The

CLATSOP
community bank™

2015 Annual Report

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

February 19, 2016

Shareholders,

Clatsop Community Bank’s 2015 audited financial statements are presented for your review. This was our seventh complete year of operations and we are pleased with the Bank’s improving financial performance. The Bank continued its track record of profitability, with positive earnings for the fifth consecutive year.

Deposit growth has accelerated during the year. Despite strong competition, the Bank was able to increase total deposits by $7.2 million, representing a 16.9% increase year-over-year.

Although the economy is still recovering, loan demand has not rebounded to pre-crisis levels. Despite this challenge, the Bank's loan portfolio grew by $3.5 million, or 7.4% year-over-year. We congratulate Mike Schlieski for a job well done as he retires in January 2016 and welcome Cindy Trask who was named new Chief Credit Officer.

The Bank possesses an experienced, talented team, which works diligently to build full customer relationships primarily throughout Clatsop County. We continue to attract customers who value the desirable combination of premium, personalized service with timely, local decision making. Moreover, our customers appreciate the fact that their deposits are put to work in their very own community.

Overall, your Bank possesses a strong capital base which provides a solid foundation for continued growth. We look forward to a prosperous 2016 and beyond. Thank you for your continued support.

Joseph Schulte	Ken Ulbricht
President & CEO	Chairperson

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

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
Clatsop Community Bank

Report on Financial Statements

We have audited the accompanying financial statements of Clatsop Community Bank (the Bank) which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clatsop Community Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
February 17, 2016

CLATSOP COMMUNITY BANK
BALANCE SHEETS

	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	1,369,666	$ 1,520,753
Interest bearing deposits with other banks	4,549,288	5,000
Cash and cash equivalents	5,918,954	1,525,753
Time deposits with other financial institutions	490,000	-
Investment securities available-for-sale, at fair value	14,646,854	15,478,226
Loans, net of allowance for loan losses and net deferred loan fees	50,729,426	47,225,305
Federal Home Loan Bank stock, at cost	85,500	113,000
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	2,589,485	2,682,816
Other real estate owned and repossessed assets	30,000	31,000
Cash surrender value of bank-owned life insurance	2,056,860	1,985,757
Deferred tax asset, net	1,199,150	1,377,452
Accrued interest receivable and other assets	285,901	274,510
Total assets	$ 78,032,130	$ 70,693,819
LIABILITIES		
Noninterest-bearing demand deposits	$ 21,746,029	$ 17,676,496
Interest-bearing demand deposits, savings and money market accounts	34,120,389	28,274,834
Time certificates of deposit	12,199,168	14,849,679
Total deposits	68,065,586	60,801,009
Borrowed funds	-	1,000,000
Accrued interest payable and other liabilities	211,573	177,243
Total liabilities	68,277,159	61,978,252
COMMITMENTS AND CONTINGENCIES (Notes 10 and 12)		
STOCKHOLDERS' EQUITY		
Common stock, no par value, 10,000,000 shares authorized; 1,050,160 and 1,045,960 shares issued and outstanding at December 31, 2015 and 2014, respectively	10,250,363	10,250,363
Additional paid-in capital	736,465	691,965
Accumulated deficit	(1,175,488)	(1,723,799)
Accumulated other comprehensive income (loss)	(56,369)	32,038
Total stockholders' equity	9,754,971	9,250,567
Total liabilities and stockholders' equity	$ 78,032,130	$ 71,228,819

See accompanying notes.

CLATSOP COMMUNITY BANK
STATEMENTS OF INCOME

	Years Ended December 31, 2015	2014
INTEREST INCOME		
Interest and fees on loans	$ 2,871,813	$ 2,609,499
Interest on available-for-sale securities	246,987	315,544
Interest on deposits with other banks	11,911	9,909
Total interest income	3,130,711	2,934,952
INTEREST EXPENSE		
Interest on deposits	142,181	177,127
Interest on borrowed funds	338	2,623
Total interest expense	142,519	179,750
Net interest income before provision for loan losses	2,988,192	2,755,202
PROVISION FOR LOAN LOSSES	-	75,405
Net interest income after provision for loan losses	2,988,192	2,679,797
NONINTEREST INCOME		
Deposit service charges	78,122	79,296
Gain on sale of securities	44,474	9,672
Gain on sale of other real estate owned	11,042	84,713
Gain on sale of government guaranteed loans	105,068	-
Cash surrender value of life insurance	71,103	72,989
Other noninterest income	880	1,577
Total noninterest income	310,689	248,247
NONINTEREST EXPENSE		
Salaries and employee benefits	1,348,794	1,239,703
Occupancy expense	179,916	203,045
Data processing	201,747	211,635
Depreciation expense	135,140	153,394
Professional fees	108,513	97,166
Advertising	74,719	75,843
Regulatory assessments	54,633	67,704
Stock-based compensation expense	44,500	42,000
Subscriptions	45,663	40,054
Supplies and printing	32,601	31,641
Other noninterest expense	289,344	233,125
Total noninterest expense	2,515,570	2,395,310
INCOME BEFORE PROVISION FOR INCOME TAXES	783,311	532,734
PROVISION (BENEFIT) FOR INCOME TAXES	235,000	(1,245,566)
NET INCOME	$ 548,311	$ 1,778,300
Basic earnings per share of common stock	$ 0.52	$ 1.70
Diluted earnings per share of common stock	$ 0.51	$ 1.70

See accompanying notes.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2015	2014
NET INCOME	$ 548,311	$ 1,778,300
Other comprehensive income (loss):		
Unrealized holding gains (losses) on investment securities available-for-sale	(98,133)	394,967
Reclassification adjustment for realized gains on investment securities included in net income	(44,474)	(9,672)
Income tax effects	54,200	(144,126)
Other comprehensive income (loss), net of tax	(88,407)	241,169
COMPREHENSIVE INCOME	$ 459,904	$ 2,019,469

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE, December 31, 2013	1,042,461	$ 10,250,363	$ 649,965	$ (3,502,099)	$ (209,131)	$ 7,189,098
Net income	-	-	-	1,778,300	-	1,778,300
Restricted stock awards vested	3,499	-	-	-	-	-
Stock-based compensation	-	-	42,000	-	-	42,000
Other comprehensive income, net of tax	-	-	-	-	241,169	241,169
BALANCE, December 31, 2014	1,045,960	10,250,363	691,965	(1,723,799)	32,038	9,250,567
Net income	-	-	-	548,311	-	548,311
Restricted stock awards vested	4,200	-	-	-	-	-
Stock-based compensation	-	-	44,500	-	-	44,500
Other comprehensive loss, net of tax	-	-	-	-	(88,407)	(88,407)
BALANCE, December 31, 2015	1,050,160	$ 10,250,363	$ 736,465	$ (1,175,488)	$ (56,369)	$ 9,754,971

CLATSOP COMMUNITY BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 548,311	$ 1,778,300
Adjustments to reconcile net income to net cash from operations:		
Net amortization of premiums on investment securities available-for-sale	139,506	168,591
Gain on sale of investment securities	(44,474)	(9,672)
Gain on sale of other real estate owned	(11,042)	(84,713)
Gain on sale of government guaranteed loans	(105,068)	-
Depreciation and amortization expense	135,140	153,394
Stock-based compensation expense	44,500	42,000
Loss on disposal of capitalized fixed asset costs	4,259	-
Provision for loan losses	-	75,405
Change in cash surrender value of bank-owned life insurance	(71,103)	(72,990)
Deferred income taxes	232,502	(1,247,252)
Changes in cash and cash equivalents due to changes in:		
Accrued interest receivable and other assets	(11,391)	34,520
Accrued interest payable and other liabilities	34,330	82,427
Net cash from operating activities	895,470	920,010
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of available-for-sale securities	4,907,965	3,124,865
Proceeds from principal paydowns on available-for-sale securities	2,831,247	2,941,946
Proceeds from the maturity and call of available-for-sale securities	-	1,000,000
Purchase of available-for-sale securities	(7,145,479)	(3,366,793)
Purchase of time deposits with other financial institutions	(490,000)	-
Proceeds from redemption of Federal Home Loan Bank stock	41,200	4,300
Purchase of Federal Home Loan Bank stock	(13,700)	-
Net increase in loans	(3,429,053)	(6,891,904)
Proceeds from the sale of other real estate owned	42,042	342,550
Purchases of premises, equipment, software, and leasehold improvements	(46,068)	(55,732)
Net cash for investing activities	(3,301,846)	(2,900,768)

See accompanying notes.

	Years Ended December 31, 2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposit accounts	$ 7,264,577	$ 497,337
Repayments of borrowed funds	(1,000,000)	-
Net cash from financing activities	6,264,577	497,337
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,858,201	(1,483,421)
CASH AND CASH EQUIVALENTS, beginning of period	2,060,753	3,544,174
CASH AND CASH EQUIVALENTS, end of period	$ 5,918,954	$ 2,060,753
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid in cash	$ 131,720	$ 166,960
Taxes paid in cash	$ 2,000	$ 1,500
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in fair value of investment securities available-for-sale, net of tax	$ (88,407)	$ 241,169
Transfer of loan to other real estate owned	$ 30,000	$ -
Internally financed sale of other real estate owned	$ -	$ 46,600

Note 1 – Organization and Summary of Significant Accounting Policies

Organization and nature of operations – Clatsop Community Bank (the Bank), an Oregon business corporation, incorporated for the purpose of becoming a commercial bank headquartered in Seaside, Oregon in August, 2007. The Bank received its charter from the State of Oregon and commenced banking operations on April 22, 2008.

The Bank, from its Seaside headquarters office and a branch location in Astoria, Oregon, provides banking services to businesses and individuals located primarily in and around Clatsop County, Oregon. The Bank is subject to regulation by certain federal and state agencies and undergoes periodic examination by these regulatory authorities.

Basis of financial statement presentation – The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and with prevailing practices within the banking industry. In preparing the financial statements, management is required to make certain estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, values of other real estate owned, stock-based compensation, fair values of investment securities, and depreciation of premises, equipment, and leasehold improvements.

Cash and cash equivalents – Cash and cash equivalents include cash and due from banks, and temporary investments such as federal funds sold and interest-bearing balances due from other banks. Cash and cash equivalents generally have a maturity of 90 days or less at the time of purchase.

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

Time deposits with other financial institutions – Interest-earning deposits at other financial institutions include certificates of deposit with an original term greater than 90 days. These certificates of deposit are carried at amortized cost. As of December 31, 2015, the certificates of deposit had interest rates of 2.25% and maturity dates through September 2020.

Investment securities – The Bank is required to specifically identify its investment securities as "trading accounts," "available-for-sale," or "held-to-maturity."

Investments are classified in the trading category if the Bank's intention is to hold the investment principally for the purpose of realizing short-term gains during periods of 90 days or less. Such investments are carried at fair value and changes in fair value are recognized in earnings during the

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

period in which they arise. The Bank held no investments in this trading category as of December 31, 2015 or 2014.

Securities are classified as available-for-sale if the Bank intends to hold those debt securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors such as: (1) changes in market interest rates and related changes in the prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as other comprehensive income and carried as accumulated comprehensive income or loss within stockholders' equity until realized.

Investments for which the Bank has the positive intent and ability to hold until maturity are classified as held-to-maturity and carried at amortized cost. The Bank held no investments in the held-to-maturity category at December 31, 2015 or 2014.

Premiums and discounts arising from the purchase of investment securities are recognized in interest income using the effective interest method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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

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

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

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

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

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

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

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Various regulatory agencies, as a regular part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of their examinations.

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

A reserve for unfunded commitments is maintained at a level that, in the opinion of management, is adequate to absorb probable losses associated with the Bank's commitment to lend funds under existing agreements such as letters or lines of credit. Management determines the adequacy of the reserve for unfunded commitments based upon reviews of individual credit facilities, current economic conditions, the risk characteristics of the various categories of commitments and other relevant factors. The reserve is based on estimates, and ultimate losses may vary from current estimates. These estimates are evaluated on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

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 mortgages, total assets, or FHLB advances. These securities are reported at par value, which represents the Bank's cost. On June 1, 2015, the FHLB Des Moines announced the completion of its merger with the FHLB Seattle effective May 31, 2015. At that time, the combined entity repurchased excess stock above what was needed to support borrowings, resulting in a reduction of outstanding FHLB stock.

The stock in the FHLB is classified as restricted stock and is evaluated for impairment based on ultimate recoverability. The determination of whether the investment is impaired is based on the Bank's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. Management's review for impairment is based on ultimate recoverability of the Bank's cost basis in FHLB stock and concludes that the FHLB stock investment is not impaired as of December 31, 2015 or 2014.

Premises, equipment, and leasehold improvements – Premises, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is provided over each asset's estimated useful life, on a straight-line basis. Buildings are depreciated over 39 years. Furniture, fixtures and equipment are depreciated over three to seven years. Leasehold improvements are amortized over the life of the related lease, or the life of the asset, whichever is shorter. The costs of maintenance and repairs are expensed as they are incurred. Expenditures for major renovations and betterments are capitalized.

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

Management reviews long-lived assets any time that a change in circumstance indicates that the carrying amount of these assets may not be recoverable. Recoverability of these assets is determined by comparing the carrying value of the asset to the forecasted undiscounted cash flows of the operation associated with the asset. If the evaluation of the forecasted cash flows indicates that the carrying value of the asset is not recoverable, the asset is written down to fair value.

Other real estate owned and repossessed assets – Other real estate owned and repossessed assets represent real estate or other assets that have been recognized upon foreclosure or repossession of property securing an outstanding loan. At the time of foreclosure or repossession, these assets are initially recorded at fair value, which becomes the new cost basis in the asset. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. Subsequently, management periodically performs valuations such that these assets are carried at the lower of the new cost basis or fair value, net of estimated costs to sell. Fair value adjustments, including gains and losses, impairments or write-downs, are recognized within other non-interest expense.

Cash surrender value of bank-owned life insurance – The cash surrender value of the contract reflects the Bank's investment in the recorded asset, net of surrender charges. Changes in the cash surrender value of the contract are included in earnings as gains or losses in the period they arise.

Advertising expenses – Advertising costs are generally expensed as incurred.

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

The Bank recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Bank recognizes interest and penalties related to income tax matters in income tax expense, however there were none in 2015. The Bank is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2012.

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

Stock-based compensation – The Bank applies fair value recognition provisions in accounting for stock-based compensation. Under this accounting standard, share-based awards that do not require future service are expensed immediately. Share-based employee awards that require future service are expensed over the requisite service period, net of forfeitures of such awards, on a straight-line basis.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model, based on several assumptions. Expected volatility is based on the historical volatility of the price of the Bank's stock for a period consistent with the expected life of the option. The Bank uses historical data to estimate option exercise and employee termination rates within the valuation model. The expected term of options represents the period of time that stock options are expected to be outstanding and is estimated based on historical exercise and forfeiture activity within the banking industry. Expected dividends are estimated to be zero due to the Bank's historical practice of not paying dividends. The risk-free rate of return for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date.

Earnings per common share – Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any stock dividends and splits. Diluted earnings per common share is computed similar to basic earnings per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued.

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

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

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

These two types of inputs create the following fair value hierarchy:

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

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

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

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

Investment securities available-for-sale and held-to-maturity – For these investments, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

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

Other real estate owned – Other real estate owned is measured and adjusted to fair value, less costs to sell, on a nonrecurring basis based on recent appraisals.

The following methods and assumptions were used by the Bank in estimating fair values of other assets and liabilities for disclosure purposes:

Cash and cash equivalents – For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities available-for-sale – For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and bond terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

Time deposits with other financial institutions – Fair value for time certificates with other banks are based on the market values for comparable investments.

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

Federal Home Loan Bank stock – Due to significant restrictions on these securities, it is impractical to estimate the fair value. As a result, the fair value has been determined to approximate cost.

Loans – For certain variable rate loans, fair value is estimated at carrying value, as these loans frequently re-price to market. The fair value of other types of loans is estimated by discounting future cash flows, using current rates at which similar loans would be made to borrowers with similar credit risk and for the same remaining maturities.

Deposit liabilities – The fair value of demand deposits, savings deposits, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting future cash flows, using the rates currently offered for deposits of similar remaining maturities.

Borrowed funds – Rates currently available to the Bank for such borrowings with similar terms and remaining maturities are used to estimate the fair values using discounted cash flow analysis.

Accrued interest receivable and payable – The fair values of accrued interest receivable and payable are based on the amounts to be received or paid, which approximates carrying value at the reporting date.

Commitments to extend credit and commercial and standby letters of credit – The fair values of these off-balance sheet commitments to extend credit and commercial and standby letters of credit are not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Bank recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Bank's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Bank has evaluated subsequent events through February 17, 2016, which is the date the financial statements became available to be issued.

Note 2 – Investment Securities

The amortized cost and estimated fair value of investment securities available-for-sale are as follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 11,150,101	$ 26,154	$ (93,408)	$ 11,082,847
Collateralized mortgage obligations	533,037	2,588	$ (16,149)	519,476
Municipal securities	554,790	-	$ (4,715)	550,075
Agency securities	2,499,785	-	$ (5,329)	2,494,456
	$ 14,737,713	$ 28,742	$ (119,601)	$ 14,646,854

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 10,637,798	$ 79,155	$ (77,748)	$ 10,639,205
Collateralized mortgage obligations	1,543,748	10,892	(10,458)	1,544,182
Municipal securities	1,672,105	39,195	-	1,711,300
Agency securities	1,572,845	11,208	(514)	1,583,539
	$ 15,426,496	$ 140,450	$ (88,720)	$ 15,478,226

Note 2 – Investment Securities (continued)

At December 31, 2015, the Bank had 12 investment securities in a loss position for less than twelve months, and 9 in an unrealized loss position for greater than twelve months, and at December 31, 2014, the Bank had 3 investment securities in a loss position for less than twelve months, and 10 in an unrealized loss position for greater than twelve months as shown in the following table. The Bank evaluated the unrealized losses and determined that the declines in value were temporary and related to the change in market interest rates since the date of purchase.

	December 31, 2015					
	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Mortgage-backed securities	$4,392,989	(39,665)	$2,403,547	$ (53,744)	$ 6,796,536	$ (93,409)
Collateralized mortgage obligations	-	-	298,823	(16,149)	298,823	(16,149)
Municipal securities	550,075	(4,715)	-	-	550,075	(4,715)
Agency securities	2,494,456	(5,329)	-	-	2,494,456	(5,329)
	$ 7,437,520	$ (49,709)	$ 2,702,370	$ (69,893)	$ 10,139,890	$ (119,602)

	December 31, 2014					
	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Mortgage-backed securities	$ 949,941	$ (4,333)	$ 3,328,801	$ (73,418)	$ 4,278,742	$ (77,748)
Collateralized mortgage obligations	38,076	(22)	411,022	(10,437)	449,098	(10,458)
Agency securities	799,486	(514)	-	-	799,486	(514)
	$ 1,787,503	$ (4,869)	$ 3,739,823	$ (83,855)	$ 5,527,326	$ (88,720)

The amortized cost and estimated fair value of available-for-sale investment securities as of December 31, 2015, by contractual maturity, are shown below. The amortized cost and fair value of mortgage-backed securities are presented by expected average life, rather than contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Note 2 – Investment Securities (continued)

	Available-for-sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	12,021,029	11,957,968
Due after five years through ten years	2,200,419	2,178,024
Thereafter	516,265	510,862
	$ 14,737,713	$ 14,646,854

During 2015, the Bank received $4,907,965 and realized a gain and loss of $52,320 and $7,846, respectively, from the sale of securities available-for-sale. During 2014, the Bank received $3,124,865 and realized a gain and loss of $33,029 and $23,357 from the sale of securities available-for-sale. No losses were realized on these sales. As of December 31, 2015 and 2014, investment securities with fair values of $3,287,015 and $5,317,502, respectively, were pledged to secure FHLB borrowings and public deposits.

Note 3 – Loans, Net of Allowance for Loan Losses and Net Deferred Loan Fees

The loan portfolio consists of the following loan categories as of December 31:

	2015	2014
Commercial real estate	$33,683,888	$ 28,168,866
Commercial	5,918,828	4,799,037
Construction	3,191,810	5,565,417
Residential real estate	6,727,677	7,944,664
Consumer	1,880,270	1,393,838
	51,402,473	47,871,822
Deferred loan fees, net	(49,570)	(42,516)
Allowance for loan losses	(623,477)	(604,001)
Loans, net of allowance for loan losses and net deferred loan fees	$ 50,729,426	$ 47,225,305

Note 4 – Allowance for Loan Losses

The following table displays the allocation of the allowance for loan losses to significant segments of the loan portfolio at December 31, along with activity in the allowance for loan losses for the years then ended:

	2015						
	Commercial Real Estate	Commercial	Construction	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$ 93,818	$ 53,675	$ 300,966	$ 82,252	$ 9,169	$ 64,121	$ 604,001
Charge-offs	-	(2,141)	(1,208)	-	-	-	(3,349)
Recoveries	-	22,825	-	-	-	-	22,825
Provision for loan losses	(1,400)	41,774	(133,261)	(27,836)	1,305	119,418	-
Ending balance	$ 92,418	$ 116,133	$ 166,497	$ 54,416	$ 10,474	$ 183,539	$ 623,477
Ending balance Individually evaluated for impairment	$ -	$9,567	$ -	$ -	$ -	$ -	$ 9,567
Ending balance Collectively evaluated for impairment	$ 92,418	$ 106,566	$ 166,497	$ 54,416	$ 10,474	$ 183,539	$ 613,910
Loans							
Ending balance Individually evaluated for impairment	$ 255,366	$ 9,567	$ -	$ -	$ -	$ -	$ 264,933
Ending balance Collectively evaluated for impairment	$ 33,428,522	$ 5,909,261	$ 3,191,810	$ 6,727,677	$ 1,880,270	$ -	$ 51,137,540

	2014						
	Commercial Real Estate	Commercial	Construction	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$ 96,809	$ 146,642	$ 169,435	$ 79,865	$ 7,171	$ 39,872	$ 539,794
Charge-offs	-	(4,000)	(10,075)	-	-	-	(14,075)
Recoveries	-	2,877	-	-	-	-	2,877
Provision for loan losses	(2,991)	(91,844)	141,606	2,387	1,998	24,249	75,405
Ending balance	$ 93,818	$ 53,675	$ 300,966	$ 82,252	$ 9,169	$ 64,121	$ 604,001
Ending balance Individually evaluated for impairment	$ -	$ 11,523	$ -	$ -	$ -	$ -	$ 11,523
Ending balance Collectively evaluated for impairment	$ 93,818	$ 42,152	$ 300,966	$ 82,252	$ 9,169	$ 64,121	$ 592,478
Loans							
Ending balance Individually evaluated for impairment	$ 270,435	$ 77,572	$ 31,682	$ 28,972	$ -	$ -	$ 408,661
Ending balance Collectively evaluated for impairment	$ 27,898,431	$ 4,721,465	$ 5,533,735	$ 7,915,692	$ 1,393,838	$ -	$ 47,463,161

Note 4 – Allowance for Loan Losses (continued)

Credit quality indicators – The Bank's risk rating methodology assigns risk ratings ranging from 1 to 9, where a higher rating represents higher risk. Assignment of a risk rating is done on the individual loan rather than at the borrower level. Loans are graded from inception and on a continuing basis until the debt is repaid.

Pass/Watch – An acceptable asset carrying a normal degree of credit risk exhibiting the capacity to perform according to the repayment terms. There are five grades within this category.

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

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

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

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

Note 4 – Allowance for Loan Losses (continued)

The following table represents loan portfolio information by loan type and credit grade as of December 31, 2015 and 2014:

	Commercial Real Estate		Commercial		Construction	
	2015	2014	2015	2014	2015	2014
Grade						
Pass	$ 33,683,888	$ 28,168,866	$ 5,240,253	$ 4,721,465	$ 3,191,810	$ 5,533,735
Special mention	-	-	-	-	-	-
Substandard	-	-	678,575	77,572	-	31,682
Total	$ 33,683,888	$ 28,168,866	$ 5,918,828	$ 4,799,037	$ 3,191,810	$ 5,565,417

	Residential Real Estate		Consumer		Total Loans	
	2015	2014	2015	2014	2015	2014
Grade						
Pass	$ 6,727,677	$ 7,915,692	$ 1,880,270	$ 1,393,838	$ 50,723,898	$ 47,733,596
Special mention	-	-	-	-	-	-
Substandard	-	28,972	-	-	678,575	138,226
Total	$ 6,727,677	$ 7,944,664	$ 1,880,270	$ 1,393,838	$ 51,402,473	$ 47,871,822

The following table presents an aging analysis of past due loans as of December 31, 2015 and 2014:

2015	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate	$ -	$ -	$ 20,605	$ 20,605	$ 33,663,283	$ 33,683,888	$ -
Commercial	-	-	-	-	5,918,828	5,918,828	-
Construction	-	-	-	-	3,191,810	3,191,810	-
Residential real estate	-	-	-	-	6,727,677	6,727,677	-
Consumer	-	-	-	-	1,880,270	1,880,270	-
	$ -	$ -	$ 20,605	$ 20,605	$ 51,381,868	$ 51,402,473	$ -

2014	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate	$ -	$ -	$ -	$ -	$ 28,168,866	$ 28,168,866	$ -
Commercial	66,821	28,905	-	95,726	4,703,311	4,799,037	-
Construction	-	31,682	-	31,682	5,533,735	5,565,417	-
Residential real estate	-	28,972	-	28,972	7,915,692	7,944,664	-
Consumer	-	-	-	-	1,393,838	1,393,838	-
	$ 66,821	$ 89,559	$ -	$ 156,380	$ 47,715,442	$ 47,871,822	$ -

Note 4 – Allowance for Loan Losses (continued)

The following table shows impaired loans and the related specific allowance for loan losses as of December 31, 2015 and 2014 along with the average recorded investment and interest income recognized on impaired loans for the years then ended:

	2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Construction	$ -	$ -	$ -	$ 31,524	$ -
Commercial real estate	255,366	255,366	-	266,755	19,718
Residential real estate	-	-	-	28,873	-
Commercial	-	-	-	60,033	-
	$ 255,366	$ 255,366	$ -	$ 387,185	$ 19,718
With an allowance recorded					
Construction	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Residential real estate	-	-	-	-	-
Commercial	9,567	9,567	9,567	8,248	-
	$ 9,567	$ 9,567	$ 9,567	$ 8,248	$ -
Total					
Construction	$ -	$ -	$ -	$ 31,524	$ -
Commercial real estate	255,366	255,366	-	266,755	19,718
Residential real estate	-	-	-	28,873	-
Commercial	9,567	9,567	9,567	68,281	-
Total impaired loans	$ 264,933	$ 264,933	$ 9,567	$ 395,433	$ 19,718

	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Construction	$ 31,682	$ 196,873	$ -	$ 20,609	$ -
Commercial real estate	270,435	270,435	-	160,520	20,768
Residential real estate	28,972	28,972	-	17,704	-
Commercial	66,049	76,354	-	51,913	-
	$ 397,138	$ 572,634	$ -	$ 250,746	$ 20,768
With an allowance recorded					
Construction	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Residential real estate	-	-	-	-	-
Commercial	11,523	11,523	11,523	22,175	-
	$ 11,523	$ 11,523	$ 11,523	$ 22,175	$ -
Total					
Construction	$ 31,682	$ 196,873	$ -	$ 20,609	$ -
Commercial real estate	270,435	270,435	-	160,520	20,768
Residential real estate	28,972	28,972	-	17,704	-
Commercial	77,572	87,877	11,523	74,088	-
Total impaired loans	$ 408,661	$ 584,157	$ 11,523	$ 272,921	$ 20,768

Note 4 – Allowance for Loan Losses (continued)

The following table shows loans on nonaccrual status as of December 31:

	2015	2014
Commercial	$ -	$ -
Construction	-	31,682
Residential real estate	9,567	28,972
	$ 9,567	$ 60,654

As of December 31, 2015 and 2014, the Bank identified troubled debt restructurings in the amount of $11,523 and $291,190, respectively. The loans have been performing under their restructured terms.

Note 5 – Premises, Equipment, and Leasehold Improvements

The composition of premises, equipment, and leasehold improvements as of December 31, 2015 and 2014 is summarized as follows:

	2015	2014
Building	$ 1,472,763	$ 1,472,763
Land	952,021	952,021
Furniture and fixtures	621,422	621,422
Equipment	556,204	510,135
Software	92,911	97,170
Leasehold improvements	46,461	46,461
Total furniture, equipment, and leasehold improvements	3,741,782	3,699,972
Less accumulated depreciation and amortization	(1,152,297)	(1,017,156)
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	$ 2,589,485	$ 2,682,816

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was $135,140 and $153,394, respectively.

Note 6 – Time Deposits

Time certificates of deposit of $250,000 and over aggregated $2,697,532 and $4,191,026 as of December 31, 2015 and 2014, respectively. At December 31, 2015, the scheduled maturities of all time certificates of deposit were as follows:

Years ending December 31,	2016	$ 8,242,334
	2017	2,110,922
	2018	764,371
	2019	923,518
	2020	158,023
	2021 and Beyond	-
		$ 12,199,168

Note 7 – Lines of Credit and Borrowed Funds

As a member of the Federal Home Loan Bank of Seattle (FHLB), the Bank has entered into an "Advances, Security and Deposit Agreement" with the FHLB. Borrowings under the credit arrangement are collateralized by the Bank's FHLB stock as well as loans or other instruments, which may be pledged. As of December 31, 2015, loans and securities in the amount of $31,758,632 were pledged to secure borrowings. As of December 31, 2014, loans in the amount of $29,556,749 and securities in the amount of $1,979,473 were pledged to secure borrowing availability. The Bank had $0 and $1,000,000 in outstanding borrowings with the FHLB carrying an interest rate of 0.27% as of December 31, 2015 and 2014, respectively.

The Bank had federal funds lines of credit agreement with two financial institutions as of December 31, 2015. The maximum borrowing available under these lines was $3,700,000. The lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage. There was no balance outstanding as of December 31, 2015 or 2014.

Note 8 – Income Taxes

Income taxes consist of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Current tax expense		
Federal	$ -	$ -
State and local	2,498	1,686
	2,498	1,686
Deferred tax expense		
Federal	193,902	115,748
State and local	38,600	28,000
	232,502	143,748
Change in valuation allowance	-	(1,391,000)
Provision (benefit) for income taxes	$ 235,000	$ (1,245,566)

The components of the net deferred tax assets at December 31, 2015 and 2014 were as follows:

	2015	2014
Deferred tax assets		
Net operating loss carryforward	$ 1,042,100	$ 1,192,900
Unamortized preopening start-up costs	128,100	145,600
Reserve for loan losses	204,700	204,700
Unrealized losses on securities available-for-sale	34,500	-
Nonaccrual loan interest	200	27,500
Stock compensation	42,200	37,900
Accrued compensation	15,500	-
Total deferred tax assets	1,467,300	1,608,600
Deferred tax liabilities		
Accumulated depreciation	89,400	98,100
Prepaid expenses	42,200	17,800
Loan origination costs	107,900	94,400
Unrealized gains on securities available-for-sale	-	19,700
Other	28,650	1,148
Total deferred tax liabilities	268,150	231,148
Net deferred tax assets	$ 1,199,150	$ 1,377,452

Note 8 – Income Taxes (continued)

At December 31, 2015 and 2014, the Bank had federal net operating loss carryforwards of approximately $2,805,000 and $3,184,300, and unamortized pre-opening expenses, capitalized for tax purposes, of approximately $328,400 and $373,200, respectively. The carryforwards will be available to offset future taxable income. Unless utilized in earlier tax years, the carryforwards will expire beginning in 2027. The pre-opening expenses are being amortized and deducted for tax purposes over a 180 month period and will be fully amortized in 2022.

The following summarizes the difference between the income tax benefit for financial statement purposes and the federal statutory rate of 34.00% for the years ended December 31, 2015 and 2014:

	2015		2014	
Federal, at statutory rate	$ 266,326	34.00%	$ 181,130	34.00%
State and local, net of federal benefit	40,791	5.21%	28,222	5.30%
Tax-exempt interest, net of expenses	(51,546)	-6.64%	(44,053)	-8.27%
Bank-owned life insurance	(27,742)	-3.57%	(28,477)	-5.35%
Change in valuation allowance	-	0.00%	(1,391,000)	-261.10%
Other	7,171	-4.40%	8,612	1.61%
Provision (benefit) for income taxes, at effective rate	$ 235,000	24.60%	$ (1,245,566)	-233.81%

The Bank does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. There were no interest or penalties accrued for the year ended December 31, 2015 or 2014. The Bank files U.S. federal and Oregon state income tax returns, which are subject to examination by the taxing authorities for years 2012 and later.

Note 9 – Transactions with Related Parties

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. Management believes loans and commitments to loan included in such transactions are made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collection or present any other unfavorable features.

Note 9 – Transactions with Related Parties (continued)

An analysis of the activity with respect to loans outstanding to directors and executive officers of the Bank and its affiliates for the years ended December 31 is as follows:

	2015	2014
Beginning balance	$ 1,506,428	$ 1,641,736
Additions	-	-
Repayments	(141,541)	(135,308)
Ending balance	$ 1,364,887	$ 1,506,428

Related party deposits held by the Bank at December 31, 2015 and 2014, were $739,306 and $742,334, respectively.

Note 10 – Financial Instruments with Off-Balance Sheet Risk

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

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

Commitments to extend credit are agreements to lend to customers, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing properties.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank may hold cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

Note 10 – Financial Instruments with Off-Balance Sheet Risk (continued)

The notional amount of the Bank's financial instruments with off-balance sheet risk as of December 31, 2015 and 2014 consisted of commitments to extend credit totaling $6,086,241 and $6,540,018, respectively. No letters of credit were outstanding as of December 31, 2015 and 2014.

Note 11 – Concentrations of Credit Risk

The Bank maintains balances in correspondent bank accounts that at times may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of the correspondent banks.

A majority of the Bank's loans and commitments have been granted to customers in the Bank's market area. The distribution of commitments to extend credit is expected to approximate the distribution of loans outstanding. Concentrations of credit by type of loan are set forth in Note 3. The Bank's loan policies do not allow the extension of credit to any single borrower or group of related borrowers in excess of the Bank's legal lending limit, as defined in state banking regulations.

Note 12 – Commitments and Contingencies

Operating leases – The Bank leases a branch facility set to expire December 2020 and certain equipment with various expiration dates under agreements accounted for as operating leases.

Following are the future minimum contractual lease payments as of December 31, 2015. Future lease payments are subject to adjustments annually based on changes in the Consumer Price Index.

Years ending December 31,	2016	$ 31,187
	2017	31,500
	2018	32,100
	2019	27,525
	2020	26,400
	Thereafter	-
		$ 148,712

Rent expense was $39,492 and $40,019 for the years ended December 31, 2015 and 2014, respectively.

Legal contingencies – The Bank, in the ordinary course of business, may become a defendant in certain claims and legal actions. In the opinion of management, after consultation with legal counsel, there are no matters or potential claims presently known to the Bank that are expected to have a material adverse effect on the financial condition or results of operations of the Bank.

Note 12 – Commitments and Contingencies (continued)

Employment agreements – The Bank has entered into employment agreements with certain officers of the Bank. Such agreements provide for termination benefits upon a change in control or the occurrence of other specified events. The payments to the officers required under the agreements are generally based off of a multiple of the individual's annual compensation.

Note 13 – Share-Based Awards

The Bank has an active share-based compensation plan (the Plan) that provides for the granting of stock options and restricted stock awards to eligible employees and directors. The Plan allows for the granting of both incentive and nonqualified stock options as well as restricted stock awards. There are 250,000 shares authorized for issuance under the Plan. In the event a share-based award expires, terminates or is cancelled without having been exercised in full, the shares subject to the award return to the authorized pool of available shares. As of December 31, 2015, 59,855 shares are available for future grant under the Plan. All options granted and outstanding under the Plan are exercisable at purchase prices which approximate the fair value of the Bank's common stock on the date of grant. The options vest over a period of five years and expire ten years from the date of grant. Option exercise prices, number of shares granted to recipients, and durations for stock options are determined and approved by the Board of Directors.

The following assumptions were used to determine the fair value of option grants:

	2015
Dividend yield	0.00%
Expected life (years)	7.5
Expected volatility	30.0% - 42.0%
Risk-free rate	1.5% - 1.93%
Weighted average fair value per share	$1.79 - $3.21

Note 13 – Share-Based Awards (continued)

The following summarizes stock option activity under the Plan for the years ended December 31, 2015 and 2014:

	Total Options	Incentive Options	Non-statutory Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Weighted Average Grant-date Fair Value
Options outstanding – January 1, 2014	95,275	44,395	50,880	$ 6.40	6.35	$ 2.57
Options granted	-	-	-	$ -	-	$ -
Options forfeited	-	-	-	$ -	-	$ -
Options outstanding – January 1, 2015	95,275	44,395	50,880	$ 6.40	5.35	$ 2.57
Options granted	5,000	-	5,000	$ 6.75	9.84	$ 3.21
Options forfeited	-	-	-	$ -	-	$ -
Options outstanding – December 31, 2015	100,275	44,395	55,880	$ 6.42	4.62	$ 2.60
Options exercisable – December 31, 2015	82,275	43,395	38,880	$ 6.51	3.87	$ 2.62
December 31, 2014	75,275	42,395	32,880	$ 6.59	4.56	$ 2.65

As of December 31, 2015, there was $44,882 of intrinsic value of shares exercisable and outstanding. Unrecognized compensation expense related to unvested stock options totaled $24,481 as of December 31, 2015, which will be recognized over a weighted average period of 4.42 years.

Note 13 – Share-Based Awards (continued)

The following table summarizes restricted stock award activity under the Plan:

	Number of Shares	Weighted Average Grant-date Fair Value
Restricted stock awards unvested at January 1, 2014	16,396	$ 5.96
Awards granted	5,000	5.50
Awards vested	(3,499)	5.97
Awards forfeited	(800)	6.03
Restricted stock awards unvested at December 31, 2014	17,097	5.86
Awards granted	5,000	7.00
Awards vested	(4,200)	5.75
Awards forfeited	-	-
Restricted stock awards unvested at December 31, 2015	17,897	4.63

The fair value of restricted stock awards vesting during 2015 and 2014 was approximately $24,733 and $24,758, respectively. The Bank recognized $44,500 and $42,000 of stock-based compensation expense for restricted stock awards and stock options for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, there was $24,733 of unrecognized stock-based compensation expense related to non-vested restricted stock awards, which will be recognized over a period of approximately three years. As of December 31, 2015, there were 59,855 shares available for future issuance awards under the Plan.

Note 14 – Earnings per Share

The following is a computation of basic and diluted earnings per share for the years ended December 31, 2015 and 2014:

	2015	2014
Net income	$ 548,311	$ 1,778,300
Weighted average number of common shares outstanding – basic	1,049,134	1,045,960
Effects of potentially dilutive common shares	26,836	2,946
Weighted average number of common shares outstanding – diluted	1,075,970	1,048,906
Earnings per common share		
Basic	$ 0.52	$ 1.70
Diluted	$ 0.51	$ 1.70

There were approximately 103,000 and 118,000 shares of weighted average stock options, unvested restricted stock awards outstanding, and stock warrants outstanding for the years ended December 31, 2015 and 2014, respectively, which were excluded from the diluted earnings per share calculation due to their effect being anti-dilutive.

Note 15 – Stock Warrants and Options in Lieu of Warrants

In its initial stock offering, the Bank issued warrants and options in lieu of warrants to the individuals who provided at-risk funds to meet organizational expenses. All warrants and options in lieu of warrants allow for the purchase of additional common shares at $10 per share and were fully vested at the grant date. As of December 31, 2015 and 2014, warrants and options in lieu of warrants for the purchase of 82,000 shares were outstanding and fully exercisable. No warrants have been exercised and they expire in 2018.

Note 16 – Defined Contribution Employee Benefit Plan

The Bank sponsors a defined contribution and profit sharing plan under the provisions of Section 401(k) of the Internal Revenue Code, whereby eligible employees may defer a portion of their gross wages. Employees eligible to participate in the plan must be over 18 years of age and may contribute up to the maximum allowable by IRS statute. The Bank may make matching and discretionary contributions to the plan. Matching contributions vest immediately. Discretionary contributions vest over a period of five years. During 2014, the Bank made matching contributions up to 1% of eligible compensation totaling $9,115. During 2015, the matching contribution was increased to 2% of eligible compensation and amounted to $20, 429. No discretionary contributions were made for 2015 or 2014.

Note 17 – Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on a bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by 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 Tier 1 , common equity Tier 1, and total capital to risk-weighted assets (as defined in the regulations), and of Tier 1 capital to average assets (as defined in the regulations).

Note 17 – Regulatory Matters (continued)

The Bank's capital amounts and ratios as of December 31, 2015 and 2014 are as follows:

	Actual		Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
December 31, 2015						
Total capital to risk-weighted assets	$ 10,434	16.8%	$ 4,972	>8.0%	$ 6,215	>10.0%
Common equity Tier 1 capital to risk-weighted assets	$ 9,811	15.8%	$ 2,797	>4.5%	$ 4,040	>6.5%
Tier 1 capital to risk-weighted assets	$ 9,811	15.8%	$ 3,729	>6.0%	$ 4,972	>8.0%
Tier 1 capital to average assets	$ 9,811	12.3%	$ 3,197	>4.0%	$ 3,996	>5.0%
December 31, 2014						
Total capital to risk-weighted assets	$ 8,685	16.3%	$ 4,276	>8.0%	$ 5,345	>10.0%
Tier 1 capital to risk-weighted assets	$ 8,081	15.1%	$ 2,138	>4.0%	$ 3,207	>6.0%
Tier 1 capital to average assets	$ 8,081	11.1%	$ 2,917	>4.0%	$ 3,646	>5.0%

The Federal Reserve and the Federal Deposit Insurance Corporation approved final capital rules in July, 2013, that substantially amend the existing capital rules for banks. These new rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as "Basel III") as well as requirements contemplated by the Dodd-Frank Act.

Note 17 – Regulatory Matters (continued)

Under the new capital rules, effective January 1, 2015, the Bank must measure and meet requirements for a new capital ratio of common equity Tier 1 capital to risk-weighted assets. Common equity Tier 1 capital generally consists of accumulated surplus and common stock (subject to certain adjustments). The Bank is also required to establish and phase-in a "conservation buffer," consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets by 2019. An institution that does not meet the conservation buffer requirement will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers. The phase-in begins in 2016 and increases until fully phased-in by 2019.

The Prompt Corrective Action rules have been modified to include the common equity Tier 1 capital ratio and to increase the Tier 1 capital ratio requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the rules will be a 5.0% Tier 1 capital (to average assets), a new 6.5% common equity Tier 1 capital ratio, an 8.0% Tier 1 capital (to risk-weighted assets) ratio, and a 10.0% total capital (to risk-weighted assets) ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0%, and 8.0%, respectively.

The rules modify the manner in which certain capital elements are determined. The rules make changes to the methods of calculating the risk-weighting of certain assets, which in turn affects the calculation of the risk-weighted capital ratios. Higher risk weights are assigned to various categories of assets, including credit facilities that finance the acquisition, development or construction of commercial real estate, certain exposures or credits that are 90 days past due or are nonaccrual status, securitization exposures, and in certain cases, mortgage servicing rights and deferred tax assets.

Note 18 – Fair Value of Assets and Liabilities

The following tables disclose the estimated fair value and the related carrying value of the Bank's financial assets and liabilities:

	Carrying Value	Fair Value at December 31, 2015 Total	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 5,918,954	$ 5,918,954	$ 5,918,954	$ -	$ -
Time deposits with other financial institutions	490,000	490,071	-	490,071	-
Investment securities available-for-sale	14,646,854	14,646,854	-	14,646,854	-
Federal Home Loan Bank stock	85,500	85,500	-	85,500	-
Loans	51,402,473	53,202,000	-	-	53,202,000
Accrued interest receivable	168,124	168,124	-	37,852	130,272
Financial liabilities					
Demand deposits, money market accounts, and savings deposits	$ 55,866,418	$ 55,866,418	$ 55,866,418	$ -	$ -
Time certificates of deposits	12,199,168	12,265,000	-	-	12,265,000
Accrued interest payable	3,046	3,046	-	-	3,046

	Carrying Value	Fair Value at December 31, 2014 Total	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 2,060,753	$ 2,060,753	$ 2,060,753	$ -	$ -
Investment securities available-for-sale	15,478,226	15,478,226	-	15,478,226	-
Federal Home Loan Bank stock	113,000	113,000	-	113,000	-
Loans	47,871,822	49,548,000	-	-	49,548,000
Accrued interest receivable	201,533	201,533	-	51,134	150,399
Financial liabilities					
Demand deposits, money market accounts, and savings deposits	$ 45,951,330	$ 45,951,330	$ 45,951,330	$ -	$ -
Time deposits	14,849,679	14,930,000	-	-	14,930,000
Borrowed funds	1,000,000	1,000,000	-	1,000,000	-
Accrued interest payable	5,037	5,037	-	-	5,037

While estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Bank to dispose of such items, the estimated fair values would necessarily be achieved at that date, since market values may differ depending on various circumstances. The estimated fair values should not necessarily be relied upon at subsequent dates.

In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also nonfinancial instruments typically not recognized in the consolidated financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.