REPORT OF INDEPENDENT AUDITORS AND

FINANCIAL STATEMENTS

PEOPLE'S BANK OF COMMERCE
(AN OREGON BANKING CORPORATION)

December 31, 2021 and 2020

People's BANK
We put people first.

Table of Contents

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

MOSSADAMS

Report of Independent Auditors

To the Board of Directors and Stockholders
People's Bank of Commerce

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of People's Bank of Commerce, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of People's Bank of Commerce as of December 31, 2021 and 2020, and the results of its operations and its 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of People's Bank of Commerce and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

Portland, Oregon
March 11, 2022

	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	$ 81,345,358	$ 92,182,758
Time deposits with other institutions	1,492,000	1,740,000
Investment securities available-for-sale, at fair value	241,637,890	25,893,747
Federal Home Loan Bank (FHLB) stock	1,010,100	564,300
Loans held-for-sale	1,407,525	3,407,443
Factored accounts receivable, net of allowance	27,199,768	17,762,644
Loans, net of allowance for loan losses, and unearned income	452,848,631	341,744,684
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	23,048,156	17,796,522
Right-of-use asset, net	4,256,256	3,826,981
Other real estate owned	542,310	1,028,151
Bank-owned life insurance (BOLI)	13,759,082	7,475,619
Goodwill	3,335,384	3,335,384
Investment in real estate joint venture	2,311,732	2,360,850
Accrued interest receivable and other assets	5,403,089	4,211,549
Total assets	$859,597,281	$523,330,632
LIABILITIES		
Noninterest-bearing demand deposits	$350,423,974	$231,095,318
Interest-bearing demand and money market accounts	322,951,065	165,556,742
Savings deposits	66,466,635	36,730,181
Time deposits	24,387,655	22,365,573
Total deposits	764,229,329	455,747,814
FHLB Advances	3,000,000	3,000,000
Accrued interest payable and other liabilities	8,865,508	7,822,875
Lease liability	4,436,997	3,924,444
Total liabilities	780,531,833	470,495,133
COMMITMENTS AND CONTINGENCIES (Notes 9, 11, and 12)		
STOCKHOLDERS' EQUITY		
Common stock, $5 par value, 10,000,000 shares authorized; 5,057,211 and 3,558,581 shares issued and outstanding at December 31, 2021 and 2020, respectively	25,297,545	17,804,396
Surplus	36,042,613	22,574,481
Retained earnings	19,465,705	11,774,851
Accumulated other comprehensive income (loss)	(1,740,415)	681,771
Total stockholders' equity	79,065,448	52,835,499
Total liabilities and stockholders' equity	$859,597,281	$523,330,632

People's Bank of Commerce

Statements of Income

	Years Ended December 31, 2021	Years Ended December 31, 2020
INTEREST INCOME		
Interest and fees on loans	$ 24,524,695	$ 15,942,485
Asset-based financing income	5,755,120	3,409,516
Interest on investment securities	1,618,035	604,393
Interest on federal funds sold	163,520	121,661
Total interest income	32,061,369	20,078,055
INTEREST EXPENSE		
Interest-bearing deposit and savings accounts	637,918	499,087
Time deposit accounts	241,190	312,459
Other borrow ings	58,421	165,051
Total interest expense	937,530	976,597
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	31,123,840	19,101,458
PROVISION FOR LOAN LOSSES	110,872	1,332,476
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	31,012,968	17,768,982
NONINTEREST INCOME		
Gain on sale of loans	2,641,361	3,916,181
Service charges and other fees	2,980,947	2,174,177
Mortgage loan fees	222,064	389,372
Net gain on sale of investment securities	-	36,957
Net gain on sale of OREO	40,914	-
Bargain purchase gain	1,716,494	-
Other noninterest income	708,945	445,064
Total noninterest income	8,310,726	6,961,751
NONINTEREST EXPENSE		
Salaries and employee benefits	13,565,209	10,524,015
Occupancy and equipment	3,964,390	2,505,205
Professional fees	868,512	754,431
Advertising and promotional	1,367,387	516,443
Data processing	2,193,309	580,645
Other noninterest expense	2,808,149	1,782,239
Total noninterest expense	24,766,955	16,662,978
INCOME BEFORE PROVISION FOR INCOME TAXES	14,556,738	8,067,755
PROVISION FOR INCOME TAXES	3,083,774	1,936,770
NET INCOME	$ 11,472,964	$ 6,130,985
Basic earnings per share of common stock	$ 2.44	$ 1.72
Diluted earnings per share of common stock	$ 2.44	$ 1.71

	Years Ended December 31, 2021	2020
NET INCOME	$ 11,472,964	$ 6,130,985
Unrealized holding gains (losses) arising during the period, pre-tax	(2,746,719)	637,349
Tax effect of unrealized holding gains/losses arising during the period	324,533	(134,309)
Reclassification for gains realized in earnings, pre-tax	-	(36,957)
Tax effect of reclassification adjustment for gains realized in earnings	-	8,226
Other comprehensive income (loss)	(2,422,186)	474,309
COMPREHENSIVE INCOME	$ 9,050,778	$ 6,605,294

People's Bank of Commerce
Statements of Changes in Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Surplus	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, December 31, 2019	3,241,075	$ 16,205,371	$ 19,813,698	$ (211,815)	$ 5,643,866	$ 207,462	$ 41,658,582
Net income	-	-	-	-	6,130,985	-	6,130,985
Net unrealized gain on investment securities available-for-sale, net of taxes	-	-	-	-	-	474,309	474,309
Stock bonus	22,570	112,850	100,437	-	-	-	213,287
Options exercised	2,933	14,665	(1,437)	-	-	-	13,228
Restricted stock grants issued	37,750	188,750	(188,750)	-	-	-	-
Stock-based compensation expense	-	-	287,820	-	-	-	287,820
Common stock issued, net of expenses	256,552	1,282,760	2,539,865	-	-	-	3,822,625
Restricted stock forfeited	(2,299)	-	-	-	-	-	-
Allocation of 20,250 shares to Employee Stock Ownership Plan	-	-	22,848	211,815	-	-	234,663
BALANCE, December 31, 2020	3,558,581	$ 17,804,396	$ 22,574,481	$ -	$ 11,774,851	$ 681,771	$ 52,835,499
Net income	-	-	-	-	11,472,964	-	11,472,964
Net unrealized loss on investment securities available-for-sale, net of taxes	-	-	-	-	-	(2,422,186)	(2,422,186)
Options exercised	9,320	46,600	(1,882)	-	-	-	44,718
Restricted stock grants issued	11,250	56,250	(56,250)	-	-	-	-
Stock-based compensation expense	-	-	398,228	-	-	-	398,228
Acquisition of WMCB, net of expenses	1,238,334	6,191,670	10,550,984	-	-	-	16,742,654
5% Stock Dividend	239,726	1,198,629	2,577,052	-	(3,782,111)	-	(6,430)
BALANCE, December 31, 2021	5,057,211	$ 25,297,545	$ 36,042,613	$ -	$ 19,465,705	$ (1,740,415)	$ 79,065,448

	Years Ended December 31, 2021	Years Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,472,964	$ 6,130,985
Adjustments to reconcile net income to net cash:		
Deferred income taxes	361,088	(770,000)
Provision for loan losses	110,872	1,332,476
Depreciation and amortization	1,205,183	952,154
Loss on disposition of donated land	-	30,000
Amortization of right-of-use asset	687,499	367,147
Stock-based compensation expense	398,228	735,770
Amortization of premiums on investment securities	637,323	144,734
Realized gain on sale of investment securities	-	(36,957)
Net appreciation of bank-owned life insurance	(271,832)	(157,593)
Gain on sale of loans	(2,641,361)	(3,916,181)
Proceeds from the sale of loans held-for-sale	87,554,638	135,236,252
Production of loans held-for-sale	(82,913,359)	(132,253,274)
Gain from sale on OREO	(40,914)	(13,876)
Bargain purchase gain	(1,716,494)	-
Amortizaiton of CDI	53,258	-
Amortization of CD Premium	(19,117)	-
Changes in cash due to changes in certain assets and liabilities:		
Accrued interest receivable and other assets	1,006,877	(1,393,623)
Accrued interest payable and other liabilities	373,706	2,304,232
Decrease in lease liability	(338,688)	(317,190)
Net cash from operating activities	15,919,870	8,375,056
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(213,852,845)	(9,684,295)
Proceeds from payments, calls, and sales of investment securities available-for-sale	19,151,544	12,017,589
Cash paid for acquisition, net of cash acquired	36,637,272	
Proceeds from sale of FHLB stock	-	325,200
Purchase of FHLB stock	(265,100)	-
Purchase of time deposits with other institutions	-	(744,000)
Matured time deposits with other institutions	248,000	-
Net increase in factored accounts receivable	(9,437,124)	(7,556,357)
Net decrease (increase) in loans	32,940,670	(67,918,986)
Proceeds from sale of other real estate owned	526,756	2,492,974
Purchase of BOLI	(1,037,756)	(1,048,658)
Distributions in excess of net income from real estate joint venture	49,118	49,117
Payments made for purchase of premises, equipment, and leasehold improvements	(1,930,828)	(2,604,207)
Net cash from investing activities	(136,970,294)	(74,671,623)

Statements of Cash Flows

	Years Ended December 31, 2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	$ 110,644,924	$ 148,954,731
Repayment of borrowings	-	(8,961,815)
Cash paid in lieu of fractional shares from stock dividend	(6,430)	-
Proceeds from stock options exercised	44,718	13,228
Capitalized stock issuance costs	(470,188)	-
Proceeds from sale of common stock, net of expenses	-	3,822,625
Net cash from financing activities	110,213,024	143,828,769
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,837,400)	77,532,202
CASH AND CASH EQUIVALENTS, beginning of year	92,182,758	14,650,556
CASH AND CASH EQUIVALENTS, end of year	$ 81,345,358	$ 92,182,758
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 939,933	$ 1,015,358
Cash paid for taxes	$ 3,140,000	$ 2,979,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Change in fair value of investment securities available-for-sale, net of taxes	$ (2,422,186)	$ 474,309
Assets acquired and liabilities assumed in business combination:		
Assets Acquired	$ 221,465,046	-
Liabilities Assumed	$ (199,375,876)	-
Net assets acquired	$ 22,089,170	$ -
Common stock issued	$ 17,212,843	$ -

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

In July 1997, People's Bank of Commerce (the Bank) was incorporated and received regulatory approval to become a state-chartered institution authorized to provide banking services in the state of Oregon. The Bank is subject to the regulations of certain federal and state agencies and will undergo periodic examinations by those regulatory authorities.

The Bank, which is headquartered in Medford, Oregon, operates nine full-service branches in Albany, Ashland, Central Point, Grants Pass, Klamath Falls, Lebanon, Medford, and Salem, Oregon, and provides banking services to businesses and individuals in the Southern and Willamette Regions.

The Bank declared a 5% stock dividend during 2021. All per share amounts and calculations in the accompanying financial statements have been restated to reflect the effects of these stock dividends.

On September 1, 2017, the Bank acquired all of the outstanding shares of Capital Associates, Inc. dba Steelhead Finance (Steelhead) for cash and exchange of the Bank's stock. Steelhead is an asset-based lender serving the commercial freight delivery industry as a factor of freight bills.

March 1, 2021, the Bank acquired Willamette Community Bank in exchange for the Bank's stock and cash. Willamette Community Bank was originally founded in 2003 and operated three branches in Oregon's Willamette Valley, including Albany, Lebanon, and Salem. All three branches remained open after conclusion of the merger.

Management's estimates and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets, and revenues and expenses for the reporting periods. Actual results could differ significantly from management's estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of investment securities available-for-sale, other real estate owned, deferred tax assets, and the fair value of financial instruments.

Cash and cash equivalents

Cash equivalents are generally short-term investments with a maturity of three months or less. Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold within a one-day period.

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

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Investment securities

The Bank is required to specifically identify its investment securities as "available-for-sale," "held-to-maturity," or "trading accounts." The Bank holds no trading securities. However, debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale and recorded at fair value. Premiums and discounts are recognized in interest income using the effective interest method over the period to maturity.

Available-for-sale securities consist of bonds, notes, and debentures. Securities are generally classified as available-for-sale if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Unrealized holding gains and losses, net of taxes, on available-for-sale securities are reported as a net amount in a separate component of equity until realized.

Fair values for these investment securities are based on quoted market prices. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Management reviews investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions; fair value in relation to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether management intends to sell a security or if it is likely that the Bank will be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. For debt securities, if management intends to sell the security, or it is likely that the Bank will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If management does not intend to sell the security and it is not likely that the Bank will be required to sell the security, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, which is the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income. Impairment losses related to all other factors are presented as separate categories within other comprehensive income.

Transfers of securities from held-to-maturity to available-for-sale are accounted for at amortized cost as of the date of the transfer. Fair value adjustments are recognized in other comprehensive income at the time of the transfer and, thereafter, among unrealized gains or losses recognized for all securities classified as available-for-sale.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Factored accounts receivable, net of allowance

To help ensure collection of accounts receivable, Steelhead has required factoring clients to maintain factoring reserves of 5% to 20% of their monthly factoring activity. The factored accounts receivable are secured and a reserve has been established in the Bank's Allowance for Loan and Lease Losses. As of December 31, 2021 and 2020, the allowance was $253,682 and $210,072, respectively. Management estimates the allowance for doubtful accounts based on historical bad debt and losses and aging of current receivable balances. Management considers accounts to be past due after 60 days without a payment. Management's only measure of credit quality for factored accounts receivable is days past due. The amount of factored accounts receivable past due as of December 31, 2021 and 2020 was insignificant.

Loans held-for-sale

Mortgage loans held-for-sale are carried at the lower of cost or estimated market value. Market value is determined on an aggregate loan basis. Market value adjustments that reduce the carrying value of loans held-for-sale are recorded within a valuation allowance account and charged to noninterest income.

Loans, net of allowance for loan losses, and unearned income

In the normal course of business, the Bank originates and services loans receivable from borrowers. Loans are stated at the amount of unpaid principal, net of an allowance for loan losses, and net of deferred loan fees or costs. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement. The carrying value of impaired loans is based on the present value of expected future cash flows (discounted at each loan's effective interest rate) or, for collateral dependent loans, at fair value of the collateral. If the measurement of each impaired loan's value is less than the recorded investment in the loan, an impairment allowance is created by either charging the provision for loan losses or allocating an existing component of the allowance for loan losses.

Loans, including impaired loans, are classified as non-accrual if the collection of principal and interest is doubtful. Generally, this occurs when a loan is past due as to maturity or payment of principal or interest by 90 days or more, unless such loans are well-secured and in the process of collection. If a loan or portion thereof is partially charged-off, the loan is considered a troubled debt restructuring and impaired. Loans that are less than 90 days past due may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

When a loan is classified as non-accrual, all uncollected accrued interest is reversed against interest income and the accrual of interest income is terminated. Generally, any cash payments are applied as a reduction of principal outstanding. In cases where the future collectability of the principal balance in full is expected, interest income may be recognized on a cash basis. A loan may be restored to accrual status when the borrower's financial condition improves so that full collection of principal is considered likely.

A troubled debt restructuring is a formal restructure of a loan in which the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date. Troubled debt restructurings are measured at the time of restructure for impairment, and are subjected to the Bank's impaired loan accounting policy.

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

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Management carefully monitors changing economic conditions, the concentrations of loan categories and collateral, the financial condition of borrowers, the history of the loan portfolio, and historical peer group loan loss data to determine the adequacy of the allowance for loan losses. The allowance is based on estimates, and actual losses may vary from the estimates. No assurance can be given that adverse future economic conditions will not lead to delinquent loans, increases in the provision for loan losses, and/or charge-offs. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgment about information available to them at the time of their examination.

Premises, equipment, and leasehold improvements

Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, or lease term in the case of leasehold improvements, which range from two to forty years.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Other real estate owned

Property and assets acquired through foreclosure or deed in lieu of foreclosure are initially recorded at fair value and are subsequently stated at the lower of the carrying value of the loan or the fair value of the assets received, less estimated costs to sell, at the date the asset is acquired. Adjustments that reduce loan balances to the lower carrying value at the time of foreclosure are recognized as charge-offs in the allowance for loan losses. Subsequent impairment write-downs to net realizable value, if any, or any disposal gains or losses are included in noninterest income or expense. Costs relating to the development and improvement of property are capitalized and holding costs are charged to expense as incurred.

Revenue from contracts with customers

The Bank accounts for revenue arising through contracts with customers under the guidance of the Financial Accounting Standards Board's Accounting Standards Codification Topic 606 ("ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Bank performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation.

The majority of the Bank's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. The Bank's services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Bank satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges, debit and ATM interchange income, brokerage revenue, merchant fee income, credit card and interchange income, and gain (loss) on other real estate owned, net. Refer to Note 13 – Revenue from Contracts with Customers for further discussion on the Bank's accounting policies for revenue sources within the scope of ASC 606.

Federal Home Loan Bank (FHLB) stock

At December 31, 2021 and 2020, the Bank held FHLB stock with a par value of $1,010,000 and $564,300, respectively. As a member of the FHLB system, the Bank is required to maintain a minimum investment level in FHLB stock based on specific percentages of the Bank's outstanding mortgages, total assets, or FHLB advances. These securities are reported at par value, which represents the Bank's cost.

Stock in the FHLB of Des Moines is classified as restricted stock and is evaluated for impairment based on ultimate recoverability. The determination of whether the investment is impaired is based on the Bank's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation 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 the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. Management concluded that the Bank's FHLB stock investment was not impaired as of December 31, 2021 or 2020.

Investment in real estate joint venture
During 2011, the Bank entered a joint venture with another investor in a limited liability company formed to manage the construction and ownership of a commercial building that the Bank has utilized for operations. The Bank has accounted for its initial investment at 50% of total costs incurred to construct the new building. Following completion of construction and occupancy of the building, the Bank accounts for its investment in the limited liability company by following the equity method of accounting. Under this accounting treatment, the Bank recognizes its proportionate share of earnings and losses as a component of noninterest expense. During 2021 and 2020, the Bank recognized net income from its investment in the limited liability company of $148,883 in each year.

Goodwill
Goodwill arises from business combinations and represents the fair value of assets acquired net of liabilities assumed that exceeds the consideration provided at the acquisition date. Goodwill is not amortized, but instead is measured for impairment annually and when impairment is determined to exist, goodwill is written down through a charge to earnings. The Bank performs impairment testing at least annually to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Income taxes
Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. Changes in enacted tax rates result in a revaluation of deferred tax assets and liabilities through the income tax provision in the period that the tax rate changes are enacted. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Bank evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Bank recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Bank does not anticipate that any amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. Additionally, the Bank recognizes interest and penalties related to income tax matters in income tax expense, although there were no interest and penalties recognized for the years ended December 31, 2021 and 2020.

Off-balance sheet financial instruments
The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The Bank evaluates its exposure to off-balance sheet credit losses periodically for unfunded loan commitments and loans sold in the secondary market. The allowance for off-balance sheet credit losses is increased through charges to noninterest expense and is decreased by charge-offs or transfers to the allowance for loan losses at the time that the related loan is funded or the off-balance sheet credit exposure becomes probable and estimable. Management periodically evaluates the adequacy of this allowance based on the Bank's off-balance sheet credit loss experience, known and inherent risks in the portfolio, adverse situations which may increase the likelihood of loss, and current economic conditions. This reserve for unfunded loan commitments is included in the balance sheets under the caption "accrued interest payable and other liabilities."

Asset-based financing income
Asset-based financing income on factored accounts receivable includes service fees and finance income. Service fee income from freight bills and other factored receivables purchased is calculated as a percentage of receivables purchased from clients plus a variable or fixed charge per bill. Finance income from factored receivables is recognized as income over the period the related factored receivables are outstanding. Fees charged vary among clients and are based upon a credit evaluation and expected profit contribution to Steelhead from each client.

Service charges and other fees on other deposit accounts
The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Advertising and promotional expenses
Advertising and promotional costs are charged to expense during the period in which they are incurred.

Earnings per share
Basic earnings per share is computed by dividing net income available to stockholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock dividends and splits. Outstanding shares includes shares issued to the Employee Stock Ownership Plan and granted restricted stock units. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include dilutive common equivalent shares for stock options assumed to be outstanding during the period utilizing the treasury-stock method.

Stock compensation plans
The Bank has adopted stock-based compensation plans, and recognizes compensation expense based on the fair value of options or restricted stock awards on the date of grant. Share-based awards that do not require future service (i.e., fully vested awards at grant date) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period. The phantom stock plans are settled in cash, based on the stock price on the vesting date, as they vest annually. The Bank recognizes share-based compensation expense on a straight-line basis.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Employee Stock Ownership Plan (ESOP)
Unallocated shares issued to the ESOP for eventual allocation to the Plan's participants serve as collateral for outstanding debt associated with the ESOP's purchase of such shares from the Bank. Unallocated shares are accounted for as a reduction in the value of outstanding common stock until such shares are legally released by the lender as collateral on the loan. Generally, this occurs as the loan is repaid. The Bank guarantees an outside loan carried by the ESOP and has recorded the loan within Borrowings on its balance sheet. As shares are released to be allocated to participants, the Bank recognizes compensation expense equal to the fair value of the shares when released.

Leases
Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Bank uses an incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Bank's borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

The lease agreements relate to real estate and generally provide that the Bank pay taxes, insurance, maintenance and certain other operating expenses applicable to the leased premises. Variable lease components and non-lease components are not included in the Bank's computation of the ROU asset or lease liability. The Bank also does not include short-term leases in the computation of the ROU asset or lease liability. Short-term leases are leases with a term at commencement of 12 months or less. Short-term lease expense is recorded on a straight-line basis over the term of the lease. Lease agreements do not contain any residual value guarantees or restrictive covenants.

Certain leases have renewal options at the expiration of the lease terms. Option periods are included in the computation of the lease term for ROU assets or lease liabilities if the Bank's current intent is to utilize the locations through those periods.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Fair value measurements
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Bank determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The Bank's own data used to develop unobservable inputs shall be adjusted for market consideration when reasonably available.

The Bank used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value on a recurring or nonrecurring basis in the accompanying financial statements:

Investment securities available-for-sale – Investment securities available-for-sale are measured and carried at fair value on a recurring basis. For these securities, the Bank obtains fair value measurements from 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 bond's terms and conditions, among other things (Level 1). When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing (Level 2).

Impaired loans – Impaired loans are measured and adjusted to fair value on a nonrecurring basis. Impaired loans are measured for impairment at the present value of expected future cash flows discounted at the loan's effective interest rate (Level 3), the loan's market price (Level 2), or the fair value of the collateral based on independent appraisals, less costs to sell, if the loan is collateral dependent (Level 3).

Other real estate owned – Other real estate owned is measured and adjusted to fair value on a nonrecurring basis. On the date that other real estate owned is received in satisfaction of a loan receivable, it is measured at fair value, less cost to sell, based on recent independent appraisals (Level 3). Subsequent to the acquisition date, it is measured for impairment and written down to its fair value, less costs to sell, based on updated independent appraisals (Level 3).

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. Consequently, the fair value of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed-rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported net income, earnings per share, or retained earnings.

Subsequent events
Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Bank recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Bank's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Bank has evaluated subsequent events through March 11, 2022, which is the date the financial statements became available to be issued.

Note 2 – Business Combination

On March 1, 2021, the Bank completed its acquisition of Willamette Community Bank.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their fair values as of the March 1, 2021, acquisition date. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain, net of deferred taxes, of $1,716,494 and a core deposit intangible of $422,000. The bargain purchase gain represents the excess of the fair value of the net assets acquired over the purchase price.

The table below summarizes the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	March 1, 2021	
Merger Consideration		
Stock Issued, 1,238,334 at $13.90 per share	$ 17,212,843	
Cash paid	3,159,833	
Total Consideration		$ 20,372,676
Identifiable net assets acquired, at fair value		
Assets acquired		
Cash and cash equivalents	$ 39,797,106	
Investment securities	24,755,556	
Federal Home Loan Bank (FHLB) stock	180,700	
Loans	144,155,489	
Premises	4,525,989	
Right-of-use asset, net	811,689	
Bank-owned life insurance (BOLI)	4,973,874	
Accrued interest receivable and other assets	2,264,643	
Total assets acquired		$ 221,465,046
Liabilities assumed		
Deposits	$ (197,855,708)	
Accrued interest payable and other liabilities	(668,927)	
Lease liability	(851,241)	
Total liabilities assumed		(199,375,876)
Total fair value of identifiable assets		22,089,170
Bargain purchase gain		$ 1,716,494

Of the $144,155,489 net loans acquired, $834,404 exhibited credit deterioration on the date of purchase. The following table provides a summary of these purchased credit deteriorated (PCD) loans at acquisition:

	March 1, 2021
Par Value of PCD loans acquired	$ 834,404
PCD ACL at acquisition	(29,944)
Non-credit discount on PCD loans	(107,629)
Purchase price of PCD loans	$ 696,831

For illustrative purposes only, the following table presents certain unaudited pro forma information for the year ended December 31, 2021 and 2020. This unaudited, estimated pro forma financial information was calculated as if Willamette Community Bank had been acquired as of the beginning of the year prior to the date of acquisition. This unaudited pro forma information combines the historical results of Willamette Community Bank with the Bank's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, People's Bank expects to achieve further operating cost savings and other business synergies, including revenue growth as a result of the acquisition, which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented.

	Unaudited Pro-forma for the years ended Years Ended December 31, 2021	2020
Total revenues (net interest income plus noninterest income)	$ 47,804,599	$ 33,173,015
Net Income	11,511,713	6,742,705
Basic earnings per share	2.45	1.89
Diluted earnings per share	2.45	1.89

The following table shows the impact of the acquisition-related expenses related to the acquisition of Willamette Community Bank for the periods indicated to the various components of noninterest expense:

	Years Ended December 31, 2021	2020
Noninterest Expense		
Compensation and employee benefits	$ 621,785	-
Data processing	1,674,766	-
Legal and professional fees	170,535	305,413
Other	-	-
Total impact of acquisition related costs to noninterest expense	$ 2,467,086	$ 305,413

Note 3 – Investment Securities

Investment securities consist of the following as of December 31, 2021 and 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2021				
Investment securities available-for-sale				
U.S. Treasury & government agency obligations	$ 83,741,500	$ 558	$ (1,202,196)	$ 82,539,862
SBA backed securities	37,938	102	(55)	37,986
Residential mortgage backed securities	144,265,248	147,542	(1,425,237)	142,987,553
Municipal securities	14,158,152	432,611	(18,274)	14,572,490
Corporate sub-debt	1,500,000	-	-	1,500,000
Total investment securities:	$ 243,702,838	$ 580,813	$ (2,645,761)	$ 241,637,890

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2020				
Investment securities available-for-sale				
U.S. government agency obligations	$ 1,000,000	$ 788	$ -	$ 1,000,788
SBA backed securities	174,875	1,349	(317)	175,907
Residential mortgage backed securities	14,372,345	- 332,181	(8,340)	14,696,186
Municipal securities	9,483,525	537,341	-	10,020,866
Total investment securities:	$ 25,030,745	$ 871,659	$ (8,657)	$ 25,893,747

Note 3 – Investment Securities (continued)

At December 31, 2021, the Bank had 126 available-for-sale investment securities in a loss position for less than 12 months, and 2 available-for-sale investment securities in a loss position for greater than 12 months as shown in the following table.

	December 31, 2021					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale						
U.S. Treasury & government agency obligations	$ 80,035,582	$ (1,202,196)	$ -	$ -	$ 80,035,582	$ (1,202,196)
SBA backed securities	13,615	(28)	11,939	(26)	25,554	(55)
Residential mortgage backed securities	135,692,027	(1,408,913)	825,700	(16,324)	136,517,727	(1,425,237)
Municipal securities	944,729	(18,274)	-	-	944,729	(18,274)
	$ 216,685,953	$ (2,629,411)	$ 837,639	$ (16,350)	$ 217,523,592	$ (2,645,761)

At December 31, 2020, the Bank had three available-for-sale investment securities in a loss position for less than 12 months, and three available-for-sale investment securities in a loss position for greater than 12 months as shown in the following table.

	December 31, 2020					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale						
U.S. government agency obligations	$ -	$ -	$ -	$ -	$ -	$ -
SBA backed securities	-	-	60,700	(317)	60,700	(317)
Residential mortgage backed securities	3,141,342	(8,340)	-	-	3,141,342	(8,340)
Municipal securities	-	-	-	-	-	-
	$ 3,141,342	$ (8,340)	$ 60,700	$ (317)	$ 3,202,042	$ (8,657)

Management believes that unrealized losses are solely the result of changes in interest rates since the securities have been purchased and that no other-than-temporary impairment exists.

In 2021, the Bank did not sell any securities in its portfolio of available-for-sale investments. In 2020, the Bank received proceeds of $3,963,218 on the sale of available-for-sale securities, resulting in gross realized gains of $36,957. At December 31, 2021 and 2020, securities in the amount of $9,595,929 and $4,291,986, respectively, were pledged to secure public deposit.

Note 3 – Investment Securities (continued)

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2021 are as follows:

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 761,197	$ 761,040
Due from one year through five years	27,592,407	27,359,663
Due from five years through ten years	60,748,014	59,874,994
Due after ten years	10,335,973	10,655,342
Residential mortgage backed securities	144,265,247	142,986,850
	$ 243,702,838	$ 241,637,890

Residential mortgage backed securities are able to be prepaid and the Bank is unable to estimate the maturities per year. As a result, they have been shown separately within the maturity table above.

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income

The composition of loan balances is summarized as follows as of December 31:

	2021	2020
Real estate loans	$ 349,995,491	$ 217,281,259
Commercial loans	62,570,702	108,980,176
Construction loans	44,860,672	18,044,495
Consumer loans	2,148,768	4,453,662
Total loans	459,575,633	348,759,592
Allowance for loan losses	(4,375,808)	(4,453,266)
Unearned income, net of deferred costs	(2,351,194)	(2,561,642)
Loans, net of allowance for loan losses, and unearned income	$ 452,848,631	$ 341,744,684

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

Cares Act Program

Pursuant to the CARES Act passed in March 2020, the Bank funded over a combined 1,800 loans under Phase I and II of the PPP Program, including those funded by Willamette Community Bank prior to the merger on March 1, 2021, to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program ("PPP") administered by the U.S. Small Business Administration ("SBA"). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Bank received a fee of 1%-5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The Bank has classified the PPP loans within the commercial grouping. The Bank ended its origination of new PPP loans under Round I on August 14, 2020, and funding loans under Round II on May 25, 2021. On June 5, 2020, the PPP Flexibility Act was signed into law that modified, among other things, rules governing the PPP payment deferral period. In October 2020, due to updated guidance from the SBA that PPP loan payments were to be deferred until SBA had remitted forgiveness funds to the lender if the Borrower applied for forgiveness within ten months after the end of their covered period, the Bank modified the first payment due dates for PPP loans that originated prior to June 5, 2020, and extended the payment deferral period from six to sixteen months. The extended payment deferral period will affect the timing over which the accretion of PPP net loan origination fees are recognized for those loans not yet forgiven. The balance of PPP loans at December 31, 2021 was $6.6 million.

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

The following table displays the activity and allocation of the allowance for loan losses to significant segments of the loan portfolio at December 31:

	2021					
	Real Estate	Commercial	Construction	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$3,210,467	$ 594,841	$ 107,058	$ 54,778	$ 486,122	$4,453,266
Charge-offs	-	(263,469)	-	(3,724)	-	(267,193)
Recoveries	76,613	1,150	1,100	-	-	78,863
Provision for loan losses	(596,906)	508,563	24,177	7,085	167,953	110,872
Ending balance	$2,690,174	$ 841,086	$ 132,335	$ 58,139	$ 654,075	$4,375,808
Ending balance Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance Loans collectively evaluated for impairment	$2,690,174	$ 841,086	$ 132,335	$ 58,139	$ 654,075	$4,375,808

	2020					
	Real Estate	Commercial	Construction	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$1,847,782	$ 714,601	$ 53,670	$ 53,792	$ 448,696	$3,118,541
Charge-offs	-	-	-	(395)	-	(395)
Recoveries	2,250	-	-	394	-	2,644
Provision for loan losses	1,360,435	(119,760)	53,388	987	37,426	1,332,476
Ending balance	$3,210,467	$ 594,841	$ 107,058	$ 54,778	$ 486,122	$4,453,266
Ending balance Loans individually evaluated for impairment	$ -	$ 23,655	$ -	$ -	$ -	$ 23,655
Ending balance Loans collectively evaluated for impairment	$3,210,467	$ 571,186	$ 107,058	$ 54,778	$ 486,122	$4,429,611

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

The following table displays the activity and allocation of loans evaluated individually and collectively for impairment to significant segments of the loan portfolio at December 31:

	2021				
	Real Estate	Commercial	Construction	Consumer	Total
Loans					
Ending balance	$ 349,995,491	$ 62,570,702	$ 44,860,672	$ 2,148,768	$ 459,575,633
Ending balance Loans individually evaluated for impairment	$ 653,495	$ -	$ -	$ -	$ 653,495
Ending balance Loans collectively evaluated for impairment	$ 349,341,996	$ 62,570,702	$ 44,860,672	$ 2,148,768	$ 458,922,138

	2020				
	Real Estate	Commercial	Construction	Consumer	Total
Loans					
Ending balance	$ 217,281,259	$ 108,980,176	$ 18,044,495	$ 4,453,662	$ 348,759,592
Ending balance Loans individually evaluated for impairment	$ 42,856	$ 59,077	$ -	$ -	$ 101,933
Ending balance Loans collectively evaluated for impairment	$ 217,238,403	$ 108,921,099	$ 18,044,495	$ 4,453,662	$ 348,657,659

The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. Assignment of a risk rating is done on the individual loan rather than at the borrower level. Loans are graded from inception and on a continuing basis until the debt is repaid. The risk rating categories can be generally described by the following groupings:

Pass (1-6) – An acceptable asset carrying a normal degree of credit risk exhibiting the capacity to perform according to the repayment terms.

Special Mention (7) – A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

Substandard (8) – A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt.

Doubtful (9) – Any asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable.

Loss (10) – Assets classified loss are considered uncollectible and of such minimal value that the continuance as bankable assets are not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value but that it is not practical or desirable to defer writing off this basically worthless asset even though a partial recovery may occur in the future.

The following table represents loan portfolio information by loan type and credit grade as of December 31:

	2021				
	Real Estate	Commercial	Construction	Consumer	Total
Grade					
Pass	$ 345,589,220	$ 61,780,131	$ 44,860,672	$ 2,148,768	$ 454,378,792
Special Mention	1,999,848	790,570	-	-	2,790,418
Substandard	2,406,423	-	-	-	2,406,423
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 349,995,491	$ 62,570,702	$ 44,860,672	$ 2,148,768	$ 459,575,633

	2020				
	Real Estate	Commercial	Construction	Consumer	Total
Grade					
Pass	$ 215,107,362	$ 108,700,146	$ 18,044,495	$ 4,453,662	$ 346,305,665
Special Mention	932,389	-	-	-	932,389
Substandard	1,241,508	280,030	-	-	1,521,538
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 217,281,259	$ 108,980,176	$ 18,044,495	$ 4,453,662	$ 348,759,592

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

Past due loans are loans for which principal and interest were not paid timely according to the contractual payment terms. The following table represents loans past due by loan category as of December 31:

	2021					
	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate	$ -	$ -	$ 653,495	$ 653,495	$ 349,341,996	$ 349,995,491
Commercial	49,561	-	-	49,561	62,521,141	62,570,702
Construction	-	-	-	-	44,860,672	44,860,672
Consumer	-	-	-	-	2,148,768	2,148,768
	$ 49,561	$ -	$ 653,495	$ 703,056	$ 458,872,577	$ 459,575,633

	2020					
	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate	$ -	$ -	$ -	$ -	$ 217,281,259	$ 217,281,259
Commercial	187,661	-	-	187,661	108,792,515	108,980,176
Construction	-	-	-	-	18,044,495	18,044,495
Consumer	-	3,724	-	3,724	4,449,938	4,453,662
	$ 187,661	$ 3,724	$ -	$ 191,385	$ 348,568,207	$ 348,759,592

As of December 31, 2021, two loans were non-accrual status totaling $653,495. As of December 31, 2020, there were no non-accrual loans.

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

The following table represents a comparison of impaired loans with and without specific allowance recorded for the period ended December 31:

2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
With allowance recorded					
Real estate	$ 653,495	$ 771,926	$ -	$ 678,921	$ -
Commercial	-	-	-	-	-
	$ 653,495	$ 771,926	$ -	$ 678,921	$ -
Total					
Real estate	$ 653,495	$ 771,926	$ -	$ 678,921	$ -
Commercial	-	-	-	-	-
	$ 653,495	$ 771,926	$ -	$ 678,921	$ -

2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Real estate	$ 42,856	$ 42,856	$ -	$ 58,324	$ 8,969
Commercial	-	-	-	-	-
	$ 42,856	$ 42,856	$ -	$ 58,324	$ 8,969
With allowance recorded					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	59,077	59,077	23,655	77,294	4,287
	$ 59,077	$ 59,077	$ 23,655	$ 77,294	$ 4,287
Total					
Real estate	$ 42,856	$ 42,856	$ -	$ 58,324	$ 8,969
Commercial	59,077	59,077	23,655	77,294	4,287
	$ 101,933	$ 101,933	$ 23,655	$ 135,618	$ 13,256

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

Troubled debt restructurings

At December 31, 2021 and 2020, impaired loans of $653,495 and $42,856, respectively, were classified as troubled debt restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms.

The types of modifications offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is modified.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Payment modification – A modification in which the payment amount is changed.

Combination modification – Any other type of modification, including the use of multiple types of modifications.

There were no newly restructured loans that occurred during the years ended December 31, 2021 and 2020. During 2021 and 2020, there were no troubled debt restructures that subsequently defaulted within twelve months of restructuring.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the “Coronavirus Relief Act”) passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under GAAP. This relief applies to loan modifications executed between March 1, 2020 and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Bank elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. During the covered period, 111 loans totaling $48.1 million had been in a CARES Act deferment. As of December 31, 2020, three loans totaling $1.1 million were modified as CARES Act deferrals and not subject to TDR accounting and reporting. There were no loans in such deferment as of December 31, 2021.

Note 5 – Premises, Equipment, and Leasehold Improvements

The composition of premises, equipment, and leasehold improvements is summarized as follows as of December 31:

	2021	2020
Land	$ 3,962,842	$ 3,122,124
Bank premises	20,159,876	13,660,762
Furniture and equipment	4,601,804	3,990,194
Leasehold improvements	256,199	103,087
Automobiles	160,549	131,572
	29,141,270	21,007,739
Less accumulated depreciation and amortization	(6,404,511)	(5,280,519)
Construction in progress (CIP)	311,397	2,069,302
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	$ 23,048,156	$ 17,796,522

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 was $1,393,776 and $952,154, respectively.

Note 6 – Time Deposits

Time certificates of deposit of $250,000 and over totaled $3,247,264 and $3,418,260 at December 31, 2021 and 2020, respectively.

As of December 31, 2021, the scheduled maturities for all time deposits are as follows:

Years ending December 31,	2022	$ 19,467,763
	2023	3,746,003
	2024	850,154
	2025	237,273
	2026	50,923
	Thereafter	35,539
		$ 24,387,655

Note 7 – Borrowings

Federal Home Loan Bank advances

As a member of the Federal Home Loan Bank of Des Moines (FHLB), the Bank has entered into an "Advances, Security, and Deposit Agreement" with the FHLB.

Borrowings under the credit arrangement are collateralized by the Bank's FHLB stock as well as deposits or other instruments, which may be pledged. As of December 31, 2021 and 2020, the Bank had $3,000,000 in outstanding borrowings with the FHLB. As of December 31, 2021 and 2020, the Bank had $11,615,760 and $11,283,677, respectively, in available borrowing capacity with FHLB.

Federal funds line of credit

The Bank has obtained lines of credit totaling $30,000,000 with two correspondent banks. One Federal Funds line for $20,000,000 will expire or renew at the discretion of the correspondent bank. A second line for $10,000,000 was established with a term extending from June 30, 2021 through June 30, 2022. There were no balances outstanding on these lines of credit as of December 31, 2021.

Note 8 – Income Taxes

The provision for income taxes consists of the following as of December 31:

	2021	2020
Current income taxes		
Federal	$ 1,757,583	$ 1,950,483
State	965,103	756,287
Total current income taxes	2,722,686	2,706,770
Deferred income taxes		
Federal	329,381	(585,714)
State	31,707	(184,286)
Total deferred income taxes	361,088	(770,000)
Provision for income taxes	$ 3,083,774	$ 1,936,770

The following summarizes the differences between the provision for income taxes for financial statement purposes and the federal statutory rate of 21.0% for the years ended December 31, 2021 and 2020:

RATE RECONCILIATION:

	2021		2020	
Federal, at statutory rate	$ 3,056,915	21.0%	$ 1,694,229	21.0%
State, net of federal benefit	873,987	6.0%	484,388	6.0%
Tax-exempt interest, net of expenses	(60,663)	-0.4%	(52,331)	-0.7%
Bank-owned life insurance	(73,406)	-0.5%	(42,556)	-0.5%
Bargain purchase gain	(492,073)	-3.4%	-	0.0%
Other	(220,986)	-1.5%	(146,960)	-1.8%
Tax expense, at effective rate	$ 3,083,774	21.2%	$ 1,936,770	24.0%

Note 8 – Income Taxes (continued)

Net deferred tax assets, in the accompanying balance sheets, include the following components as of December 31:

	2021	2020
Deferred tax assets (liabilities)		
Lease liability	$ 1,198,165	$ 1,059,759
Allowance for loan losses	1,086,883	1,097,271
Supplemental executive retirement plan	746,433	663,710
Accrued bonuses	80,231	172,544
Split-dollar liability	51,736	47,961
Unrealized losses on investment securities available-for-sale	446,017	-
Reserve for off-balance sheet instruments	59,100	44,829
	3,668,565	3,086,074
Right-of-use asset	(1,149,359)	(1,033,438)
Depreciation and organization costs	(704,235)	(465,730)
Prepaids	(252,870)	(160,014)
Unrealized gain on investment securities available-for-sale	-	(165,299)
Loan origination costs	(29,431)	(31,315)
Intangible assets – permits and licenses	(40,506)	(40,506)
Other	(147,044)	(94,880)
	(2,323,445)	(1,991,182)
Net deferred tax assets	$ 1,345,120	$ 1,094,892

A valuation allowance has not been recognized as an offset to the net deferred tax assets since management believes it is more likely than not that all deferred tax assets will be utilized in future periods.

Note 9 – Financial Instruments with Off-Balance Sheet Risk

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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

Commitments to extend credit are agreements to lend to customers 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 payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing properties.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support bonding requirements for real estate developers and contractors. 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 notional amounts of the Bank's financial instruments with off-balance sheet risk as of December 31, 2021, is as follows:

Commitments to extend credit	
Commercial	$ 48,275,627
Construction	16,645,579
Real Estate	13,649,645
Consumer	3,773,577
Total	$ 82,344,428
Commercial and standby letters of credit	$ 1,373,462

Note 10 – Concentrations of Credit Risk

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. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 4.

During 2021, the Bank's loan policy did not allow the extension of credit to any single borrower or group of related borrowers in excess of $1,500,000 on an unsecured basis and $3,000,000 on a secured basis, without approval from the Loan Committee.

Note 11 – Commitments and Contingencies

The Bank may become a defendant in certain claims and legal actions arising in the ordinary course of business. As of December 31, 2021, the Bank was not involved in any current matters expected to have a material adverse effect on its financial condition or results of operations.

Note 12 – Leases

The outstanding leases have expirations continuing through 2036. Future minimum payments, including assumed extensions, under these lease agreements are as follows:

Years ending December 31,	2022	$ 491,925
	2023	378,339
	2024	310,618
	2025	317,324
	2026	324,177
	Thereafter	4,037,483
	Total	5,859,866
	Less present value discount	(1,422,869)
	Present value of leases	$ 4,436,997

The weighted average remaining lease term and discount rate as of December 31, 2021 were 9.6 years, and 3.17%, respectively. There were no new right-of-use assets obtained in exchange for new operating lease liabilities during the year ended December 31, 2021, except for those existing right-of-use lease assets and lease liabilities assumed with the Willamette Community Bank Merger on March 1, 2021, described in Note 2.

Rent expense, including common area maintenance, was $451,324 and $449,486 for the years ended December 31, 2021 and 2020, respectively. As discussed in Note 1, the Bank pays rent to a related party as part of a real estate joint venture. Rent paid to the related party was $285,645 and $279,579 for the year ends December 31, 2021 and 2020.

Note 13 – Revenue from Contracts with Customers

All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized in Noninterest Income. Gains/losses on the sale of other real estate owned are included in noninterest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

The following table presents the Bank's sources of noninterest income for the twelve months ended December 31:

	2021	2020
Noninterest income:		
Service charges and other fees		
Service charges on deposit accounts	$ 408,619	$ 365,850
Interchange fee income	951,449	501,675
Other processing fees	1,492,651	1,225,888
Merchant fee income	128,227	80,764
Gain on sale of loans (1)	2,641,361	3,916,181
Mortgage loan fees (1)	222,064	389,372
Net gain on sale of investment securities (1)	-	36,957
Net gain on sale of OREO	40,914	-
Other noninterest income		
Investment income from real estate joint venture (1)	148,883	148,883
Increase in cash surrender value of life insurance (1)	271,832	157,593
Bargain purchase gain	1,716,494	
Remaining other income	288,231	138,588
Total noninterest income	$ 8,310,726	$ 6,961,751

(1) Not within the scope of ASC 606

Service charges on deposit accounts – The Company earns fees from its deposit customers for account maintenance, transaction-based activity and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis.

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

Note 13 – Revenue from Contracts with Customers (continued)

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

Net gain on sale of other real estate owned – The Company records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed of trust. When the Company finances the sale of other real estate owned to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, The Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Note 14 – Transactions with Related Parties

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future.

All loans and commitments to lend included in such transactions are 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 and, in the opinion of the management of the Bank, do not involve more than the normal risk of collection or present any other unfavorable features.

Note 14 – Transactions with Related Parties (continued)

The amount of loans and loan commitments outstanding to directors, executive officers, and principal stockholders with the Bank was as follows as of December 31:

	2021	2020
Balance, beginning of year	$ 779,737	$ 262,183
Loans made and advances	-	640,926
Repayments and pay offs	(648,249)	(85,266)
New related parties with existing loans	199,313	1,438,000
Related party loans removed from disclosure	-	(1,476,106)
Balance, end of year	$ 330,801	$ 779,737
Outstanding loan commitments	$ 520,000	$ 425,973

(1) Represents loans existing at the beginning of the year that were outstanding to parties no longer meeting the definition of related parties.

In addition, the Bank has a loan to its other 50% member in the limited liability company that owns a branch location. The loan carries an interest rate of 6.25%, matures in December of 2037, and is collateralized by the member's interest in the land on which the building is located. The loan was originated for the purpose of funding the partner's portion of construction costs of the Bank's administrative office and had a balance of $1,680,172 and $1,739,014 as of December 31, 2021 and 2020, respectively.

Related party deposits held by the Bank at December 31, 2021 and 2020, were $17,515,310 and $15,089,629, respectively.

Note 15 – Stock-Based Compensation Plans

Under its stock-based compensation plans, the Bank may grant nonqualified stock options and restricted stock awards to its directors, officers, and employees for up to 243,101 shares of common stock.

The exercise price of each option must be at least equal to 100% of the market price of the Bank's stock on the date of grant. An option's maximum term is 10 years.

Note 15 – Stock-Based Compensation Plans (continued)

The following summarizes stock option activity under the plans, adjusted for stock dividends:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Contractual Term
Options under grant as of December 31, 2020	12,115	$ 5.74		1.45
Options expired	-	-	-	-
Options exercised	(9,320)	4.80	$ 87,096	
Adjustment for Stock Dividend	308			
Options under grant as of December 31, 2021	3,103	5.38		1.00
Options exercisable as of December 31, 2021	3,103	5.38		1.00

Proceeds received from stock options exercised in 2021 were $44,718.

The Bank determines fair value of stock options at grant date using the Black-Scholes pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividend yield, and the risk-free interest rate over the expected life of the option. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on the historical volatility of an index of comparable bank stocks.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock price volatility.

These assumptions represent management's best estimates, but involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the Bank's recorded stock-based compensation expense could have been materially different. Additionally, the effects of applying this accounting model are not indicative of future amounts that may be realized by the option holders upon exercise.

Note 15 – Stock-Based Compensation Plans (continued)

The Bank expenses stock options on a straight-line basis over the options' related vesting term. As of December 31, 2021, there was no unrecognized compensation expense related to the granting of stock options.

The following table summarizes restricted stock award activity under the plan for the year ended December 31, 2021:

	Number of Shares	Weighted Average Fair Value
Restricted stock awards unvested at December 31, 2020	108,255	$ 12.80
Awards vested	(31,865)	
Award granted	11,250	15.87
Awards forfeited	-	
Adjustment for	-	
stock dividends	5,413	15.75
Restricted stock awards unvested at December 31, 2021	93,053	

As of December 31, 2021, there was $1,194,723 of unrecognized stock-based compensation expense related to nonvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 2.75 years as of December 31, 2021.

Compensation expense recognized for stock-based compensation plans was $398,228 and $287,820 for the years ended December 31, 2021 and 2020, respectively.

Under its phantom stock plan, the Bank may award cash or stock compensation to its directors, officers, and employees for up to 150,000 shares. Cash awards are recognized as liabilities until settled, measured at the net settlement value, and have no impact on the number of shares available to be issued under the plan. Awards granted under the phantom stock plan participate in stock dividends.

Note 15 – Stock-Based Compensation Plans (continued)

The Bank has granted phantom stock awards which are settled in cash when they vest. The following table summarizes activity for outstanding phantom stock awards for the years ended December 31, 2021 and 2020:

	2021	2020
Balance, beginning of year	8,737	$ 20,761
Granted	38,000	-
Vested	(6,882)	(12,024)
Adjustment for stock dividend	437	-
Forfeited or expired	(1,365)	-
Balance, end of year	38,927	$ 8,737

As of December 31, 2021, based on the value of the Bank's stock, the value of the phantom stock awards outstanding was $690,952. The weighted average vesting period for the awards is 4.9 years.

Total compensation expense recognized for phantom stock-based compensation plans was $109,219 and $156,314 for the year ended December 31, 2021 and 2020, respectively.

Note 16 – Employee Benefit Plans and Agreements

The Bank adopted a 401(k) plan in which substantially all employees participate. Employees may contribute the maximum amount permissible under federal tax laws.

During 2017, the Bank established a leveraged Employee Stock Ownership Plan (ESOP) with 75,000 unallocated shares of the Bank's common stock with a fair value of $784,500. As the loan is repaid, shares are released and available to be allocated to participants no less frequently than annually.

The Bank is required to contribute 3% of each eligible employee's compensation under safe harbor provisions. For the years ended December 31, 2021 and 2020, the Bank's expense attributable to contributions to these plans was $347,991 and $343,893, respectively.

Beginning in 2005, the Bank entered into supplemental retirement plans with key executive officers. In 2006, to support its obligations under these plans and to provide death benefits to selected employees, the Bank acquired bank-owned life insurance. The Bank's liability pursuant to these supplemental retirement plans was $2,955,742 and $2,635,429 as of December 31, 2021 and 2020, respectively. These amounts are included on the balance sheet among "accrued interest payable and other liabilities." For 2021 and 2020, compensation expense related to these plans was $475,657 and $334,655 respectively.

Note 17 – Earnings Per Share

The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2021 and (adjusted for the 2021 stock dividend):

	Net Income	Weighted Average Shares	Per Share Amount
For the year ended December 31, 2021			
Basic income per share	$ 11,472,964	4,697,719	$ 2.44
Stock options		6,361	
Diluted income per share	$ 11,472,964	4,704,080	$ 2.44
For the year ended December 31, 2020			
Basic income per share	$ 6,130,985	3,561,079	$ 1.72
Stock options		15,238	
Diluted income per share	$ 6,130,985	3,576,317	$ 1.71

No stock options were excluded from the computation of diluted earnings per share, as all were dilutive during 2021 and 2020.

Note 18 – Fair Value of Financial Instruments

Assets are displayed at fair value in the table below based upon recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be re-measured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be re-measured at fair value after initial recognition in the financial statements at some time during the reporting period.

Note 18 – Fair Value of Financial Instruments (continued)

The following tables disclose fair value information about all financial instruments, whether carried or not carried at fair value on the balance sheet, where it is practicable to estimate that value.

		Fair Value at December 31, 2021			
	Carrying Amount	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 81,345,358	$ 81,345,358	$ 81,345,358	$ -	$ -
Investment securities available-for-sale	241,637,890	241,637,890	-	241,637,890	-
Factored accounts receivable	27,199,768	27,199,768	-	27,199,768	-
Restricted equity securities	1,010,100	1,010,100	1,010,100	-	-
Loans held-for-sale	1,407,525	1,407,525	-	1,407,525	-
Loans receivable, net	452,848,631	460,759,303	-	-	460,759,303
Financial liabilities					
Noninterest-bearing demand deposits	$ 350,423,974	$ 350,423,974	$ -	$ 350,423,974	$ -
Interest-bearing demand, money market accounts, and savings deposits	389,417,700	389,417,700	-	389,417,700	-
Time certificates of deposit	24,387,655	26,404,375	-	-	26,404,375
FHLB advances	3,000,000	3,000,000	3,000,000	-	-

		Fair Value at December 31, 2020			
	Carrying Amount	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 92,182,758	$ 92,182,758	$ 92,182,758	$ -	$ -
Investment securities available-for-sale	25,893,747	25,893,747	-	25,893,747	-
Factored accounts receivable	17,762,644	17,762,644	-	17,762,644	-
Restricted equity securities	564,300	564,300	564,300	-	-
Loans held-for-sale	3,407,443	3,407,443	-	3,407,443	-
Loans receivable, net	341,744,684	350,108,970	-	-	350,108,970
Financial liabilities					
Noninterest-bearing demand deposits	$ 231,095,318	$ 231,095,318	$ -	$ 231,095,318	$ -
Interest-bearing demand, money market accounts, and savings deposits	202,286,923	202,286,923	-	202,286,923	-
Time certificates of deposit	22,365,573	18,526,444	-	-	18,526,444
FHLB advances	3,000,000	3,000,000	3,000,000		
Borrowings	-	-	-	-	-

The Bank normally intends to hold the majority of its financial instruments until maturity; it does not expect to realize many of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for items which are not defined as financial instruments but which have significant value. These include such off-balance sheet items as core deposit intangibles on non-acquired deposits. The Bank does not believe that it would be practicable to estimate a representational fair value for these types of items as of December 31, 2021 and 2020.

Note 19 – Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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 the Bank's 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 of total capital, Tier 1 capital, and common equity Tier 1 to risk-weighted assets, and of Tier 1 capital to average assets (as defined in the regulations).

On January 1, 2020, the community bank leverage ratio (CBLR) final rule became effective, providing an optional capital reporting framework for qualifying community banks. This new framework was designed to reduce regulatory burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. Upon filling of the March 31, 2020, call report the Bank opted into this new capital framework. Upon the opt in, the Bank no longer calculated risk- based capital ratios.

Under the CBLR the bank must maintain a leverage ratio of greater than 9.0%. On April 6, 2020, The Federal Deposit Corporation (FDIC), Board of Governors of the Federal Reserve System and Office of the Comptroller of the Currency issued two interim final rules that change the CBLR and implement Section 4012 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The interim final rules changed the CBLR to 8% for 2020, 8.5% for 2021 and back to 9% again in 2022. As of December 31, 2021, the Bank had Tier 1 Capital of $76,951,554 and a CBLR of 9.11%, which was in excess of the 8.5% requirement.

Note 20– Subsequent Events

On February 28, 2022, the Bank completed a corporate reorganization to form a holding company which became the parent company of People's Bank of Commerce. All assets of People's Bank of Commerce were merged into PBCO Financial Corporation. Stock in the bank was exchanged for stock in the holding company on a one-for-one basis.

On March 11, 2022, PBCO Financial Corporation completed the issuance of $25,000,000 in fixed-to-floating subordinated notes maturing in 2032 at an initial rate of 3.875%. After the initial fixed rate period, the variable rate will be based on the 5-year SOFR Swap Rate plus a margin of 2.42%.

People's BANK

We put people first.