



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

OREGON BANCORP, INC. AND SUBSIDIARIES

December 31, 2019 and 2018



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Report of Independent Auditors

The Board of Directors and Shareholders
Oregon Bancorp, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Oregon Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon Bancorp, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheet as of December 31, 2019, and consolidating statement of income for the year ended December 31, 2019, included on pages 37 and 38, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Everett, Washington
February 28, 2020

Oregon Bancorp, Inc. and Subsidiaries Consolidated Balance Sheets

ASSETS		December 31,	
	2019	2018	
ASSETS			
Cash and due from banks	\$ 5,668,486	\$ 4,059,021	
Interest-bearing deposits with banks	11,945,000	41,580,000	
Total cash equivalents	17,613,486	45,639,021	
Loans held-for-sale, at fair value	58,751,727	32,706,890	
Loans, net of allowance for loan losses	179,447,384	152,974,800	
Federal Home Loan Bank stock, at cost	289,400	245,600	
Premises and equipment, net	2,957,069	2,677,106	
Cash surrender value of life insurance, net	4,137,359	3,925,336	
Accrued interest receivable	570,326	521,989	
Deferred tax asset	1,031,343	912,871	
Right of use asset	2,147,202	-	
Other assets	2,536,466	1,973,764	
Total assets	\$ 269,481,762	\$ 241,577,377	
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Noninterest-bearing demand deposits	\$ 40,015,466	\$ 34,035,152	
Interest-bearing demand deposits and money market accounts	80,929,579	72,952,014	
Time certificates of deposit	100,894,323	98,551,220	
Total deposits	221,839,368	205,538,386	
Borrowings	840,924	1,009,103	
Accounts payable and accrued expenses	5,989,182	5,501,949	
Lease liabilities	2,176,665	-	
Accrued interest payable	240,001	153,334	
Total liabilities	231,086,140	212,202,772	
COMMITMENTS AND CONTINGENCIES (Note 12)			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value; 2,000,000 shares authorized; no shares of Series A and Series B issued and outstanding as of December 31, 2019 or 2018	-	-	
Common stock, no par value; 10,000,000 shares authorized; 2,319,090 shares issued and 2,249,551 outstanding as of December 31, 2019; 2,274,330 shares issued and 2,184,371 outstanding as of December 31, 2018	14,456,581	13,614,296	
Retained earnings	23,939,041	15,760,309	
Total shareholders' equity	38,395,622	29,374,605	
Total liabilities and shareholders' equity	\$ 269,481,762	\$ 241,577,377	

Oregon Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2019	2018
INTEREST INCOME		
Interest and fees on loans	\$ 11,303,366	\$ 9,514,633
Interest on due from banks	830,640	759,335
Total interest income	12,134,006	10,273,968
INTEREST EXPENSE		
Demand deposits	32,978	22,160
Interest-bearing demand deposits and money market accounts	257,465	91,630
Time certificates of deposit	2,038,546	1,563,904
Borrowings	47,936	46,126
Total interest expense	2,376,925	1,723,820
Net interest income before provision for loan losses	9,757,081	8,550,148
PROVISION FOR LOAN LOSSES	328,000	-
Net interest income after provision for loan losses	9,429,081	8,550,148
NONINTEREST INCOME		
Mortgage banking revenue, net	45,129,566	33,961,296
Brokered loan fees	22,345	93,240
Service charge income	61,523	61,326
Increase in cash surrender value of life insurance	212,023	200,363
Other income	399,857	310,802
Total noninterest income	45,825,314	34,627,027
NONINTEREST EXPENSE		
Salaries	21,425,512	17,426,040
Employee benefits	8,239,150	6,205,157
Occupancy expenses	1,570,440	1,418,902
Depreciation and amortization expense	271,616	241,019
Regulatory assessment	55,310	91,709
Write-down and losses on other real estate owned, net	-	43,759
Other operating expenses	8,326,059	7,827,647
Total noninterest expense	39,888,087	33,254,233
INCOME BEFORE PROVISION FOR INCOME TAXES	15,366,308	9,922,942
PROVISION FOR INCOME TAXES	3,859,118	2,369,548
NET INCOME	\$ 11,507,190	\$ 7,553,394
EARNINGS PER SHARE OF COMMON STOCK		
Basic	\$ 5.15	\$ 3.48
Diluted	\$ 5.00	\$ 3.33
Weighted-average number of common shares outstanding		
Basic	2,232,718	2,173,341
Diluted	2,302,266	2,265,116

Oregon Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

	Common Stock		Retained Earnings	Total Shareholders' Equity
	Number of Shares	Amount		
BALANCE, December 31, 2017	2,123,422	\$ 12,951,049	\$ 10,468,998	\$ 23,420,047
Stock-based compensation	-	649,207	-	649,207
Common stock cash dividend at \$1.70 per share	-	-	(2,262,083)	(2,262,083)
Option exercises, net	3,300	14,040	-	14,040
Vesting of restricted stock	57,649	-	-	-
Net income	-	-	7,553,394	7,553,394
BALANCE, December 31, 2018	2,184,371	13,614,296	15,760,309	29,374,605
Stock-based compensation	-	834,783	-	834,783
Common stock cash dividend at \$1.44 per share	-	-	(3,328,458)	(3,328,458)
Option exercises, net	2,200	7,502	-	7,502
Vesting of restricted stock	62,980	-	-	-
Net income	-	-	11,507,190	11,507,190
BALANCE, December 31, 2019	<u>2,249,551</u>	<u>\$ 14,456,581</u>	<u>\$ 23,939,041</u>	<u>\$ 38,395,622</u>

Oregon Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 11,507,190	\$ 7,553,394
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	271,616	241,019
Deferred tax benefits	(118,472)	(76,183)
Origination of loans held-for-sale	(981,396,964)	(746,754,916)
Proceeds from loans held-for-sale	1,000,481,693	782,826,296
Gain on sale of loans	(46,662,073)	(33,373,466)
Net loss (gain) on derivatives	1,532,507	(587,830)
Net (gain) loss on sale of premises and equipment	(2,607)	9,352
Cash surrender value of life insurance	(212,023)	(200,363)
Loss on sale of other real estate owned	-	21,256
Write-down of other real estate owned	-	22,503
Stock-based compensation	834,783	649,207
Increase (decrease) in cash due to changes in certain assets and liabilities:		
Accrued interest receivable	(48,337)	(102,769)
Other assets	(533,239)	(283,307)
Accounts payable and accrued expenses	487,233	1,432,185
Accrued interest payable	86,667	47,537
Net cash used for operating activities	<u>(13,772,026)</u>	<u>11,423,915</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan originations, net of principal collections	(26,472,584)	(15,250,262)
Proceeds from the sale of premises and equipment	11,000	-
Purchase of premises and equipment, net	(559,972)	(317,157)
Purchase of Federal Home Loan Bank stock	(43,800)	(33,500)
Proceeds from the sale of other real estate owned	-	1,178,201
Net cash used for investing activities	<u>(27,065,356)</u>	<u>(14,422,718)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	16,300,982	29,412,885
Repayment on borrowings	(168,179)	(161,199)
Dividends paid on common stock	(3,328,458)	(2,262,083)
Net proceeds of stock options	7,502	14,040
Net cash from financing activities	<u>12,811,847</u>	<u>27,003,643</u>
Net (decrease) increase in cash and due from banks	(28,025,535)	24,004,840
CASH AND DUE FROM BANKS, beginning of year	<u>45,639,021</u>	<u>21,634,181</u>
CASH AND DUE FROM BANKS, end of year	<u>\$ 17,613,486</u>	<u>\$ 45,639,021</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for		
Interest	<u>\$ 2,290,258</u>	<u>\$ 1,676,283</u>
Taxes	<u>\$ 3,901,000</u>	<u>\$ 1,902,000</u>
Non-cash balance sheet adjustments		
Right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ 2,853,643</u>	<u>\$ -</u>

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of operations and principles of consolidation – In October 2000, Willamette Valley Bank (the Bank) received regulatory approval to become a state-chartered institution authorized to provide banking services in the state of Oregon; in 2008, Oregon Bancorp, Inc. (the Company), an Oregon corporation, was formed for the purpose of becoming a holding company for the Bank. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the supervision and examination by the Federal Reserve Board. In 2010, the Company formed a single-member LLC, OR Resolutions, LLC, for the purpose of holding notes and/or deeds of trusts for properties acquired through the foreclosure process of the Bank. There was no activity in OR Resolutions, LLC as of and for the years ended December 31, 2019 and 2018.

The Bank, operating from its headquarters in Salem, Oregon, provides banking services to businesses and individuals located primarily in the markets from which the Bank operates its four full-service branches in Salem, Albany, Keizer, and Silverton, Oregon. In addition to the full-service branches, the Bank has various locations throughout Oregon, Washington, and Idaho that function as residential mortgage loan production offices. The Bank is subject to regulations of certain federal and state agencies and, from time to time, undergoes periodic examinations by those regulatory authorities.

All significant intercompany accounts and transactions between Oregon Bancorp, Inc. and its subsidiaries have been eliminated in the preparation of the consolidated financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the date of the consolidated balance sheet but before consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company has evaluated subsequent events for recognition and disclosure through February 28, 2020, which is the date the consolidated financial statements were available to be issued.

Use of estimates – The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and reporting practices applicable to the banking industry. In preparing the consolidated 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 consolidated balance sheets and revenues and expenses for the reporting periods. Actual results could differ significantly from those estimates. The most significant accounting estimates made by management involve the calculation of the allowance for loan losses, and deferred tax assets. Management believes that the assumptions used in arriving at these estimates are appropriate.

Cash and due from banks – For purposes of reporting cash flows, cash and due from banks include cash, due from banks, and federal funds sold, all with original maturities of three months or less. The Bank, at times, may have cash deposits at other financial institutions in excess of Federal Deposit Insurance Corporation (FDIC)-insured limits.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Investment securities – Investment securities are classified into one of three categories: (1) held-to-maturity, (2) available-for-sale, or (3) trading. The Bank had no securities as of December 31, 2019 and 2018. Investment securities are categorized as held-to-maturity when the Bank has the positive intent and ability to hold those securities to maturity. Securities that are held-to-maturity are stated at amortized cost. Investment securities categorized as available-for-sale are generally held for investment purposes (to maturity), although unanticipated future events may result in the sale of some securities. Available-for-sale securities are carried at estimated fair value, with unrealized holding gains or losses reported in accumulated other comprehensive income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on the sale of securities are recorded on the trade date and 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 relationship 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. 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, i.e., 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, net of taxes.

Loans held-for-sale, at fair value – Mortgage loans originated and intended for sale in the secondary market are carried at fair value. Fair value is determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Origination fees and costs are recognized in earnings at the time of origination. Mortgage loans held-for-sale are sold with the mortgage service rights released by the Bank. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. All sales are made without recourse.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Mortgage banking derivatives – Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitments to fund the loans. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of these derivatives are included in “Mortgage banking revenue, net.”

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity are stated at the amount of unpaid principal, net of deferred loan fees and costs, premiums or discounts on purchased loans, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the effective interest method without anticipating prepayments.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Significant concentrations of credit risk – Most of the Bank’s business activity is with customers located within the Mid-Willamette Valley, Oregon. The Bank originates commercial, real estate, construction, residential mortgage, and consumer loans. Generally, loans are secured by real estate, accounts receivable, inventory, deposit accounts, or personal property. Rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers’ ability to meet the stated repayment terms. Approximately 91% of the Bank’s loan portfolio is secured by real estate (Note 3). The Company does not have any significant concentrations to any one customer.

Allowance for loan losses – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. 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. The 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. Various regulatory agencies, as a regular part of their examination process, will periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of examinations.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collection of the scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller-balance homogeneous loans or leases are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral-dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses individually identified as impaired.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent five years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; level of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Transfer of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Other real estate owned – Property and assets acquired through foreclosure or deed in lieu of foreclosure are stated at the lower of the loan balance on the property at the date of transfer or the fair value of the assets received, less estimated costs to sell. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Costs relating to the development and improvement of property are capitalized and holding costs are charged to expense as incurred.

Premises and equipment – Premises and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method based principally on the estimated useful lives of the assets, which range from 2 to 39 years. Maintenance and repairs are expensed as incurred whereas major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Impairment of long-lived assets – The assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists, the asset is reduced with an offsetting charge to expense.

Federal Home Loan Bank of Des Moines (FHLB) stock – 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. This security is classified at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Management determined there was no impairment at December 31, 2019 and 2018.

Bank-owned life insurance – The Company has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Advertising – Advertising costs, which are principally included in operating expenses, are expensed as incurred. Advertising expense was approximately \$1,320,000 and \$1,390,000 for the years ended December 31, 2019 and 2018, respectively.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Stock-based compensation – The Company measures and recognizes as compensation expense the grant-date fair market value for all share-based awards. That portion of the grant-date fair value that is ultimately expected to vest is recognized as expense over the requisite service period, typically the vesting period, using the graded attribution method. The Company uses the Black-Scholes option-pricing model to value stock options. The Black-Scholes model requires the use of assumptions regarding the risk-free interest rate, the expected dividend yield, the expected life of the options, and the expected volatility of the stock price. The Company uses the market price of the Company's common stock to determine compensation expense for restricted stock issued to employees.

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. 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 Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Company 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 the tax 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 Company recognizes interest and penalties related to income tax matters in income tax expense. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. There were no interest and penalties accrued for the years ended December 31, 2019 or 2018.

Earnings per share – Nonvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and are included in the computation of earnings per share (EPS) pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating securities accordingly to dividends declared or accumulated and participation rights in undistributed earnings. Certain shares of the Company's nonvested restricted stock awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method, based on their rights to receive dividends, participate in earnings, or absorb losses. Basic earnings per share of common stock are computed by dividing net income available to common shareholders, which consists of net income less preferred dividends declared, by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options or vested restricted stock. There were no antidilutive shares as of December 31, 2019 and 2018.

Comprehensive income – Comprehensive income consists of net income and other comprehensive income. There are no components within comprehensive income for the years ended December 31, 2019 or 2018.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Restrictions on cash – Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Fair value of financial instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Segment reporting – The Company operates in one segment and makes management decisions based on consolidated results. The Company's operations are solely in the financial services industry and include providing to its customers traditional banking and other financial services.

Off-balance-sheet financial instruments – 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 consolidated financial statements when they are funded or related fees are incurred or received.

The allowance for off-balance-sheet credit losses related to unfunded loan commitments 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. 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 that may increase the likelihood of loss, and current economic conditions. The reserve for unfunded loan commitments is not material to the consolidated financial statements.

Reclassifications – Certain reclassifications have been made to the prior-year consolidated financial statements to conform with current-year presentations. These reclassifications did not affect previously reported consolidated comprehensive income or shareholders' equity.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2 – Recently Adopted Accounting Standards

Adoption of new accounting standards – On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, 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 Company 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 Company satisfies a performance obligation. The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits, and gain (loss) on other real estate owned, net which is included in non-interest expense, and certain items in other income. Refer to Note 19 - Revenue from Contracts with Customers for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018, are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a material change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize on the balance sheet right-of-use assets and lease liabilities for the rights and obligations created by the majority of leases, including those historically accounted for as operating leases. During 2018 and 2019, the FASB issued additional ASUs that clarify the implementation guidance for ASU 2016-02 but do not change the core principle of the guidance.

The Company adopted Accounting Standards Codification (ASC) Topic 842, *Leases*, on January 1, 2019, using the modified retrospective transition method which allowed it to continue to apply legacy guidance for periods prior to 2019. The Company elected the package of transition practical expedients which, among other things, allowed it to keep the historical lease classifications and not reassess the lease classification for any existing leases as of the date of adoption. Upon adoption on January 1, 2019, the Company recognized right-of-use assets and lease liabilities of approximately \$2,853,000.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3 – Loans

As of December 31, the loan portfolio consisted of the following:

	2019	2018
Residential	\$ 20,336,938	\$ 18,691,951
Commercial real estate		
Farmland	6,836,928	4,151,732
Multifamily	17,923,004	18,800,430
Nonresidential (owner-occupied)	25,712,695	24,817,960
Nonresidential (non-owner-occupied)	66,738,919	48,734,478
Total commercial real estate	117,211,546	96,504,600
Construction		
Residential 1-4 family	5,440,611	8,380,376
Land development	4,829,729	4,846,748
Other	16,979,904	11,617,210
Total construction	27,250,244	24,844,334
Commercial & Agriculture	16,325,219	14,200,252
Consumer	310,437	360,236
Total loans	181,434,384	154,601,373
Less allowance for loan losses	(1,814,819)	(1,476,573)
Less unearned loan fees and premiums, net	(172,181)	(150,000)
Loans, net of allowance for loan losses	\$ 179,447,384	\$ 152,974,800

All of the Bank's loans and loan commitments are geographically concentrated in its service areas within Oregon, Washington, and Idaho.

As of December 31, 2019 and 2018, loans of \$79,858,541 and \$61,862,117, respectively, were pledged to support FHLB borrowings, and loans as of December 31, 2019 and 2018, of \$67,349,298 and \$61,237,254, respectively, were pledged at Federal Reserve Bank of San Francisco for additional borrowing capacity.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 – Allowance for Loan Losses

The general valuation allowance is systematically calculated quarterly using quantitative and qualitative information about specific loan classes. The minimum required level in which an entity develops a systematic methodology to determine its allowance for loan and lease losses (ALLL) is at the segment level. However, the Bank's systematic methodology in determining its allowance for loan and lease losses is prepared at the class level, which is more detailed than the segment level. The quantitative information uses historical losses from specific loan classes and incorporates the loan's risk rating migration from origination to the point of loss. A loan's risk rating is primarily determined based upon the borrower's ability to fulfill its debt obligation from a cash flow perspective. In the event there is financial deterioration of the borrower, the borrower's other sources of income or repayment are also considered, including recent appraisal values for collateral-dependent loans. The qualitative information takes into account general economic and business conditions affecting the marketplace, seasoning of the loan portfolio, duration of the business cycle, etc. to ensure that the methodologies reflect the current economic environment and other factors; using historical loss information exclusively may not give an accurate estimate of inherent losses within the Bank's loan portfolio.

The specific valuation allowance is a reserve for each loan determined to be impaired and the value of the impaired loan is less than its recorded investment. The Bank measures the impairment based on the discounted expected future cash flows, observable market price, or the fair value of the collateral, if the loan is collateral-dependent or if foreclosure is probable. The specific reserve for each loan is equal to the difference between the recorded investment in the loan and its determined impairment value.

Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each pool of loans. The Company reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Company strives to maintain a conservative approach to credit quality and will continue to prudently add to the ALLL as necessary in order to maintain adequate reserves. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality while continuously strengthening loan monitoring systems and controls.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 – Allowance for Loan Losses (continued)

An analysis of the change in the allowance for loan losses follows:

December 31, 2019	<u>Residential</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Allowance						
Balance, beginning of the period	\$ 329,340	\$ 789,145	\$ 195,000	\$ 158,200	\$ 4,888	\$ 1,476,573
Charge-offs	-	-	-	-	-	-
Recoveries	10,246	-	-	-	-	10,246
Provision for loan losses	36,959	211,285	49,523	29,669	564	328,000
Balance, end of the period	<u>\$ 376,545</u>	<u>\$ 1,000,430</u>	<u>\$ 244,523</u>	<u>\$ 187,869</u>	<u>\$ 5,452</u>	<u>\$ 1,814,819</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance collectively evaluated for impairment	<u>\$ 376,545</u>	<u>\$ 1,000,430</u>	<u>\$ 244,523</u>	<u>\$ 187,869</u>	<u>\$ 5,452</u>	<u>\$ 1,814,819</u>
Loans						
Ending balance	<u>\$ 20,336,938</u>	<u>\$ 117,211,546</u>	<u>\$ 27,250,244</u>	<u>\$ 16,325,219</u>	<u>\$ 310,437</u>	<u>\$ 181,434,384</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ 951,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 951,142</u>
Ending balance collectively evaluated for impairment	<u>\$ 20,336,938</u>	<u>\$ 116,260,404</u>	<u>\$ 27,250,244</u>	<u>\$ 16,325,219</u>	<u>\$ 310,437</u>	<u>\$ 180,483,242</u>
December 31, 2018						
Allowance						
Balance, beginning of the period	\$ 302,946	\$ 789,145	\$ 195,000	\$ 158,200	\$ 4,888	\$ 1,450,179
Charge-offs	-	-	-	-	-	-
Recoveries	26,394	-	-	-	-	26,394
Provision for loan losses	-	-	-	-	-	-
Balance, end of the period	<u>\$ 329,340</u>	<u>\$ 789,145</u>	<u>\$ 195,000</u>	<u>\$ 158,200</u>	<u>\$ 4,888</u>	<u>\$ 1,476,573</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance collectively evaluated for impairment	<u>\$ 329,340</u>	<u>\$ 789,145</u>	<u>\$ 195,000</u>	<u>\$ 158,200</u>	<u>\$ 4,888</u>	<u>\$ 1,476,573</u>
Loans						
Ending balance	<u>\$ 18,691,951</u>	<u>\$ 96,504,600</u>	<u>\$ 24,844,334</u>	<u>\$ 14,200,252</u>	<u>\$ 360,236</u>	<u>\$ 154,601,373</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance collectively evaluated for impairment	<u>\$ 18,691,951</u>	<u>\$ 96,504,600</u>	<u>\$ 24,844,334</u>	<u>\$ 14,200,252</u>	<u>\$ 360,236</u>	<u>\$ 154,601,373</u>

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 – Allowance for Loan Losses (continued)

When the Bank classifies problem assets as either substandard or doubtful, pursuant to federal regulations, it may establish a specific allowance in an amount it deems prudent and approved by management to address the risk specifically, or it may allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but, unlike specific allowances, have not been specifically allocated to the particular problem assets. When an insured institution classifies problem assets as a loss, pursuant to federal regulations, it is required to charge off such assets in the period in which they are deemed uncollectible. The determination as to the classification of assets and the amount of valuation allowances is subject to review by the FDIC, which can require the establishment of additional loss allowances.

Loan grades are used by the Bank to identify and track potential problem loans that do not rise to the levels described for substandard, doubtful, or loss. The grades for special mention (watch list loans) are assigned to loans that have been criticized based upon known characteristics such as periodic payment delinquency or stale financial information from the borrower and/or guarantors. Loans identified as classified (substandard, doubtful, or loss) are subject to problem loan reporting every three months. There were no loans classified as doubtful or loss as of December 31, 2019 and 2018.

The following tables show credit quality indicators as of December 31:

	Residential		Commercial Real Estate		Construction	
	2019	2018	2019	2018	2019	2018
Grade						
Pass	\$ 20,043,586	\$ 17,638,560	\$ 115,711,990	\$ 95,943,451	\$ 27,250,244	\$ 24,844,334
Substandard	293,352	1,053,391	1,499,556	561,149	-	-
Total	<u>\$ 20,336,938</u>	<u>\$ 18,691,951</u>	<u>\$ 117,211,546</u>	<u>\$ 96,504,600</u>	<u>\$ 27,250,244</u>	<u>\$ 24,844,334</u>
	Commercial		Consumer		Total Loans	
	2019	2018	2019	2018	2019	2018
Grade						
Pass	\$ 16,325,219	\$ 14,200,252	\$ 310,437	\$ 360,236	\$ 179,641,476	\$ 152,986,833
Substandard	-	-	-	-	1,792,908	1,614,540
Total	<u>\$ 16,325,219</u>	<u>\$ 14,200,252</u>	<u>\$ 310,437</u>	<u>\$ 360,236</u>	<u>\$ 181,434,384</u>	<u>\$ 154,601,373</u>

Pass – Credit exposure in this category ranges between the highest credit quality to average credit quality. Primary repayment sources generate satisfactory debt service coverage under normal conditions. Cash flow from recurring sources is expected to continue to produce adequate debt service capacity.

Substandard – A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of debt. Loans in this category are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 – Allowance for Loan Losses (continued)

Doubtful – 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 – 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 shows the age analysis of past due loans as of December 31:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days And Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing	Recorded Investment on Nonaccrual Status
December 31, 2019								
Residential	\$ 280,549	\$ -	\$ -	\$ 280,549	\$ 20,056,389	\$ 20,336,938	\$ -	\$ -
Commercial real estate	-	-	951,142	951,142	116,260,404	117,211,546	-	951,142
Construction	-	-	-	-	27,250,244	27,250,244	-	-
Commercial	-	-	-	-	16,325,219	16,325,219	-	-
Consumer	-	-	-	-	310,437	310,437	-	-
	<u>\$ 280,549</u>	<u>\$ -</u>	<u>\$ 951,142</u>	<u>\$ 1,231,691</u>	<u>\$ 180,202,693</u>	<u>\$ 181,434,384</u>	<u>\$ -</u>	<u>\$ 951,142</u>
December 31, 2018								
Residential	\$ -	\$ -	\$ -	\$ -	\$ 18,691,951	\$ 18,691,951	\$ -	\$ -
Commercial real estate	960,000	-	-	960,000	95,544,600	96,504,600	-	-
Construction	-	-	-	-	24,844,334	24,844,334	-	-
Commercial	-	-	-	-	14,200,252	14,200,252	-	-
Consumer	-	-	-	-	360,236	360,236	-	-
	<u>\$ 960,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 960,000</u>	<u>\$ 153,641,373</u>	<u>\$ 154,601,373</u>	<u>\$ -</u>	<u>\$ -</u>

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 – Allowance for Loan Losses (continued)

The following table shows impaired loans for the years ended December 31:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Weighted Average Recorded Investment	Interest Income Recognized
December 31, 2019					
With no related allowance recorded					
Commercial Real Estate	\$ 951,142	\$ 951,142	\$ -	\$ 237,786	\$ -
With allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Total					
Commercial Real Estate	\$ 951,142	\$ 951,142	\$ -	\$ 237,786	\$ -
December 31, 2018					
With no related allowance recorded					
Residential	\$ -	\$ -	\$ -	\$ 88,860	\$ -
With allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Total					
Residential	\$ -	\$ -	\$ -	\$ 88,860	\$ -

The Bank had no outstanding loans classified as troubled debt restructurings as of December 31, 2019 and 2018, respectively. A troubled debt restructuring is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Bank is granting the borrower a concession of some kind.

There were no new troubled debt restructured loans during the years ended December 31, 2019 or 2018. The Bank had no commitments to extend additional credit to borrowers owing receivables whose terms have been modified in troubled debt restructurings.

Subsequent to a loan being classified as a troubled debt restructuring, a borrower may become unwilling or unable to abide by the terms of the modified agreement. In such cases of default, the Bank takes appropriate action to secure additional payments including the use of foreclosure proceedings. There were no troubled debt restructurings that subsequently defaulted within 12 months of restructuring during the years ended December 31, 2019 and 2018.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 – Derivatives

The Bank is engaged in providing first mortgage permanent financing for residential property. Residential home mortgages are originated for sale into the secondary market and are hedged against interest rate fluctuations with forward sales commitments, futures, and option contracts from the time of an interest rate lock loan commitment until the loans are sold (typically 30 to 90 days).

The following is a summary of the interest rate lock loan commitments and open forward commitments as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate lock loan commitments	\$ 62,471,359	\$ 1,693,274	\$ 48,047,716	\$ 1,328,655
Forward sales of mortgage-backed securities commitments	45,000,000	(22,168)	35,500,000	(140,117)

The notional amounts of the derivatives do not represent amounts exchanged by the parties and, thus, are not a measure of the Bank's exposure through its use of derivatives. The amounts exchanged are determined by reference to the notional amounts and the other terms of the individual derivatives.

The derivatives expose the Bank to credit risk in the event of nonperformance by counterparties to such agreements. The risk consists primarily of the termination value of the agreements where the Bank is in a favorable position. The Bank controls credit risk associated with its derivative instruments through management review and approval of counterparties.

The following table summarizes the types of derivatives, separately by assets and liabilities, their locations on the consolidated balance sheets, and the fair values of such derivatives as of December 31, 2019 and 2018:

Derivatives	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		December 31,		December 31,	
		2019	2018	2019	2018
Interest rate lock loan commitments	Other assets	\$ 1,693,274	\$ 1,328,655	\$ -	\$ -
Forward sales of mortgage-backed securities commitments	Accounts payable and accrued expenses	-	-	(22,168)	(140,117)

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 – Derivatives (continued)

The following table summarizes the types of derivatives, their locations within the consolidated statements of income, and the gains (losses) recorded for the years ended December 31, 2019 and 2018:

Derivatives	Income Statement Location	December 31,	
		2019	2018
Interest rate lock loan commitments	Mortgage banking revenue	\$ 364,619	\$ 17,488
Forward sales of mortgage-backed securities commitments	Mortgage banking revenue	(1,897,126)	570,342

Note 6 – Premises and Equipment

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

	2019	2018
Land	\$ 975,881	\$ 975,881
Furniture and equipment	1,809,327	1,438,225
Buildings	1,050,292	1,050,292
Leasehold improvements	1,278,472	1,143,487
	5,113,972	4,607,885
Less accumulated depreciation and amortization	(2,156,903)	(1,930,779)
Premises and equipment, net of accumulated depreciation and amortization	<u>\$ 2,957,069</u>	<u>\$ 2,677,106</u>

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7 – Time Certificates of Deposit

Time certificates of deposit of \$250,000 or more aggregated to \$39,375,378 and \$19,480,533 as of December 31, 2019 and 2018, respectively.

The scheduled contractual maturities of time certificates of deposit as of December 31 are as follows:

2020	\$ 71,568,539
2021	16,496,722
2022	7,409,300
2023	3,481,517
2024	1,938,245
Thereafter	<u>-</u>
	<u>\$ 100,894,323</u>

Time certificates of deposit included brokered deposits of \$10,090,000 and \$12,128,000 as of December 31, 2019 and 2018, respectively.

Note 8 – Borrowings

FHLB advances – The Bank, as a member of the FHLB of Des Moines, has entered into a credit arrangement with the FHLB under which authorized borrowings are collateralized by the Bank's loans (Note 3). The Bank has no outstanding borrowings as of December 31, 2019 or 2018. Available borrowings and their respective terms are subject to eligible collateral being pledged and are reduced by outstanding letters of credit.

Correspondent bank lines of credit – The Bank has federal funds line-of-credit agreements with Pacific Coast Bankers' Bank, Zions Bank, and United Bankers Bank. As of December 31, 2019 and 2018, there were no outstanding balances owed under these agreements. The maximum borrowings available under the Pacific Coast Bankers' Bank agreement were \$4,000,000 as of December 31, 2019 and 2018. This line of credit is unsecured, expires on June 30, 2020, and bears interest at the then-stated rate. The Zions Bank line of credit had maximum borrowings available of \$4,000,000 as of December 31, 2019 and 2018. This line of credit has no expiration date, is unsecured, and bears interest at the then-stated rate. The United Bankers Bank line of credit has maximum borrowings available of \$5,000,000 as of December 31, 2019 and 2018. This line of credit has no expiration date and is unsecured and bears interest at the then-stated rate.

Federal Reserve borrowings – The Bank has established a line of credit under the discount window program. As of December 31, 2019 and 2018, there were no outstanding borrowings under this program and the available borrowing limit was \$39,501,000 and \$38,002,610, respectively. The borrowings bear interest at the then-stated rate. The Bank has pledged certain loans to collateralize these borrowings (Note 3).

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9 – Borrowings (continued)

Long-term debt – The Company has entered into a long-term note payable secured by Bank stock with United Bankers’ Bank on October 4, 2013, in the original principal amount of \$3,450,000 at 4.250%, with maturity extended to October 15, 2022. The debt was obtained to repurchase the preferred stock originally issued as part of the United States Department of the Treasury’s Capital Purchase Program, and the repurchase was completed in 2013.

Scheduled future principal payments for all outstanding debt are as follows as of December 31:

2020	\$ 175,482
2021	183,263
2022	482,179
	<u>840,924</u>
	<u>\$ 840,924</u>

Note 10 – Income Taxes

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

	<u>2019</u>	<u>2018</u>
Income tax expense (benefit)		
Current		
Federal	\$ 3,035,427	\$ 1,833,885
State	942,163	611,846
Deferred		
Federal	(112,719)	(53,205)
State	(5,753)	(22,978)
	<u>\$ 3,859,118</u>	<u>\$ 2,369,548</u>

The provision for current income taxes is different from that computed by applying the statutory rates as follows:

	<u>2019</u>	<u>2018</u>
Federal tax at statutory rates	\$ 3,226,925	\$ 2,083,818
State income taxes, net of federal effect	724,322	508,439
Increase in cash surrender value	(54,308)	(50,659)
Equity based compensation	(100,290)	(154,120)
Other	62,469	(17,930)
	<u>\$ 3,859,118</u>	<u>\$ 2,369,548</u>

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 – Income Taxes (continued)

The components of the net deferred tax asset as of December 31 are as follows:

	2019	2018
Assets		
Allowance for loan losses	\$ 370,330	\$ 289,259
Lease liability	564,194	-
Deferred compensation	752,025	629,914
Equity based compensation	175,057	188,740
Other	27,352	-
Total deferred tax assets	1,888,958	1,107,913
Liabilities		
Depreciation	(266,793)	(172,458)
Right of use asset	(556,557)	-
Prepaid expenses	(34,265)	(22,584)
Total deferred tax liabilities	(857,615)	(195,042)
Net deferred tax assets	\$ 1,031,343	\$ 912,871

Note 11 – Retirement Plan

The Bank has established a 401(k) plan to which employees can elect to defer a portion of their pay, up to a maximum of 15%. At management's discretion, the Bank can make a matching contribution. For the years ended December 31, 2019 and 2018, the Bank contributed \$394,636 and \$288,728, respectively.

Note 12 – Commitments and Contingencies

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 amounts recognized in the consolidated balance sheets. The contract 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 instrument 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.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12 – Commitments and Contingencies (continued)

A summary of the notional amounts of the Bank's financial instruments with off-balance-sheet risk as of December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Commitments to extend credit, including		
loans with interest rate lock commitments	\$ 89,316,514	\$ 80,688,395
Standby letters of credit	<u>-</u>	<u>175,177</u>
	<u>\$ 89,316,514</u>	<u>\$ 80,863,572</u>

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. Because 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 counterparty. 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. 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.

Note 13 – Stock Incentive Plan

During 2011, the Bank formed the 2011 Stock Incentive Plan (the Plan), as amended, approved by the board of directors and ratified by the shareholders, authorizing the grant of up to 300,000 shares of common stock. The Plan allows for granting of both incentive, nonqualified stock options, and restricted stock. For all options, the option price, number of shares granted, and duration for the stock options are determined and approved by the board of directors. However, the exercise price for stock options will be 100% of fair market value as of the date on which the option is granted. If the optionee is a significant shareholder, the exercise price will be 110% of fair market value as of the date on which the option is granted. The maximum life for stock options granted is ten years from the date of grant or five years if the optionee is a significant shareholder. Restricted stock is granted with the same terms and restrictions as options. There are 255,514 options and restricted stock shares available for grant as of December 31, 2019.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13 – Stock Incentive Plan (continued)

The risk-free rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is based on management's estimate of future cash dividends at the time of grant. Cash dividends are not paid on unexercised options. The Company attempts to use historical data to estimate option exercise and employee termination behavior in order to estimate an expected life for each option grant. The expected life falls between the end of the vesting period or requisite service period and the contractual term for each award. Expected volatility is estimated to approximate historical volatility determined using the weekly closing stock price for the Company's common stock.

The following table summarizes stock options outstanding under this plan:

	Nonstatutory Options	Weighted- Average Exercise Price	Average Remaining Contractual Life (in years)
Options outstanding, December 31, 2018	2,200	\$ 3.41	0.08
Options granted	-	-	
Options exercised	(2,200)	3.41	
Options forfeited	-	-	
Options outstanding, December 31, 2019	<u>-</u>	<u>\$ -</u>	<u>-</u>

There is no unrecognized compensation expense related to unvested stock options at December 31, 2019. There were no tax benefits realized in 2019 and 2018.

Restricted stock grants – The Company issued shares on January 23, February 20, April 1, and November 20, 2019; however, they are subject to service requirements. The restricted stock grants are participating securities. A summary of restricted stock activity is presented below:

	Restricted Stock	Weighted- Average Grant-Date Fair Value
Restricted stock at December 31, 2018	89,959	\$ 11.72
Stock granted	45,202	19.94
Stock vested	(62,980)	20.27
Stock forfeited	<u>(2,642)</u>	<u>16.32</u>
Restricted stock at December 31, 2019	<u>69,539</u>	<u>\$ 24.11</u>

As of December 31, 2019, there was \$500,168 of unrecognized compensation expense related to nonvested restricted stock grants, which is expected to be recognized over a period of approximately five years.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14 – Operating Leases

The Bank has committed to rent premises used in business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception.

The Bank adopted the provisions of ASU 2016-02 (Topic 842) on January 1, 2019. Operating lease right-of-use (ROU) assets represent a right to use an underlying asset for the contractual lease term. Operating lease liabilities represent an obligation to make lease payments arising from the lease. Upon adoption, operating lease ROU assets and operating lease liabilities totaling approximately \$2.85 million were recorded for leases that existed at the adoption date, based on the present value of lease payments over the remaining lease term. ROU assets are further adjusted for lease incentives. Operating leases entered into after the adoption date will be recognized as an operating lease ROU asset and operating lease liability at the commencement date of the new lease.

The Bank is obligated under noncancelable operating leases with initial or remaining terms in excess of one year on various facilities. These leases require periodic adjustments to the minimum rental payments based on published price indexes, and contain various extension options, which may be exercised by management. The leases contain both lease and non-lease components, which are accounted for separately. The leases do not contain any residual value guarantees.

The following table shows the balances of operating right-of-use assets and lease liabilities as of December 31, 2019:

Operating leases:	
Operating lease right-of-use assets	\$ 2,147,202
Operating lease liabilities	\$ 2,176,665

The following is a schedule of estimated future minimum rental payments based upon price indexes currently in effect, inclusive of renewal options that the Bank is reasonably certain to renew as of December 31:

<u>Year</u>	<u>Operating Leases</u>
2020	\$ 894,190
2021	726,808
2022	511,967
2023	103,089
2024	30,896
Thereafter	<u>-</u>
Total lease payments	\$ 2,266,950
Less: amounts representing interest	(90,285)
Present value of lease liabilities	<u>\$ 2,176,665</u>

Weighted average remaining term (in years)	1.96
Weighted average discount rate	2.80%

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14 – Operating Leases (continued)

Rental expense recognized on a straight-line basis over the lease term amount to under all operating leases was \$1,064,420 and \$908,015 for 2019 and 2018, respectively.

Note 15 – Regulatory Matters

The Bank and Company are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Bank and Company. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of a bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined).

As of December 31, 2019, according to the most recent notifications from its regulatory agencies, the Bank and Company were categorized as well-capitalized under the applicable regulatory framework. There are no conditions or events that management believes may have changed the Bank's category. To be categorized as well-capitalized, the Bank and Company must maintain minimum total risk-based capital, Tier 1 risk-based capital, Tier 1 leverage capital, and Common Equity Tier 1 capital ratios.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 15 – Regulatory Matters (continued)

The Bank's actual and required capital amounts and ratios are as follows:

	Actual Capital		Capital Adequacy Purpose		Capital Adequacy Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount in Thousands	Ratio	Amount in Thousands	Ratio	Amount in Thousands	Ratio	Amount in Thousands	Ratio
As of December 31, 2019								
Total capital to risk-weighted assets	\$ 40,298	15.14%	\$ 21,290	≥8%	\$ 26,293	10.50%	\$ 26,613	≥10%
Tier 1 capital to risk-weighted assets	\$ 38,483	14.46%	\$ 15,968	≥6%	\$ 20,971	8.50%	\$ 21,290	≥8%
Tier 1 capital to average assets	\$ 38,483	14.46%	\$ 11,976	≥4%	N/A	N/A	\$ 10,995	≥5%
Common Tier 1 capital to risk-weighted assets	\$ 38,483	17.50%	\$ 8,796	≥4.5%	\$ 16,979	7.00%	\$ 17,298	≥6.5%
As of December 31, 2018								
Total capital to risk-weighted assets	\$ 31,330	17.20%	\$ 14,574	≥8%	\$ 17,990	9.88%	\$ 18,218	≥10%
Tier 1 capital to risk-weighted assets	\$ 29,853	16.39%	\$ 10,931	≥6%	\$ 14,347	7.88%	\$ 14,574	≥8%
Tier 1 capital to average assets	\$ 29,853	12.52%	\$ 9,538	≥4%	N/A	N/A	\$ 11,923	≥5%
Common Tier 1 capital to risk-weighted assets	\$ 29,853	16.39%	\$ 8,198	≥4.5%	\$ 11,614	6.38%	\$ 11,842	≥6.5%

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2019 is 2.50%. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. If the Bank does not meet the conservation buffer, it will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers. Management believes as of December 31, 2019, the Bank meets all capital adequacy requirements to which they are subject.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 16 – Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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 assumptions to estimate fair value on a recurring and nonrecurring basis:

Loans held-for-sale – Loans held-for-sale are valued at the market value as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Loans that are committed with firm investor pricing are classified as Level 1. In the absence of a commitment, the best source of fair value is a current estimated market price as reflected in the Company's hedge reporting model that is provided by a reputable third party. In assessing the value of the uncommitted loans, it must be noted that open forward commitments or obligations to sell loans are a component of the loan value at any given date. These are typically classified as Level 2.

Interest rate lock commitments – The Bank considers its commitments to extend the secondary market qualifying loans (the pipeline) with interest rate lock commitments to be derivatives. These derivatives are recognized at their estimated fair values as reflected in the Company's hedge reporting model that is provided by a reputable third party based on market prices for similar assets. Pull through rate component is not significant to overall market value. These are typically classified as Level 2.

Forward sale commitments – The Bank considers its futures contracts and its positions taken in put options to be derivatives, which are recognized at their estimated fair value as reflected in the Company's hedge reporting model that is provided by a reputable third party based on market prices for similar assets. These are typically classified as Level 2.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 16 – Fair Value of Financial Instruments (continued)

Impaired loans – A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan’s observable market price or the underlying collateral securing the loan. Collateral may be real estate or business assets including equipment. The value of collateral is determined based on independent appraisals, and is typically categorized as a Level 3 in the hierarchy.

Other real estate owned (OREO) – OREO assets are measured and recorded at the lower of cost basis or fair value on a nonrecurring basis. The OREO assets are collateral-dependent and, accordingly, are measured based on the fair value of such collateral. The fair value of each asset’s collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring fair value measurement that is categorized as a Level 3 measurement.

The following table presents information about the Bank’s assets and liabilities measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques used by the Bank to determine such fair value:

	Fair Value Measurements			
	Fair Value 12/31/2019	Level 1	Level 2	Level 3
Recurring items				
Loans held-for-sale	\$ 58,751,727	\$ -	\$ 58,751,727	\$ -
Interest rate lock commitments	1,693,274	-	1,693,274	-
Forward sale commitments	(22,168)	-	(22,168)	-
Total assets and liabilities measured at fair value	<u>\$ 60,422,833</u>	<u>\$ -</u>	<u>\$ 60,422,833</u>	<u>\$ -</u>
	Fair Value Measurements			
	Fair Value 12/31/2018	Level 1	Level 2	Level 3
Recurring items				
Loans held-for-sale	\$ 32,706,890	\$ -	\$ 32,706,890	\$ -
Interest rate lock commitments	1,328,655	-	1,328,655	-
Forward sale commitments	(140,117)	-	(140,117)	-
Total assets and liabilities measured at fair value	<u>\$ 33,895,428</u>	<u>\$ -</u>	<u>\$ 33,895,428</u>	<u>\$ -</u>

Assets measured at fair value on a nonrecurring basis – Assets are considered to be fair valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the consolidated balance sheets. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value. There were no assets measured at fair value on a nonrecurring basis at December 31, 2019 or 2018.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 16 – Fair Value of Financial Instruments (continued)

The Company normally intends to hold the majority of its financial instruments until maturity; it does not expect to realize many of the estimated amounts disclosed. In addition, other assets and liabilities of the Company that are not defined as financial instruments are not included in the above disclosures, such as furniture and equipment. Also, nonfinancial instruments typically not recognized in the consolidated financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

The fair value calculations below are management's estimate to incorporate the effect of current market conditions at the time. These estimates of fair value are based on management's judgment of the most appropriate factors, such as underlying assumptions, discount rates and estimates of future cash flows, and there can be no assurance that were the Company to have disposed of such items as of December 31, 2019 and 2018, the estimated fair values would necessarily have been achieved at that date. Because market values may differ depending on various circumstances, the estimated fair values as of December 31, 2019 and 2018, should not necessarily be considered to apply at subsequent dates.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 16 – Fair Value of Financial Instruments (continued)

The following table discloses the estimated fair value and the related carrying value of the Bank's financial instruments as of December 31:

	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
December 31, 2019				
Financial assets				
Cash and due from banks	\$ 5,668,486	\$ 5,668,486	\$ -	\$ -
Interest-bearing deposits with banks	11,945,000	11,945,000	-	-
Loans held-for-sale	58,751,727	-	58,751,727	-
Interest rate lock commitments	1,693,274	-	1,693,274	-
Accrued interest receivable	570,326	-	570,326	-
Federal Home Loan Bank stock	289,400	-	289,400	-
Loans	179,447,384	-	-	176,369,371
Financial liabilities				
Noninterest-bearing demand deposits	\$ 40,015,466	\$ 40,015,466	\$ -	\$ -
Interest-bearing demand and money market accounts	80,929,579	-	80,929,579	-
Time deposits	100,894,323	-	-	101,218,534
Lines of credit and other borrowings	840,924	-	840,924	-
Accrued interest payable	240,001	-	240,001	-
Forward sale commitments	22,168	-	22,168	-
December 31, 2018				
Financial assets				
Cash and due from banks	\$ 4,059,021	\$ 4,059,021	\$ -	\$ -
Interest-bearing deposits with banks	41,580,000	41,580,000	-	-
Loans held-for-sale	32,706,890	-	32,706,890	-
Interest rate lock commitments	1,328,655	-	1,328,655	-
Accrued interest receivable	521,989	-	521,989	-
Federal Home Loan Bank stock	245,600	-	245,600	-
Loans	154,451,373	-	-	150,899,700
Financial liabilities				
Noninterest-bearing demand deposits	\$ 34,035,152	\$ 34,035,152	\$ -	\$ -
Interest-bearing demand and money market accounts	72,952,014	-	72,952,014	-
Time deposits	98,551,220	-	-	97,851,505
Lines of credit and other borrowings	1,009,103	-	1,009,103	-
Accrued interest payable	153,334	-	153,334	-
Forward sale commitments	140,117	-	140,117	-

Note 17 – Related-Party Transactions

In the ordinary course of business, the Bank has granted loans to certain directors and executive officers and the companies with which they are associated. In the Bank's opinion, all loans and loan commitments to such parties are made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons.

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 17 – Related-Party Transactions (continued)

An analysis of activity with respect to loans to directors, executive officers, and principal shareholders of the Bank is as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 625,743	\$ 684,772
Loans issued	37,721	-
Repayments	<u>(111,826)</u>	<u>(59,029)</u>
Balance, end of year	<u>\$ 551,638</u>	<u>\$ 625,743</u>

As of December 31, 2019 and 2018, deposits held for related parties were \$8,332,906 and \$11,621,644, respectively.

Note 18 – Other Income and Other Operating Expenses

Other income included in noninterest income included the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Insurance	\$ 206,652	\$ 194,991
Other income	<u>193,205</u>	<u>115,811</u>
	<u>\$ 399,857</u>	<u>\$ 310,802</u>

Other operating expenses included in noninterest expense included the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Software licensing fees	\$ 902,401	\$ 782,160
Data processing	362,152	316,163
Advertising	1,320,219	1,389,677
Telephone	364,945	310,261
Investor fees	1,093,142	966,623
Credit reports	662,427	591,066
Other expenses	<u>3,620,773</u>	<u>3,320,130</u>
	<u>\$ 8,326,059</u>	<u>\$ 7,676,080</u>

Oregon Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 19 – Revenue from Contracts with Customers

As noted in Note 2, the Company adopted the provisions of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, on January 1, 2018, and all subsequent ASUs that modified Topic 606. Results for reporting periods beginning after December 31, 2017, are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 605.

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized in Non-Interest Income. Gains/losses on the sale of other real estate owned are included in non-interest 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 Company's sources of Non-Interest Income for the 12 months ended December 31:

	<u>2019</u>	<u>2018</u>
Mortgage banking revenue, net ^(a)	\$ 45,129,566	\$ 33,961,296
Brokered loan fees ^(a)	22,345	93,240
Service charge income	61,523	61,326
Increase in cash surrender value of life insurance ^(a)	212,023	200,363
Other income	<u>399,857</u>	<u>310,802</u>
Total noninterest income	<u>\$ 45,825,314</u>	<u>\$ 34,627,027</u>

^(a) Not within the topic of ASC 606

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

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

Other income – Fees earned on other services, such as merchant services, occasional non-recurring type services, or bank owned life insurance are recognized at the time of the event or the applicable billing cycle.

Supplementary Information

Oregon Bancorp, Inc. and Subsidiaries
Consolidating Balance Sheet
December 31, 2019

	ASSETS			Consolidated Total
	Willamette Valley Bank	Oregon Bancorp, Inc.	Eliminations	
ASSETS				
Cash and due from banks	\$ 5,668,486	\$ 208,422	\$ (208,422)	\$ 5,668,486
Interest-bearing deposits with banks	11,945,000	-	-	11,945,000
Total cash equivalents	17,613,486	208,422	(208,422)	17,613,486
Loans held-for-sale, at fair value	58,751,727	-	-	58,751,727
Loans, net of allowance for loan losses	179,447,384	-	-	179,447,384
Federal Home Loan Bank stock, at cost	289,400	-	-	289,400
Premises and equipment, net	2,957,069	-	-	2,957,069
Cash surrender value of life insurance, net	4,137,359	-	-	4,137,359
Accrued interest receivable	570,326	-	-	570,326
Deferred tax asset	478,318	553,025	-	1,031,343
Right of use asset	2,147,202	-	-	2,147,202
Other assets	2,536,466	-	-	2,536,466
Investment in subsidiary	-	38,738,085	(38,738,085)	-
Total assets	<u>\$ 268,928,737</u>	<u>\$ 39,499,532</u>	<u>\$ (38,946,507)</u>	<u>\$ 269,481,762</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Noninterest-bearing demand deposits	\$ 40,223,888	\$ -	\$ (208,422)	\$ 40,015,466
Interest-bearing demand deposits and money market accounts	80,929,579	-	-	80,929,579
Time certificates of deposit	100,894,323	-	-	100,894,323
Total deposits	222,047,790	-	(208,422)	221,839,368
Borrowings	-	840,924	-	840,924
Accounts payable and accrued expenses	5,989,182	255,375	(255,375)	5,989,182
Lease liability	2,176,665	-	-	2,176,665
Accrued interest payable	232,390	7,611	-	240,001
Total liabilities	230,446,027	1,103,910	(463,797)	231,086,140
COMMITMENTS AND CONTINGENCIES (NOTE 12)				
SHAREHOLDERS' EQUITY				
Preferred stock, no par value; 2,000,000 shares authorized; no shares of Series A and Series B issued and outstanding as of December 31, 2019	-	-	-	-
Common stock, no par value; 10,000,000 shares authorized; 2,319,090 shares issued and 2,232,718 outstanding as of December 31, 2019	13,713,921	14,456,581	(13,713,921)	14,456,581
Retained earnings	24,768,789	23,939,041	(24,768,789)	23,939,041
Total shareholders' equity	38,482,710	38,395,622	(38,482,710)	38,395,622
Total liabilities and shareholders' equity	<u>\$ 268,928,737</u>	<u>\$ 39,499,532</u>	<u>\$ (38,946,507)</u>	<u>\$ 269,481,762</u>

Oregon Bancorp, Inc. and Subsidiaries
Consolidating Statement of Income
Year Ended December 31, 2019

	Willamette Valley Bank	Oregon Bancorp, Inc.	Eliminations	Consolidated Total
INTEREST INCOME				
Interest and fees on loans	\$ 11,303,366	\$ -	\$ -	\$ 11,303,366
Interest on due from banks	830,640	-	-	830,640
Total interest income	12,134,006	-	-	12,134,006
INTEREST EXPENSE				
Demand deposits	32,978	-	-	32,978
Savings and money market	257,465	-	-	257,465
Time certificates of deposit	2,038,546	-	-	2,038,546
Borrowings	8,318	39,618	-	47,936
Total interest expense	2,337,307	39,618	-	2,376,925
Net interest income (loss) before provision for loan losses	9,796,699	(39,618)	-	9,757,081
PROVISION FOR LOAN LOSSES				
Net interest income (loss) after provision for loan losses	9,468,699	(39,618)	-	9,429,081
NONINTEREST INCOME				
Mortgage banking revenue, net	45,129,566	-	-	45,129,566
Brokered loan fees	22,345	-	-	22,345
Service charge income	61,523	-	-	61,523
Increase in cash surrender value of life insurance	212,023	-	-	212,023
Other income	399,857	-	-	399,857
Total noninterest income	45,825,314	-	-	45,825,314
NONINTEREST EXPENSE				
Salaries	21,425,512	-	-	21,425,512
Employee benefits	8,239,150	-	-	8,239,150
Occupancy expenses	1,570,440	-	-	1,570,440
Depreciation and amortization expense	271,616	-	-	271,616
Regulatory assessment	55,310	-	-	55,310
Other operating expenses	7,453,589	872,470	-	8,326,059
Total noninterest expense	39,015,617	872,470	-	39,888,087
Income (loss) before provision for income taxes (benefit)	16,278,396	(912,088)	-	15,366,308
PROVISION FOR INCOME TAXES (BENEFIT)				
Net income (loss) before undivided net income from subsidiary	12,054,992	(547,802)	-	11,507,190
Undivided net income from subsidiary	-	12,054,992	(12,054,992)	-
NET INCOME	\$ 12,054,992	\$ 11,507,190	\$ (12,054,992)	\$ 11,507,190

