

Anti-Fraud and Whistleblower Policy

It is the policy of Bank of the Pacific and its holding company, Pacific Financial Corporation (collectively herein, the “Company”) to establish an “Anti-Fraud and Whistleblower Policy” to protect such conduct by directors, officers, and employees and to provide such remedies for alleged improper actions against the Company. Each director, officer and employee have an obligation to report in accordance with this policy (a) questionable or improper accounting or auditing matters, and (b) violations and suspected violations of the Company’s Code of Business Ethics and Conflict of Interest Policy.

It is further the policy of the Bank to:

1. Encourage the reporting by its directors, officers, and employees of improper action, financial or otherwise defined, taken by Bank directors, officers, or employees;
2. To protect Bank directors, officers, and employees who have reported improper actions in accordance with this policy; and
3. To provide a voluntary, secure and confidential method of reporting improper actions against the Bank to an independent third party.

The primary objective of this Anti-Fraud and Whistleblower Policy is to prevent fraud, enhance the Company’s governance and internal controls, standardize business activities, maintain integrity in the Company’s business dealings, establish procedures and protections that allow employees of the Company and members of the public to act on suspected fraud or corruption with potentially adverse ramifications and to achieve the legitimate business objectives of the Company for the benefit of its shareholders.

FRAUD

Fraud is defined as (a) the use of deception with the intention of pursuing personal interests and causing loss to the proper interests of the Company, (b) the illegitimate pursuit of inappropriate Company interests for personal gain, and (c) the intentional distortion of financial statements or other records by persons internal or external to the Company which is carried out to conceal misappropriation of assets or personal gain.

Examples of fraud or fraudulent behavior include but are not limited to:

- Appropriation of corporate interests for personal gain;
- Misappropriation of assets, embezzlement and theft;
- Payment or receipt of bribes, kickbacks or other inappropriate payments;
- Participation in sham or fraudulent transactions;
- Deceptive, misleading or false statements about corporate transactions;

- Forgery or alteration of accounting records or vouchers;
- Failing to keep confidential trade secrets of the Company;
- Non-disclosure of material information needed for an informed investment decision; and
- Other fraud behaviors causing loss to the Company interests.

This is not an all-inclusive list. If you are in doubt about the seriousness of your concern, guidance can be sought from the Risk Management Department and the Audit Committee.

Each employee shall have a basic understanding of fraud and be aware of the red flags and know their role within the internal control framework. Fraud involves not just monetary issues, but also is significant to an organization's financial reporting, operations, reputation, legal, and regulatory compliance. Staff have an awareness of how their job procedures are designed to help mitigate fraud risks and when noncompliance may open up the opportunity for fraud to occur. Each member of the management team shall advocate and develop a corporate culture of honesty and integrity, assess the risk of fraud arising in the normal business operations of each division, establish controls and procedures designed to eliminate the likelihood of fraud and to receive, investigate, report and recommend a remedial course of action in respect to suspected or voiced concerns of fraud or fraudulent behavior.

Managers shall promote a regular corporate culture of honesty and integrity through the following actions and activities:

- Lead by example in complying with this Anti-Fraud and Whistleblower Policy;
- Regularly communicate the Company's message of honesty and integrity with employees of the Company through the Employee Handbook and other written and verbal presentations of the principles underlying this Anti-Fraud and Whistleblower Policy;
- Conduct periodic meetings to ensure employees attend trainings regarding business ethics and the related laws and regulations;
- In connection with the Company's annual overall risk management assessment process, Managers shall identify and assess the importance and possibility of fraud risk at entity level, in each business department level and at all significant account levels. The assessment should include a report disclosing any inaccuracies or misrepresentations in the Company's financial reports, incidents involving embezzlement of company assets, improper income or expenditures and a fraud risk assessment in respect to senior management and the Board of Directors of the Company;
- Managers shall establish control procedures to reduce the potential occurrence of fraud through protective approval, authorization and audit checks, segregation of duties, periodic compliance reviews and similar preventative measures.

WHISTLEBLOWER

The Company recognizes that the decision to report a concern about suspected fraud or fraudulent behavior can be a difficult one to make. Employees are often the first to realize that there is something seriously wrong within the Company. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Company.

They may fear reprisals, harassment or victimization. In these circumstances, it may be easier to ignore the concern rather than report what may just be a suspicion. The Company encourages and

enables employees and external parties, such as agents, advisors and representatives, to raise serious concerns within the Company rather than overlooking a problem or blowing the whistle to the media or other external bodies.

The Company will do its best to protect an individual's identity when they raise a concern; however, the investigation process may reveal the source of the information and a statement by the individual may be required as part of the evidence.

Policies and procedures are reviewed at committee/management level and approved by the Board of Directors. Policies are covered during the orientation/onboarding process and are located on the Bank's internal website, The HUB. Policies are periodically updated; reviewed and selected ones are annually acknowledged by employees, including:

- Code of Business Ethics – Conflict of Interest Policy
- Anti-Fraud Whistleblower Policy
- Information Security Policy and Program
- Insider Trading Policy
- Employee Handbook

Failure to comply with these policies subjects any employee to disciplinary action, which may include immediate termination.

Reporting and Complaint “Whistleblower” procedures for Accounting or Auditing Matters

Employees, vendors or other parties with concerns of fraud or suspected fraud may report directly to the Audit Committee. The information below provides direct contact for the current Chairman of the Audit Committee, Douglas Biddle. Any fraud that is detected or suspected must be reported immediately.

- Complaints may be e-mailed to: doug.biddle@bnk.com.
- Mailed confidentially to: Chairman of the Audit Committee
1216 Skyview Drive
Aberdeen, WA 98520
- To leave a confidential message for the Audit Committee Chair: 360-616-0687.

The Audit Committee is comprised of non-employee directors who meet standards of independence as defined in Rule 10A-3 adopted by the SEC under the Exchange Act. Upon receipt of a complaint, the Audit Committee will take appropriate action for investigating, tracking and maintaining confidentiality. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title or relationship to Bank of the Pacific or Pacific Financial Corporation. It is important to provide as much information regarding the facts and circumstances surrounding the complaint as possible in order to facilitate a full and complete investigation.

Upon receipt of a complaint, the Audit Committee will determine whether the complaint actually pertains to accounting or auditing matters and, as possible, acknowledge receipt of the complaint to the sender. Complaints relating to accounting or auditing matters will be forwarded for investigation to such person or persons as the Audit Committee determines to be appropriate. Confidentiality will be maintained to the fullest extent possible, consistent with the need to conduct an adequate review.

Pacific Financial Corporation and Bank of the Pacific are committed to achieving compliance with all applicable securities laws, regulations, accounting standards, accounting controls, and audit practices.

Any employee, vendor, or other party may file a good faith complaint without the fear of dismissal or retaliation of any kind. The Company or Bank will not discharge, demote, suspend, threaten, harass or in any manner discriminate against anyone because of any lawful actions in providing information or other assistance in investigation of fraud or the commission of any federal offense as specified in Sections 806 and 1107 of the Sarbanes-Oxley Act of 2002. This will be true even in the event that it is concluded from the investigation that no violation occurred.

All reports and records associated with a complaint are considered confidential and shall be kept in accordance to the Company's record retention schedule as applicable.

This policy is posted for future reference on the Bank's intranet, The HUB.