors that include National Gross Domestic Product, Oregon Unemployment Rate, and the Oregon Home Price Index to establish calculated loss rates. Additional Qualitative Adjustments that measure portfolio or segment specific risks are combined with the calculated loss rate to estimate the Total Reserve. The allowance for credit loss considers additional qualitative factors when significant events and conditions occur including but not limited to pandemics, natural disasters, and changes in portfolio condition that increases segment risk. Smaller loan segments with insufficient data are analyzed using the remaining life methodology. The methodology is forward-looking and is run using peer call report data.

Loans identified as having dissimilar risk characteristics are reviewed on an individual basis even when no expectation of collectability is identified. Risk characteristics including loan/portfolio exposure, unique collateral, historical loss experience, loan classification, delinquency, and interest accrual status are considered when analyzing expected credit loss for loans on an individual basis. Estimating losses for individual loans is determined by measuring the recorded investment to the net realizable value of the collateral or the value of future cash flows. When the value of the collateral or future cashflows are equal to or greater than the recorded investment, no reserve is calculated.

A provision for credit losses is charged against income and is added to the allowance for credit losses based on quarterly comprehensive analyses of the loan portfolio. The allowance for credit losses is 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.

Results for reporting periods prior to January 1, 2023, continue to be reported in accordance with previously applicable GAAP. Under the incurred loss model, the Company delayed recognition of losses until it was probable that a loss was incurred. The allowance for credit losses was established as losses were estimated to have occurred through a provision for credit losses charged to earnings. Credit losses were charged against the allowance when management believed the uncollectability of a loan balance was confirmed. The allowance for credit losses was evaluated on a regular basis by management and was based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. The allowance consisted of allocated and general components. The allocated component related to loans that were classified as impaired. For loans classified as impaired, an allowance was established when the present value of expected future cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan. The general component covered non-classified loans and was based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Results for reporting periods after December 31, 2022, include loans acquired and accounted for under ASC 310-30 net of discount within the loan classes, while for reporting periods prior to January 1, 2023, the loans acquired and accounted for under ASC 310-30 were shown separately.

Allowance for credit losses – securities

When the fair value of an AFS debt security falls below the amortized cost basis, it is evaluated to determine if any of the decline in value is attributable to credit loss. Decreases in fair value attributable to credit loss would be recorded directly to earnings with a corresponding allowance for credit losses, limited by the amount that the fair value is less than the amortized cost basis. If the credit quality subsequently improves the allowance would be reversed up to a maximum of the previously recorded credit losses. If the Bank intends to sell an impaired AFS debt security, or if it is more likely than not that the Company will be required to sell the security prior to recovering the amortized cost basis, the entire fair value adjustment would be immediately recognized in earnings with no corresponding allowance for credit losses.

Allowance for unfunded loan commitments

The Bank maintains a separate allowance for estimated losses related to unfunded loan commitments. Management estimates the amount of probable losses related to unfunded loan commitments by applying the estimated loss factors used in the allowance for credit loss methodology to the expected amount of commitments that will actually require funding. The allowance for unfunded loan commitments totaled $485,099 as of December 31, 2023 and $88,231 as of December 31, 2022. In accordance with industry practice and regulatory guidance, the allowance for estimated losses related to unfunded loan commitments is included in accrued interest payable and other liabilities in the accompanying consolidated balance sheets. Increases (decreases) in the allowance for unfunded loan commitments are recorded as provision for credit loss expense in the accompanying consolidated statements of comprehensive income.

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets, which range from two to 39 years. Leasehold improvements are amortized over the lesser of the terms of the related leases or their estimated useful lives. Capital improvements or equipment purchases greater than $1,000 are capitalized, while maintenance and repairs are charged to expense. Gains or losses on dispositions are reflected in earnings as incurred.

Leases

The Bank reviews all contracts at inception to determine if the agreement contains a lease. The Company enters into leases in the normal course of business, primarily related to office space and bank branches. If the Bank determines a lease exists, the Bank evaluates whether they are operating or financing leases at the lease commencement date. The Bank accounts for the lease and non-lease components separately. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets and operating lease liabilities are recognized at lease commencement based on the present value of the lease payments over the lease term. The present value of lease payments is determined based on the Bank's incremental borrowing rate, and any other relevant information identified at lease commencement. Lease expense is recognized on a straight-line basis.

Impairment of long-lived assets

The Bank accounts for long-lived assets, including intangibles other than goodwill, at amortized cost. Management reviews long-lived assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

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 comprehensive 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 the 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 gains or losses are included in noninterest income and expense. Costs 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 other persons involved in selling OREO, in determining the 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.

As of December 31, 2023 and 2022, the Bank held no OREO properties.

Loan servicing rights

The carrying value of loan servicing rights is the original estimated value of the originated loan servicing rights or the cost of purchased loan servicing rights, net of subsequent amortization, write-offs due to prepayments, or other write-downs or valuation allowances due to impairment. The originated loan servicing rights are measured by allocating the carrying value of loans between the assets sold and interest retained, based upon the relative estimated fair values at the date of sale. The loan servicing rights are amortized in proportion to, and over the period of, estimated net servicing income.

Management determines the estimated fair value of loan servicing rights through its review and assessment of current industry data. Accordingly, changes in management's evaluation of such data could significantly affect the estimated fair values of the loan servicing rights. GAAP requires the Bank to record an impairment loss in the event that the estimated fair value of loan servicing rights falls below the Bank's carrying value. To mitigate this risk, management amortizes loan servicing rights over their expected lives and fully amortizes loan servicing rights that are specifically associated with any serviced loans that are paid-off.

The Bank does not employ specific hedges to mitigate fair value changes that may occur due to market fluctuations.

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.

Preferred stock

The Company's preferred stock is issuable with the par value, dividend, voting, and other features determined by the Company's Board of Directors (the Board) or by action of the stockholders of the Company. As of December 31, 2023 and 2022, there were no shares of preferred stock outstanding.

Stock-based compensation

The Company has stock-based compensation plans, which are described more fully in Note 13. The Company recognizes as compensation expense all stock-based awards made to employees and Board members. The compensation cost is measured based upon the grant-date fair value of the related stock-based awards and is recognized over the service period of the stock-based awards, which is generally the same as the vesting period. The Company's accounting policy is to recognize forfeitures as they occur.

Advertising

Advertising costs are generally charged to expense during the year in which they are incurred. Advertising costs totaled $416,578 for the year ending December 31, 2023 and $439,684 for the year ending December 31, 2022.

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 are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred tax assets and liabilities 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. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Income tax positions that meet the "more-likely-than-not" recognition threshold are measured at the largest amount of income tax benefit that is more than 50 percent likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as additional income taxes in the consolidated statements of comprehensive income. The Company has evaluated its income tax positions as of December 31, 2023 and 2022. Based on this evaluation, the Company has determined that it does not have any uncertain income tax positions for which an unrecognized income tax liability should be recorded.

The Company files a federal income tax return in the U.S. and a state income tax return in Oregon.

Trust and Wealth Management assets

The Bank offers trust services through its full-service trust department. In addition, the Bank offers investment advisory services through the Bank's wholly owned subsidiary Oregon Pacific Wealth Management LLC (OPWM). Other than cash on deposit at the Bank, assets of the trust department or OPWM are not included in the accompanying consolidated financial statements, because they are not assets of the Bank. Assets (unaudited) totaling approximately $373 million and $339 million, were held in trust and/or managed by OPWM as of December 31, 2023 and 2022, respectively.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation. These reclassifications had no effect on net income.

New authoritative accounting guidance

The Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, effective January 1, 2023. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credits, financial guarantees, and other similar instruments. The Company adopted ASC 326 using the modified retrospective method for loans and off-balance sheet credit exposures. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses on loans of $60,000. This adjustment brought the balance of the allowance for credit losses to $6.73 million as of January 1, 2023. In addition, the Company recorded a $777,000 liability for unfunded commitments as of January 1, 2023. The after-tax effect decreased retained earnings by $611 thousand. The adjustment was based upon the Company's analysis of then-current conditions, assumptions and economic forecasts at January 1, 2023

In March 2021, the FASB issued ASU 2021-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU was issued to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. The last expedient is a one-time election to sell or transfer debt securities classified as held to maturity. The expedients are in effect from March 12, 2021, through December 31, 2022. In December 2022, the FASB issued ASU No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, which defers the sunset date of the original guidance from December 31, 2022 to December 31, 2024. The Company continues to work through the cessation of LIBOR, including the modification to its junior subordinated debenture which is directly influenced by LIBOR. The Company has utilized the reference rate reform transition guidance, as applicable, and has not had, and is not expected to have, a material impact on its consolidated financial statements or financial disclosures.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The ASU addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted CECL and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The Company adopted ASU 2022-02 on January 1, 2023. The adoption of ASU 2022-02 did not have a material impact on the Company's consolidated financial statements, however, did require new disclosures.

Note 2 - Investment Securities

Available-for-sale debt securities as of December 31, 2023 and 2022 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
Unrealized Loss Position - Less than 12 Months				
U.S. Treasury and agencies	$ 7,970,557	$ -	$ (297,647)	$ 7,672,910
Obligations of state and political subdivisions	-	-	-	-
Mortgage-backed securities	3,417,568	-	(19,435)	3,398,133
Subordinated notes	-	-	-	-
	11,388,125	-	(317,082)	11,071,043
Unrealized Loss Position - More than 12 Months				
U.S. Treasury and agencies	$ 21,476,532	$ -	$ (697,717)	$ 20,778,815
Obligations of state and political subdivisions	31,531,798	-	(3,037,533)	28,494,265
Mortgage-backed securities	112,164,775	-	(6,187,784)	105,976,991
Subordinated notes	9,750,000	-	(2,118,057)	7,631,943
	174,923,105	-	(12,041,091)	162,882,014
Unrealized Gain Position				
U.S. Treasury and agencies	$ -	$ -	$ -	$ -
Obligations of state and political subdivisions	-	-	-	-
Mortgage-backed securities	3,605,791	40,627	-	3,646,418
Subordinated notes	-	-	-	-
	3,605,791	40,627	-	3,646,418
	$ 189,917,021	$ 40,627	$ (12,358,173)	$ 177,599,475
2022				
Unrealized Loss Position - Less than 12 Months				
U.S. Treasury and agencies	$ 26,951,881	$ -	$ (1,375,981)	$ 25,575,900
Obligations of state and political subdivisions	19,019,803	-	(1,171,246)	17,848,557
Mortgage-backed securities	73,563,895	-	(3,170,839)	70,393,056
Subordinated notes	3,750,000	-	(555,345)	3,194,655
	123,285,579	-	(6,273,411)	117,012,168
Unrealized Loss Position - More than 12 Months				
U.S. Treasury and agencies	$ 4,431,262	$ -	$ (411,502)	4,019,760
Obligations of state and political subdivisions	13,419,174	-	(2,852,155)	10,567,019
Mortgage-backed securities	48,820,965	-	(3,902,797)	44,918,168
Subordinated notes	6,000,000	-	(994,345)	5,005,655
	72,671,401	-	(8,160,799)	64,510,602
Unrealized Gain Position				
U.S. Treasury and agencies	$ -	$ -	$ -	$ -
Obligations of state and political subdivisions	5,016,709	27,962	-	5,044,671
Mortgage-backed securities	9,254,650	59,564	-	9,314,214
Subordinated notes	-	-	-	-
	14,271,359	87,526	-	14,358,885
	$ 210,228,339	$ 87,526	$ (14,434,210)	$ 195,881,655

As of December 31, 2023 and 2022, the Bank held 163 investment securities, of which 159 were in unrealized loss positions, and 172 investment securities, of which 161 were in unrealized loss positions, respectively.

The amortized cost and estimated fair value of investment securities as of December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 10,995,181	$ 10,921,370
Due after one year through five years	26,011,185	24,522,954
Due after five years through ten years	30,590,930	26,791,113
Thereafter	3,131,591	2,342,496
Securities not due on a single maturity date	119,188,134	113,021,542
	$ 189,917,021	$ 177,599,475

As of December 31, 2023 and 2022, investment securities with an amortized cost of $6,781,567 and $5,467,131 and estimated fair values of $6,376,630 and $5,338,979, respectively, were pledged to secure deposits of public funds and for other purposes as required or permitted by law.

Allowance for Credit Losses

On January 1, 2023, the Company began evaluating all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326, Measurement of Credit Losses on Financial Instruments. All the mortgage-backed, collateralized mortgage, and SBA securities held by the Company are issued by U.S. government-sponsored entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. Likewise, the Company has not experienced historical losses on these types of securities. Accordingly, no allowance for credit losses has been recorded for these securities.

Regarding securities issued by state and political subdivisions, management considers the following when evaluating these securities: (i) current issuer bond ratings, (ii) historical loss rates for given bond ratings, (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, (iv) updated financial information of the issuer, (v) internal forecasts and (vi) whether such securities provide insurance or other credit enhancement or are pre-refunded by the issuers. These securities are highly rated by major rating agencies and have a long history of no credit losses. Likewise, the Company has not experienced historical losses on these types of securities. Accordingly, no allowance for credit losses has been recorded for these securities.

Note 3 - Loans and Allowance for Credit Losses

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

	2023	2022
Construction	$ 37,114,059	$ 42,039,285
Residential real estate	66,735,430	56,246,917
Owner occupied commercial real estate	76,797,863	74,417,437
Non-owner occupied commercial real estate	278,577,283	228,342,018
Commercial	71,854,858	78,769,062
Consumer	1,294,961	596,628
Other	5,697,759	3,842,809
Total loans	538,072,213	484,254,156
Less allowance for credit losses	(6,975,112)	(6,666,150)
Less deferred loan fees	(1,409,790)	(1,275,382)
Loans - net	$ 529,687,311	$ 476,312,624

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.

In the normal course of business, the Bank participates portions of loans to third parties in order to extend the Bank's lending capability or to mitigate risk. As of December 31, 2023 and 2022, the portion of these loans participated to third parties (which are not included in the accompanying consolidated financial statements) totaled $2,973,521 and $3,354,483, respectively. The Bank also purchases portions of loans from third parties. As of December 31, 2023 and 2022, the Bank had $28,140,624 and $27,740,871, respectively, of loans which were purchased from third parties (which are included in the accompanying consolidated financial statements).

As of December 31, 2023, loans totaling $284,286,227 were pledged to secure borrowings from the FHLB and FRB.

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 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, and 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 after evaluating and understanding the borrower's loan request. Underwriting standards are designed to promote relationship banking by understanding 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.

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.

Owner and non-owner occupied 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.

Commercial and other 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 and industrial 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.

Construction real estate loans are made to both commercial and consumer clients and 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. Underwriting of these loans is more complex than typical owner and non-owner occupied real estate loans. Construction real estate loans maybe 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.

Past due loans are loans for which principal and interest were not paid timely according to the contractual payment terms. The following tables present, by portfolio segment, the recorded investment in loans by aging category, non-accrual status, and in total, as of December 31, 2023 and 2022:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total Loans
2023							
Construction	$ -	$ 263,936	$ -	$ -	$ 263,936	$ 36,850,123	$ 37,114,059
Residential real estate	121,059	33,973	-	44,484	199,516	66,535,914	66,735,430
Owner-occupied commercial real estate	-	-	-	307,812	307,812	76,490,051	76,797,863
Non-owner occupied commercial RE	-	-	-	-	-	278,577,283	278,577,283
Commercial	350,000	-	-	87,287	437,287	71,417,571	71,854,858
Consumer	-	-	-	3,506	3,506	1,291,455	1,294,961
Other	-	-	-	-	-	5,697,759	5,697,759
Total	$ 471,059	$ 297,909	$ -	$ 443,089	$ 1,212,057	$ 536,860,156	$ 538,072,213
2022							
Commercial real estate	$ 476,413	$ -	$ -	$ -	$ 476,413	$ 348,165,136	$ 348,641,549
Commercial	97,751	147,778	-	-	245,529	78,523,533	78,769,062
Residential real estate	156,264	-	-	42,773	199,037	56,047,880	56,246,917
Consumer	-	-	-	9,554	9,554	587,074	596,628
Total	$ 730,428	$ 147,778	$ -	$ 52,327	$ 930,533	$ 483,323,623	$ 484,254,156

As of December 31, 2023 and 2022 all loans that were on nonaccrual status had no related allowance for credit losses recorded.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023. On January 1, 2023, the Company adopted the CECL methodology, which added $60,000 to the allowance for credit losses.

2023	Construction	Residential Real Estate	Owner Occupied Commercial Real Estate	Non-owner Occupied Commercial Real Estate	Commercial	Consumer	Other	Un-allocated	Total
Allowance for credit losses									
Beginning balance December 31, 2022	$ 560,089	$ 688,234	$ 1,069,358	$ 3,347,387	$ 835,293	$ 5,307	$ 15,900	$ 144,582	$ 6,666,150
CECL Day 1 adjustment	762,601	381,134	(382,255)	(615,688)	61,848	627	(3,685)	(144,582)	60,000
Ending balance January 1, 2023	1,322,690	1,069,368	687,103	2,731,699	897,141	5,934	12,215	-	6,726,150
Charge-offs	-	-	-	-	-	(341)	-	-	(341)
Recoveries	6,000	4,632	-	-	88,600	-	-	-	99,232
Provision (credit)	(770,302)	92,110	54,006	960,626	(211,578)	(2,314)	27,523	-	150,071
Ending balance December 31, 2023	$ 558,388	$ 1,166,110	$ 741,109	$ 3,692,325	$ 774,163	$ 3,279	$ 39,738	$ -	$ 6,975,112

The following table presents the activity in the allowance for unfunded commitments by portfolio segment for the year ended December 31, 2023. On January 1, 2023 the Company adopted the CECL methodology, which created an additional $777,000 allowance for unfunded commitments.

2023	Construction	Residential Real Estate	Owner Occupied Commercial Real Estate	Non-owner Occupied Commercial Real Estate	Commercial	Consumer	Other	Un-allocated	Total
Allowance for unfunded commitments									
Beginning balance December 31, 2022	$ 17,545	$ 8,400	$ 374	$ 1,538	$ 46,818	$ 1,001	$ 2,364	$ 10,191	$ 88,231
CECL Day 1 adjustment	589,928	46,503	718	8,658	130,964	4,002	6,418	(10,191)	777,000
Ending balance January 1, 2023	607,473	54,903	1,092	10,196	177,782	5,003	8,782	-	865,231
Provision (credit)	(393,898)	(6,579)	22,243	10,563	(4,467)	(2,995)	(4,999)	-	(380,132)
Ending balance December 31, 2023	213,575	48,324	23,335	20,759	173,315	2,008	3,783	-	485,099

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2022 prepared using the previous GAAP incurred loss methodology prior to the adoption of ASU 2016-13. Also presented are the balances in the allowance for credit losses and the recorded investment in loans based on portfolio segment and impairment methodology as of the year ended December 31, 2022, prepared using the previous GAAP incurred loss method prior to the adoption of ASU 2016-13.

2022	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Un-allocated	Total
Allowance for credit losses						
Beginning balance	$ 4,244,486	$ 714,606	$ 381,256	$ 52,620	$ 511,639	$ 5,904,607
Charge-offs	-	-	-	-	-	-
Recoveries	-	59,611	4,632	3,300	-	67,543
Provision	748,248	61,076	302,346	(50,613)	(367,057)	694,000
Ending balance	$ 4,992,734	$ 835,293	$ 688,234	$ 5,307	$ 144,582	$ 6,666,150
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -		$ -
Ending balance collectively evaluated for impairment	$ 4,992,734	$ 835,293	$ 688,234	$ 5,307		$ 6,521,568
Loans						
Ending balance individually evaluated for impairment	$ 627,444	$ -	$ 342,564	$ 9,554		$ 979,562
Ending balance collectively evaluated for impairment	$ 348,014,105	$ 78,769,062	$ 55,904,353	$ 587,074		$ 483,274,594
Ending balance	$ 348,641,549	$ 78,769,062	$ 56,246,917	$ 596,628		$ 484,254,156

Collateral-Dependent Loans and Leases

Loans are classified as collateral dependent when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, and repayment is expected to be provided substantially through the operation or sale of the collateral. There have been no significant changes in the level of collateralization from the prior periods. The following table summarizes the amortized cost basis of the collateral-dependent loans and leases by the type of collateral securing the assets as of December 31, 2023:

	Residential Real Estate	Commercial Real Estate	General Business Assets	Other	Total
Construction	$ -	$ -	$ -	$ -	$ -
Residential real estate	44,421	-	-	-	44,421
Owner occupied commercial real estate	-	306,533	-	-	306,533
Non-owner occupied commercial real estate	-	-	-	-	-
Commercial	-		87,249	-	87,249
Consumer	-	-	-	3,506	3,506
Other	-	-	-	560,220	560,220
Total, net of deferred fees and costs	$ 44,421	$ 306,533	$ 87,249	$ 563,726	$ 1,001,929

Prior to adoption of ASU 2016-13 a loan was considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35) when, based on then-current information and events, it was probable the Company would be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans included not only nonperforming loans, but also loan modified in troubled debt restructurings where confessions had been granted to borrowers experiencing financial difficulties. The following table presents information pertaining to impaired loans as of December 31, 2022, in accordance with the previous GAAP prior to the adoption of ASU 2016-13.

	As of December 31			For the Year Ended December 31	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2022					
With an allowance recorded					
Commercial real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Residential real estate	-	-	-	-	-
Consumer	-	-	-	-	-
Subtotal	-	-	-	-	-
With no related allowance recorded					
Commercial real estate	627,444	898,896	-	645,973	94,392
Commercial	-	-	-	-	-
Residential real estate	342,564	424,308	-	837,266	113,152
Consumer	9,554	9,554	-	12,326	592
Subtotal	979,562	1,332,758	-	1,495,565	208,136
Total					
Commercial real estate	627,444	898,896	-	645,973	94,392
Commercial	-	-	-	-	-
Residential real estate	342,564	424,308	-	837,266	113,152
Consumer	9,554	9,554	-	12,326	592
Total	$ 979,562	$ 1,332,758	$ -	$ 1,495,565	$ 208,136

The cash basis interest income on impaired loans was not materially different than the interest recognized on impaired loans as shown in the tables above.

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

Pass (Ratings 1 – 6) - These loans range from minimal to acceptable credit risk.

Watch (Rating 7) – These loans have a lower than average, but still acceptable, credit risk and are performing as agreed.

Special Mention (Rating 8) - These loans have potential weaknesses 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 9) - 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 10) - 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 11) – Loans classified as Loss are considered uncollectible and are charged off.

The following table presents a summary of loans by risk category separated by origination and loan class as of December 31, 2023. The first table, which is as of December 31, 2023, was prepared using the CECL methodology.

	Term Loans by Origination Year						Revolving	
	2023	2022	2021	2020	2019	Prior	Loans	Total
Construction								
Pass	$ 11,770,231	$ 10,391,560	$ 3,881,899	$ 7,924,062	$ 104,068	$ 88,326	$ -	$ 34,160,146
Watch/special mention	-	1,129,720	1,560,257	-	-	-	-	2,689,977
Substandard/doubtful	263,936	-	-			-	-	263,936
Total	$ 12,034,167	$ 11,521,280	$ 5,442,156	$ 7,924,062	$ 104,068	$ 88,326	$ -	$ 37,114,059
Current-period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ 341	$ 341
Residential real estate								
Pass	$ 16,008,162	$ 9,987,036	$ 11,365,381	$ 4,532,975	$ 6,118,145	$ 9,014,858	$ 6,422,590	$ 63,449,147
Watch/special mention	1,096,478	-	867,281	-	234,760	894,553	77,313	3,170,385
Substandard/doubtful	-	-	-	-	-	115,898	-	115,898
Total	$ 17,104,640	$ 9,987,036	$ 12,232,662	$ 4,532,975	$ 6,352,905	$ 10,025,309	$ 6,499,903	$ 66,735,430
Current-period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Owner occupied commercial real estate								
Pass	$ 10,489,853	$ 8,139,389	$ 17,063,985	$ 8,603,771	$ 6,466,597	$ 17,391,559	$ 746,488	$ 68,901,642
Watch/special mention	-	1,144,456	-	-	-	978,765	-	2,123,221
Substandard/doubtful	-	2,697,123	658,690	-	-	2,417,187	-	5,773,000
Total	$ 10,489,853	$ 11,980,968	$ 17,722,675	$ 8,603,771	$ 6,466,597	$ 20,787,511	$ 746,488	$ 76,797,863
Current-period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-owner occupied commercial real estate								
Pass	$ 39,189,397	$ 57,804,552	$ 55,903,854	$ 33,710,572	$ 37,980,331	$ 38,137,260	$ 786,387	$ 263,512,353
Watch/special mention	-	7,343,206	3,086,487	1,663,823	-	639,113	-	12,732,629
Substandard/doubtful	-	-	18,508	43,805	1,172,567	1,097,421	-	2,332,301
Total	$ 39,189,397	$ 65,147,758	$ 59,008,849	$ 35,418,200	$ 39,152,898	$ 39,873,794	$ 786,387	$ 278,577,283
Current-period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial								
Pass	$ 16,161,353	$ 18,451,274	$ 8,367,103	$ 5,897,235	$ 4,688,016	$ 2,779,950	$ 13,610,929	$ 69,955,860
Watch/special mention	-	229,492	10,424	495,897	-	176,482	899,416	1,811,711
Substandard/doubtful	-	-		-	87,287	-	-	87,287
Total	$ 16,161,353	$ 18,680,766	$ 8,377,527	$ 6,393,132	$ 4,775,303	$ 2,956,432	$ 14,510,345	$ 71,854,858
Current-period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer								
Pass	$ 1,104,287	$ 54,795	$ 30,839	$ 45,340	$ 6,795	$ 2,981	$ 44,172	$ 1,289,209
Watch/special mention	-	2,246	-	-	-	-	-	2,246
Substandard/doubtful	-	-	-	-	3,506	-	-	3,506
Total	$ 1,104,287	$ 57,041	$ 30,839	$ 45,340	$ 10,301	$ 2,981	$ 44,172	$ 1,294,961
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other								
Pass	$ 3,397,892	$ 667,282	$ 345,473	$ -	$ -	$ 1,287,112	$ -	$ 5,697,759
Watch/special mention					-	-		-
Substandard/doubtful					-	-		-
Total	$ 3,397,892	$ 667,282	$ 345,473	$ -	$ -	$ 1,287,112	$ -	$ 5,697,759
Current-period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Combined								
Pass	$ 98,121,175	$ 105,495,888	$ 96,958,534	$ 60,713,955	$ 55,363,952	$ 68,702,046	$ 21,610,566	$ 506,966,116
Watch/special mention	1,096,478	9,849,120	5,524,449	2,159,720	234,760	2,688,913	976,729	22,530,169
Substandard/doubtful	263,936	2,697,123	677,198	43,805	1,263,360	3,630,506	-	8,575,928
Total	$ 99,481,589	$ 118,042,131	$ 103,160,181	$ 62,917,480	$ 56,862,072	$ 75,021,465	$ 22,587,295	$ 538,072,213
Current-period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ 341	$ 341

The following table, which is as of December 31, 2022, was prepared using the previous GAAP incurred loss methodology prior to the adoption of ASU 2016-13.

2022	**Pass**	**Watch/ Special Mention**	**Substandard**	**Doubtful**	**Total Loans**
Commercial real estate	$ 340,778,433	$ 4,248,497	$ 3,614,619	$ -	$ 348,641,549
Commercial	76,058,154	2,501,046	209,862	-	78,769,062
Residential real estate	54,910,510	1,293,634	42,773	-	56,246,917
Consumer	587,074	-	9,554	-	596,628
Total	$ 472,334,171	$ 8,043,177	$ 3,876,808	$ -	$ 484,254,156

Loan Modifications for Debtors Experiencing Financial Difficulties

The Bank may implement modifications to loans for debtors experiencing financial difficulties. Modifications can include principal forgiveness, interest rate reduction, an other-than-insignificant payment delay, or a term extension.

During the periods ended December 31, 2023 and 2022, no loan modifications occurred to borrowers experiencing financial difficulties.

The Bank's operations, like those of other financial institutions operating in the Bank's market, are significantly influenced by various economic conditions including local economies, the strength of the real estate market, and the fiscal and regulatory policies of the federal and state governments and the regulatory authorities that govern financial institutions. Any downturn in the real estate markets could materially and adversely affect the Bank's business, because a significant portion of the Bank's loans are secured by real estate. The Bank's ability to recover on defaulted loans by selling the real estate collateral would then be diminished and the Bank would be more likely to suffer losses on defaulted loans. Consequently, the Bank's results of operations and financial condition are dependent upon the general trends in the economy, and, in particular, the residential and commercial real estate markets. If there is a decline in real estate values, the collateral for the Bank's loans would provide less security. Real estate values could be affected by, among other things, a worsening of economic conditions, an increase in foreclosures, a decline in home sale volumes, and an increase in interest rates. Furthermore, the Bank may experience an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws, or default on their loans or other obligations to the Bank given a sustained weakness or a weakening in business and economic conditions generally or specifically in the principal markets in which the Bank does business. An increase in the number of delinquencies, bankruptcies, or defaults could result in a higher level of nonperforming assets, net charge-offs, and provision for credit losses.

Note 4 - Loan Servicing Rights

Loans serviced by the Bank for the U.S. Department of Agriculture are not included in the accompanying consolidated balance sheets. The unpaid principal balance of such serviced loans as of December 31, 2023 and 2022 was $2,615,598 and $2,984,959, respectively. As of December 31, 2023 and 2022, the Bank only serviced loans for the U.S. Department of Agriculture.

Note 5 - Premises and Equipment

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

	2023	2022
Land	$ 2,509,152	$ 2,509,152
Building and improvements	10,255,188	10,180,341
Construction in progress	4,077,825	180,055
Furniture and equipment	4,386,197	3,905,701
Leasehold improvements	1,077,248	954,718
Total premises and equipment	22,305,610	17,729,967
Less accumulated depreciation and amortization	(8,835,864)	(8,173,836)
Premises and equipment, net	$ 13,469,746	$ 9,556,131

Depreciation expense for the years ended December 31, 2023 and 2022 was $691,887 and $728,082, respectively.

Note 6 - Time Deposits

Time deposits that meet or exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit of $250,000 aggregated $7,079,979 and $3,201,090 as of December 31, 2023 and 2022, respectively.

As of December 31, 2023, the scheduled annual maturities of time deposits were as follows:

2024	$ 21,799,687
2025	3,912,032
2026	642,183
2027	865,921
2028	8,771,670
	$ 35,991,493

Note 7 - Short-Term Borrowings and FHLB Borrowings

As of December 31, 2023, the Bank has available lines of credit of $3,000,000 with U.S. Bank and $20,000,000 with Pacific Coast Bankers' Bank. The Bank had no amounts outstanding on such lines of credit. As of December 31, 2023, the Bank also has an available line of credit with the FRB discount window totaling $4,682,651 subject to certain collateral requirements (primarily the amount of certain pledged loans).

The Bank is a member of and has entered into credit arrangements with the FHLB. The Bank participates in the FHLB's Cash Management Advance (CMA) program and also has fixed and adjustable-rate promissory notes with the FHLB. Borrowings under the credit arrangements are collateralized by mortgage loans or other pledged instruments. Borrowings available to the Bank under all FHLB credit arrangements are limited to the lesser of 45% of the Bank's total assets or collateral availability. The CMA program advances are due on demand, or if no demand is made, in one year. As of December 31, 2023 the Bank had $17,000,000 in outstanding overnight borrowings under the CMA program. As of December 31, 2022, the Bank had no outstanding borrowings under the CMA program.

The Bank had no FHLB term borrowing notes outstanding as of December 31, 2023 and 2022.

FHLB advances are collateralized by certain qualifying loans in the amount of $277,245,962 and $245,674,168 as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the Bank had borrowing capacity available at the FHLB of $193,008,269 and $183,678,159, respectively.

Note 8 – Subordinated Debentures

Subordinated Debentures

In September 2021, the Company completed a private placement of $15,000,000 in aggregate principal amount of fixed-to-floating rate subordinated notes (the "Notes") to certain qualified institutional buyers and accredited investors.

The Notes will initially bear interest at 3.375% per annum payable semi-annually until September 30, 2026, and thereafter pay a quarterly floating interest rate based on the then current Three-Month Term Secured Overnight Financing Rate (SOFR) plus 266 basis points, payable quarterly in arrears. Beginning on September 30, 2026, the Notes may be redeemed, in whole or in part, at the Company's option. The Notes will mature on September 30, 2031.

Included in the proceeds from the debenture were various expenses including commission fees, legal expenses, accounting expenses and various filing expenses. The total of the issuance cost was $497,244 and will be amortized over the life of the debt as an increase to interest expense. As of December 31, 2023 and 2022, the subordinated debenture had a net book balance, including unamortized issuance cost of $14,727,316 and $14,627,497, respectively.

For the years ended December 31, 2023 and 2022, the Company's interest expense, including amortization of issuance costs related to the notes, was $605,370 and $604,648, respectively. As of December 31, 2023 and 2022, the accrued interest on the debt was $127,254 and $127,953, respectively.

The Notes were structured to qualify as Tier 2 capital instruments for regulatory capital purposes at the holding company.

Junior Subordinated Debentures

Oregon Pacific Statutory Trust I (the Trust) is a wholly-owned Connecticut statutory business trust subsidiary which issued $4,000,000 of guaranteed undivided beneficial interests in Bancorp's floating rate Junior Subordinated Deferrable Interest Debentures (the "Trust Preferred Securities" or "TPS") and $124,000 of common securities. The common securities were purchased by Bancorp and represent a 3% minority interest in the Trust. The Company's investment in common securities is included in accrued interest receivable and other assets in the accompanying consolidated balance sheets.

The proceeds from the issuance of the common securities and the TPS were used by the Trust to purchase $4,124,000 of subordinated deferrable interest debentures ("the Debentures") of Bancorp. The Debentures, which represent the sole asset of the Trust, possess the same terms as the TPS and accrue interest at the three-month London Interbank Offered Rate ("LIBOR") plus 2.85% per year which changes quarterly. The rate ranged between 7.59% and 8.52% during 2023 and between 3.07% and 6.38% during 2022. The accrued interest on the Debentures is paid to the Trust by Bancorp, and the Trust in turn distributes the interest income as dividends on the TPS. As of December 31, 2023 and 2022, the accrued interest to be paid to the Trust is $14,589 and $11,300, respectively. Management believes that, as of December 31, 2023 and 2022, the Debentures meet applicable regulatory guidelines to qualify as tier 1 capital/common equity tier 1 capital.

In conjunction with the issuance of the TPS, Bancorp entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of (1) accrued and unpaid distributions required to be paid on the TPS, (2) the redemption price with respect to any TPS called for redemption by the Trust, and (3) payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust. The TPS are mandatorily redeemable upon maturity of the Debentures on December 17, 2033, or upon earlier redemption as provided in the indenture. Bancorp has the right to redeem the Debentures purchased by the Trust in whole or in part, on or after December 17, 2008. As specified in the indenture, if the Debentures are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest. For the years ended December 31, 2023 and 2022, Bancorp's interest expense related to the TPS was $329,125 and $190,637, respectively.

Note 9 - Income Taxes

The provision for income taxes in 2023 and 2022 was as follows:

	2023	2022
Current expense:		
Federal	$ 2,562,905	$ 2,190,759
State	925,256	650,261
	3,488,161	2,841,020
Deferred expense:		
Federal	(371,354)	(339,729)
State	(78,159)	(133,063)
	(449,513)	(472,792)
Income taxes	$ 3,038,648	$ 2,368,228

The provision for income taxes results in effective tax rates which are different than the federal income tax statutory rate. The nature of the differences in 2023 and 2022 were as follows:

	2023	2022
Federal income taxes at statutory rate	$ 2,576,813	$ 1,997,547
State income taxes	736,232	571,108
Change in cash surrender value of life insurance	(67,847)	(57,881)
Municipal interest	(67,355)	(110,165)
Credits	(152,395)	(88,982)
Other	13,200	56,601
Provision for income taxes	$ 3,038,648	$ 2,368,228

The components of the net deferred tax assets and liabilities as of December 31, 2023 and 2022 were as follows:

	2023	2022
Deferred tax assets:		
Unrealized loss on available for sale securities	$ 3,325,737	$ 3,873,604
Allowance for credit losses and unfunded loan commitments	2,014,516	1,457,296
Deferred compensation	666,928	618,943
ASU - lease liability	208,732	404,165
Compensation expense	8,898	-
Interest income on nonaccrual loans	5,017	1,523
Other	-	69,301
Restricted stock	70,536	-
	6,300,364	6,424,832
Deferred tax liabilities:		
Accumulated depreciation and amortization	(223,221)	(372,540)
Right of use asset	(179,452)	(394,351)
FHLB stock dividends	(26,586)	(26,590)
State taxes	(27,943)	-
Prepaids	(68,826)	(637)
Other	(16,079)	-
	(542,107)	(794,118)
Net deferred tax assets	$ 5,758,257	$ 5,630,714

The Company has determined that it is not required to establish a valuation allowance for the net deferred tax assets as of December 31, 2023 and 2022, as management believes it is more likely than not that the net deferred tax assets will be realized principally through future taxable income and future reversals of existing taxable temporary differences.

Note 10 - Commitments and Contingencies

Financial instruments with off-balance sheet risk

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These financial instruments involve elements of credit and interest rate risk similar to the amounts recognized in the accompanying consolidated balance sheets. The contract or notional amounts of these financial instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

As of December 31, 2023 and 2022, the Bank had no commitments to extend credit at below-market interest rates and held no significant derivative financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in underwriting and offering commitments and conditional obligations as it does for on-balance sheet instruments.

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. While most commercial letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis.

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 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. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

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

	2023	2022
Commitments to extend credit	$ 102,041,530	$ 90,016,892
Commercial and standby letters of credit	133,500	183,500
Total off-balance sheet financial instruments	$ 102,175,030	$ 90,200,392

Additionally, the Bank previously sold real estate loans to the FHLMC. The FHLMC has the right to reject a loan that it has previously purchased and require the Bank to repurchase the loan in the event of certain misstatements or omissions of facts in the loan application. During the years ended December 31, 2023 and 2022 there were no loans that required repurchase by the Bank from the FHLMC. The Bank has not realized significant losses related to these repurchases, and management believes that any liabilities that may result from such recourse provisions are not significant to the accompanying consolidated financial statements.

Operating lease commitments

The Bank leases certain branch premises under noncancelable operating lease agreements. The Bank does not have any operating leases with an initial term of 12 months or less.

The lease agreements contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. The lease agreements do not contain any material residual value guarantees or restrictive covenants. Certain operating leases provide the Bank with the option to extend the lease term one or more times following expiration of the initial term. Lease extensions are not reasonably certain, and the Bank generally does not recognize payments occurring during option periods in the calculation of its operating lease right-of-use assets and operating lease liabilities.

The table below presents the lease right-of-use assets and lease liabilities, which are recorded in accrued interest receivable and other assets and accrued interest payable and other liabilities, respectively, in the accompanying consolidated balance sheet as of December 31, 2023 and 2022:

	2023	2022
Operating lease right-of-use assets	$ 2,125,195	$ 1,460,558
Operating lease liabilities	$ 2,233,638	$ 1,496,908
Operating lease weighted-average remaining lease term	5.68 years	5.38 years
Operating lease weighted-average discount rate	3.44%	2.65%

Total operating lease costs were $416,918 and $338,121 for the years ended December 31, 2023 and 2022, respectively, and are included in occupancy expense in the accompanying consolidated statement of comprehensive income.

Operating cash flows paid for operating lease amounts included in the measurement of lease liabilities was $310,650 and $331,975 for the years ended December 31, 2023 and 2022.

The following table reconciles the undiscounted cash flows for the periods presented related to the Company’s operating lease liabilities as of December 31, 2023.

Year ending December 31,		
2024	$	443,043
2025		454,211
2026		465,673
2027		405,125
2028		343,194
Thereafter		376,815
Total minimum lease payments		2,488,061
Less: amount of payments representing interest		254,423
Lease Liabilities	$	2,233,638

Litigation

In the ordinary course of business, the Bank becomes involved in various litigation arising from normal banking activities, including matters related to loan collections and foreclosures. In the opinion of management, the ultimate disposition of these legal actions will not have a material effect on the Company's consolidated financial statements as of and for the year ended December 31, 2023.

Public deposits

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 had pledged securities aggregating $4,982,317 under the Program for its public deposits 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.

Note 11 - Concentrations of Credit Risk

Except for guaranteed loans purchased from the U.S. Department of Agriculture and Small Business Administration, all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. Nearly all such customers are depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers as of December 31, 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.

As of December 31, 2023, the Bank held $60,000 in correspondent bank accounts. At times these balances held with correspondents 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.

Note 12 - Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels. These levels are:

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.

Recurring fair value measurements

The fair values of the Company's available-for-sale debt securities as of December 31, 2023 and 2022 are estimated by an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

The Company's assets measured at fair value on a recurring basis as of December 31, 2023 and 2022 were as follows:

2023	Level 1	Level 2	Level 3
Available-for-sale debt securities			
U.S. Treasury and agencies	$ -	$ 28,451,725	$ -
Obligations of state and political subdivisions	-	28,494,265	-
Mortgage-backed securities	-	113,021,542	-
Subordinated notes	-	7,631,943	-
Total available-for-sale debt securities	$ -	$ 177,599,475	$ -
2022			
Available-for-sale debt securities			
U.S. Treasury and agencies	$ -	$ 29,595,660	$ -
Obligations of state and political subdivisions	-	33,460,247	-
Mortgage-backed securities	-	124,625,438	-
Subordinated notes	-	8,200,310	-
Total available-for-sale debt securities	$ -	$ 195,881,655	$ -

Non-recurring fair value measurements

Certain collateral dependent loans are reported at estimated fair value on a non-recurring basis, including collateral dependent loans measured at an observable market price (if available), the present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the loan's collateral (if collateral dependent). Estimated fair value of the loan's collateral is determined by appraisals or independent valuation which is then adjusted for the estimated costs related to liquidation of the collateral. Management's ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or location. A significant portion of the Bank's collateral dependent loans are measured using the estimated fair market value of the collateral less the estimated costs to sell.

OREO is measured on a non-recurring basis at estimated fair value less estimated costs to sell. Fair value is generally determined based on third-party appraisals of fair value in an orderly sale. Historically, appraisals have considered comparable sales of similar assets in reaching a conclusion as to fair value. Estimated costs to sell OREO are based on standard market factors. The valuation of OREO is subject to significant external and internal judgment. Management periodically reviews OREO to determine whether the property continues to be carried at the lower of its recorded book value or estimated fair value, net of estimated costs to sell. Fair value adjustments on OREO are recognized within the statements of comprehensive income as a component of noninterest expense.

The Company had no assets measured at fair value on a non-recurring basis as of December 31, 2023 and 2022.

The Company did not change the methodology used to determine the recurring/non-recurring fair values for any financial instruments during the years ended December 31, 2023 and 2022. Accordingly, for any given class of financial instruments, the Company did not have any transfers among Level 1, Level 2, or Level 3 during these years.

Other fair value disclosures

GAAP requires disclosure of estimated fair values for certain financial instruments. Such estimates are subjective in nature, and significant judgment is required regarding the risk characteristics of various financial instruments at a discrete point in time. Therefore, such estimates could vary significantly if assumptions regarding uncertain factors were to change. 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 certain items which are not defined as financial instruments but which may have significant value. The Company does not believe that it would be practicable to estimate a fair value for these types of items as of December 31, 2023 and 2022. Because GAAP excludes certain items from fair value disclosure requirements, any aggregation of the fair value amounts presented would not represent the underlying value of the Company.

The estimated fair values of the Company's financial instruments as of December 31, 2023 and 2022 were as follows:

			Fair Value Measurements at Report Date Using		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
2023					
Financial assets:					
Cash and cash equivalents	$ 8,106,215	$ 8,106,215	$ 8,106,215	$ -	$ -
Interest-bearing deposits in banks	6,246,433	6,246,433	6,246,433	-	-
Available-for-sale debt securities	177,599,475	177,599,475	-	177,599,475	-
Restricted equity securities	2,347,650	2,347,650	2,347,650	-	-
Loans	529,687,311	490,031,938	-	-	490,031,938
Bank-owned life insurance	8,865,732	8,865,732	8,865,732	-	-
Accrued interest receivable	2,469,193	2,469,193	2,469,193	-	-
Financial liabilities:					
Non-interest bearing deposits	$ 155,693,078	$ 155,693,078	$ 155,693,078	$ -	$ -
Interest bearing deposits	468,765,665	468,765,665	468,765,665	-	-
Time certificate accounts	35,991,493	31,090,086	-	31,090,086	-
Accrued interest payable	254,035	254,035	254,035	-	-
FHLB borrowings	17,000,000	17,000,000	17,000,000	-	-
Junior subordinated debentures	4,124,000	4,167,215	-	-	4,167,215
Subordinated debenture	14,727,316	12,411,750	-	-	12,411,750
2022					
Financial assets:					
Cash and cash equivalents	$ 10,657,338	$ 10,657,338	$ 10,657,338	$ -	$ -
Interest-bearing deposits in banks	39,863,336	39,863,336	39,863,336	-	-
Available-for-sale debt securities	195,881,655	195,881,655	-	195,881,655	-
Restricted equity securities	1,988,800	1,988,800	1,988,800	-	-
Loans	476,312,624	425,858,441	-	-	425,858,441
Bank-owned life insurance	8,616,268	8,616,268	8,616,268	-	-
Accrued interest receivable	2,222,921	2,222,921	2,222,921	-	-
Financial liabilities:					
Non-interest bearing deposits	$ 180,588,268	$ 180,588,268	$ 180,588,268	$ -	$ -
Interest bearing deposits	484,842,601	484,842,601	484,842,601	-	-
Time certificate accounts	17,436,415	17,411,015	-	17,411,015	-
Accrued interest payable	155,534	155,534	155,534	-	-
Junior subordinated debentures	4,124,000	5,307,429	-	-	5,307,429
Subordinated debenture	14,627,497	12,895,950	-	-	12,895,950

The Company is required to disclose estimated fair values and classifications within the fair value hierarchy for certain financial instruments that are not carried at fair value on the Company’s financial statements. Financial instruments not carried at fair value in the Company’s financial statements include cash and cash equivalents, interest bearing deposits in banks, restricted equity securities, loans, bank-owned life insurance, accrued interest receivable, deposits, accrued interest payable and long-term debt which includes the Company’s subordinated and junior subordinated debentures.

Cash, cash equivalents, and interest-bearing deposits in banks

Cash, cash equivalents, and interest-bearing deposits in banks include cash on hand, in process cash items and amounts due from correspondent banks. We use the carrying amount of these financial assets to represent their fair value due to their short-term nature. These financial assets are classified as Level 1 in the table above.

Restricted equity securities

Restricted equity securities consist of membership stock for the Federal Home Loan Bank of Des Moines and the Federal Reserve Bank. The book value approximate the fair value and are classified as Level 1 in the table above.

Loans

Loans are held at the amount of unpaid principal, less the allowance for credit losses and deferred fees. Unobservable inputs and management's assumptions are used in determining the fair value of loans, therefore loans are classified as Level 3 in the table above.

Bank owned life insurance

The carrying value of bank owned life insurance is updated on a monthly basis based on the cash surrender value and are classified as Level 1 in the table above.

Accrued interest receivable and payable

The carrying value of accrued interest receivable and payable approximates the fair value due to their short-term nature.

Deposits

The fair value of interest and non-interest-bearing demand deposits is equal to the amount payable on demand as of the reporting date. The fair value of these deposits' balances is classified as Level 1 in the table above. The fair value of time certificate accounts is estimated by the calculation of the present value of the discounted cash flow using the interest rates currently offered on time certificates. The fair value of time certificate balances is classified as Level 2 in the table above.

Long term debt

Long term debt includes the Bank's junior subordinated and subordinated debentures and Federal Home Loan bank borrowings. The fair value of the junior subordinated debenture is determined by the calculation of the present value of the discounted cash flow using the current rate for similar debt to other financial institutions. The fair value of the junior subordinated debenture is included in Level 3 in the table above. The fair value of the Bank's subordinated debenture is determined using quoted prices for similar liabilities in active markets. The fair value of the subordinate debenture is included in Level 3 in the table above. The fair value of Federal Home Loan Bank (FHLB) borrowings is calculated based on the present value of the discounted cash flow using the current rate for similar debt. At December 31, 2023 all FHLB borrowings were overnight CMA advances, which mature on a daily basis and therefore the carrying amount represents their fair value.

Note 13 - Stock-Based Compensation

The Company had a stock incentive plan (the 2012 Plan) which was approved by its stockholders during 2012. The 2012 Plan provided that 250,000 shares of Bancorp's common stock be reserved for the granting of incentive stock options and non-statutory stock options to certain key employees, directors, or consultants. The exercise price of each incentive option cannot be less than the fair market value of the Company's common stock on the date of grant. In addition, the 2012 Plan allowed the Board to grant stock appreciation rights and restricted stock awards as may be allowable by law. As of December 31, 2023, no stock options and 149,516 restricted stock awards have been granted under the 2012 Plan.

The following table summarizes the restricted stock award activity under the 2012 Plan:

	2023		2022	
	Nonvested restricted shares outstanding	Weighted average grant date fair value	Nonvested restricted shares outstanding	Weighted average grant date fair value
Balance, beginning of period	93,872	$ 6.85	83,182	$ 5.91
Granted	-	-	34,529	8.45
Forfeited	-	-	-	-
Vested	(54,002)	6.49	(23,839)	5.89
Balance,end of period	39,870	$ 7.34	93,872	$ 6.85

In February 2022 the 2012 plan expired. In April 2022 the shareholders of Oregon Pacific Bancorp approved a new stock plan, the Oregon Pacific Bancorp 2022 Stock Incentive Plan, which granted the Compensation Committee the ability to grant up to 300,000 shares of equity grants including restricted stock and restricted stock units (RSUs).

The following table summarizes the restricted stock activity under the 2022 Plan:

	2023		2022	
	Nonvested restricted shares outstanding	Weighted average grant date fair value	Nonvested restricted shares outstanding	Weighted average grant date fair value
Balance, beginning of period	-	$ -	-	$ -
Granted	44,226	7.50	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Balance,end of period	44,226	$ 7.50	-	$ -

The restricted stock awards under the 2012 and 2022 plans are subject to various vesting schedules, cliff vest over a period of five years or vest ratably over a one-to-three-year period and are valued based on the grant-date fair value of the Company's common stock. During the years ended December 31, 2023 and 2022, the Company recognized stock-based compensation expense for restricted stock of $304,359 and $263,292, respectively.

As of December 31, 2023, there was $320,441 in unrecognized compensation costs related to nonvested restricted stock, which is expected to be recognized over a weighted average period of 1.72 years.

The unvested restricted stock shares are considered issued and outstanding. Holders of the shares have voting rights and would receive any declared dividends.

Pursuant to the terms of the Oregon Pacific Bancorp 2022 Stock Incentive Plan, the Bank issues Restricted Stock Units (RSUs). The following table summarizes the restricted stock unit (RSU) activity under the 2022 Plan:

	2023		2022	
	Nonvested restricted shares outstanding	Weighted average grant date fair value	Nonvested restricted shares outstanding	Weighted average grant date fair value
Balance, beginning of period	-	$ -	-	$ -
Granted	6,500	7.50	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Balance,end of period	6,500	$ 7.50	-	$ -

The RSUs granted under the 2022 plan are subject to a three-year vesting schedule and are valued based on the grant-date fair value of the Company's common stock. During the period ended December 31, 2023 the Company recognized stock-based compensation expense for RSUs of $14,896. There was no stock based compensation expense for RSUs recognized in the year ended December 31, 2022.

As of December 31, 2023, there was $33,854 in unrecognized compensation costs related to nonvested restricted stock, which is expected to be recognized over a weighted average period of 2.13 years.

The unvested RSUs are not issued and outstanding until vesting. Holders of the shares have no voting rights and are ineligible for any declared dividends.

Note 14 - Benefit Plans

On January 1, 2019, the Bank implemented a 401(k) Plan which covers all employees once a minimum length of employment has been met. The Bank’s match contributions to the 401(k) Plan totaled $356,082 and $336,778 during the years ended December 31, 2023 and 2022.

During 2022 the Bank established a profit-sharing plan, in the form of a nonelective plan contribution, subject to a vesting schedule. The nonelective contribution was accrued through the plan year, but the contribution was not credited to the plan participants until after the end of 2023. The contribution amount is allocated to all employees based on their eligible earnings during the plan year and required an active employment status on the last day of the plan year to qualify. During the years ended December 31, 2023 and 2022, the Company accrued profit sharing contributions of $366,612 and $294,151, respectively.

The Bank has also established a nonqualified deferred compensation plan for certain key management employees. Participants may elect to defer a portion of their compensation to the deferred compensation plan, subject to a minimum annual deferral of $5,000. In addition, the Bank may make discretionary employer contributions to the accounts of participants in the deferred compensation plan. Each participant's account is subject to a rate of return based on either the Bank's performance or on the return of another eligible investment option, as selected by each participant. For the years ended December 31, 2023 and 2022, the Bank recorded expenses of $177,570 and $170,509, respectively, related to the deferred compensation plan. The liability for benefits under the deferred compensation plan totaled $2,426,104 and $2,336,042 as of December 31, 2023 and 2022, respectively.

Upon enrollment in the deferred compensation plan, employees can elect the terms of their post-retirement distributions. Payout terms vary between one lump sum or monthly payments over a period of fifteen years.

Note 15 - Earnings Per Common Share and Common Equivalent Shares

The Company's basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The Company's diluted earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding plus dilutive common shares related to stock options or RSUs.

The numerators and denominators used in computing basic and diluted earnings per common share in 2023 and 2022 can be reconciled as follows:

	Net Income (Numerator)	Weighted Average Shares (Denominator)	Earnings Per Common Share
2023			
Basic earnings per common share	$ 9,231,890	7,093,015	$ 1.30
Diluted earnings per common share	$ 9,231,890	7,098,632	$ 1.30
2022			
Basic and diluted earnings per common share	$ 7,143,900	7,067,099	$ 1.01

Note 16 - Transactions with Related Parties

Certain directors, executive officers, and principal stockholders of the Company (and the companies with which they are associated) are customers of, and have had banking transactions with, the Bank in the ordinary course of business. In addition, the Bank expects to have such transactions in the future. All loans and commitments to loan to such parties were made in compliance with applicable laws 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 other unfavorable features.

An analysis of activity with respect to such loans in 2023 and 2022 is as follows:

	2023	2022
Loans outstanding, beginning of year	$ 12,106,332	$ 9,454,912
Additions	5,006,369	3,401,747
Repayments	(1,517,242)	(750,327)
Loans outstanding, end of year	$ 15,595,459	$ 12,106,332

At December 31, 2023 and 2022, deposits to directors, executive officers, and principal stockholders of the Company totaled $841,537 and $1,258,518, respectively.

Note 17 – Revenue from Contracts with Customers

Revenue in the scope of ASC 606 is measured based on the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. The majority of the Bank's revenue is specifically excluded from the scope of ASC 606. For in-scope revenue, the following is a description of principal activities, separated by the timing of revenue recognition from which the Bank generates its revenue from contracts with customers.

Revenue earned at a point in time - Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, overdraft fees, interchange fees and foreign exchange transaction fees, which are recorded in the service charges and fees category in the following table. Revenue is primarily based on the number and type of transactions and is generally derived from transactional information accumulated by the Bank's systems and is recognized immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Bank is the principal in each of these contracts, with the exception of interchange fees, in which case the Bank is acting as the agent and records revenue net of expenses paid to the principal.

Revenue earned over time - The Bank earns revenue from contracts with customers in a variety of ways where the revenue is earned over a period of time - generally monthly. Examples of this type of revenue are deposit account maintenance fees and safe deposit box fees, which are recorded in the service charges and fees category in the following table. Other examples are trust fee income, RIA income, investment sales commissions, and merchant card services. Revenue is generally derived from transactional information accumulated by the Bank's systems or those of third-parties and is recognized as the related transactions occur or services are rendered to the customer.

The Bank recognizes revenue from contracts with customers when it satisfies its performance obligations. The Bank's performance obligations are typically satisfied as services are rendered, and the Bank's contracts generally do not include multiple performance obligations. As a result, there are no contract balances as payments and services are rendered simultaneously. Payment is generally collected at the time services are rendered, monthly or quarterly. Unsatisfied performance obligations at the reporting date are not material to the Bank's consolidated financial statements.

The Bank's revenue from contracts with customers is recognized in noninterest income. The following table presents the Bank's noninterest income for the years ended December 31, 2023 and 2022, segregated by revenue from contracts with customers and revenue from other sources:

	2023	2022
Revenue from contracts with customers		
Trust fee income	$ 3,619,388	$ 3,206,106
Service charges and fees	1,374,342	1,272,678
Merchant card services	515,226	515,040
RIA income	1,094,987	976,911
Other income	114,992	31,497
	6,718,935	6,002,232
Revenue from other sources		
Mortgage loan sales and servicing fees	147,305	297,546
Increase in cash surrender value of BOLI	249,464	214,342
Fee income on off balance sheet deposits	39,984	709,659
Other income	-	130,874
	436,753	1,352,421
Total noninterest income	$ 7,155,688	$ 7,354,653

Note 18 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. 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 Bank to maintain minimum amounts and ratios (set forth in the following tables) of tier 1 capital to average assets and common equity tier 1, tier 1, and total capital to risk-weighted assets (all as defined in the regulations). Management believes that, as of December 31, 2023 and 2022, the Bank met or exceeded all capital adequacy requirements to which it is subject.

To be categorized as "adequately capitalized" or "well-capitalized," the Bank must maintain minimum common equity tier 1, tier 1 leverage, tier 1 risk-based, and total risk-based capital 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 Bank's actual and required capital amounts and ratios as of December 31, 2023 and 2022 are presented in the following table (dollars in thousands):

	Actual		Regulatory Minimum to be "Adequately Capitalized"		Regulatory Minimum to be "Well Capitalized" Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2023						
Tier 1 capital (to average assets)	$ 82,278	10.70%	$ 30,752	4.00%	$ 38,440	5.00%
Common equity tier 1 capital (to risk weighted assets)	82,278	14.28%	25,925	4.50%	37,448	6.50%
Tier 1 capital (to risk-weighted assets)	82,278	14.28%	34,567	6.00%	46,090	8.00%
Total capital (to risk-weighted assets)	89,482	15.53%	46,090	8.00%	57,612	10.00%
2022						
Tier 1 capital (to average assets)	$ 73,882	9.55%	$ 30,946	4.00%	$ 38,683	5.00%
Common equity tier 1 capital (to risk weighted assets)	73,882	13.92%	23,877	4.50%	34,490	6.50%
Tier 1 capital (to risk-weighted assets)	73,882	13.92%	31,837	6.00%	42,449	8.00%
Total capital (to risk-weighted assets)	80,516	15.17%	42,449	8.00%	53,061	10.00%

Bancorp is a bank holding company registered with the FRB. Bank holding companies are subject to capital adequacy requirements of the FRB under the Bank Holding Company Act of 1956, as amended, and the regulations of the FRB. For a bank holding company with less than $3.0 billion in assets, the capital guidelines apply on a bank only basis, and the FRB expects the holding company's subsidiary bank to be well capitalized under the prompt corrective action provisions. If the Company was subject to regulatory guidelines for bank holding companies with $3.0 billion or more in assets, as of December 31, 2023, Bancorp would have exceeded all regulatory capital requirements.

These financial statements have not been reviewed or confirmed for accuracy or relevance by the FDIC or FRB.

Forward-Looking Statement Safe Harbor

This release contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipates," "targets," "expects," "estimates," "intends," "plans," "goals," "believes" and other similar expressions or future or conditional verbs such as "will," "should," "would" and "could." The forward-looking statements made represent Oregon Pacific's current estimates, projections, expectations, plans or forecasts of its future results and revenues, including but not limited to statements about performance, loan or deposit growth, strategic focus, capital position, liquidity, credit quality and credit quality trends. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and are often beyond Oregon Pacific's control. Actual outcomes and results may differ materially from those expressed in, or implied by, any of these forward-looking statements. You should not place undue reliance on any forward-looking statement and should consider all of the following uncertainties and risks. Oregon Pacific Bancorp undertakes no obligation to publicly revise or update any forward-looking statement to reflect the impact of events or circumstances that arise after the date of this release. This statement is included for the express purpose of invoking the PSLRA's safe harbor provisions.

Oregon Pacific Bancorp, whose stock is publicly traded, is the holding company for Oregon Pacific Bank. Our stock is listed on the OTCBB (Over-the-Counter Bulletin Board) with the ticker symbol ORPB.

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