



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

MOUNTAIN PACIFIC BANCORP, INC., AND SUBSIDIARIES

December 31, 2021 and 2020

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NOTE: This annual report serves as Mountain Pacific Bank's annual disclosure statement under the requirements of the Federal Deposit Insurance Corporation (FDIC). This statement has not been reviewed or confirmed for accuracy or relevance by the FDIC.

Report of Independent Auditors

The Board of Directors and Stockholders of
Mountain Pacific Bancorp, Inc., and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Mountain Pacific Bancorp, Inc., and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Mountain Pacific Bancorp, Inc., and Subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mountain Pacific Bancorp, Inc., and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Moss Adams LLP

Everett, Washington

February 25, 2022



Mountain Pacific Bancorp, Inc., and Subsidiaries

Consolidated Balance Sheets

ASSETS

	December 31,	
	2021	2020
Cash and due from banks	\$ 4,960,700	\$ 7,162,856
Federal funds sold and excess balance account - Federal Reserve Bank	95,732,000	28,305,000
Total cash and cash equivalents	<u>100,692,700</u>	<u>35,467,856</u>
Interest-bearing deposits in banks	16,001,444	21,248,348
Investment securities available-for-sale	19,055,020	6,071,533
Investment securities held-to-maturity	1,002,892	1,004,198
Loans held-for-sale	-	1,433,641
Loans	469,409,617	432,192,049
Less allowance for loan losses	8,695,997	6,518,726
Total loans, net	<u>460,713,620</u>	<u>425,673,323</u>
Premises and equipment, net	10,405,891	10,625,242
Right-of-use assets	1,858,165	2,132,373
Accrued interest receivable	1,442,941	1,823,755
Federal Home Loan Bank (FHLB) stock and Pacific Coast Bankers' Bank (PCBB) stock, at cost	1,782,500	1,608,000
Other real estate owned (OREO), net	-	1,047,928
Deferred tax asset, net	2,579,150	2,077,000
Prepaid expenses and other assets	2,032,720	1,429,730
Total assets	<u>\$ 617,567,043</u>	<u>\$ 511,642,927</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits		
Noninterest-bearing	\$ 137,761,426	\$ 95,244,797
Interest-bearing	388,233,533	312,354,483
Total deposits	<u>525,994,959</u>	<u>407,599,280</u>
Borrowings	24,500,000	44,878,009
Subordinated notes	12,500,000	12,500,000
Accrued interest payable	154,271	517,104
Lease liabilities	2,149,088	2,428,968
Other liabilities	2,835,740	1,884,147
Total liabilities	<u>568,134,058</u>	<u>469,807,508</u>
Stockholders' equity		
Common stock, \$1 par value, 50,000,000 shares authorized; 6,602,716 and 6,549,841 issued and outstanding at December 31, 2021 and 2020, respectively	6,602,716	6,549,841
Additional paid-in capital	29,243,570	28,615,879
Retained earnings	13,637,699	6,562,699
Accumulated other comprehensive (loss) income, net of tax	(51,000)	107,000
Total stockholders' equity	<u>49,432,985</u>	<u>41,835,419</u>
Total liabilities and stockholder's equity	<u>\$ 617,567,043</u>	<u>\$ 511,642,927</u>

See accompanying notes.

Mountain Pacific Bancorp, Inc., and Subsidiaries

Consolidated Statements of Income



	Years Ended December 31,	
	2021	2020
INTEREST AND DIVIDEND INCOME		
Loans, including fees	\$ 23,083,159	\$ 19,367,974
Federal funds sold and excess balance account - Federal Reserve Bank and interest-bearing deposits in banks	78,619	146,042
Investment securities	189,926	167,466
Dividends from FHLB stock and PCBB stock	78,312	58,547
	<u>23,430,016</u>	<u>19,740,029</u>
INTEREST EXPENSE		
Deposits	2,374,533	3,586,760
Borrowings	428,960	527,461
Subordinated notes	737,500	550,000
	<u>3,540,993</u>	<u>4,664,221</u>
Total interest expense	3,540,993	4,664,221
Net interest income	<u>19,889,023</u>	<u>15,075,808</u>
PROVISION FOR LOAN LOSSES	2,400,000	2,175,000
Net interest income after provision for loan losses	<u>17,489,023</u>	<u>12,900,808</u>
NONINTEREST INCOME		
Service fees	1,658,688	1,252,237
Insurance Income	42,176	58,151
Rental income	414,449	481,518
Gain on sale of investment securities available-for-sale	-	68,555
Gain on sale of OREO, net	190,089	314,662
Gain on sale of loans, net	2,705,736	1,470,796
	<u>5,011,138</u>	<u>3,645,919</u>
Total noninterest income	5,011,138	3,645,919
NONINTEREST EXPENSES		
Salaries and employee benefits	7,674,123	6,230,866
Occupancy and equipment	1,157,677	1,099,502
Data processing	656,317	616,993
Advertising and business development	287,168	265,828
Professional fees and state taxes	1,037,227	867,577
Regulatory assessments	455,743	258,169
Other real estate owned, net	43,207	42,403
Other	2,198,699	1,465,389
	<u>13,510,161</u>	<u>10,846,727</u>
Total noninterest expenses	13,510,161	10,846,727
NET INCOME BEFORE PROVISION FOR INCOME TAXES	8,990,000	5,700,000
PROVISION FOR INCOME TAXES	1,915,000	1,263,000
NET INCOME	<u>\$ 7,075,000</u>	<u>\$ 4,437,000</u>



Mountain Pacific Bancorp, Inc., and Subsidiaries Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2021	2020
NET INCOME	\$ 7,075,000	\$ 4,437,000
OTHER COMPREHENSIVE INCOME		
Unrealized holding (loss) gain on securities		
Unrealized holding (loss) gain	(202,000)	154,778
Tax benefit (expense) on unrealized holding (loss) gain	44,000	(32,223)
Reclassification adjustments for realized (gain) loss on sales of investment securities available-for-sale	-	(86,778)
Provision (benefit) on realized gain on sales of investment securities available-for-sale	-	18,223
Other comprehensive (loss) income	(158,000)	54,000
COMPREHENSIVE INCOME	<u>\$ 6,917,000</u>	<u>\$ 4,491,000</u>

Mountain Pacific Bancorp, Inc., and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity



	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
BALANCE, December 31, 2019	6,458,616	\$ 6,458,616	\$ 28,021,752	\$ 2,365,607	\$ 53,000	\$ 36,898,975
Adoption of Topic 842 Leases	-	-	-	(239,908)	-	(239,908)
Net income	-	-	-	4,437,000	-	4,437,000
Other comprehensive income, net	-	-	-	-	54,000	54,000
Restricted stock awards vested	17,875	17,875	(17,875)	-	-	-
Stock options exercised	73,350	73,350	180,044	-	-	253,394
Stock-based compensation expense	-	-	431,958	-	-	431,958
BALANCE, December 31, 2020	6,549,841	6,549,841	28,615,879	6,562,699	107,000	41,835,419
Net income	-	-	-	7,075,000	-	7,075,000
Other comprehensive (loss), net	-	-	-	-	(158,000)	(158,000)
Restricted stock awards vested	20,625	20,625	(20,625)	-	-	-
Stock options exercised	32,250	32,250	86,956	-	-	119,206
Stock-based compensation expense	-	-	561,360	-	-	561,360
BALANCE, December 31, 2021	<u>6,602,716</u>	<u>\$ 6,602,716</u>	<u>\$ 29,243,570</u>	<u>\$ 13,637,699</u>	<u>\$ (51,000)</u>	<u>\$ 49,432,985</u>



Mountain Pacific Bancorp, Inc., and Subsidiaries Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,075,000	\$ 4,437,000
Adjustments to reconcile net income to net cash flows from operating activities		
Provision for loan losses	2,400,000	2,175,000
Stock-based compensation expense	561,360	431,958
Depreciation and amortization	334,697	352,510
Amortization on investment securities	82,916	83,315
Gain on sale of investment securities	-	(68,555)
Amortization of right-of-use assets	274,208	277,457
Change in lease liabilities	(279,880)	(263,550)
Gain on sale of loans, net	(2,705,736)	(1,470,796)
Proceeds from sale of loans	28,103,930	15,816,610
Originations of loans held-for-sale	(23,964,553)	(13,641,955)
Write-down of OREO	-	97,129
Gain on sale of OREO, net	(190,089)	(314,662)
Deferred federal income taxes	(458,150)	(444,000)
Changes in operating assets and liabilities		
Accrued interest receivable	380,814	(752,863)
Other assets	(602,990)	88,566
Accrued interest payable	(362,833)	7,924
Other liabilities	951,593	288,250
Net cash from operating activities	<u>11,600,287</u>	<u>7,099,338</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing deposits in banks	5,246,904	(20,023,348)
Net change in loans made to customers	(37,440,297)	(119,500,746)
Purchases of investment securities available-for-sale	(16,399,838)	(1,536,563)
Proceeds from principal paydowns of mortgage-backed securities	2,132,741	2,744,481
Proceeds from sale of investments available-for-sale	-	2,593,259
Proceeds from maturities and calls for investments available-for-sale	1,000,000	3,000,000
Proceeds from sales of other real estate owned	1,238,017	1,560,003
Purchase of FHLB stock	(174,500)	(638,300)
Additions to premises and equipment, net	(115,346)	(89,339)
Net cash used in investing activities	<u>(44,512,319)</u>	<u>(131,890,553)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	118,395,679	97,032,312
Proceeds from exercise of stock options	119,206	253,394
Advances of borrowings	-	72,669,701
Repayment of borrowings	(20,378,009)	(37,404,977)
Issuance of subordinated notes	-	5,000,000
Net cash from financing activities	<u>98,136,876</u>	<u>137,550,430</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>65,224,844</u>	<u>12,759,215</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>35,467,856</u>	<u>22,708,641</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 100,692,700</u>	<u>\$ 35,467,856</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	\$ 3,217,019	\$ 4,656,297
Cash paid during the period for federal income taxes, net of refund	\$ 2,013,196	\$ 1,736,648
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS		
Unrealized gain (loss) on securities available-for-sale	\$ (202,000)	\$ 68,000
Right-of-use assets obtained in exchange for lease liabilities		
Right-of-use assets	\$ -	\$ 2,452,610
Lease Liabilities	\$ -	\$ 2,692,518
Gain on transfer of OREO at fair value	\$ -	\$ 215,911

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 1 – Organization and Summary of Significant Accounting Policies

Nature of operations – Mountain Pacific Bancorp, Inc., a bank holding company, was issued a certificate of incorporation in the state of Washington on April 12, 2018. On June 9, 2018, the Federal Reserve Board granted authority to Mountain Pacific Bancorp, Inc. to become a bank holding company through a reorganization of the ownership interests of Mountain Pacific Bank. Washington Department of Financial Institutions Divisions of Banks approved the articles of share exchange and plan of share exchange and issued a certificate of reorganization on June 29, 2018.

Mountain Pacific Bancorp, Inc.'s (the Company), principal activity is the ownership and management of its wholly owned subsidiary, Mountain Pacific Bank (the Bank). The Bank provides a full range of banking services to individual and corporate customers through its headquarters in Everett, and full-service branches in Lynnwood, the Ballard neighborhood of Seattle and in April 2019 added a branch in Burlington.

During 2019, the Company formed Mountain Pacific Insurance Services, Inc., which is a specialty surplus lines insurance broker for Bank related insurance products and is licensed to operate in all 50 states. Insurance coverages are underwritten on a brokerage basis with AmTrust, National General, and Lloyd's of London.

At periodic intervals, various banking regulatory agencies routinely examine the Company's consolidated financial statements as part of their legally prescribed oversight of the banking system. Based on these examinations, the regulators can direct the Company's consolidated financial statements to be adjusted in accordance with their findings.

Principles of consolidation – The consolidated financial statements include the accounts and transactions of the Company and subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Operating segments – The Company and the Bank are managed as a legal entity and not by lines of business. The Bank's operations include commercial banking services, such as lending activities, deposit products, and other cash management services.

Financial statement presentation and use of estimates – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reporting practices applicable to the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets, and revenues and expenses for the period. Actual results could differ from estimated amounts. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of impaired loans, fair value of financial instruments, and deferred tax assets and liabilities.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are available to be issued. The Company has evaluated subsequent events through February 25, 2022, which is the date the consolidated financial statements are issued.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks, federal funds sold, and the excess balance account at the Federal Reserve Bank (FRB), all with original maturities of three months or less. Generally, federal funds are purchased and sold for one-day periods. The amounts on deposit fluctuate and, at times, may exceed the insured limit by the Federal Deposit Insurance Corporation (FDIC), which potentially subjects the Company to credit risk. Investments in federal funds sold are made with correspondent banks as approved by the Board of Directors.



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

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

Restricted assets – FRB regulations generally require maintenance of certain minimum reserve balances on deposit with the FRB or another institution in a pass-through relationship. The amounts of such balances are generally based on asset size and other factors. Such requirements were \$0 at December 31, 2021 and 2020.

Interest-bearing deposits in banks – Interest-bearing deposits in banks mature within one year and are carried at cost. The amounts on deposit fluctuate and, at times, may exceed the insured limit by the FDIC, which potentially subjects the Company to credit risk.

Investment securities – Debt securities are classified into one of three categories: (1) held-to-maturity, (2) available-for-sale, or (3) trading. There were no trading securities at December 31, 2021 or 2020. Debt securities are categorized as held-to-maturity when management has the positive intent and ability to hold those securities to maturity. Securities that are held-to-maturity are stated at cost and adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income. Interest income includes amortization of premiums and discounts. Premiums and discounts are recognized in interest income using the interest method over the period to call date and maturity, respectively.

Debt securities categorized as available-for-sale are generally held for investment purposes (to maturity), although unanticipated future events may result in the sale of some securities. Available-for-sale securities are recorded at estimated fair value, with the net unrealized gain or loss reported as “accumulated other comprehensive gain (loss)” within the statements of changes in stockholders’ equity. Realized gains or losses on dispositions are based on the net proceeds and the adjusted carrying amount of securities sold, using the specific identification method, and are included in earnings.

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

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably ensured.



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

Significant concentrations of credit risk – Most of the Bank’s business activity is with customers located within Snohomish, King, and Skagit Counties, Washington. The Bank originates commercial, real estate, construction, and consumer loans. Generally, loans are secured by accounts receivable, inventory, deposit accounts, personal property, or real estate. Rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers’ ability to meet the stated repayment terms. Approximately 70% of the Bank’s loan portfolio is secured by real estate (Note 3). The Bank does not have any significant concentrations to one customer.

Allowance for loan losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the loan portfolio and is evaluated on a regular basis by management. The allowance is provided based upon management’s continuing analysis of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions, and detailed analysis of individual loans for which full collectability may not be ensured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For such loans classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriateness of the allowance for loan losses is estimated based upon these factors and trends identified by management at the time the consolidated financial statements are prepared. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral, if the loan is collateral-dependent. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller-balance loans are excluded from this analysis and collectively evaluated for impairment.

A troubled debt restructuring is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Bank is granting the borrower a concession of some kind. The Bank has granted a variety of concessions to borrowers in the form of loan modifications. Troubled debt restructurings are included in the impaired loan disclosures.



Mountain Pacific Bancorp, Inc., and Subsidiaries Notes to Consolidated Financial Statements

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

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

Transfers of financial assets – Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset 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.

Loan sales recognition – The Bank originates loans through the Small Business Administration (SBA) and sometimes sells the guaranteed portion. Loans held for sale consist of the guaranteed portion of SBA loans the Bank intends to sell after origination and are reflected at the lower of aggregate cost or fair value. The Bank retains the servicing on the sold guaranteed portion of SBA loans. The Bank receives a fee for servicing the loan. The Bank recognizes a sale on loans if the transferred portion (or portions) and any portion that continues to be held by the transferor are participating interests.

To determine the gain or loss on sale of loans, the Bank's investment in the loan is allocated among the retained portion of the loan, the servicing retained, and the sold portion of the loan, based on the relative fair market value of each portion. The gain or loss on the sold portion of the loan is based on the difference between the sale proceeds and the allocated investment in the sold portion of the loan. A discount is recorded against the carrying value of the retained portion of the loan to offset the fair value allocation of the retained portion.

SBA servicing assets – The Bank accounts for SBA servicing rights as separately recognized servicing rights and initially measures them at fair value. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Bank subsequently measures each SBA servicing asset using the amortization method. Under the amortization method, servicing assets are amortized into noninterest income in proportion to, and over the period of, estimated net servicing income. The amortized assets are assessed for impairment or increased obligation, at the loan level, based on the fair value at each reporting date. As of December 31, 2021 and 2020, SBA servicing assets are included in other assets on the consolidated balance sheets.

Federal Home Loan Bank (FHLB) stock – As a member of the FHLB system, the Bank is required to maintain a minimum investment level in FHLB stock based on specific percentages of the Bank's outstanding loans, total assets, or FHLB advances. This security is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Management determined there was no impairment at December 31, 2021 and 2020. The Bank had \$1,592,500 and \$1,418,000 of FHLB stock at December 31, 2021 and 2020, respectively.

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



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

Pacific Coast Bankers' Bank (PCBB) stock – PCBB stock represents an investment by the Bank in the capital stock of PCBB of \$190,000 at both December 31, 2021 and 2020, and is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Both cash and stock dividends are reported as income.

Premises and equipment – Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation or amortization, which is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 39 years. Assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists, the asset is reduced with an offsetting charge to expense.

Other real estate owned – Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at the lower of cost or estimated fair value at the date of foreclosure. Losses arising from the acquisition of property, in full or partial satisfaction of loans, are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned on the statements of income.

Income taxes – The provision for income tax is recorded under the liability method. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred taxes result from temporary differences in the recognition of certain income and expense amounts between the Company's consolidated financial statements and its tax return. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Financial instruments – In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, standby letters of credit, and financial guarantees. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Advertising costs – The Company expenses advertising costs as they are incurred. Total advertising expense was \$121,655 and \$109,291 for the years ended December 31, 2021 and 2020, respectively.



Mountain Pacific Bancorp, Inc., and Subsidiaries Notes to Consolidated Financial Statements

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

Comprehensive income (loss) – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investments, are reported as a separate component of the stockholders' equity section of the consolidated balance sheets. Accumulated other comprehensive loss consists of only one component: unrealized gains or losses on investment securities available-for-sale.

Stock-based compensation plan – Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the grant date is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

Earnings per common share – Basic earnings per common share (EPS) are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect the weighted-average potential dilution that could occur if all potentially dilutive shares or other commitments to issue common stock were exercised or converted into common stock using the treasury stock method.

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

Fair value is defined as the exit price, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. It also establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. In determining fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability using one of the three valuation techniques within the fair value hierarchy. Inputs can be observable or unobservable. Observable inputs are those assumptions that market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of the Company.

Unobservable inputs are assumptions based on the Company's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date.

All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for assets or liabilities classified as Level 2 are based on one or a combination of the following factors: (i) quoted prices for similar assets; (ii) observable inputs for the asset or liability, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

There were no transfers between Level 1, Level 2, and Level 3 during 2021 or 2020.

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



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

Revenue recognition – The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*,” which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. Most of the the Company’s revenues come from interest income including loans and securities, that are outside the scope of ASC 606. The Company’s services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer.

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

Debit and ATM interchange income represent fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through the 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 card are recorded on a net basis with the interchange income.

Gain on Sale of OREO – Gains/losses on the sale of OREO are included in noninterest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

Reclassifications – Certain reclassifications have been made to the prior-year consolidated financial statements to be in accordance with the current-year presentation with no effect on net income or total stockholder’s equity.



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 2 – Investment Securities

Amortized cost and estimated fair values of investment securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Available-for-sale securities				
Obligations of U.S. agencies	\$ 1,500,000	\$ -	\$ (13,000)	\$ 1,487,000
Agency mortgage-backed securities	12,267,782	58,000	(127,000)	12,198,782
Agency collateralized mortgage obligations	2,482,134	5,000	(34,000)	2,453,134
SBA participation certificates	2,872,104	60,000	(16,000)	2,916,104
	<u>\$ 19,122,020</u>	<u>\$ 123,000</u>	<u>\$ (190,000)</u>	<u>\$ 19,055,020</u>
Held to maturity securities				
Municipal bonds	<u>\$ 1,002,892</u>	<u>\$ 109,164</u>	<u>\$ -</u>	<u>\$ 1,112,056</u>
December 31, 2020				
Available-for-sale securities				
Agency mortgage-backed securities	\$ 4,701,269	\$ 106,000	\$ -	\$ 4,807,269
Agency collateralized mortgage obligations	866,020	16,000	-	882,020
SBA participation certificates	369,244	13,000	-	382,244
	<u>\$ 5,936,533</u>	<u>\$ 135,000</u>	<u>\$ -</u>	<u>\$ 6,071,533</u>
Held to maturity securities				
Municipal bonds	<u>\$ 1,004,198</u>	<u>\$ 139,069</u>	<u>\$ -</u>	<u>\$ 1,143,267</u>

The amortized cost and estimated fair value of investment securities at December 31, 2021, by contractual or expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
1 to 5 years	\$ 342,690	\$ 345,467	\$ -	\$ -
More than 5 years	18,779,330	18,709,553	1,002,892	1,112,056
	<u>\$ 19,122,020</u>	<u>\$ 19,055,020</u>	<u>\$ 1,002,892</u>	<u>\$ 1,112,056</u>

There were no investment securities pledged at December 31, 2021 or 2020.

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 2 – Investment Securities (continued)

Information pertaining to investment securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position is as follows:

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
December 31, 2021				
Available-for-sale securities				
Obligations of U.S. agencies	\$ (13,000)	\$ 1,487,000	\$ -	\$ -
Agency mortgage-backed securities	(127,000)	10,089,296	-	-
Agency collateralized mortgage obligations	(34,000)	1,999,750	-	-
SBA participation certificates	(16,000)	1,454,145	-	-
	<u>\$ (190,000)</u>	<u>\$ 15,030,191</u>	<u>\$ -</u>	<u>\$ -</u>

There were nine and no securities in an unrealized loss position at December 31, 2021 and 2020, respectively. Unrealized losses have not been recognized into income because management does not intend to sell and does not expect it will be required to sell the investments. The unrealized loss is largely due to changes in market conditions and interest rates, rather than credit quality. The fair value is expected to recover as the underlying securities in the portfolio approach maturity date and market conditions improve. The Company does not consider these securities to be other than temporarily impaired at December 31, 2021 or 2020.

There were no securities sold for gross realized gain or loss in 2021. There were three securities sold for a gross realized gain of \$68,555 and no securities sold for a gross realized loss in 2020.



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 3 – Loans

The major classifications of loans at December 31 are summarized as follows:

	2021	2020
Residential 1-4 family	\$45,201,636	\$ 33,180,138
Residential multi-family	15,570,133	15,124,795
Residential construction, 1-4 family and multifamily	40,857,906	20,842,253
Home equity loans and lines of credit	9,773,041	5,680,033
Commercial & Industrial loans (C&I)	67,637,900	107,599,066
Agriculture*	28,068,515	21,220,705
Commercial real estate (CRE)		
Land/development and construction	18,232,857	14,809,573
Income property - owner-occupied (OOC)	97,530,207	79,874,442
Income property - nonowner-occupied (NOC)	147,150,776	133,828,895
Consumer	1,256,497	2,432,142
Total Loans	\$471,279,468	\$434,592,042
Less deferred loan fees, net	(1,869,851)	(2,399,993)
Less allowance for loan losses	(8,695,997)	(6,518,726)
Total loans, net	\$460,713,620	\$ 425,673,323

*Balances included in Agriculture primarily consist of maritime loans.

The Bank pledged certain commercial, multi-family, and 1-4 family residential loans as collateral for purposes of borrowings with the FHLB. Loans totaling \$57,440,362 and \$58,937,094 were pledged to the FHLB at December 31, 2021 and 2020, respectively (Note 9).

Pursuant to the CARES Act passed in March 2020, the Bank funded over 540 loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Bank received a fee of 1%-5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. Included in Commercial & Industrial loans above, the balance of PPP loans at December 31, 2021 and 2020, was \$11.3 million and \$68.6 million, respectively.

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 3 – Loans (continued)

Past due loans – The following table presents past due loans, net of partial loan charge-offs, by type as of December 31, 2021 and 2020:

2021	30 - 59 Days	60 - 89 Days	90 Days or	Total	Current	Total Loans
	Past Due	Past Due	More Past Due	Past Due		
Residential 1-4 family	\$ -	\$ -	\$ -	\$ -	\$ 45,201,636	\$45,201,636
Residential multi- family	-	-	-	-	15,570,133	15,570,133
Residential construction, 1-4 family and multifamily	-	-	-	-	40,857,906	40,857,906
Home equity loans and lines of credit	-	-	-	-	9,773,041	9,773,041
C & I loans	47,141	-	80,000	127,141	67,510,759	67,637,900
Agriculture	-	-	-	-	28,068,515	28,068,515
CRE land/development and construction	-	-	-	-	18,232,857	18,232,857
CRE income property - OOC	1,694,345	-	-	1,694,345	95,835,862	97,530,207
CRE income property - NOC	-	-	-	-	147,150,776	147,150,776
Consumer	-	-	-	-	1,256,497	1,256,497
	<u>\$ 1,741,486</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 1,821,486</u>	<u>\$469,457,982</u>	<u>\$ 471,279,468</u>
2020	30 - 59 Days	60 - 89 Days	90 Days or	Total	Current	Total Loans
	Past Due	Past Due	More Past Due	Past Due		
Residential 1-4 family	\$ -	\$ -	\$ 252,872	\$ 252,872	\$ 32,927,266	\$ 33,180,138
Residential multi- family	-	-	-	-	15,124,795	15,124,795
Residential construction, 1-4 family and multifamily	687,096	-	-	687,096	20,155,157	20,842,253
Home equity loans and lines of credit	-	-	-	-	5,680,033	5,680,033
C & I loans	-	-	-	-	107,599,066	107,599,066
Agriculture	-	-	1,314,171	1,314,171	19,906,534	21,220,705
CRE land/development and construction	-	-	-	-	14,809,573	14,809,573
CRE income property - OOC	-	-	-	-	79,874,442	79,874,442
CRE income property - NOC	-	-	-	-	133,828,895	133,828,895
Consumer	-	-	-	-	2,432,142	2,432,142
	<u>\$ 687,096</u>	<u>\$ -</u>	<u>\$ 1,567,043</u>	<u>\$ 2,254,139</u>	<u>\$432,337,903</u>	<u>\$434,592,042</u>

The following table presents the recorded investment in nonaccrual loans at December 31:

	2021	2020
Residential 1-4 family	\$ -	\$ 252,872
Agriculture	1,240,703	1,314,171
CRE income property - OOC	666,838	705,605
CRE income property - NOC	5,532,080	11,130,578
	<u>\$ 7,439,621</u>	<u>\$ 13,403,226</u>

There was one loan 90 days past due for \$80,000 and still accruing interest at December 31, 2021 and none in 2020.



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 3 – Loans (continued)

Credit quality indicator – Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful, or loss. An asset is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

Risk ratings are assigned to each loan. These numeric ratings range in value from 1 to 10 and are based on the following criteria:

1. Ratings of 1-5 indicate low to minimal credit risk (pass).
2. Rating of 6 indicates an average to above average credit risk with adequate repayment capacity when prolonged periods of adversity do not exist (watch).
3. Rating of 7 indicates potential weaknesses and higher credit risk requiring greater attention by Bank personnel and management to help prevent further deterioration (special mention).
4. Rating of 8 indicates a loss is possible if loan weaknesses are not corrected (substandard).
5. Rating of 9 indicates loss is highly probable; however, the amount of the loss has not yet been determined (doubtful).
6. Rating of 10 indicates the loan is uncollectible and, when identified, is charged off (loss).

Periodically, all loans are reviewed to assess the ability of the borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. Risk ratings should be reviewed and updated whenever appropriate, with more periodic reviews as the risk and dollar value of loss on the loan increases. In the event that full collection of principal and interest is not reasonably ensured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, impairment analysis is used to assess whether a loan warrants specific reserves or a write-down of the loan.

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 3 – Loans (continued)

The following table represents the internally assigned grade as of December 31 by type of loans:

2021	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total
Residential 1-4 family	\$ 44,094,092	\$ 243,776	\$ 863,768	\$ -	\$ -	\$45,201,636
Residential multi-family	15,570,133	-	-	-	-	15,570,133
Residential construction, 1-4 family and multifamily	40,857,906	-	-	-	-	40,857,906
Home equity loans and lines of credit	9,773,041	-	-	-	-	9,773,041
C & I loans	59,772,612	4,128,187	3,737,101	-	-	67,637,900
Agriculture	22,177,109	4,650,703	1,240,703	-	-	28,068,515
CRE land/development and construction	17,854,764	378,093	-	-	-	18,232,857
CRE income property - OOC	93,015,888	3,847,481	666,838	-	-	97,530,207
CRE income property - NOC	111,794,238	14,444,394	20,912,144	-	-	147,150,776
Consumer	1,236,350	20,147	-	-	-	1,256,497
	<u>\$ 416,146,133</u>	<u>\$ 27,712,781</u>	<u>\$27,420,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 471,279,468</u>
2020						
Residential 1-4 family	\$ 32,187,927	\$ -	\$ 992,211	\$ -	\$ -	\$ 33,180,138
Residential multi-family	15,124,795	-	-	-	-	15,124,795
Residential construction, 1-4 family and multifamily	20,842,253	-	-	-	-	20,842,253
Home equity loans and lines of credit	5,567,144	-	112,889	-	-	5,680,033
C & I loans	102,974,579	4,457,320	167,167	-	-	107,599,066
Agriculture	19,779,765	-	1,440,940	-	-	21,220,705
CRE land/development and construction	6,186,022	8,623,551	-	-	-	14,809,573
CRE income property - OOC	78,094,336	1,074,501	705,605	-	-	79,874,442
CRE income property - NOC	101,891,675	10,534,811	21,402,409	-	-	133,828,895
Consumer	2,409,492	22,650	-	-	-	2,432,142
	<u>\$ 385,057,988</u>	<u>\$ 24,712,833</u>	<u>\$24,821,221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 434,592,042</u>

Loans classified as troubled debt restructurings (TDRs) totaled \$1,284,351 and \$1,377,080 at December 31, 2021 and 2020, respectively.

There were no newly restructured TDR loans during 2021, or 2020, and no TDR's that defaulted within 12 months of the modification date.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the Coronavirus Relief Act) passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under GAAP. This relief applies to loan modifications executed between March 1, 2020, and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Bank elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. As of December 31, 2021, there was no remaining balance in the CARES Act Relief. The Bank had no commitments to extend additional credit to borrowers owing loans whose terms have been modified in troubled debt restructurings at December 31, 2021 and 2020.



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 3 – Loans (continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2021 and 2020:

	Recorded Investments (Loan Balance Less Charge-off)	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
2021					
With allowance recorded					
Agriculture	\$ -	\$ -	\$ -	\$ -	\$ -
CRE income property - OOC	666,838	666,838	75,138	688,164	3
C & I loans	117,609	117,609	102,692	120,104	33,639
	<u>784,447</u>	<u>784,447</u>	<u>177,830</u>	<u>808,268</u>	<u>33,642</u>
With no allowance recorded					
Agriculture	1,284,351	1,284,351	-	1,371,785	4,698
Residential 1-4 family	-	-	-	41,342	1
C & I loans	-	-	-	995	109
CRE income property - NOC	14,073,651	14,073,651	-	14,282,949	535,107
	<u>15,358,002</u>	<u>15,358,002</u>	<u>-</u>	<u>15,697,071</u>	<u>539,915</u>
Total	<u><u>\$ 16,142,449</u></u>	<u><u>\$ 16,142,449</u></u>	<u><u>\$ 177,830</u></u>	<u><u>\$ 16,505,339</u></u>	<u><u>\$ 573,557</u></u>
2020					
With allowance recorded					
C & I loans	\$ 121,120	\$ 121,120	\$ 93,855	\$ 10,093	\$ -
CRE income property - OOC	705,605	705,605	103,755	58,800	-
CRE income property - NOC	234,416	234,416	7,541	19,535	3,860
	<u>1,061,141</u>	<u>1,061,141</u>	<u>205,151</u>	<u>88,428</u>	<u>3,860</u>
With no allowance recorded					
Agriculture	1,440,940	1,440,940	-	1,185,157	6,265
Residential 1-4 family	252,872	252,872	-	266,628	-
C & I loans	9,630	9,630	-	23,367	1,675
CRE income property - NOC	14,292,089	14,292,089	-	1,257,172	112,649
	<u>15,995,531</u>	<u>15,995,531</u>	<u>-</u>	<u>2,732,324</u>	<u>120,589</u>
Total	<u><u>\$ 17,056,672</u></u>	<u><u>\$ 17,056,672</u></u>	<u><u>\$ 205,151</u></u>	<u><u>\$ 2,820,752</u></u>	<u><u>\$ 124,449</u></u>

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 3 – Loans (continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by class and based on impairment method as of December 31, 2021 and 2020:

	Allowance for Loan Losses			Loans Receivable		
		Ending Balance Individually	Ending Balance Collectively		Ending Balance Individually	Ending Balance Collectively
	Ending Balance	Evaluated for Impairment	Evaluated for Impairment	Ending Balance	Evaluated for Impairment	Evaluated for Impairment
2021						
Residential 1-4 family	\$ 659,599	\$ -	\$ 659,599	\$45,201,636	\$ -	\$ 45,201,636
Residential multi- family	212,488	-	212,488	15,570,133	-	15,570,133
Residential construction, 1-4 family and multifamily	842,728	-	842,728	40,857,906	-	40,857,906
Home equity loans and lines of credit	83,933	-	83,933	9,773,041	-	9,773,041
C & I loans	1,256,325	102,692	1,153,633	67,637,900	117,609	67,520,291
Agriculture	574,792	-	574,792	28,068,515	1,284,351	26,784,164
CRE land/development and construction	281,719	-	281,719	18,232,857	-	18,232,857
CRE income property - OOC	2,421,602	75,138	2,346,464	97,530,207	666,838	96,863,369
CRE income property - NOC	2,279,382	-	2,279,382	147,150,776	14,073,651	133,077,125
Consumer	83,428	-	83,428	1,256,497	-	1,256,497
	<u>\$ 8,695,997</u>	<u>\$ 177,830</u>	<u>\$ 8,518,167</u>	<u>\$ 471,279,468</u>	<u>\$ 16,142,449</u>	<u>\$ 455,137,019</u>
	Allowance for Loan Losses			Loans Receivable		
	Ending Balance Individually	Ending Balance Collectively		Ending Balance Individually	Ending Balance Collectively	
Ending Balance	Evaluated for Impairment	Evaluated for Impairment	Ending Balance	Evaluated for Impairment	Evaluated for Impairment	
2020						
Residential 1-4 family	\$ 482,103	\$ -	\$ 482,103	\$ 33,180,138	\$ 252,872	\$ 32,927,266
Residential multi- family	155,308	-	155,308	15,124,795	-	15,124,795
Residential construction, 1-4 family and multifamily	615,953	-	615,953	20,842,253	-	20,842,253
Home equity loans and lines of credit	61,347	-	61,347	5,680,033	-	5,680,033
C & I loans	1,091,866	93,855	998,011	107,599,066	130,750	107,468,316
Agriculture	415,541	-	415,541	21,220,705	1,440,940	19,779,765
CRE land/development and construction	205,909	-	205,909	14,809,573	-	14,809,573
CRE income property - OOC	1,769,957	103,755	1,666,202	79,874,442	705,605	79,168,837
CRE income property - NOC	1,666,008	7,541	1,658,467	133,828,895	14,526,505	119,302,390
Consumer	54,734	-	54,734	2,432,142	-	2,432,142
	<u>\$ 6,518,726</u>	<u>\$ 205,151</u>	<u>\$ 6,313,575</u>	<u>\$ 434,592,042</u>	<u>\$ 17,056,672</u>	<u>\$ 417,535,370</u>



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 3 – Loans (continued)

The following table presents the activity in the allowance for loan losses by class for the years ended December 31, 2021 and 2020:

2021	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Residential 1-4 family	\$ 482,103	\$ 177,496	\$ -	\$ -	\$ 659,599
Residential multi-family	155,308	57,180	-	-	212,488
Residential construction, 1-4 family and multifamily	615,953	226,775	-	-	842,728
Home equity loans and lines of credit	61,347	22,586	-	-	83,933
C & I loans	1,091,866	401,992	(249,533)	12,000	1,256,325
Agriculture	415,541	152,990	-	6,261	574,792
CRE land/development and construction	205,909	75,810	-	-	281,719
CRE income property - OOC	1,769,957	651,645	-	-	2,421,602
CRE income property - NOC	1,666,008	613,374	-	-	2,279,382
Consumer	54,734	20,151	-	8,543	83,428
	<u>\$ 6,518,726</u>	<u>\$ 2,400,000</u>	<u>\$ (249,533)</u>	<u>\$ 26,804</u>	<u>\$ 8,695,997</u>
2020	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Residential 1-4 family	\$ 323,023	\$ 159,080	\$ -	\$ -	\$ 482,103
Residential multi-family	104,061	51,247	-	-	155,308
Residential construction, 1-4 family and multifamily	412,706	203,247	-	-	615,953
Home equity loans and lines of credit	41,104	20,243	-	-	61,347
C & I loans	752,860	370,763	(40,697)	8,940	1,091,866
Agriculture	305,896	150,645	(41,000)	-	415,541
CRE land/development and construction	137,965	67,944	-	-	205,909
CRE income property - OOC	1,185,922	584,035	-	-	1,769,957
CRE income property - NOC	1,116,273	549,735	-	-	1,666,008
Consumer	36,673	18,061	-	-	54,734
	<u>\$ 4,416,483</u>	<u>\$ 2,175,000</u>	<u>\$ (81,697)</u>	<u>\$ 8,940</u>	<u>\$ 6,518,726</u>

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 4 – Premises and Equipment

Premises and equipment at December 31 are classified as follows:

	<u>2021</u>	<u>2020</u>
Land and buildings	\$ 11,050,000	\$ 11,050,000
Leasehold improvements	1,751,518	1,751,518
Furniture, fixtures, and office equipment	<u>1,736,015</u>	<u>1,620,670</u>
	14,537,533	14,422,188
Accumulated depreciation and amortization	<u>(4,131,642)</u>	<u>(3,796,946)</u>
	<u>\$ 10,405,891</u>	<u>\$ 10,625,242</u>

Depreciation expense for these assets totaled \$334,697 and \$352,210 for the years ended at December 31, 2021 and 2020, respectively.

Note 5 – Leases

The Bank has operating leases for its branches. The maturities of these leases stagger through 2029. The Bank's leases generally exclude extension clauses until it is reasonably certain the Bank will exercise the option.

The components of lease cost (included in occupancy and equipment expense on the consolidated statements of income) are as follows for the year ended December 31 (in thousands):

	<u>2021</u>	<u>2020</u>
Lease cost		
Minimum rent payments	\$ 341,681	\$ 331,339
Other operating costs	<u>(5,841)</u>	<u>4,502</u>
	<u>\$ 335,840</u>	<u>\$ 335,841</u>

The following table provides supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the year ended December 31 (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Operating cash flows from operating leases	\$ 341,681	\$ 331,339
Weighted average remaining lease term	6.35 years	7.3 years
Weighted average discount rate	2.70%	2.71%

The Bank's leases typically do not contain a discount rate implicit in the lease contract. As an alternative, the Bank uses the incremental borrowing rate commensurate with the lease term.



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 – Leases (continued)

The following table presents minimum lease payments under the terms of the leases for future years ending December 31, 2021 (in thousands):

2022	\$ 352,293
2023	363,177
2024	359,846
2025	341,802
2026 and thereafter	<u>900,047</u>
Total lease payments	2,317,165
Less imputed interest	<u>(168,077)</u>
Total	<u>\$ 2,149,088</u>

A portion of the Bank's owned premises are leased to unaffiliated third parties. Minimum rental receipts under sublease agreements for future years ending December 31 are as follows:

2022	\$ 395,219
2023	453,048
2024	463,144
2025	452,895
2026 and thereafter	<u>2,097,062</u>
Total lease payments	<u>\$ 3,861,368</u>

Note 6 – Other Real Estate Owned

The following table presents other real estate owned as of December 31:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 1,047,928	\$ 2,390,398
Sales	(1,238,017)	(1,560,003)
Writedowns	-	(97,129)
Gain on sale	<u>190,089</u>	<u>314,662</u>
Ending balance	<u>\$ -</u>	<u>\$ 1,047,928</u>

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 7 – Servicing Assets

Loans serviced totaled \$88,752,605 and \$72,490,541 at December 31, 2021 and 2020, respectively. The fair value of servicing assets held at December 31, 2021 and 2020, were \$1,656,077 and \$1,420,542, respectively.

Changes in the balance of the servicing assets were as follows for the years ended December 31:

	2021	2020
Balance, beginning of year	\$ 984,610	\$ 1,013,266
Additions	591,598	349,785
Amortization	(427,199)	(378,441)
Balance, end of year	<u>\$ 1,149,009</u>	<u>\$ 984,610</u>

The projected amortized expense of the servicing asset is an estimate. The amortization expense for future periods was calculated by applying the same quantitative factors, such as servicing asset prepayment assumptions that were used to determine current year amortization expense. These factors are inherently subject to significant fluctuations, primarily due to the effect that changes in interest rates have on loan prepayment experience. Accordingly, any projection of servicing asset amortization in future periods is limited by the conditions that existed at the time the calculations were performed and may not be indicative of actual amortization expense that will be recorded in future periods.

The key economic assumptions used in determining the fair value of the servicing asset as of December 31 are as follows:

	2021	2020
Discount rate	9.70%	7.56%
Expected weighted-average life	4.26 years	4.36 years
Constant prepayment rate	17.05%	18.73%

Projected amortization expense at December 31, 2021, is estimated to be as follows:

2022	\$ 452,416
2023	332,240
2024	213,648
2025	103,268
2026	36,549
Thereafter	<u>10,887</u>
Carrying value of servicing asset	<u>\$ 1,149,009</u>

The following represents servicing fees earned in connection with the servicing asset and is included in the accompanying consolidated financial statements as a component of noninterest income for the years ended December 31:

	2021	2020
Servicing fees	<u>\$ 717,454</u>	<u>\$ 647,726</u>

Late fees associated with the servicing asset are immaterial for the years ended December 31, 2021 and 2020.



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 8 – Deposits

Deposits as of December 31 consisted of the following:

	<u>2021</u>	<u>2020</u>
Demand accounts		
Noninterest-bearing	\$ 137,761,426	\$ 95,244,797
Interest-bearing	63,496,322	44,331,274
Savings accounts	11,326,666	10,091,743
Money market accounts	215,100,433	143,264,121
Certificates of deposit	98,310,112	114,667,345
	<u>\$ 525,994,959</u>	<u>\$ 407,599,280</u>

At December 31, 2021, scheduled maturities of certificates of deposit are as follows:

2022	\$ 64,550,573
2023	18,303,262
2024	8,055,421
2025	4,752,433
2026	2,648,423
	<u>\$ 98,310,112</u>

Certificates of deposit that met or exceeded the \$250,000 federally insured limit were \$30,054,749 and \$37,094,286 at December 31, 2021 and 2020, respectively.

Note 9 – Credit Arrangements

Borrowings

The Company has line-of-credit agreements with separate unaffiliated banks totaling \$35,000,000. These two lines provide for lending at the corresponding bank's federal fund rates. There were no borrowings outstanding on either of these lines at December 31, 2021 and 2020.

The Company also utilized the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility (the PPPLF) to fund PPP loans during the year ended December 31, 2020. These advances had an interest rate of 0.35%. The Company has not obtained any other new borrowing lines or other new sources of liquidity other than the PPPLF program during the year ended December 31, 2020. The Company had \$20,378,009 outstanding in PPPLF as of December 31, 2020 which was repaid in February 2021.

The Bank is a member of the FHLB of Des Moines and, as such, has a committed credit line of up to 45% of total eligible assets, subject to certain collateral requirements. Borrowings generally provide for interest at the then-current published rates. At December 31, 2021 and 2020, loans pledged to the FHLB equated to a borrowing capacity after indebtedness of \$16,119,480 and \$15,718,740, respectively. For both December 31, 2021 and 2020, the Bank had \$24,500,000 of borrowings, outstanding with the FHLB, with fixed rates ranging from 0.88% to 3.02% under these agreements. The borrowings have a weighted-average interest rate of 1.79% and 1.75% as of December 31, 2021 and 2020, respectively. Current borrowings are collateralized by pledged loans (Note 3).

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 9 – Credit Arrangements (continued)

The contractual maturities of FHLB advances at December 31, 2021, are as follows:

2022	\$ -
2023	20,000,000
2024	4,500,000
	<u>24,500,000</u>
	<u>\$ 24,500,000</u>

Subordinated Notes

On October 1, 2020, Mountain Pacific Bancorp, Inc. issued 14 unsecured subordinated term notes (the Subordinated Notes) in the aggregate principal amount of \$5,000,000 due October 1, 2027 (maturity date), pursuant to Subordinated Loan Agreements with various investors, three of which are Directors of the Company. The Subordinated Notes bear interest at an annual fixed interest rate of 5.0% until September 30, 2025, and floating from October 1, 2025, until maturity at the 90-day average secured overnight financing rate (SOFR) plus 4.75%, payable by the Company quarterly in arrears beginning March 31, June 30, September 30, and December 31, of each year, commencing on the first such date following the Closing Date and on the maturity date. Debt issuance costs were not significant.

On December 21, 2018, Mountain Pacific Bancorp, Inc. issued 12 unsecured subordinated term notes (the Subordinated Notes) in the aggregate principal amount of \$7,500,000 due December 31, 2025 (maturity date), pursuant to Subordinated Loan Agreements with various investors, two of which are Directors of the Company. The Subordinated Notes bear interest at an annual interest rate of 6.50%, payable by the Company quarterly in arrears beginning March 31, June 30, September 30, and December 31, of each year, commencing March 31, 2021, and ending on the maturity date. Debt issuance costs were not significant.

The Subordinated Notes may be prepaid at the Company's option and with regulatory approval at any time on or after five years after the closing date of October 1st or December 21st of each respective series or at any time upon certain events, such as a change in the regulatory capital treatment of the Subordinated Notes or the interest on the Subordinated Notes no longer being deductible by the Company for United States federal income tax purposes.

Note 10 – Federal Income Taxes

The components of the federal income tax expense are as follows at December 31:

	<u>2021</u>	<u>2020</u>
Current	\$ 2,373,150	\$ 1,707,000
Deferred	(458,150)	(444,000)
	<u>\$ 1,915,000</u>	<u>\$ 1,263,000</u>



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 – Federal Income Taxes (continued)

Reconciliation of the provision for income tax expense based on the statutory income tax rate to actual income tax expense is provided as follows:

	2021		2020	
	Amount	Percent	Amount	Percent
Federal income tax at statutory rate	\$ 1,887,900	21.0%	\$ 1,196,600	21.0%
Interest income on tax-exempt bonds	(43,575)	-0.5%	(42,874)	-0.8%
Permanent Items	8,466	0.1%		
Equity compensation	50,902	0.6%	38,720	0.7%
Other	11,307	0.1%	70,554	1.2%
	\$ 1,915,000	21.3%	\$ 1,263,000	22.2%

The following are the significant components of the Company's deferred tax assets and liabilities at December 31:

	2021	2020
Deferred tax asset		
Allowance for loan losses	\$ 1,580,860	\$ 1,096,378
Net operating loss carryforward	895,693	984,818
Organization expenditures	9,804	13,930
Nonaccrual interest	125,580	99,133
Deferred lease liability	451,308	510,083
SBA loan discount	237,557	233,022
Unrealized losses on securities	15,300	-
Other	349,461	291,831
Subtotal	3,665,563	3,229,195
Deferred tax liabilities		
Deferred loan costs	269,497	269,497
SBA servicing asset	241,291	206,768
Property and equipment depreciation	185,411	200,432
Deferred right-of-use asset	390,214	447,798
Unrealized gains on securities	-	27,700
Subtotal	1,086,413	1,152,195
Net deferred tax asset	\$ 2,579,150	\$ 2,077,000

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of net operating loss and credit carryforwards may be limited in the event a cumulative change in ownership of more than 50% occurs within a three-year period. The Bank determined such an ownership change occurred as of December 12, 2011, as a result of the exercise of stock warrants. This ownership change results in annual limitations on the use of net operating loss carryforwards and limits the Bank's ability to fully utilize its deferred tax assets. The Bank's net operating loss deferred tax asset has been reduced to account for Section 382 limitations.

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 10 – Federal Income Taxes (continued)

The Bank has federal net operating loss carryforwards of approximately \$4.2 million at December 31, 2021, after the consideration of any Section 382 limits. Federal net operating loss carryforwards, to the extent not used, will begin to expire in 2030.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company has evaluated the impact of the CARES Act and determined that none of the changes would result in a material income tax benefit to the Company.

On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law and extends several provisions of the CARES Act. The Company has determined that neither this Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on the Company's effective tax rate.

At December 31, 2021 and 2020, the Company had no unrecognized tax benefits. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2021 and 2020, the Company recognized no interest and penalties. The Company files income tax returns in the U.S. federal jurisdiction.

Note 11 – Employee Benefits

The Company has a 401(k) defined contribution plan (the 401k Plan) for those employees who meet the eligibility requirements set forth in the 401(k) Plan. Eligible employees can contribute up to 100% of compensation subject to certain limits based on federal tax laws. The 401(k) Plan also allows for employer matching contributions equal to 100% up to the first 3%, and 50% up to the next 2% of compensation. Matching contributions vest immediately. The Company's contribution for the years ended December 31, 2021 and 2020, was \$216,648 and \$195,972, respectively.

Note 12 – Stockholders' Equity

Regulatory capital – The Company and the Bank are subject to various regulatory capital requirements administered by the 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 Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common equity Tier I, and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I (as defined) capital to average assets (as defined). As of December 31, 2021, management believes that the Company and the Bank meet all capital adequacy requirements to which it is subject.

To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based, common equity Tier I risk-based, Tier I risk-based, and Tier I leverage ratios, as set forth in the table. The institution is well capitalized under the prompt corrective action provisions.



Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

Note 12 – Stockholders' Equity (continued)

As of December 31, 2021, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier I risk-based, Tier I risk-based, and Tier I leverage ratios, as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's consolidated assets are less than \$1 billion at the beginning of the year, therefore consolidated ratios are not required to be disclosed.

The Bank's actual capital amounts and ratios as of December 31 are also presented in the table.

	Actual		For Capital Adequacy Purposes		For Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021								
Total capital								
(to risk-weighted assets)	\$ 61,238,000	12.48%	\$ 39,373,120	≥ 8.00%	\$ 51,677,220	≥ 10.50%	\$ 49,216,400	≥ 10.00%
Tier I capital								
(to risk-weighted assets)	55,049,000	11.19%	29,529,840	≥ 6.00%	41,833,940	≥ 8.50%	39,373,120	≥ 8.00%
Common equity Tier 1 capital								
(to risk-weighted assets)	55,049,000	11.19%	22,147,380	≥ 4.50%	34,451,480	≥ 7.00%	31,990,660	≥ 6.50%
Tier I capital (to average assets)	55,049,000	9.20%	23,935,080	≥ 4.00%	N/A		29,918,850	≥ 5.00%
As of December 31, 2020								
Total capital								
(to risk-weighted assets)	\$ 51,700,000	12.73%	\$ 32,496,320	≥ 8.00%	\$ 42,651,420	≥ 10.50%	\$ 40,620,400	≥ 10.00%
Tier I capital								
(to risk-weighted assets)	46,603,000	11.47%	24,372,240	≥ 6.00%	34,527,340	≥ 8.50%	32,496,320	≥ 8.00%
Common equity Tier 1 capital								
(to risk-weighted assets)	46,603,000	11.47%	18,279,180	≥ 4.50%	28,434,280	≥ 7.00%	26,403,260	≥ 6.50%
Tier I capital (to average assets)	46,603,000	8.98%	20,759,160	≥ 4.00%	N/A		25,948,950	≥ 5.00%

Under the Basel III rules, the Bank must hold a capital conservation buffer of 2.5% above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Note 13 – Stock-Based Compensation Plan

The Company has one stock-based compensation plan, which is described below. The total compensation cost for restricted stock awards and stock options that has been charged against income for the plan was \$561,360 and \$431,958 in 2021 and 2020, respectively. There was no compensation cost capitalized and no income tax benefits realized on these stock-based compensation arrangements in 2021 or 2020.

Stock option plan – The Company has a stockholder approved plan, the 2017 Mountain Pacific Bancorp Inc. Plan (the "Plan") as amended, is authorized to issue 2,000,000 shares, of which 200,000 may be issued as restricted stock awards. The Plan is to promote the best interest of the Company by providing an incentive to those key employees who contribute to its success. The Plan permits the grant of incentive stock options for employees, nonqualified stock options for directors, and restricted stock awards for directors. As of December 31, 2021, 881,325 shares remained available to grant out of the Plan of which 142,500 are available for restricted stock awards. The Plan will expire in 2027.

Incentive stock and nonqualified stock option awards are generally granted with an exercise price equal to the grant date fair value; those option awards generally vest and become exercisable in incremental percentages from one to five years of continuous service from the grant date, and expire after 10 years. Certain option and share awards provide for accelerated vesting upon death of the optionee or if there is a change in control (as defined in the Plan).

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Notes to Consolidated Financial Statements



Note 13 – Stock-Based Compensation Plan (continued)

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton valuation model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's stock and other factors. The expected term of options granted was evaluated by a calculation that factored in the contractual term and vesting period, and considered different employee segments. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	<u>2021</u>	<u>2020</u>
Risk-free interest rate	0.36-0.64%	1.59-1.71%
Dividend yield rate	0.00%	0.00%
Expected volatility	26-27%	26-28%
Expected term (in years)	5.8-6.6 years	5.8-6.6 years

A summary of incentive and nonqualified stock option activity is presented below:

	<u>Granted Options for Common Stock</u>	<u>Weighted- Average Exercise Price of Shares Under Plan</u>	<u>Weighted- Average Remaining Contractual Term (Years)</u>
Outstanding at December 31, 2020	985,750	\$ 4.82	
Granted	257,000	5.68	
Exercised	(32,250)	3.70	
Forfeited	(27,700)	5.73	
Outstanding at December 31, 2021	<u>1,182,800</u>	<u>\$ 4.94</u>	<u>6.58</u>
Options exercisable at December 31, 2021	<u>590,950</u>	<u>\$ 4.32</u>	<u>5.19</u>

The weighted-average grant-date fair value of options granted was \$1.88 and \$1.90 for each of the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021, there was \$744,708 of total unrecognized compensation cost related to incentive and nonqualified stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.27 years. There were no tax benefits realized from the exercise of options in 2021 or 2020.



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Notes to Consolidated Financial Statements

Note 13 – Stock-Based Compensation Plan (continued)

Restricted stock awards – Restricted stock awards vest ratably over one to five years from the date of grant. The fair value of restricted stock awards is determined based on the last trade price or most recent stock valuation on the grant date. A summary of nonvested restricted stock awards activity is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2020	36,875	\$ 5.95
Granted	25,000	5.68
Vested	(20,625)	5.79
Forfeited	(4,375)	5.88
Nonvested at December 31, 2021	36,875	\$ 5.86

As of December 31, 2021, there was \$142,962 of total unrecognized compensation cost related to restricted stock awards granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 1.67 years.

Note 14 – Related Party Transactions

Certain directors, executive officers, and principal stockholders are Bank customers and have had banking transactions with the Bank. All loans and commitments included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present any other unfavorable features. The following summarizes these transactions with directors, executive officers, principal stockholders, and companies with which they are associated at December 31:

	2021	2020
Beginning balance	\$ 3,742,816	\$ 3,143,467
New loans	2,281,497	2,122,443
Loans added for change in related parties	1,524,378	-
Repayments	(127,245)	(1,523,094)
Ending balance	\$ 7,421,446	\$ 3,742,816
Deposits	\$ 10,598,893	\$ 12,109,076

Three directors were investors in the Company's subordinated debt offering in 2020. Two directors were investors in the Company's subordinated debt offering in 2018. Rates and terms are consistent for all investors.

From time to time, a director may purchase a participating interest in certain lending relationships with the Bank. At December 31, 2020, a director was involved with two participations for \$2.1 million, and no director was involved in participations as of December 31, 2021.

Mountain Pacific Bancorp, Inc., and Subsidiaries

Notes to Consolidated Financial Statements



Note 15 – Commitments and Contingencies

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written 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 and financial guarantees – Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that approximately 81% of loan commitments are drawn upon by customers. The Company evaluates customers' creditworthiness on a case-by-case basis and follows the Bank's normal credit policies. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, income-producing commercial properties, and other real estate.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of policy, does not extend credit in excess of 20% of Tier 2 capital, or approximately \$11.0 million, to any single borrower or group of related borrowers.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company maintains various levels of collateral supporting those commitments for which collateral is deemed necessary.

The Company has not been required to perform on any financial guarantees. The Company has not incurred any losses on its commitments in 2021 or 2020.

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

	<u>2021</u>	<u>2020</u>
Commitments to extend credit	<u>\$ 93,673,678</u>	<u>\$ 74,853,827</u>
Standby letters of credit	<u>\$ 473,340</u>	<u>\$ 163,000</u>

Legal contingencies – Various legal claims also arise from time to time in the normal course of business that, in the opinion of management, will have no material effect on the Company's consolidated financial statements.



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Notes to Consolidated Financial Statements

Note 16 – Fair Value of Financial Instruments

Fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants in the Company's principal market. The Company has established and documented its process for determining the fair values of its assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Company's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities and credit spreads, or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

Valuation adjustments, such as those pertaining to counterparty and the Company's own credit quality and liquidity, may be necessary to ensure that assets and liabilities are recorded at fair value. Credit valuation adjustments are made when market pricing is not indicative of the counterparty's credit quality.

Any changes to valuation methodologies are reviewed by management to ensure that they are relevant and justified. Valuation methodologies are refined as more market-based data becomes available.

There are three levels of inputs that may be used to measure fair values:

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

Level 2 – Either (i) quoted prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

Qualitative disclosures of valuation techniques

Investment securities – Where quoted prices are available in an active market, securities are classified as Level 1. Level 1 instruments include highly liquid government bonds, securities issued by the U.S. Treasury, and exchange-traded equity securities. If quoted prices are not available, management determines fair value using pricing models, quoted prices of similar securities, or discounted cash flows. Such instruments are classified as Level 2. In certain cases, where there is limited activity in the market for a particular instrument, assumptions must be made to determine its fair value. Such instruments are classified as Level 3.

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Notes to Consolidated Financial Statements



Note 16 – Fair Value of Financial Instruments (continued)

Assets measured at fair value on a recurring basis – Assets are considered to be fair valued on a recurring basis if fair value is measured regularly (i.e., daily, weekly, monthly, or quarterly). The following table shows the Company's assets and liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
2021				
Obligations of U.S. agencies	\$ -	\$ 1,487,000	\$ -	\$ 1,487,000
Agency mortgage-backed securities	-	12,198,782	-	12,198,782
Agency collateralized mortgage obligations	-	2,453,134	-	2,453,134
SBA participation certificates	-	2,916,104	-	2,916,104
2020				
Agency mortgage-backed securities	\$ -	\$ 4,807,269	\$ -	\$ 4,807,269
Agency collateralized mortgage obligations	-	882,020	-	882,020
SBA participation certificates	-	382,244	-	382,244

Assets measured at fair value on a nonrecurring basis – Assets are considered to be fair valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheets. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value. The following table presents the Company's assets measured at fair value on a nonrecurring basis:

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Impaired loans	\$ -	\$ -	\$ 16,142,449	\$ 16,142,449
December 31, 2020				
Impaired loans	\$ -	\$ -	\$ 17,056,672	\$ 17,056,672
Other real estate owned	-	-	1,047,928	1,047,928

Valuations of impaired loans are periodically performed by management, and the fair value of the loans is carried at the fair value of the underlying collateral less cost to foreclose, sell, and carry the collateral. Fair value of the underlying collateral is determined by an appraisal performed by a qualified independent appraiser. Other real estate owned is valued in a similar manner as impaired loans.



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Notes to Consolidated Financial Statements

Note 16 – Fair Value of Financial Instruments (continued)

Quantitative information about Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the years ending December 31, 2021 and 2020, along with the valuation techniques used, are shown in the following table:

	Fair Value at December 31, 2021	Valuation Technique	Unobservable Input	Range ¹
Impaired loans	\$ 16,142,449	Market comparable	Adjustment to appraisal value	0% - 10% (5%)

¹ Discount for selling costs.

	Fair Value at December 31, 2020	Valuation Technique	Unobservable Input	Range ¹
Impaired loans	\$ 17,056,672	Market comparable	Adjustment to appraisal value	0% - 10% (5%)
OREO	1,047,928	Market comparable	Adjustment to appraisal value	0% - 10%

¹ Discount for selling costs.

Carrying amounts and estimated fair values of financial instruments, not previously presented, as of December 31 are as follows:

	Carrying Amount	Estimated Fair Value	Fair Value Level		
			Level 1	Level 2	Level 3
December 31, 2021					
Financial assets					
Cash and cash equivalents	\$100,692,700	\$100,692,700	\$100,692,700	\$ -	\$ -
Interest-bearing deposits in other financial institutions	16,001,444	16,001,444	16,001,444	-	-
Securities available-for-sale	19,055,020	19,055,020	-	19,055,020	-
Securities held-to-maturity	1,002,892	1,112,056	-	1,112,056	-
Loans receivable	469,409,617	454,294,627	-	-	454,294,627
Servicing asset	1,149,009	1,656,077	-	-	1,656,077
FHLB and PCBB stock	1,782,500	1,782,500	1,782,500	-	-
Accrued interest receivable	1,442,941	1,442,941	1,442,941	-	-
Financial liabilities					
Savings, money market, and demand	427,684,847	427,684,847	427,684,847	-	-
Time deposits	98,310,112	98,034,840	-	98,034,840	-
Accrued interest payable	154,271	154,271	154,271	-	-
Borrowings	24,500,000	24,818,500	-	24,818,500	-
Subordinated notes	12,500,000	12,500,000	-	12,500,000	-

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Note 16 – Fair Value of Financial Instruments (continued)

	Carrying Amount	Estimated Fair Value	Fair Value Level		
			Level 1	Level 2	Level 3
December 31, 2020					
Financial assets					
Cash and cash equivalents	\$ 35,467,856	\$ 35,467,856	\$ 35,467,856	\$ -	\$ -
Interest-bearing deposits in other financial institutions	21,248,348	21,248,348	21,248,348	-	-
Securities available-for-sale	6,071,533	6,071,533	-	6,071,533	-
Securities held-to-maturity	1,004,198	1,143,267	-	1,143,267	-
Loans receivable	432,192,049	421,992,317	-	-	421,992,317
Loans held for sale	1,433,641	1,433,641	-	-	1,433,641
Servicing asset	984,610	1,420,542	-	-	1,420,542
FHLB and PCBB stock	1,608,000	1,608,000	1,608,000	-	-
Accrued interest receivable	1,823,755	1,823,755	1,823,755	-	-
Financial liabilities					
Savings, money market, and demand	292,931,935	292,931,935	292,931,935	-	-
Time deposits	114,667,345	115,720,383	-	115,720,383	-
Accrued interest payable	517,104	517,104	517,104	-	-
Borrowings	44,878,009	45,637,509	-	45,637,509	-
Subordinated notes	12,500,000	12,500,000	-	12,500,000	-

Note 17 – Earnings Per Common Share

The following table presents a reconciliation of the components used to compute basic and diluted earnings per common share:

	2021	2020
Net income	\$ 7,075,000	\$ 4,437,000
Basic weighted-average common shares outstanding	6,576,279	6,504,229
Plus dilutive incremental shares	531,029	245,926
Diluted weighted-average common shares outstanding	7,107,308	6,750,155
Basic earnings per common share	\$ 1.08	\$ 0.68
Diluted earnings per common share	\$ 1.00	\$ 0.66

Antidilutive options for 2021 and 2020 were zero and 58,298, respectively.