2020 ANNUAL REPORT

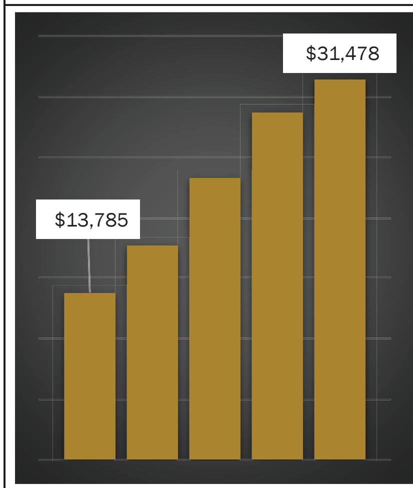
SUMMITBANK GROUP, INC.

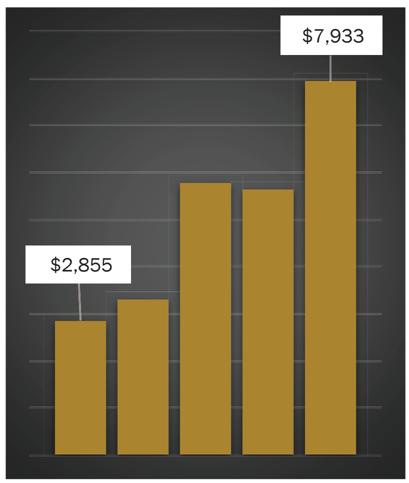
THINGS LOOK BETTER FROM THE SUMMIT

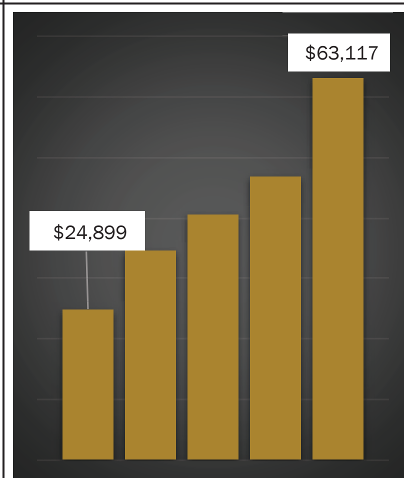
Performance Highlights

(DOLLARS IN THOUSANDS)	2016	2017	2018	2019	2020
REVENUES	$ 13,785	$ 17,726	$ 23,271	$ 28,715	$ 31,478
NET INCOME	$ 2,855	$ 3,283	$ 5,762	$ 5,619	$ 7,933
TOTAL TIER 1 CAPITAL	$ 24,899	$ 34,542	$ 40,588	$ 46,822	$ 63,117
TOTAL ASSETS	$ 281,997	$ 335,689	$ 416,468	$ 507,378	$ 761,136
TOTAL LOANS	$ 231,084	$ 281,435	$ 348,462	$ 445,405	$ 583,209
TOTAL DEPOSITS	$ 253,710	$ 298,613	$ 371,404	$ 451,467	$ 657,136

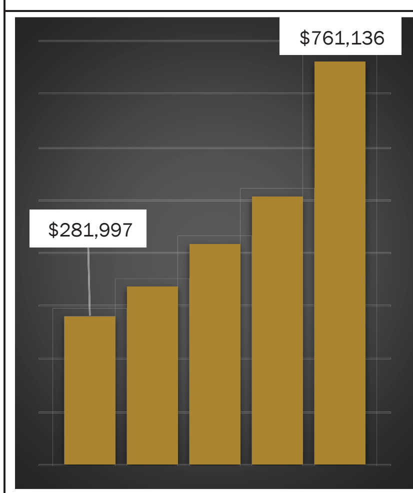
REVENUES (CAGR)	NET INCOME (CAGR)	TOTAL TIER 1 CAPITAL (CAGR)
+23%	+30%	+27%

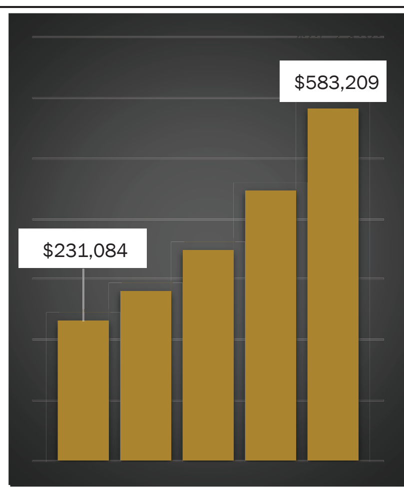


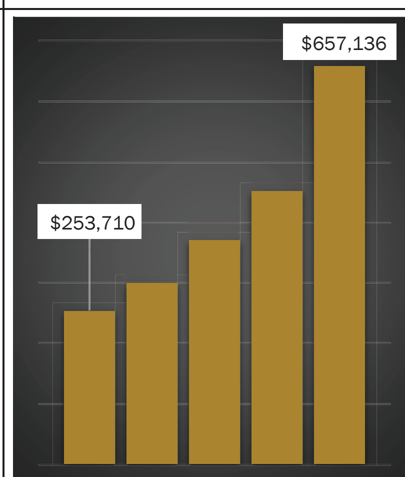




TOTAL ASSETS (CAGR)	TOTAL LOANS (CAGR)	TOTAL DEPOSITS (CAGR)
+27%	+27%	+27%







*CAGR = Compounded Annual Growth Rate for Years 2016 through 2020

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GROUP, INC.

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TO OUR SHAREHOLDERS,

A year of resilience.

2020 was an incredibly tough yet uniquely humbling year. While our clients and communities have been through many obstacles, what we learned the most in 2020 is about the resilience of our clients, communities and our colleagues. The COVID-19 pandemic and the wildfires had a devastating impact on so many Oregonians.

We were encouraged by the heartwarming sight of volunteers and first responders coming together to help their neighbors. As an essential business, we have seen our colleagues work harder than ever to support our clients during an intense time of need. Businesses throughout our markets pivoted their business plans to keep operations going. We are heartened that in so many ways, these complications have brought out the best in people. We have witnessed remarkable strength in our community.

Despite these obstacles, 2020 was a record year for Summit Bank. Our growth in all units continued, in spite of COVID-19. Our net income for the fiscal year was $7.93 million, up 41.3 percent from $5.62 million in 2019. We achieved our eighth consecutive year of annual loan growth in excess of 20%. 2020 net loan growth was $73.9 million or 16.9 percent, excluding PPP loans. Deposit growth was also incredibly strong with total deposits increasing by $206 million, or 45.6 percent over 2019. These accomplishments can be attributed to the continued success of our clients, the hard work of our colleagues and the addition of several new relationships.

When the lockdown began and small business owners and nonprofits needed emergency assistance, our bankers were able to pivot quickly. In 2020, we were pleased to help 442 small businesses and nonprofits across Oregon for a total of $119 million under the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP). These PPP loans helped businesses and nonprofit entities hire back or retain thousands of Oregon employees across companies in all three of our markets. Over half of Summit Bank's PPP loans were under $100,000.

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Given all the upheaval in 2020, Summit Bank responded by donating $150,000 of its CARES Act PPP SBA loan income to make microloans to underserved members of our community including minority owned businesses, women owned businesses, service-disabled veteran owned businesses and emerging small businesses, particularly those operating out of low income areas. The Bank has partnered with Community LendingWorks, a Community Development Financial Institution (CDFI) based in Springfield, Oregon to help underwrite, disburse and service the loans to help lift up those around us.

A significant accomplishment for the Bank this year was raising $8.0 million in a stock offering that closed and became oversubscribed within one business day. The capital is being used to support our growth in loans in all three of our markets.

Another accomplishment of this past year was being recognized as one of the top community banks in the nation by American Banker, which covers the latest news on the banking and finance industries in the US. The publication issued a list of the Top 200 Community Banks in 2020 based on three-year return on average equity. Contributing factors to make the list include loan and deposit growth. Summit ranks 36 out of the thousands of community banks eligible.

2020, although challenging in many ways, was a strong year for Summit Bank. We have built our Bank on having strong personal relationships with all who bank with us. We remain committed to providing services, resources and support for our clients as we continue to move beyond the pandemic. In closing, thank you to our colleagues, who worked tirelessly this year to serve our clients and to volunteer in our communities. Thank you to our clients, who have continued to grow and survive along with us, and our shareholders, for your unwavering belief that our community's business owners, professionals, nonprofit executives and individuals deserve a high level of service professionalism and dedication from their banking team and you trust us to deliver on that promise.

We are optimistic for what lies ahead in 2021.

With gratitude,

Paul Weinhold

Paul Weinhold

Craig A. Wanichek

Craig Wanichek

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Summit Bank Group, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Summit Bank Group, Inc. and Subsidiary as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' 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 audit 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 auditors' 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 auditors consider 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 Summit Bank Group, Inc. and Subsidiary as of December 31, 2020 and 2019, 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.

Delap LLP

March 3, 2021

SUMMITBANK Group, Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS

	December 31	
	2020	2019
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 12,775,231	$ 8,967,523
Interest-bearing deposits with other financial institutions	9,455,746	5,679,841
Deposits with Federal Reserve Bank	141,109,699	35,015,708
Total cash and cash equivalents	163,340,676	49,663,072
Investment securities available-for-sale, at estimated fair value	9,439,876	4,564,748
Loans, less allowance for loan losses	572,606,917	437,449,235
Interest receivable	2,098,669	1,690,381
FHLB and PCBB stock, at cost	1,048,900	939,800
Premises and equipment, net of accumulated depreciation	5,961,582	6,269,793
Deferred income taxes, net	1,418,948	1,476,294
Repossessed assets, net	124,394	314,083
Cash surrender value of bank-owned life insurance	3,994,326	3,894,696
Other assets	1,101,697	1,116,290
	597,795,309	457,715,320
Total assets	$ 761,135,985	$ 507,378,392
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 162,695,677	$ 91,982,439
Savings and interest-bearing demand	470,617,835	312,364,770
Time deposits	23,822,971	47,119,392
Total deposits	657,136,483	451,466,601
Interest payable	273,981	232,284
Other liabilities	18,064,279	7,147,223
Repurchase agreements and secured borrowings	22,527,420	1,706,636
Total liabilities	698,002,163	460,552,744
Stockholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; none issued	-	-
Common stock, no par value; 10,000,000 shares authorized, 6,024,955 and 5,192,085 shares outstanding in 2020 and 2019	29,149,755	20,788,105
Retained earnings	33,967,041	26,034,209
Accumulated other comprehensive income	17,026	3,334
Total stockholders' equity	63,133,822	46,825,648
Total liabilities and stockholders' equity	$ 761,135,985	$ 507,378,392

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31	
	2020	2019
Interest income:		
Interest and fees on loans	$ 29,360,269	$ 25,855,114
Interest on investment securities	95,398	121,151
Interest on deposits with other banks	295,190	913,784
Total interest income	29,750,857	26,890,049
Interest expense	1,336,982	3,124,174
Net interest income	28,413,875	23,765,875
Provision for loan losses	3,782,108	3,004,962
Net interest income after provision for loan losses	24,631,767	20,760,913
Noninterest income:		
Gains on sales of loans	567,263	656,190
Bank card and interchange fees	453,116	432,209
Service charges on deposit accounts	128,938	114,300
Real estate lease income	76,580	109,413
Loan servicing fees	281,070	259,620
Bank-owned life insurance income	97,942	92,328
Losses on sales and write-downs of repossessed assets, net	(361,822)	(323,988)
Other	484,089	484,708
Total noninterest income	1,727,176	1,824,780
Noninterest expense:		
Salaries and employee benefits	11,171,595	10,343,294
Occupancy and equipment expense	874,874	809,658
Data processing	830,838	822,064
Repossessed assets expenses	227,636	209,522
Other	2,589,807	2,893,958
Total noninterest expense	15,694,750	15,078,496
Income before income taxes	10,664,193	7,507,197
Income tax provision	2,731,361	1,887,904
Net income	$ 7,932,832	$ 5,619,293
Earnings per share:		
Basic	$ 1.39	$ 1.09
Diluted	$ 1.38	$ 1.07

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31	
	2020	2019
Net income	$ 7,932,832	$ 5,619,293
Other comprehensive income (loss):		
Change in unrealized gains (losses) on investment securities available-for-sale	18,372	36,348
Tax effect of the change in unrealized gains (losses) on investment securities available-for-sale	(4,680)	(9,632)
Comprehensive income	$ 7,946,524	$ 5,646,009

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2020 and 2019

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income (loss)	Total
Balance, December 31, 2018	5,149,699	$ 20,172,918	$ 20,414,916	$ (23,382)	$ 40,564,452
Net income			5,619,293		5,619,293
Other comprehensive income (loss)				26,716	26,716
Stock options exercised	22,488	132,782			132,782
Share-based compensation	19,898	482,405			482,405
Balance, December 31, 2019	5,192,085	20,788,105	26,034,209	3,334	46,825,648
Net income			7,932,832		7,932,832
Other comprehensive income				13,692	13,692
Issuance of common stock, net	797,184	7,971,840			7,971,840
Stock options exercised	21,683	54,543			54,543
Share-based compensation	14,003	335,267			335,267
Balance, December 31, 2020	6,024,955	$ 29,149,755	$ 33,967,041	$ 17,026	$ 63,133,822

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2020	2019
Cash flows from operating activities:		
Net income	$ 7,932,832	$ 5,619,293
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	495,126	442,011
Share-based compensation	335,267	482,405
Amortization of investment premiums, net	10,668	2,301
Provision for loan losses	3,782,108	3,004,962
Gains on sales of loans	(567,263)	(656,190)
Bank-owned life insurance income	(97,942)	(92,328)
Losses on sales of repossessed assets, net	225,619	254,988
Write-downs of repossessed assets	136,203	69,000
Deferred income taxes	52,666	(280,936)
Ineffective portion of interest rate swaps	128,018	133,982
Change in:		
Interest receivable and other assets	(395,383)	(142,472)
Deferred loan fees	1,069,553	123,470
Interest payable and other liabilities	3,199,695	(1,965,712)
Net cash provided by operating activities	16,307,167	6,994,774
Cash flows from investing activities:		
Purchases of investment securities	(8,238,230)	(2,983,291)
Purchases of FHLB stock	(109,100)	(96,900)
Principal payments and maturities of investment securities	3,370,806	1,765,036
Net proceeds from sales of loans	17,178,758	7,637,213
Proceeds from sales of repossessed assets	1,165,159	1,482,410
Loans originated, net of principal collected	(150,327,090)	(101,008,287)
Purchases of premises and equipment	(186,915)	(940,111)
Net cash used in investing activities	(137,146,612)	(94,143,930)
Cash flows from financing activities:		
Net increase in deposits	205,669,882	80,062,274
Proceeds from common stock offering, net of costs	7,971,840	-
Increase in repurchase agreements and secured borrowings	20,820,784	97,860
Proceeds from stock options exercised	54,543	132,782
Net cash provided by financing activities	234,517,049	80,292,916
Net increase in cash and cash equivalents	113,677,604	(6,856,240)
Cash and cash equivalents, beginning of year	49,663,072	56,519,312
Cash and cash equivalents, end of year	$ 163,340,676	$ 49,663,072
Supplemental information:		
Cash paid during the year for interest	$ 1,295,285	$ 2,999,523
Cash paid during the year for income taxes	1,931,883	1,891,580
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	13,692	26,716
Transfer of loans to repossessed assets	1,337,292	1,355,811
Right-of-use lease asset obtained in exchange for operating lease liability	-	507,627

The accompanying notes are an integral part of these consolidated financial statements.

1. **Summary of Significant Accounting Policies**:

Basis of Presentation – The consolidated financial statements include the accounts of Summit Bank Group, Inc. (the Holding Company), a bank holding company and its wholly-owned subsidiary, Summit Bank (the Bank). The Holding Company was formed during 2020 and all previously outstanding shares of the Bank's common stock were converted to Holding Company shares on the date of the Holding Company's formation on a 1 to 1 basis. As of December 31, 2020 the Holding Company had 10,000,000 shares of common stock authorized of which 6,024,955 were outstanding. All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations – The Bank provides commercial banking, financing, real estate lending and other services primarily in Lane, Deschutes and Multnomah Counties in Oregon.

Financial Statement Presentation – The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are the allowance for loan losses and fair value estimates. The Bank has evaluated subsequent events through March 3rd, 2021, the date the consolidated financial statements were available to be issued.

Cash and Cash Equivalents – For purposes of reporting cash flows, cash and cash equivalents are cash on-hand and due from financial institutions. Such amounts include both interest-bearing and non-interest-bearing deposits with other financial institutions, short-term time deposits, and federal funds sold on an overnight basis and may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Investment Securities – The Bank classifies all investments in debt securities as available-for-sale. Securities available-for-sale are held for indefinite periods of time and may be sold in response to changes in market interest rates, shifts in the maturity mix or concentration of Bank assets or liabilities, or to alleviate liquidity demands. Securities designated as available-for-sale are reported at estimated fair value. Unrealized gains and losses are excluded from earnings and are included in accumulated other comprehensive income (loss) in stockholders' equity, net of applicable deferred taxes.

Gains and losses realized on sales of securities are recognized using the specific identification method. Interest income on securities is included in income using the effective interest method. Interest income includes accretion and amortization of discounts and premiums resulting from securities purchased at other than par value. Both are calculated using a "constant yield" methodology either to maturity (for securities purchased at a discount) or to "earliest call date" for (for securities purchased at a premium). Premiums and discounts on mortgage backed securities are amortized/accreted based upon current and expected future rates of prepayments on the securities.

The Bank evaluates its securities classified as available-for-sale for other-than-temporary impairments (OTTI) in accordance with GAAP. Accordingly, for investment securities that are in an unrealized loss position, the Bank assesses whether it intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis.

For investment securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Bank would separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component would be recognized in earnings and would be the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of expected future cash flows would be due to factors that are not credit related and would be recognized in other comprehensive income (loss). Management believes that any unrealized losses on investment securities at December 31, 2020 are temporary.

Loans and Income Recognition – Loans are stated at the amount of unpaid principal, reduced by net deferred loan origination fees and an allowance for loan losses. Interest on loans is calculated using the simple-interest method on daily balances of the principal amounts outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of the interest is doubtful. Payments received on nonaccrual loans are applied to the principal balance and no interest income is recognized. Interest income is subsequently recognized only to the extent cash payments are received satisfying all delinquent principal and interest amounts, and the prospects for future payments in accordance with the loan agreement appear relatively certain. A nonaccrual loan may be restored to accrual status when none of its principal and interest is due and unpaid and the Bank expects full repayment of the remaining contractual principal and interest, or when it otherwise becomes well secured and in the process of collection. Loan origination fees, net of associated direct costs, if significant, are deferred and amortized using the interest or straight-line method over the contractual life of the loan as an adjustment of the yield of the related loan. If a loan is repaid prior to maturity, any remaining unamortized net deferred origination fee is recognized in income at the time of repayment.

Allowance for Loan Losses – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged off against the allowance when management believes that the collectability of the principal is unlikely. The allowance is an amount that management considers adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectability of loans and prior loss experience. While management has allocated the allowance for loan losses to various loan classes, the allowance is general in nature and is available for the loan portfolio in its entirety. The allowance for loan losses consists of general and specific components.

The general component covers all non-impaired loans. For all such loans – other than small commercial equipment loans – the general component is based on the Bank's risk rating system and historical loss experience adjusted for qualitative factors. The Bank calculates its historical loss rates by using a combination of (1) a weighted-average of the Bank's most recent 36 months of loss history, with more weight applied to more current months, and (2) historical loss data for Oregon and certain peer banks. The Bank calculates and applies its historical loss rates by individual loan types in its portfolio. These historical loss rates are adjusted for qualitative and environmental factors including, but not limited to: changes in the concentrations, trends and current nature of the loan portfolio; overall portfolio quality; results from internal and external loan reviews; review of specific problem loans; and current economic conditions that may affect the borrower's ability to pay.

Small commercial equipment loans are reserved for as a pool of smaller-balance homogeneous loans. The methodology employed to assign reserve rates is migration analysis wherein probable loss rates are established as migration occurs through risk ratings. The Bank revisits these loss rates at regular intervals and adjusts the applicable rates as dictated through loss experience. As individual loans migrate downward through established risk ratings, increasing reserve rates as estimated by the aforementioned migration analysis are applied to related loan balances.

The specific component of the allowance relates to loans that are considered impaired. A loan is considered impaired when management believes that it is probable that all amounts will not be collected according to the contractual terms. An impaired loan is valued using the estimated fair value of the loan's collateral (less estimated costs to sell) or related government guaranty, the present value of expected cash flows discounted at the loan's effective interest rate, or the observable market price of the loan. These estimates are necessarily subjective and may be adjusted as more current information becomes available. Any adjustment could be significant.

The Bank reports certain loans as Troubled Debt Restructurings (TDRs) when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include extending the maturity date(s) or providing a lower interest rate than would normally be available for a transaction of similar risk. A TDR loan is considered to be impaired and is individually evaluated for impairment.

In June 2020, the Bank executed loan modification programs to support and provide relief for its borrowers impacted by the COVID-19 pandemic. The Bank has followed the loan modification criteria within the Coronavirus Aid, Relief and Economic Security Act of 2020 (CARES Act) and interagency guidance from federal banking agencies when determining if a borrower's modification is subject to a TDR classification. If it is determined that the modification does not meet the criteria under the CARES Act or interagency guidance to be excluded from TDR classification, the Bank evaluates the loan modifications under its existing TDR framework (see Note 4). Loans subject to payment forbearance under the Bank's COVID-19 loan modification programs are not reported as delinquent during the forbearance time period.

Federal and state bank regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance in the future based on their judgment of the information available to them at the time of their examinations.

Allowance for Unfunded Loan Commitments – The Bank maintains a separate reserve for estimated losses related to unfunded loan commitments. The Bank estimates the amount of probable losses related to unfunded loan commitments by applying an estimated loss factor to the expected amount of commitments that will actually require funding. In accordance with industry practice and regulatory guidance, the reserve for estimated losses related to unfunded loan commitments is included in other liabilities in the accompanying consolidated balance sheets and was $115,972 and $100,542 as of December 31, 2020 and 2019, respectively. Changes in the reserve for estimated losses related to unfunded loan commitments are recorded in other noninterest expense in the accompanying consolidated statements of income.

Federal Home Loan Bank (FHLB) and Pacific Coast Bankers' Bank (PCBB) Stock – FHLB and PCBB stock consists of the following at December 31:

	2020	2019
FHLB stock	$ 608,900	$ 499,800
PCBB stock	440,000	440,000
	$ 1,048,900	$ 939,800

The Bank, as a member of the FHLB system, is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets and FHLB advances. At December 31, 2020, the Bank's minimum required investment was $608,900. Stock redemptions may be requested at par value and are made at the discretion of the FHLB. The Bank's investment in FHLB stock is carried at cost, which approximates its fair value. The Bank evaluates its investment in FHLB stock for impairment as needed. The Bank's determination of whether this investment is impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value.

The Bank also holds an investment in its primary correspondent bank, PCBB. This investment is carried at cost, which approximates its fair value.

Premises and Equipment – Premises and equipment are stated at cost, net of accumulated depreciation. Additions and betterments are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Gains or losses realized from sales or retirements are reflected in current operations. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

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

Repossessed Assets – Repossessed assets consist of commercial equipment and commercial real property and are considered held-for-sale. Repossessed assets are initially recorded at fair value at the date of acquisition based on current appraisals and management's estimate of value, establishing a new cost basis. Any excess of the loan balance over the net realizable value of the property is charged to the allowance for loan losses when a property is acquired. Subsequent to acquisition, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Any revenue and expenses from operations are included in other noninterest expense. Gains and losses on sales, write-downs, and changes in valuation allowances are recorded in non-interest income.

The valuation of repossessed assets is subjective in nature and may be adjusted in future periods because of changes in economic conditions. The valuation of repossessed assets is also subject to review by bank regulatory authorities who may require increases or decreases to carrying amounts based on their evaluation of the information available to them at the time of their examination of the Bank.

Bank-owned Life Insurance (BOLI) - The Bank is the owner and beneficiary of BOLI on certain Bank officers. BOLI policies are recorded at their cash surrender values (net of surrender charges). Income from BOLI policies is recognized when earned and is included in noninterest income.

Advertising – Advertising costs are charged to expense during the period in which they are incurred. Advertising expenses were $211,731 and $202,220 for the years ended December 31, 2020 and 2019, respectively.

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are calculated on differences between the financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to be realized. A valuation allowance is recognized if, based on the available evidence, it is determined it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax provision.

Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. The Bank's policy is to recognize interest and penalties related to income tax settlements as a component of income tax provision.

The Bank files income tax returns for federal and various state jurisdictions. There is no material impact of potential tax uncertainties on the Bank's consolidated financial condition or results of operations as of or for the year ended December 31, 2020.

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Derivative Instruments – The Bank uses derivative financial instruments (interest rate swaps) to limit exposure to changes in interest rates related to specific loan assets. Derivatives entered into by the Bank are designated as fair value hedges and generally exhibit perfect effectiveness between changes in the value of the interest rate swap and the hedged instrument (loan asset), with any identified ineffectiveness between the value of the swap and the hedged instrument being recorded in earnings. All derivatives and related hedged loans are recognized in the consolidated balance sheet at their fair values. Changes in the fair value of a derivative that is highly effective, along with the loss or gain on the hedged loan asset that is attributable to the hedged risk, are recorded in current-period earnings. The Bank formally documents all relationships between hedging instruments and hedged assets, as well as its risk-management objective and strategy for undertaking various hedged transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. The Bank would discontinue hedge accounting when: (1) it is determined that a derivative is no longer effective in offsetting changes in the fair value of the associated hedged loan asset; (2) the derivative expires or is sold, terminated, or exercised; or (3) management determines that designation of the derivative as a hedge instrument is no longer appropriate. The hedged loan asset would no longer be adjusted for changes in fair value and the derivative would be carried at its fair value in the consolidated balance sheet, with changes in its fair value recognized in current-period earnings.

Stockholders' Equity and Earnings Per Share – Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share include the effect of common stock equivalents that would arise from the exercise of stock options and the vesting of restricted stock and restricted stock units discussed in Note 9.

Share-Based Compensation – GAAP requires companies to measure compensation expense for all share-based payments based on the fair value of the awards at the grant date and recognize such costs as an expense over the requisite service period (which is generally the vesting period). See Note 9 for discussion of the Bank's share-based compensation arrangements.

Small Business Administration (SBA) Loans Sales and Servicing — The Bank sells or transfers loans, including the government guaranteed portion of the loans (with loan servicing retained) for proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Bank records an asset representing the right to service sold loans when it retains significant servicing rights. This asset is included in other assets in the accompanying consolidated balance sheet. The carrying value of loans sold is allocated between the loans and the servicing rights, based on their relative fair values. The fair value of servicing rights is estimated by discounting estimated future cash flows from servicing using discount rates that approximate current market rates and using estimated prepayment rates. The servicing rights, if any, are carried at the lower of cost or market and are amortized in proportion to, and over the period of the estimated net servicing income, assuming prepayments.

For purposes of evaluating and measuring impairment, the fair value of servicing rights is based on a discounted cash flow methodology, which considers current prepayment speeds and market discount rates. Impairment is measured as the amount by which the carrying value of servicing rights exceeds the related fair value. The Bank held no servicing rights assets as of December 31, 2020 and 2019.

New Accounting Pronouncements - In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13*, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, as amended by ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, and ASU 2019-11. ASU 2016-13 replaces the existing incurred losses methodology with a current expected losses methodology with respect to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held to maturity investment securities and off-balance sheet commitments. In addition, ASU 2016-13 requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction of the carrying amount. ASU 2016-13 also changes the accounting for purchased credit impaired debt securities and loans. ASU 2016-13 retains many of the current disclosure requirements in GAAP and expands certain disclosure requirements. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Upon adoption, the Bank expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in the assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current policy for other-than-temporary impairment on investment securities available-for-sale will be replaced with an allowance approach. The Bank is reviewing the requirements of ASU 2016-13 and has begun developing and implementing processes and procedures to ensure it is fully compliant with the amendments at the adoption date. At this time, the Bank anticipates that the allowance for loan losses will increase as a result of the implementation of ASU 2016-13; however, until its evaluation is complete, the magnitude of the increase will be unknown.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 modifies the disclosure requirements for fair value measurements. The following disclosure requirements were removed from Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; and (3) the valuation process for Level 3 fair value measurements. ASU 2018-13 clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. In addition, ASU 2018-13 adds the following disclosure requirements for Level 3 measurements: (1) changes in unrealized gains and losses for the period included in other comprehensive income for the recurring Level 3 fair value measurements held at the end of the reporting period, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Bank adopted ASU 2018-13 effective January 1, 2020, and it did not have a material impact on the Bank's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software, and Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred, consistent with the accounting for internal-use software costs. The amendments in ASU 2018-15 are intended to result in consistent capitalization of implementation costs of a hosting arrangement that is a service contract and implementation costs incurred to develop or obtain internal use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. The Bank adopted ASU 2018-15 effective January 1, 2020, and it did not have a material impact on the Bank's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidelines. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of ASU 2019-12 is not expected to have a material impact on the Bank's future consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU applies to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR) or other rate references expected to be discontinued because of reference rate reform. The ASU permits an entity to make necessary modifications to eligible contracts or transactions without requiring contract remeasurement or reassessment of a previous accounting determination. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. The Bank has not adopted ASU 2020-04 as of December 31, 2020. The adoption of ASU 2020-04 is not expected to have a material impact on the Bank's future consolidated financial statements.

2. Restricted Assets:

The Bank must meet reserve requirements as established by Federal Reserve Board (FRB) regulation which were zero at both December 31, 2020 and 2019. When the reserve requirement is not zero, the Bank complies with such requirements by holding cash on hand and maintaining average reserve balances on deposit with its primary correspondent bank in accordance with the regulations.

3. Investment Securities Available-for-Sale:

The tables below detail the amortized cost and estimated fair values of available-for-sale investment securities, as well as the amount of any unrealized losses and the length of time these unrealized losses existed as of the dates indicated:

December 31, 2020

	Available-for-Sale				Securities in Continuous Unrealized Loss Position for Less Than 12 Months		Securities in Continuous Unrealized Loss Position for 12 Months or Longer	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Obligations of U.S. Government and U.S. sponsored agencies	$ 1,170,581	$ 5,923	$ -	$ 1,176,504	$ -	$ -	$ -	$ -
Corporate debt securities	-	-	-	-	-	-	-	-
Mortgage-backed securities	8,246,357	35,286	(18,271)	8,263,372	4,530,352	(18,271)	-	-
	$ 9,416,938	$ 41,209	$ (18,271)	$ 9,439,876	$ 4,530,352	$ (18,271)	$ -	$ -

December 31, 2019

	Available-for-Sale				Securities in Continuous Unrealized Loss Position for Less Than 12 Months		Securities in Continuous Unrealized Loss Position for 12 Months or Longer	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Obligations of U.S. Government and U.S. sponsored agencies	$ 199,274	$ 37	$ -	$ 199,311	$ -	$ -	$ -	$ -
Corporate debt securities	500,000	3,003	-	503,003	-	-	-	-
Mortgage-backed securities	3,860,908	12,631	(11,105)	3,862,434	2,150,926	(11,105)	-	-
	$ 4,560,182	$ 15,671	$ (11,105)	$ 4,564,748	$ 2,150,926	$ (11,105)	$ -	$ -

The unrealized losses on the Bank's investment securities were primarily attributable to increases in market interest rates subsequent to their purchase by the Bank. The Bank expects the fair value of these securities to recover as the securities approach their maturity dates or sooner if market yields for such securities decline. The Bank does not believe that these securities are other than temporarily impaired because of their credit quality or related to any issuer or industry specific event. Based on management's evaluation and intent, the unrealized losses related to the investment securities in the above tables are considered temporary.

The amortized cost and estimated fair value of investment securities at December 31, 2020 are shown below by contractual maturity or projected average life depending on the type of security. Obligations of U.S. government sponsored agencies are shown by contractual maturity. Mortgage-backed securities are disclosed by projected average life.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 779,208	$ 789,861
Due after one year through five years	1,709,809	1,720,828
Due after five years through ten years	5,908,231	5,903,714
Due after ten years	1,019,690	1,025,473
	$ 9,416,938	$ 9,439,876

There were no sales of investment securities during 2020 or 2019.

At December 31, 2020, investment securities with a total estimated fair value of $9,426,505 and amortized cost of $9,402,480 were pledged for FHLB borrowings, repurchase agreements and other purposes. At December 31, 2019, investment securities with a total estimated fair value of $4,040,555 and amortized cost of $4,039,119 were pledged for FHLB borrowings, repurchase agreements and other purposes.

4. Loans and Allowance for Loan Losses:

Major classifications of loans at December 31 are as follows:

		2020		2019
Real Estate				
Acquisition, Development & Construction	$	32,193,868	$	19,489,900
Commercial		149,526,079		135,660,638
Multifamily		27,384,302		24,552,733
Owner Occupied		152,151,663		111,514,019
Commercial and Industrial				
Small Commercial Equipment		54,907,166		51,976,786
U.S. SBA Paycheck Protection Program (PPP)		61,215,944		-
Other Commercial & Industrial		85,850,860		79,710,820
Consumer				
Secured		17,781,150		19,941,681
Unsecured		2,198,180		2,558,533
		583,209,212		445,405,110
Deferred Loan Origination Fees, net		(2,427,396)		(1,357,843)
		580,781,816		444,047,267
Allowance for Loan Losses		(8,174,899)		(6,598,032)
Loans receivable, net	$	572,606,917	$	437,449,235

Risk Elements – The Bank manages credit risk through lending limit constraints, credit review, approval policies and extensive ongoing internal monitoring. Additionally, credit risk is managed via diversification of the loan portfolio by loan, industry and borrower type as well as limits on the aggregation of debt to a single borrower. The Bank also obtains periodic credit file reviews from independent third-parties as part of its ongoing credit monitoring process. The following are the loan segment risk characteristics of the Bank's portfolio:

Acquisition, Development & Construction– includes both loans and lines of credit for the purpose of purchasing, carrying and developing land into commercial developments or residential subdivisions. Also included in this designation are loans and lines of credit for construction of residential, multi-family and commercial buildings. Generally, the primary source of repayment is dependent upon the sale or refinance of the real estate collateral. Construction lending can involve a higher level of risk than other types of lending because funds are advanced based on a prospective value of the project at completion, the total estimated construction cost of the project, and the borrowers' equity at risk. Additionally, the repayment of the loan may be conditional on the success of the ultimate project which could be subject to interest rate changes, governmental regulations, general economic conditions and the ability of the borrower to sell or lease the property or refinance the indebtedness. The bank attempts to mitigate the risks associated with this type of credit by limiting concentration exposure and utilizing enhanced underwriting procedures as outlined in proprietary policies and procedures as approved by the board of directors not less than annually.

Commercial Real Estate – loans in this category are assigned to one of two specific subcategories:

- Commercial – includes loans to finance income-producing commercial properties. Loans in this class include retail centers, hotels, office buildings, single-tenant retail buildings, warehouses and other properties where the source of repayment on the loan comes primarily from non-related tenant lease income. There are board-approved enhanced underwriting procedures in place that govern the approval and funding of these types of loans, ensuring the highest probability of full repayment of principal.
- Owner Occupied – includes loans secured by business facilities to finance business operations, equipment and owner-occupied facilities for commercial customers. Generally, the primary source of repayment is the operating cash flow from business activities of the owner of the property or related entity. These loans are underwritten in such a way as to ensure the highest probability of repayment in full, according to board-approved policies and procedures.

Multi-family Real Estate – these loans are secured by – and are generally repaid by the lease income from – real estate properties built to house 5 or more families in a single property or complex. Apartment buildings and complexes are the major collateral in this category. This category does not include 1-4 family rental properties. These loans are underwritten in such a way as to ensure the highest probability of repayment in full, according to board-approved policies and procedures.

Commercial & Industrial - loans in this category are assigned to one of three specific subcategories:

- Small Commercial Equipment – includes loans secured by commercial equipment, typically rolling stock. The primary source of repayment is generally derived from income generated by utilization of the equipment collateralizing the loans, and thus, is more subject to potential disruption relative to larger and more diversified borrowers. The lack of significant secondary sources of repayment results in a higher risk of loss and thus these loans carry market rates of interest that are higher than the Bank's other loan types. These loans possess homogeneous risk characteristics unique to small business lending to the transportation industry. These risks are mitigated via ongoing industry trend analysis and through concentration limits on the portfolio as a whole as well as within industry subclasses. The majority of these loans are originated to borrowers outside of the Bank's primary market areas of Lane, Deschutes and Multnomah counties, throughout the western and southern United States.
- SBA PPP – The CARES Act authorized the SBA to temporarily guarantee loans under a new loan program designed to mitigate the impact of the COVID-19 pandemic on small businesses. PPP loans made to eligible borrowers are 100% guaranteed by the SBA, carry an interest rate of 1.0%, have either a two year or five year maturity, and are fully amortizing following a period of deferred principal and interest payments of at least six months from the date of initial disbursement. The entire principal amount of a PPP loan, including any accrued interest, is eligible to be forgiven and repaid by the SBA.

- Other Commercial and Industrial – The primary source of repayment for these loans is generally cash flow from continuing business operations. These loans are underwritten according to board-approved internal policies and procedures. Under the Bank's policy, primary and secondary repayment sources must be identified upon approval and prior to funding.

Consumer – the Bank engages in limited consumer lending of both a secured and unsecured nature. This primarily takes the form of home equity lines of credit and personal and professional lines of credit which may or may not be secured by tangible collateral. These loans are underwritten in such a way as to ensure the highest probability of repayment in full, according to board-approved policies and procedures.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of such serviced loans were $61,022,387 and $38,765,656 at December 31, 2020 and 2019, respectively.

The loan portfolio at December 31, 2020 and 2019 includes $77,182,262 and $59,371,723, respectively, of loans which have rates of interest that change more often than annually. The loan portfolio additionally includes at December 31, 2020 and 2019, fixed rate loans of $125,910,359 and $110,773,091, respectively, that are effectively converted to variable rate loans via interest rate swaps. The December 31, 2020 loan portfolio includes $52,061,920 of loans with interest rates at their contractual floors.

Changes in the allowance for loan losses for the year ended December 31, 2020 are as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Real Estate							
Acquisition, Development & Construction	$ 217,597	$ -	$ -	$ 307,904	$ 525,501	$ -	$ 525,501
Commercial	1,172,128	-	-	298,529	1,470,657	-	1,470,657
Multifamily	279,345	-	-	81,196	360,541	-	360,541
Owner Occupied	1,183,160	-	-	728,294	1,911,454	-	1,911,454
Commercial and Industrial							
Small Commercial Equipment	2,242,506	(2,205,868)	-	2,237,009	2,273,647	45,713	2,227,934
Other Commercial & Industrial	1,305,767	-	627	133,619	1,440,013	127,151	1,312,862
Consumer							
Secured	173,581	-	-	6,090	179,671	-	179,671
Unsecured	23,948	-	-	(10,533)	13,415	-	13,415
Total	$ 6,598,032	$ (2,205,868)	$ 627	$ 3,782,108	$ 8,174,899	$ 172,864	$ 8,002,035

Changes in the allowance for loan losses for the year ended December 31, 2019 are as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Real Estate							
Acquisition, Development & Construction	$ 287,032	$ -	$ -	$ (69,435)	$ 217,597	$ -	$ 217,597
Commercial	901,847	-	-	270,281	1,172,128	-	1,172,128
Multifamily	171,723	-	-	107,622	279,345	-	279,345
Owner Occupied	640,463	-	-	542,697	1,183,160	-	1,183,160
Commercial and Industrial							
Small Commercial Equipment	1,880,185	(1,607,812)	-	1,970,133	2,242,506	132,332	2,110,174
Other Commercial & Industrial	1,076,455	(43,457)	109,237	163,532	1,305,767	117,856	1,187,911
Consumer							
Secured	145,623	-	-	27,958	173,581	-	173,581
Unsecured	31,774	-	-	(7,826)	23,948	9,030	14,918
Total	$ 5,135,102	$ (1,651,269)	$ 109,237	$ 3,004,962	$ 6,598,032	$ 259,218	$ 6,338,814

Risk Rating – The monitoring process of the Bank's loan portfolio includes periodic reviews of individual loans with a risk rating assigned to each loan. Risk ratings are assigned according to various qualitative and quantitative measurements.

- Risk ratings 1 – 6 represent increasing degrees of risk within the regulatory definition of "Pass" loans as ratings move from 1 to 6. Regulatory bodies do not draw distinctions between these categories; as such, assignment of these ratings is for internal management purposes only.
- Risk Rating 7 – loans in this category adhere to the regulatory definition of "Special Mention" loans. A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.
- Risk Rating 8 – loans in this category adhere to the regulatory definition of "Substandard." Loans classified Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the borrower's debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Risk Rating 9 – loans in this category adhere to the regulatory definition of "Doubtful." Loans classified Doubtful have all of the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
- Risk Rating 10 – loans in this category adhere to the regulatory definition of "Loss." Loans classified Loss are uncollectible and of such little value that their continuance as a bankable asset is not warranted. When identified, these loans are charged off.

Loans risk rated 8, 9 or 10 are reviewed regularly to assess the ability of the borrowers to service all interest and principal obligations and, as a result, the risk ratings may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and if warranted, placed on non-accrual status even though the loan may be current as to principal and interest payments. Additionally, an assessment is made as to whether an impairment of a loan warrants specific reserves or a write down of the loan.

The following tables present the Bank's loan portfolio by loan type and credit quality indicator as of December 31, 2020 and 2019:

	As of December 31, 2020 Loan Grade				
	Pass (Ratings 1-6)	Special Mention (Rating 7)	Substandard (Rating 8)	Doubtful (Rating 9)	Totals
Real Estate					
Acquisition, Development & Construction	$ 32,193,868	$ -	$ -	$ -	$ 32,193,868
Commercial	149,526,079	-	-	-	149,526,079
Multifamily	27,384,302	-	-	-	27,384,302
Owner Occupied	141,392,354	6,885,369	3,873,940	-	152,151,663
Commercial and Industrial					
Small Commercial Equipment	54,162,367	669,612	66,682	8,505	54,907,166
U.S. SBA PPP	61,215,944	-	-	-	61,215,944
Other Commercial & Industrial	82,957,828	2,098,947	794,085	-	85,850,860
Consumer					
Secured	17,781,150	-	-	-	17,781,150
Unsecured	2,198,180	-	-	-	2,198,180
Total	$ 568,812,072	$ 9,653,928	$ 4,734,707	$ 8,505	$ 583,209,212
Percentage of Total Portfolio	97.53%	1.66%	0.81%	0.00%	100.00%

	As of December 31, 2019 Loan Grade				
	Pass (Ratings 1-6)	Special Mention (Rating 7)	Substandard (Rating 8)	Doubtful (Rating 9)	Totals
Real Estate					
Acquisition, Development & Construction	$ 19,489,900	$ -	$ -	$ -	$ 19,489,900
Commercial	135,660,638	-	-	-	135,660,638
Multifamily	24,552,733	-	-	-	24,552,733
Owner Occupied	104,912,225	2,396,095	4,205,699	-	111,514,019
Commercial and Industrial					
Small Commercial Equipment	50,824,726	788,059	309,173	54,828	51,976,786
Other Commercial & Industrial	77,622,657	762,271	1,325,892	-	79,710,820
Consumer					
Secured	19,853,766	-	87,915	-	19,941,681
Unsecured	2,551,003	-	7,530	-	2,558,533
Total	$ 435,467,648	$ 3,946,425	$ 5,936,209	$ 54,828	$ 445,405,110
Percentage of Total Portfolio	97.77%	0.89%	1.33%	0.01%	100.00%

The following tables present an aged analysis of past due and nonaccrual loans at December 31, 2020 and 2019:

As of December 31, 2020

	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater than 90 Days Past Due Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Total Current	Total Loans Receivable
Real Estate							
Acquisition, Development & Construction	$ -	$ -	$ -	$ -	$ -	$ 32,193,868	$ 32,193,868
Commercial	-	-	-		-	149,526,079	149,526,079
Multifamily	-	-	-	-	-	27,384,302	27,384,302
Owner Occupied	-	-	-	1,530,543	1,530,543	150,621,120	152,151,663
Commercial and Industrial							
Small Commercial Equipment	1,010,262	161,805	-	114,898	1,286,965	53,620,201	54,907,166
U.S. SBA PPP	-	-	-	-	-	61,215,944	61,215,944
Other Commercial & Industrial	98,916	-	-	127,151	226,067	85,624,793	85,850,860
Consumer							
Secured	-	-	-	-	-	17,781,150	17,781,150
Unsecured	-	-	-	-	-	2,198,180	2,198,180
Total	$ 1,109,178	$ 161,805	$ -	$ 1,772,592	$ 3,043,575	$ 580,165,637	$ 583,209,212
Percentage of Total Portfolio	0.19%	0.03%	0.00%	0.30%	0.52%	99.48%	100.00%

As of December 31, 2019

	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater than 90 Days Past Due Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Total Current	Total Loans Receivable
Real Estate							
Acquisition, Development & Construction	$ -	$ -	$ -	$ -	$ -	$ 19,489,900	$ 19,489,900
Commercial	-	-	-		-	135,660,638	135,660,638
Multifamily	-	-	-	-	-	24,552,733	24,552,733
Owner Occupied	-	-	-	-	-	111,514,019	111,514,019
Commercial and Industrial							
Small Commercial Equipment	1,417,998	540,329	-	418,407	2,376,734	49,600,052	51,976,786
Other Commercial & Industrial	-	-	-	142,693	142,693	79,568,127	79,710,820
Consumer							
Secured	-	-	-	-	-	19,941,681	19,941,681
Unsecured	-	-	-	-	-	2,558,533	2,558,533
Total	$ 1,417,998	$ 540,329	$ -	$ 561,100	$ 2,519,427	$ 442,885,683	$ 445,405,110
Percentage of Total Portfolio	0.32%	0.12%	0.00%	0.13%	0.57%	99.43%	100.00%

The following is an analysis of impaired loans as of December 31, 2020:

	Impaired Loans with Allowance			Impaired Loans without Allowance		Total Impaired Loans	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
Real Estate							
Owner Occupied							
Nonaccrual	$ -	$ -	$ -	$ 1,555,805	$ 1,555,805	$ 1,555,805	$ 1,555,805
Other	-	-	-	-	-	-	-
Subtotals	-	-	-	1,555,805	1,555,805	1,555,805	1,555,805
Commercial and Industrial							
Small Commercial Equipment							
Nonaccrual	153,039	152,377	45,713	-	-	153,039	152,377
Other	-	-	-	-	-	-	-
Other Commercial & Industrial							
Nonaccrual	127,499	127,151	127,151	-	-	127,499	127,151
Other	-	-	-	-	-	-	-
Subtotals	280,538	279,528	172,864	-	-	280,538	279,528
Totals	$ 280,538	$ 279,528	$ 172,864	$ 1,555,805	$ 1,555,805	$ 1,836,343	$ 1,835,333

The following is an analysis of impaired loans as of December 31, 2019:

	Impaired Loans with Allowance			Impaired Loans without Allowance		Total Impaired Loans	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
Commercial and Industrial							
Small Commercial Equipment							
Nonaccrual	$ 443,310	$ 441,106	$ 132,332	$ -	$ -	$ 443,310	$ 441,106
Other	-	-	-	-	-	-	-
Other Commercial & Industrial							
Nonaccrual	143,040	142,693	117,856	-	-	143,040	142,693
Other	-	-	-	386,817	385,133	386,817	385,133
Subtotals	586,350	583,799	250,188	386,817	385,133	973,167	968,932
Consumer							
Secured							
Nonaccrual	-	-	-	-	-	-	-
Other	-	-	-	75,059	74,679	75,059	74,679
Unsecured							
Nonaccrual	-	-	-	-	-	-	-
Other	33,025	32,896	9,030	-	-	33,025	32,896
Subtotals	33,025	32,896	9,030	75,059	74,679	108,084	107,575
Totals	$ 619,375	$ 616,695	$ 259,218	$ 461,876	$ 459,812	$ 1,081,251	$ 1,076,507

The following tables present the average recorded investment in impaired loans and interest income recognized for the periods indicated:

	Year Ended December 31, 2020	
	Average Recorded Investment	Interest Recognized on Impaired Loans
Real Estate		
Acquisition, Development & Construction	$ -	$ -
Commercial	-	-
Multifamily	-	-
Owner Occupied	1,439,214	191,444
Commercial and Industrial		
Small Commercial Equipment	249,486	10,326
Other Commercial & Industrial	537,112	24,681
Consumer		
Secured	25,050	-
Unsecured	16,241	573
Total	$ 2,267,103	$ 227,024

	Year Ended December 31, 2019	
	Average Recorded Investment	Interest Recognized on Impaired Loans
Real Estate		
Acquisition, Development & Construction	$ -	$ -
Other	-	-
Multifamily	-	-
Owner Occupied	65,565	6,926
Commercial and Industrial		
Small Commercial Equipment	156,746	78,941
Other Commercial & Industrial	1,019,929	126,458
Consumer		
Secured	44,384	4,596
Unsecured	33,995	2,035
Total	$ 1,320,619	$ 218,955

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

Loans reported as TDRs accruing interest totalled $28,591 and $418,028 at December 31, 2020 and 2019, respectively.

As previously noted, in June 2020, the Bank executed loan modification programs to support and provide relief for its borrowers impacted by the COVID-19 pandemic. The Bank followed the CARES Act and interagency guidance from the federal banking agencies when determining if a borrower's modification was subject to a TDR classification. Accordingly, there were no loans modified as TDRs during 2020. The Bank modified (by extending an interest only payment period) and recorded a single loan with a principal balance of $385,133 as a TDR during 2019. There were no TDR loans restructured during 2020 or 2019, nor were there any TDRs which incurred a payment default within twelve months of the restructure date during 2020 or 2019. There were no commitments to lend additional funds to borrowers whose loans have been modified and recorded as TDRs at December 31, 2020. Determination of the allowance for loan losses for TDR loans does not differ materially from the process for other impaired loans in the Bank's portfolio.

5. **Premises and Equipment:**

Premises and equipment at December 31 consists of the following:

	2020	2019
Land	$ 1,862,215	$ 1,862,215
Building and improvements	5,386,355	5,328,938
Computer equipment and software	749,773	724,708
Furniture and equipment	1,705,018	1,600,587
Total	9,703,361	9,516,448
Accumulated depreciation	(3,741,779)	(3,246,655)
Premises and equipment, net	$ 5,961,582	$ 6,269,793

The Bank owns its headquarters building and leases to others approximately 20% of the building. Rental income recorded under noncancelable leases as well as other month-to-month agreements totalled $76,580 and $109,413 for the years ended December 31, 2020 and 2019, respectively, and is recorded in noninterest income. At December 31, 2020, future expected rental revenues to be received under such noncancelable leases are as follows:

2021	$ 53,843
2022	26,802
Total	$ 80,645

6. **Time Deposits:**

Individual time deposits that met or exceeded the FDIC standard insurance coverage limit of $250,000 totalled $1,846,024 and $3,982,539 at December 31, 2020 and 2019, respectively.

At December 31, 2020, the scheduled annual maturities of time deposits are as follows:

2021	$	20,235,489
2022		3,549,906
2023		24,181
2024		13,395
	$	23,822,971

7. **Borrowings:**

The Bank has repurchase agreements (REPOs) of $1,607,120 (average rate 0.43%) and $1,706,636 (average rate 1.03%) at December 31, 2020 and 2019, respectively. A REPO represents an agreement between the Bank and a customer to collateralize funds deposited by the customer in an interest-bearing repurchase sweep account. Investment securities are pledged by the Bank as collateral in an amount equal to the REPOs.

The Bank has an outstanding borrowing from the Federal Reserve Bank of $20,920,300 at a fixed interest rate of 0.35% at December 31, 2020 under the Paycheck Protection Program Lending Fund (PPPLF). The borrowing is secured by an equal amount of SBA PPP loans and matures in April 2022, concurrent with the maturity of the PPP loan collateral.

The Bank has a borrowing line with the FHLB equal to a maximum of 35% of the Bank's total assets, subject to limits based on collateral consisting of FHLB stock, funds on deposit with FHLB and eligible portions of the Bank's loan and securities portfolios. The available borrowing line at December 31, 2020 is approximately $55,530,800. The Bank had no outstanding borrowings against this line at December 31, 2020.

The Bank has secured and unsecured federal funds borrowing lines available with correspondent banks totalling $16,000,000 at December 31, 2020. The Bank had no outstanding borrowings against these lines at December 31, 2020. The Bank also has a borrowing line available with the Federal Reserve Discount Window totalling approximately $5,942,000 at December 31, 2020, which is secured by a portion of the Bank's loan portfolio. The Bank had no outstanding borrowings against this line at December 31, 2020.

8. Benefit Plans:

The Bank has a defined contribution 401(k) profit sharing plan covering substantially all employees. Employer contributions are discretionary and are determined annually by the Board of Directors. Employer contributions were $495,422 and $343,876 in 2020 and 2019, respectively.

The Bank has a deferred cash incentive plan for the benefit of certain key employees and a directors' deferred compensation plan for the Bank's directors. Bank contributions to these plans totalled $77,900 and $85,200 in 2020 and 2019, respectively. The liability for benefits under these plans totalled $516,231 and $499,657 as of December 31, 2020 and 2019, respectively, and is included in other liabilities in the accompanying consolidated balance sheets.

9. Stock Option and Equity Compensation Plans:

The Bank has employee and nonemployee equity compensation plans (the Plans) that reserve shares of stock for issuance to employees and directors in the form of stock options, restricted stock, or restricted stock units (RSUs). Under the Plans, the exercise price (for options) or the fair value (for restricted stock and RSUs) of awards granted must equal the market price of the Bank's stock on the date of the grant. Options granted under the Plans have a maximum term of ten years. Vesting generally occurs over periods ranging from one to four years. At December 31, 2020 and 2019, there were 164,666 and 196,060 shares of common stock available for future grants under the Plans.

The following table presents the activity related to stock options under the Plans for the years ended December 31:

	2020		2019	
	Options outstanding	Weighted-average exercise price	Options outstanding	Weighted-average exercise price
Balance, beginning of year	161,548	$ 9.65	158,775	$ 7.76
Granted:				
Directors	-	n/a	-	n/a
Employees	14,033	13.32	51,481	15.50
Exercised	(21,683)	2.52	(22,488)	5.90
Forfeited or expired	(3,000)	16.05	(26,220)	12.88
Balance, end of year	150,898	$ 10.89	161,548	$ 9.65
Exercisable, end of year	101,952		94,342	

The total intrinsic value of stock options exercised was $195,430 and $203,198 for the years ended December 31, 2020 and 2019, respectively.

The following table presents additional information regarding stock options outstanding as of December 31, 2020:

			December 31, 2020	
Expiration	Weighted average exercise price per share	Weighted average remaining contractual life	Exercisable	Outstanding
2021	$ 1.97	0.25	6,300	6,300
2023	2.90	2.28	6,000	6,000
2025	7.65	4.35	31,875	31,875
2027	9.58	6.18	28,453	28,453
2028	12.76	7.09	13,631	30,356
2029	15.44	8.24	15,693	33,881
2030	13.32	9.24	-	14,033
			101,952	150,898
Aggregate intrinsic value			$292,670	$296,945

The fair value of options granted under the Plans is estimated on the date of the grant using the Black-Scholes option pricing model. The fair value of the grants is amortized on a straight line basis over the requisite vesting periods. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on the actual historical weighted average life of the Bank's options. Expected volatility is estimated at the date of grant based on the historical volatility of the Bank's common stock over a period similar to the expected life of the option. Dividends during the expected life are assumed to be zero. The risk-free interest rate is derived from the trailing twenty day U.S. Treasury yield at the time of the grant for a term equivalent to the expected life of the option. The Black-Scholes model used the following assumptions for the stock options granted during the years indicated:

	Expected Life (years)	Expected Volatility	Expected Dividends	Risk Free Rate
2020	7.0	16.3%	0.00%	1.28%
2019	7.0	13.9%	0.00%	2.53%

The weighted average fair value of options granted in 2020 and 2019 was $2.82 and $3.50, respectively. As of December 31, 2020, the total unrecognized compensation expense related to options granted amounted to $65,972, which is expected to be recognized during 2021-2024, a weighted average period of 0.9 years.

The fair value of restricted stock and RSUs awarded under the Plans is measured based on the number of shares granted and the market price of the Bank's common stock on the date of grant. This amount is recognized as an expense over the corresponding requisite service period. As of December 31, 2020, the total unrecognized compensation expense related to restricted stock awards granted amounted to $151,386, which is expected to be recognized during 2021-2024. Weighted average years to vest for outstanding restricted stock grants as of December 31, 2020 is 0.9 years. The following presents the Bank's restricted stock and RSU activity for the years ended December 31, 2020 and 2019:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2018	22,212	$ 12.17
Granted	14,759	15.58
Vested	(19,898)	12.41
Forfeited	(719)	12.16
Unvested as of December 31, 2019	16,354	14.96
Granted	20,661	14.73
Vested	(14,003)	15.01
Forfeited	(300)	14.60
Unvested as of December 31, 2020	22,712	$ 14.72

There were a total of 34,694 shares of restricted stock and options granted during 2020, none of which vested in 2020 and all are expected to vest during 2021-2024. There were 31,168 and 23,477 options that vested during the years ended December 31, 2020 and 2019 with a total fair value of $83,457 and $72,698, respectively. There were 14,003 and 19,898 shares of restricted stock that vested during years ended December 31, 2020 and 2019 with a total fair value of $244,685 and $246,969, respectively.

Weighted average shares outstanding for the years ended December 31 are as follows:

	2020	2019
Basic	5,699,233	5,175,995
Common stock equivalents attributable to stock based grants outstanding	34,226	54,565
Fully Diluted	5,733,459	5,230,560

10. Revenue from Contracts with Customers:

In accordance with ASC 606, revenues are recognized when goods or services are transferred to a customer in exchange for the consideration the Bank expects to be entitled to receive. The largest portion of the Bank's revenue is from interest income, which is excluded from the scope of ASC 606. All of the Bank's revenue from contracts with customers which is within the scope of ASC 606 is recognized in noninterest income.

If a contract is determined to be within the scope of ASC 606, the Bank recognizes revenue as it satisfies a performance obligation. Payments from customers are generally collected at the time services are rendered, monthly, or quarterly. For contracts with customers within the scope of ASC 606, revenue is either earned at a point in time or revenue is earned over time. Examples of revenue earned at a point in time are automated teller machine ("ATM") transaction fees, wire transfer fees, overdraft fees and interchange fees. Revenue is primarily based on the number and type of transactions that are generally derived from transactional information accumulated by the Bank's systems and is recognized immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Bank is generally the principal in these contracts, with the exception of interchange fees, in which case the Bank is acting as the agent and records revenue net of expenses paid to the principal. Examples of revenue earned over time, which generally occur on a monthly basis, are deposit account maintenance fees, merchant revenue, and safe deposit box fees. Revenue is generally derived from transactional information accumulated by the Bank's systems or those of third-parties and is recognized as the related transactions occur or services are rendered to the customer.

The following table includes the Bank's noninterest income disaggregated by type of service for the years ended December 31, 2020 and 2019:

	2020	2019
Gains on sales of loans [1]	$ 567,263	$ 656,190
Bank card and interchange fees	453,116	432,209
Loan servicing fees [1]	281,070	259,620
Other noninterest loan income	273,514	188,614
Service charges on deposit accounts	128,938	114,300
Bank-owned life insurance income [1]	97,942	92,328
Real estate lease income [1]	76,580	109,413
Losses on sales and write-downs of repossessed assets, net	(361,822)	(323,988)
Other	210,575	296,094
Total noninterest income	$ 1,727,176	$ 1,824,780

[1] Not in the scope of ASC 606

For the years ended December 31, 2020 and 2019, substantially all of the Bank's revenues within the scope of ASC 606 are for performance obligations satisfied at a specified date. Revenues recognized within the scope of ASC 606 include:

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

Other noninterest loan income: Other noninterest loan income includes early termination fees and other income from loans that the Bank services. These fees are recognized on a daily, monthly, quarterly or annual basis, depending on the type of service.

Service charges on deposit accounts: Fees are earned on the Bank's deposit accounts for various products offered to or services performed for the Bank's customers. Fees include business account fees, non-sufficient fund fees, stop payment fees, wire services, safe deposit box and others. These fees are recognized on a daily, monthly or quarterly basis, depending on the type of service.

Losses on sales and write-downs of repossessed assets, net: The Bank records a gain or loss from the sale of repossessed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed or title.

Other: Fees earned on other services, such as merchant services or occasional non-recurring type services, are recognized at the time of the event or the applicable billing cycle.

As of December 31, 2020, the Bank had no significant contract liabilities where the Bank had an obligation to transfer goods or services for which the Bank had already received consideration. In addition, the Bank had no material unsatisfied performance obligations as of this date.

11. Other Expense:

Other expense for the years ended December 31 is comprised of the following:

	2020	2019
Professional services	$ 504,496	$ 413,780
Printing, supplies and postage	276,408	336,141
Regulatory assessments	425,940	174,977
Advertising, marketing and public relations	436,117	541,949
Loan expenses and collection	250,670	197,215
Communications	160,527	146,181
Correspondent bank fees	115,834	89,790
Other operating expenses	419,815	993,925
Total other expense	$ 2,589,807	$ 2,893,958

12. Income Taxes:

The income tax provision consists of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Current		
Federal	$ 2,002,529	$ 1,878,931
State	676,166	289,909
Deferred	52,666	(280,936)
Total income tax provision	$ 2,731,361	$ 1,887,904

The income tax provision results in effective tax rates that are different than the federal income tax statutory rate. The nature of the differences for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Expected federal income tax provision at statutory rates	$ 2,239,481	$ 1,576,511
State taxes	719,620	404,482
Permanent differences	(51,946)	(66,157)
Other	(175,794)	(26,932)
Total income tax provision	$ 2,731,361	$ 1,887,904

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2020 and 2019 are as follows:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 1,791,086	$ 1,321,675
Accrued vacation	18,502	14,609
Other accrued expenses	16,275	3,649
Repossessed assets	15,157	189
Deferred compensation	135,494	130,190
Share-based compensation	18,378	7,914
Secondary accrued interest	127,162	38,115
Operating lease right-of-use asset	99,013	-
Other	35,168	236,631
Total deferred tax assets	2,256,235	1,752,972
Deferred tax liabilities:		
Depreciation	(274,823)	(126,245)
Loan origination costs	(185,245)	(107,358)
Prepaid expenses and other	(81,165)	(41,843)
Unrealized gains on investment securities	(5,912)	(1,232)
Operating lease liability	(93,442)	-
Other	(196,700)	-
Total deferred tax liabilities	(837,287)	(276,678)
Total net deferred tax assets	$ 1,418,948	$ 1,476,294

The Bank has determined that it is not required to establish a valuation allowance for the net deferred tax assets as of December 31, 2020 and 2019, as management believes it is more likely than not that the net deferred tax assets will be realized through reversals of existing taxable temporary differences and future taxable income.

13. **Commitments and Contingencies**:

In order to meet the financing needs of its clients, the Bank commits to extensions of credit and issues standby letters of credit. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a client 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 clients.

To manage interest rate risk, the Bank enters into interest rate swaps that effectively convert fixed rate loans into variable rate instruments earning a margin over the one month or three month LIBOR rate. These fair value hedges have been structured in most cases to be perfectly effective. Any ineffectiveness is recognized in earnings. Cash and investment securities at

December 31, 2020 totalling $17,966,589 are held by counterparties and are pledged as security for these interest rate swaps.

Financial instruments with off-balance-sheet risk at December 31 are as follows:

	2020	2019
Commitments to extend credit	$ 133,246,015	$ 123,908,697
Standby letters of credit	4,124,954	4,566,736
Interest rate swaps (receive variable - pay fixed, maturing 2021-2048):		
Carrying amount of hedged loans	125,159,743	109,969,044
Fair value adjustment (included in other liabilities)	13,851,000	6,218,960
Total fair value of hedged loans	$ 139,010,743	$ 116,188,004

Due to the nature of its activities, the Bank is periodically subject to litigation arising in the ordinary course of business, which is generally expected to not have a material effect on the Bank's consolidated financial position, results of operations, and cash flows as of and for the year ended December 31, 2020.

During 2019, the Bank identified a potential future liability associated with a regulatory compliance matter and accrued $275,000 as the best estimate of the ultimate associated liability which was included in other liabilities and other operating expense in the accompanying 2019 consolidated balance sheet and consolidated statement of income, respectively. The matter was subsequently resolved during 2020 with a financial impact not materially higher than the amount accrued during 2019.

The Bank has entered into employment agreements with certain key employees, which provide for contingent payments upon a change in control of the Bank, as defined in the agreements.

14. **Related Party Transactions:**

In the normal course of business, the Bank has granted loans to officers and directors and to companies with which they are associated. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. Activity with respect to these loans during the years ended December 31 was as follows:

	2020	2019
Balance, beginning of year	$ 6,372,934	$ 5,925,389
Additions or renewals	48,516	857,038
Principal repayments	(400,770)	(409,493)
Balance, end of year	$ 6,020,680	$ 6,372,934

In addition, there were $1,792,190 in commitments to extend credit to officers and directors, including related entities, at December 31, 2020 which are included as part of commitments in Note 13.

Deposits from officers and directors totalled $9,334,905 and $8,770,173 at December 31, 2020 and 2019, respectively.

15. **Fair Value Measurements**:

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

- Level 1: Fair value of the asset or liability is determined using unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2: Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

- Level 3: Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect management's own assumptions regarding the applicable asset or liability.

The following disclosures are made in accordance with provisions of GAAP. The use of different assumptions and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates of fair value herein are not necessarily indicative of the amounts that might be realized in a current market exchange.

The carrying amount and estimated fair value of the Bank's financial instruments are as follows at the dates indicated:

December 31 2020	Carrying Amount	Level I	Level II	Level III	Estimated Fair Value
Assets:					
Cash and cash equivalents	$ 163,340,676	$ 163,340,676	$ -	$ -	$ 163,340,676
Investment securities available-for-sale	9,439,876	-	9,439,876	-	9,439,876
Hedged loans, net of allowance for loan losses	139,010,743	-	139,010,743	-	139,010,743
Other loans, net of allowance for loan losses	433,596,174	-	448,535,830	107,674	448,643,504
Interest receivable	2,098,669	-	2,098,669	-	2,098,669
FHLB and PCBB stock	1,048,900	-	1,048,900	-	1,048,900
Cash surrender value of bank-owned life insurance	3,994,326	-	3,994,326	-	3,994,326
Liabilities:					
Time deposits	23,822,971	-	23,868,840	-	23,868,840
Repurchase agreements and secured borrowings	22,527,420	-	22,527,420	-	22,527,420
Term borrowings	-	-	-	-	-
Interest rate swap agreements	13,851,000	-	13,851,000	-	13,851,000

December 31 2019	Carrying Amount	Level I	Level II	Level III	Estimated Fair Value
Assets:					
Cash and cash equivalents	$ 49,663,072	$ 49,663,072	$ -	$ -	$ 49,663,072
Investment securities available-for-sale	4,564,748	-	4,564,748	-	4,564,748
Hedged loans, net of allowance for loan losses	116,188,004	-	116,188,004	-	116,188,004
Other loans, net of allowance for loan losses	321,261,231	-	331,249,514	360,157	331,609,671
Interest receivable	1,690,381	-	1,690,381	-	1,690,381
FHLB and PCBB stock	939,800	-	939,800	-	939,800
Cash surrender value of bank-owned life insurance	3,894,696	-	3,894,696	-	3,894,696
Liabilities:					
Time deposits	47,119,392	-	47,347,315	-	47,347,315
Repurchase agreements	1,706,636	-	1,706,636	-	1,706,636
Term borrowings	-	-	-	-	-
Interest rate swap agreements	6,218,960	-	6,218,960	-	6,218,960

The following methods were used to estimate the fair value of each class of financial instrument above that is measured and recorded at estimated fair value on a recurring basis:

Investment Securities Available-for-Sale– Fair value is estimated using quoted market prices for similar securities.

Hedged Loans – Fair value of hedged fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit characteristics and for the same remaining maturities.

Interest Rate Swap Agreements – Fair value of interest rate swap agreements is estimated based upon quoted prices for similar instruments in the over the counter swaps market.

The following tables present assets that are measured at estimated fair value on a nonrecurring basis at the dates indicated:

		Estimated fair value measurements using		
December 31 2020	Total estimated fair value	Level I	Level II	Level III
Repossessed assets	$ 124,394	$ -	$ -	$ 124,394
Impaired loans	$ 107,674	$ -	$ -	$ 107,674
December 31 2019				
Repossessed assets	$ 314,083	$ -	$ -	$ 314,083
Impaired loans	$ 360,157	$ -	$ -	$ 360,157

	Valuation technique	Significant unobservable inputs
Repossessed assets	Market approach	Appraised value of collateral less selling costs
Impaired loans	Market and income approach	Discounted cash flows or appraised value of collateral less selling costs

The Bank considers third party appraisals in determining the fair value of repossessed assets and impaired loans. Appraisals are adjusted by the Bank in consideration of economic and market conditions that could impact the value of the assets.

The fair values presented above represent management's best estimates based on a range of methodologies and assumptions. Where appropriate, expected cash flows are discounted using an applicable rate considering the time of collection, credit risk, and the discount for the uncertainty of the cash flows.

There were no transfers to or from Level III during 2020 or 2019.

16. Leases:

In August 2019, the Bank entered into a noncancelable operating lease agreement for office space in Portland, Oregon that requires future minimum rental payments. The Bank does not have any operating leases with an initial term of 12 months or less. The Bank's operating lease contains various provisions for increases in rental rates based on a predetermined escalation schedule. The Bank's operating lease also provides the Bank with the option to extend the lease term one or more times following expiration of the initial term. Lease extensions are not reasonably certain, and the Bank generally does not recognize payments occurring during option periods in the calculation of its operating lease right-of-use assets and operating lease liabilities.

The table below presents the lease right-of-use asset and lease liability recorded in the consolidated balance sheets as of December 31, 2020 and 2019:

	2020	2019	Balance sheet classification
Operating lease right-of-use asset	$ 377,322	$ 469,728	Other assets
Operating lease liability	398,549	488,928	Other liabilities
Operating lease weighted-average remaining lease term	3.83 years	4.83 years	
Operating lease weighted-average discount rate	2.54%	2.54%	

Costs of the operating lease for the years ended December 31, 2020 and 2019 totalled $103,788 and $43,245, respectively, and are recorded in occupancy and equipment expense in the consolidated statements of income.

Supplemental cash flow information – Operating cash flows paid for the operating lease amount included in the measurement of the lease liability were $101,760 and $24,045 for the years ended December 31, 2020 and 2019, respectively. The following table reconciles the undiscounted cash flows for the periods indicated related to the Bank's operating lease liability as of December 31, 2020:

Years ending December 31	
2021	$ 104,813
2022	107,957
2023	111,196
2024	95,114
Total minimum lease payments	419,080
Less: amount of lease payment representing interest	(20,531)
Lease liability	$ 398,549

17. Regulatory Matters:

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

Regulatory capital regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2020 and 2019, the most recent regulatory notification classified the Bank as well capitalized under the prompt corrective action regulatory framework. There are no conditions or events since that notification that management believes have changed the Bank's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of March 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the CBLR requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The CBLR framework eliminates the requirement for qualifying banking organizations to calculate and report risk-based capital in favour of a single Tier 1 capital to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than the required minimums are considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, are considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the CBLR minimum requirement is 8.0% as of December 31, 2020, 8.5% for the calendar year 2021, and 9.0% for the calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the Bank maintains a leverage ratio of 7.0% as of December 31, 2020, 7.5% for calendar year 2021, and 8.0% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk weighting framework without restriction. As of December 31, 2020, both the Holding Company and the Bank were qualifying community banking organizations as defined by federal banking agencies and have elected to measure capital adequacy under the CBLR framework.

The Bank's actual and required capital amounts (in thousands) and ratios are as follows for the year ended December 31, 2020:

	Actual		To be Well Capitalized Under Prompt Corrective Action Provisions (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
Tier I capital to average total assets	$ 63,117	8.61%	$ 58,653	8.00%

The Bank's actual and required capital amounts (in thousands) and ratios are as follows for the year ended December 31, 2019:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 52,807	11.05%	$ 38,248	8.00%	$ 47,810	10.00%
Tier I capital (to risk-weighted assets)	$ 46,822	9.79%	$ 28,686	6.00%	$ 38,248	8.00%
Common Equity Tier I (to risk-weighted assets)	$ 46,822	9.79%	$ 21,515	4.50%	$ 31,077	6.50%
Tier I capital (to leverage assets)	$ 46,822	9.39%	$ 19,949	4.00%	$ 24,936	5.00%

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RICHARD M. ABRAHAM, MD
Dr. Abraham has been a practicing Emergency and Occupational Medicine physician with Cascade Medical Associates since 1979. He is a founding member of NovaHealth (formally Eugene Urgent Care) walk-in clinics and the past President and current COO of Drs. Emergency Room Corporation dba Cascade Medical Associates. He is a founding Director of Summit Bank and also serves on the boards of Cascade Health Solutions, AttWill Vascular Technologies, NovaHealth and McKenzie Willamette Medical Center. He has previously served on the boards of MWMC Foundation, PacificSource, the Health and Safety Institute and the Marist Foundation. Director since 2003.

PATRICIA O. BUEHLER, MD
Dr. Buehler joined Summit Bank Board of Directors in 2016. She is a surgeon specializing in cataract and Lasik surgery and an owner of two small businesses. Dr. Buehler is a managing partner of InFocus Eye Care, a specialty vision correction facility in Bend with 32 employees and an owner of the Bend Surgery Center which has 120 employees. She is active at the St. Charles Health System and is on the board of directors of Lines for Life, a statewide substance abuse and suicide prevention non-profit. Director since 2016.

ALAN V. EVANS
Mr. Evans is a founder and president of Evans, Elder, Brown, & Seubert Inc., a commercial real estate brokerage active in sales, leasing, and development of commercial properties. He is a founding Director of the Bank and also serves on the board of directors of the Arts and Business Alliance of Eugene. Director since 2003.

DANIEL P. HOBIN
Mr. Hobin has more than 25 years of experience building technology companies and currently oversees the strategic direction of G5, a company located in Bend that is a leading provider of digital marketing in the property management sector. He joined the Bank Board of Directors in 2016. Mr. Hobin is a co-founder of the Bend Venture Conference and participates on the advisory board for Oregon State University Cascades. Director since 2016.

ROSS J. KARI
Mr. Kari retired as executive vice president and chief financial officer of Freddie Mac. He currently serves as a Trustee on the University of Oregon's Board of Trustees and is a director of Goldman Sachs BDC. Ross has served as chief financial officer of Fifth Third Bank, Safeco, and Wells Fargo Bank and also as executive vice president and chief operating officer for the Federal Home Loan Bank of San Francisco. Additionally, he served as a director and chair of the audit committee for KKR Financial Holdings LLC, a publicly traded specialty finance company. Director since 2015.

STEVEN J. KORTH
Mr. Korth is a partner and the director of real estate and development for his family business, McKay Investment Company. He has been a Director of the Bank since 2008 and has served on the boards of the Eugene Chamber of Commerce, Lane Metro Partnership, and the Oregon Community Foundation. He is also active in local government, having served on the Mayor of Eugene's Economic Development Committee, the Eugene Enterprise Zone Committee, and as a member of the Eugene School Districts "Shaping 4-J's Future" task force. Director since 2008.

BOARD OF DIRECTORS

ANN MARIE MEHLUM

Ms. Mehlum is the founding President & Chief Executive Officer of Summit Bank. Prior to re-joining Summit's Board, she served as Associate Administrator of the US Small Business Administration, where she oversaw SBA's loan guarantee programs that together with participating banks all over the country provided access to capital for small businesses and a portfolio that exceeded $100 billion. She has served on the FDIC Community Bank Advisory Council, the US Treasury CDFI Advisory Board and as President of the Oregon Bankers Association. Locally, she has served on non-profit boards including the United Way of Lane County and the Eugene Area Chamber of Commerce. In 2015, she was inducted into the State of Oregon Bankers Hall of Fame for lifetime contributions to the industry. Initial Director from 2004 to 2013. Current Director since 2017.

J. ANDREW MOORE

Mr. Moore is co-president of Bigfoot Beverages. He has been a Director of the Bank for more than nine years and also serves on the boards of the Oregon Beverage Association, the American Beverage Association, Cascade Health Solutions, Pepsi Northwest Beverages, and the Pepsi-Cola Bottlers Association. Director since 2010.

DENNIS G. OREM

Mr. Orem is the CEO of Jerry's Home Improvement Centers located in Eugene and Springfield. He is a founding Director of the Bank and has been an active participant in local, regional, and national industry trade organizations including serving on the boards of the Western Building Materials Association, the Home Center Institute, and the Eugene Chamber of Commerce. Director since 2003.the Eugene Chamber of Commerce. Director since 2003.

ANDY J. STORMENT

Mr. Storment is a founding director of the Bank and current Board Vice Chair. He also manages investments in commercial real estate and operating companies primarily in the Northwest. He serves on the boards of Jerry's Home Improvement Centers, The Ford Family Foundation, Oregon22, and Stahlbush Island Farms, Inc. Director since 2003.

CRAIG A. WANICHEK

Mr. Wanichek currently serves as the President and Chief Executive Officer of Summit Bank and Summit Bank Group, Inc. Mr. Wanichek joined Summit Bank in 2009 holding various Executive Management positions including President and Chief Credit Administrator prior to succeeding Summit Bank's founding CEO in 2013. Mr. Wanichek previously served in several management positions with a local NYSE- traded manufacturing company following seventeen years in banking. He is currently Past Chairman of the Board of Directors for the Oregon Bankers Association and Board member of Onward Eugene. Mr. Wanichek has served as chair of the Eugene Chamber of Commerce and Cascade Health. Craig represents the state of Oregon on the Independent Community Bankers of America Federal Delegate Board. He is a graduate of the University of Oregon with a Bachelor's degree in Economics. Director since 2013.

R. PAUL WEINHOLD

Mr. Weinhold is the President and Chief Executive Officer of the University of Oregon Foundation. He is a founding Director of Summit Bank and currently serves as the Board Chair. He has served in leadership roles for a variety of local non-profits and currently serves as the Chair of Oregon22, the organization responsible for hosting the World Track and Field Championship in Oregon. Prior to joining the University of Oregon Foundation, he spent more than twenty years in leadership roles in the commercial insurance industry. Director since 2003.

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JOHN BOYLEN, VP Business Client Advisor
CARLYN CARMICHAEL, VP Business Client Advisor
GALAN CARTER, Portfolio Manager
REBECCA COOK, Business Banking Associate
MICHELLE CROSS, Portfolio Manager
JILL CUMMINGS, VP Market Development Officer
MELINDA DEHART, Business Client Courier
REXANNE DOVE, Commercial Loan Support Specialist
MATHEW DYNICE, VP Business Client Advisor
JEAN MILLER, AVP Branch Operations Supervisor
GARY O'CONNELL, SVP Central Oregon Market President
KIAL SHOPE, Client Services Advisor

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WINNI DRAKE, Loan Operations Executive Admin.
CLAYTON JIMENEZ, Portfolio Manager
GINA KAVENY, VP Market Development Officer
ROCHELLE LUNSFORD, Client Services Advisor
DEVON MYERS, Marketing Intern
JAMES SHULMAN, Portland Market President
BRIAN THOMAS, VP Business Client Advisor
STEVE WATTS, SVP Commercial Banking Team Leader
GABE WELLS, VP Business Client Advisor
EMILY WEVER, AVP Cash Management Officer

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MIKE ALBIN, Technology Support Specialist I
LINDA ALGER, EFG Account Manager
RACHEL ARBOGAST, Loan Servicing Representative
DELANEY ASHENFELTER, Client Services Representative I
THOMAS BALL, Associate Business Client Advisor
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NATASHA BATES, Support Specialist I
JENNY BENNETT, SVP Marketing & Business Dev.
MEGAN BROWN, HR Specialist
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CHRIS HEMMINGS, SVP Chief Administrative Officer
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ASHLEY HORNER, SVP SBA Program Administrator
JAMES JOHNSON, Equipment Finance Program Manager
KAITLYNN JOURNEY, Client Services Advisor
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TRACEY LARSON, AVP Loan Servicing Manager
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HANS MCKNIGHT, Treasury Management Officer
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HEATHER WALING, Loan Document Specialist II
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SHAELA WESTOVER, SBA Administrative Specialist
WILLIAM WHALEN, SVP Chief Credit Officer
MIRANDA WILLIAMS, Commercial Loan Support Specialist
CATHRYN WILSON, Loan Document Specialist I
TATIANA WINDON, Support Specialist II – Card Operations
RENDA WOLFORD, VP Director of Operations
JAMIE YAGER, Relationship Banking Officer
HILARY YOUNG, EFG Account Support Specialist II
ANGIE ZASH, AVP Controller

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