Financial Statements

Years Ended
December 31, 2016
and 2015

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Pacific West Bank

We have audited the accompanying balance sheets of Pacific West Bank as of December 31, 2016 and 2015, and the related statements of income, 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.

Auditors' 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 audit 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 auditors' 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 auditors consider 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific West Bank as of December 31, 2016 and 2015, 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.

Delap LLP

March 1, 2017

Pacific West Bank

Balance Sheets

December 31, 2016 and 2015

	2016	2015
Assets		
Cash and due from banks	$ 9,848,673	$ 7,973,297
Interest-bearing time deposits with banks	2,734,000	2,734,000
Federal Home Loan Bank (FHLB) stock	105,000	62,000
Loans - net	47,579,607	40,619,619
Deferred tax assets - net	2,933,437	-
Premises and equipment - net	2,420,432	2,502,391
Accrued interest receivable and other assets	259,732	234,001
Total Assets	$ 65,880,881	$ 54,125,308
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing demand	$ 17,564,541	$ 13,233,079
Interest-bearing demand	15,675,042	14,072,722
Savings	2,202,846	1,844,985
Time	19,880,028	18,671,059
Total deposits	55,322,457	47,821,845
FHLB borrowings	1,000,000	-
Accrued interest payable and other liabilities	128,220	160,589
Total liabilities	56,450,677	47,982,434
Stockholders' equity		
Preferred stock - 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, no-par value - 1,000,000 shares authorized; 706,467 shares issued and outstanding as of December 31, 2016 and 2015	14,094,505	14,094,505
Accumulated deficit	(4,664,301)	(7,951,631)
Total stockholders' equity	9,430,204	6,142,874
Total Liabilities and Stockholders' Equity	$ 65,880,881	$ 54,125,308

The accompanying notes are an integral part of the financial statements.

Pacific West Bank

Statements of Income

Years Ended December 31, 2016 and 2015

	2016	2015
Interest income		
Interest and fees on loans	$ 2,542,247	$ 2,163,565
Interest on interest-bearing time deposits with banks	101,768	76,224
Total interest income	2,644,015	2,239,789
Interest expense		
Interest on interest-bearing deposits	261,640	243,883
Interest on FHLB borrowings	9,498	-
Total interest expense	271,138	243,883
Net interest income	2,372,877	1,995,906
Provision (credit) for loan losses	-	(61,000)
Net Interest Income After Provision (Credit) for Loan Losses	2,372,877	2,056,906
Noninterest income		
Service charges and fees	127,268	115,259
Noninterest expense		
Salaries and employee benefits	1,243,375	1,208,464
Occupancy	353,367	351,589
Data processing	204,183	182,412
Professional fees	112,882	89,287
Advertising	44,805	31,226
Communications and supplies	39,923	36,083
Federal Deposit Insurance Corporation assessment	36,602	79,516
Insurance	27,533	27,532
Licenses, fees, and permits	17,388	19,072
Other	64,684	63,073
Total noninterest expense	2,144,742	2,088,254
Income Before Income Taxes	355,403	83,911
Provision (benefit) for income taxes	(2,931,927)	1,500
Net Income	$ 3,287,330	$ 82,411
Basic and diluted net income per common share	$ 4.65	$ 0.13

The accompanying notes are an integral part of the financial statements.

Pacific West Bank

Statements of Stockholders' Equity

Years Ended December 31, 2016 and 2015

	Common Stock		Accumulated	Total Stockholders'
	Shares	Amount	Deficit	Equity
Balances - December 31, 2014	540,296	$ 12,598,972	$ (8,034,042)	$ 4,564,930
Issuance of common stock - net	166,171	1,495,533	-	1,495,533
Net income	-	-	82,411	82,411
Balances - December 31, 2015	706,467	14,094,505	(7,951,631)	6,142,874
Net income	-	-	3,287,330	3,287,330
Balances - December 31, 2016	706,467	$ 14,094,505	$ (4,664,301)	$ 9,430,204

The accompanying notes are an integral part of the financial statements.

Pacific West Bank

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Net income	$ 3,287,330	$ 82,411
Adjustments to reconcile net income to net cash provided by operating activities		
Provision (credit) for loan losses	-	(61,000)
Deferred income taxes	(2,933,437)	-
Depreciation and amortization	95,940	102,261
Changes in certain operating assets and liabilities		
Accrued interest receivable and other assets	(25,731)	(11,852)
Accrued interest payable and other liabilities	(32,369)	(917)
Net cash provided by operating activities	391,733	110,903
Cash Flows From Investing Activities		
Increase in interest-bearing time deposits with banks	-	(498,000)
Purchases of FHLB stock	(43,000)	-
Proceeds from redemption of FHLB stock	-	381,600
Net originations of loans	(6,959,988)	(2,836,309)
Purchases of premises and equipment	(13,981)	(41,355)
Net cash used by investing activities	(7,016,969)	(2,994,064)
Cash Flows From Financing Activities		
Net increase in deposits	7,500,612	918,428
Proceeds from FHLB borrowings	1,000,000	-
Proceeds from issuance of common stock - net	-	1,495,533
Net cash provided by financing activities	8,500,612	2,413,961
Net Increase (Decrease) in Cash and Due From Banks	1,875,376	(469,200)
Cash and due from banks - beginning of year	7,973,297	8,442,497
Cash and Due From Banks - End of Year	$ 9,848,673	$ 7,973,297
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for		
Interest	$ 269,383	$ 245,689
Income taxes	$ 1,510	$ 1,500

The accompanying notes are an integral part of the financial statements.

1. Description of Business and Summary of Significant Accounting Policies

Description of business

During 2004, Pacific West Bank (the Bank) commenced operations as a state-chartered institution to provide banking services in the state of Oregon. The Bank is a full-service business and private bank, providing highly personalized depository and loan services to small and medium-sized businesses and individuals. The Bank's branches are located in West Linn and Lake Oswego, Oregon. The Bank is subject to the regulations of certain federal and state agencies and is subject to periodic examinations by those regulatory authorities.

In February 2008, Pacific West Bancorp, Inc. (the Holding Company), an Oregon corporation, was formed for the purpose of becoming a holding company for the Bank. The Holding Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the supervision of, and examination by, the Federal Reserve Board. As of December 31, 2016, the exchange of shares between the Bank and the Holding Company had not been executed, although it has been approved by stockholders of the Bank.

Basis of accounting

The Bank prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The Bank utilizes the accrual method of accounting which recognizes income when earned and gains, expenses, and losses when incurred. The preparation of financial statements in conformity with GAAP requires management of the Bank (Management) to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of income, expenses, gains, and losses during the reporting periods. Actual results could differ from those estimates. The most significant estimates made by Management relate to the determination of the allowance for loan losses and the valuation allowance for deferred tax assets.

Reverse stock split

During 2016, the Bank effected a 1 for 10 reverse stock split. As a result, the number of shares of common stock in the accompanying financial statements have been retrospectively adjusted to reflect the reverse stock split. In addition, the Bank amended its Articles of Incorporation to decrease the number of authorized shares from 20,000,000 to 2,000,000 shares of stock, divided evenly between preferred stock and common stock.

Subsequent events

Management has evaluated, for potential recognition or disclosure in the financial statements, subsequent events that have occurred through March 1, 2017, which is the date that the financial statements were available to be issued.

Cash and due from banks

For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of collection). The Bank maintains balances in correspondent bank accounts, which 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. The Bank has not experienced any losses in such accounts.

Interest-bearing time deposits with banks

Interest-bearing time deposits with banks, with original maturities exceeding three months, are carried at cost, which approximates fair value. The majority of interest-bearing time deposits with banks as of December 31, 2016 and 2015 have original maturities of approximately ten years, and the Bank expects to hold such deposits until maturity.

Federal Home Loan Bank stock

As a member of the Federal Home Loan Bank (FHLB) system, the Bank is required to maintain a minimum investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. As of December 31, 2016 and 2015, the Bank met its minimum investment by maintaining its minimum investment in the stock of the FHLB of Des Moines.

The Bank's investment in FHLB stock (which has limited marketability) is carried at cost, which approximates fair value. The Bank evaluates its FHLB stock for impairment as needed. The Bank's determination of whether this investment is impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared with the capital stock amount and the length of time any decline 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 legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB. Based on its evaluation, the Bank determined that there was no impairment of its FHLB stock as of December 31, 2016 and 2015.

Loans

Loans are stated at the amount of unpaid principal, reduced by the allowance for loan losses and deferred loan fees.

Interest income on all loans is accrued as earned on the simple interest method. The accrual of interest on loans is discontinued when, in Management's opinion, the borrower may be unable to make payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income on loans that have not been fully charged-off is subsequently recognized only to the extent that cash payments are received in excess of outstanding principal until, in Management's judgment, the borrower has the ability to make contractual interest and principal payments, in which case the loan is returned to accrual status. In accordance with regulatory guidance, cash payments received by the Bank on any loans that were fully charged-off in previous years are credited to the allowance for loan losses to the extent of any previous charge-offs, and any additional cash payments received on such loans are recorded in noninterest income.

The Bank charges fees for originating loans. These fees, net of certain loan origination costs, are deferred and amortized to interest income over the term of the related loan. If the loan is repaid prior to maturity, the remaining unamortized net deferred loan origination fee is recognized in interest income at the time of repayment.

Allowance for loan losses

The allowance for loan losses represents Management's recognition of the assumed risks of extending credit. The allowance is established to absorb known and inherent losses in the loan portfolio as of the balance sheet date. The allowance requires complex subjective judgments as a result of the need to make estimates about matters that are uncertain. The allowance is maintained at a level currently considered adequate to provide for potential loan losses based on Management's assessment of the various factors affecting the portfolio.

The allowance is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Therefore, the Bank cannot provide assurance that, in any particular period, the Bank will not have significant losses in relation to the amount reserved. The allowance is increased by provisions charged to income (or reduced by credits to income) and reduced by loans charged off, net of recoveries. Loan losses are charged against the allowance when Management believes the uncollectibility of a loan is confirmed.

The allowance is based on ongoing, quarterly assessments of the probable and estimable losses inherent in the loan portfolio. The allowance is allocated to certain loan categories based on the relative risk characteristics, asset classifications, and actual loss experience of the loan portfolio. While Management has allocated the allowance to various loan classes, the allowance is general in nature and is available for the loan portfolio in its entirety.

The Bank's methodology for assessing the appropriate level of the allowance for loan losses has generally consisted of applying loss factors to pools of outstanding loan balances segregated by differing loan categories, establishing specific allowances for impaired loans, and establishing an unallocated portion of the allowance. The pooled component covers non-impaired loans and has been developed utilizing historical loss experience and peer group data if adequate historical loss information was not available, adjusted for qualitative factors. The historical loss experience is calculated by portfolio segment and is generally based on the Bank's (or the Bank's peer group's) actual loss history experienced over the most recent three years. Qualitative factors are based on Management’s continuing evaluation of various factors underlying the quality of the loan portfolio, including lending policies and procedures, economic conditions, changes in the size and composition of the loan portfolio, experience of lending management, volume of troubled loans, quality of the Bank’s loan review system, changes in collateral values, concentration of credit risk, and other external factors including regulatory requirements.

The Bank considers loans to be impaired when Management believes that it is probable that all amounts due will not be collected according to the contractual terms. GAAP requires that impaired loans be valued using the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the loan's underlying collateral, less estimated selling costs.

The Bank primarily measures impairment on impaired loans (typically real estate loans) based on the estimated fair value of the underlying collateral, less estimated selling costs. Accordingly, changes in such estimated collateral values or future cash flows could result in actual losses which differ from those estimated at the date of the balance sheet. The valuation of real estate collateral is subjective in nature and may be adjusted in future periods because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or others involved in selling real estate, in estimating the fair value of real property collateralizing loans. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. In certain other cases, impairment may be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Adjustments due to any changes in estimated collateral values or future cash flows are generally recorded at the time such information is received. Amounts deemed impaired are either specifically allocated for in the allowance for loan losses or recorded as a partial charge-off of the loan balance.

The unallocated portion of the allowance for loan losses is based upon Management's evaluation of various qualitative and environmental factors that are not directly measured in the determination of the pooled and specific allowances. Such factors include uncertainties in economic conditions; changes in the Bank's loan review system, policies, procedures, and personnel; uncertainties in identifying triggering events that directly correlate to subsequent loss rates; risk factors that have not yet manifested themselves in loss allocation factors; changes in the size and composition of the loan portfolio; variations in the level and trend of problem loans; results of third-party reviews; and historical loss experience data that may not precisely correspond to the current portfolio. The unallocated allowance may also be affected by review by the bank regulatory

authorities who may require increases or decreases to the unallocated allowance based on their evaluation of the information available to them at the time of their examinations. Accordingly, the unallocated allowance helps to minimize the risk related to the margin of imprecision inherent in the estimation of pooled and specific allowances. Due to the subjectivity involved in the determination of the unallocated portion of the allowance for loan losses, the relationship of the unallocated component to the total allowance for loan losses may fluctuate from period to period.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. These factors may result in losses or recoveries differing significantly from those provided in the accompanying financial statements.

Troubled debt restructurings

A loan is classified as a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulties and the Bank grants a concession to the borrower in the restructuring that the Bank would not otherwise consider. These concessions may include – but are not limited to – certain interest rate reductions, principal or accrued interest forgiveness, deferral of interest payments, certain extensions of maturity dates, and other actions intended to minimize potential losses to the Bank. TDR loans are considered to be impaired and are individually evaluated for impairment.

Allowance for unfunded loan commitments

The Bank maintains a separate allowance for estimated losses related to unfunded loan commitments. Management estimates the amount of probable losses related to unfunded loan commitments by applying the estimated loss factors used in the allowance for loan loss methodology to the expected amount of commitments that will actually require funding. The allowance for unfunded loan commitments totaled $10,000 as of December 31, 2016 and 2015. In accordance with industry practice and regulatory guidance, the allowance for estimated losses related to unfunded loan commitments is included in accrued interest payable and other liabilities in the accompanying balance sheets. Increases (decreases) in the allowance for unfunded loan commitments are recorded in other noninterest expense in the accompanying statements of income.

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the shorter of the estimated useful lives of the assets or terms of the leases for leasehold improvements. Depreciation and amortization are included in occupancy expense in the accompanying statements of income. The costs of maintenance and repairs are charged to expense as they are incurred, while major expenditures for renewals and betterments are capitalized. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the respective accounts, and the resulting gains or losses are included in income.

As part of an ongoing review of the valuation of premises and equipment, Management assesses the carrying value of such assets if facts and circumstances suggest that they may be impaired. If this review indicates that premises and equipment will not be fully recoverable, as determined by a comparison of the carrying value of the assets to estimated future cash flows (undiscounted and without interest charges) expected to be generated by the assets, the carrying value of the Bank's premises and equipment would be reduced to its estimated fair value.

Preferred stock

The Bank's preferred stock is issuable with voting rights, par value, dividend requirements, and other features as determined by the Bank's Board of Directors (the Board). As of December 31, 2016 and 2015, there were no shares of preferred stock issued or outstanding.

Advertising

Advertising costs are generally charged to expense during the year in which they are incurred.

Income taxes

The provision (benefit) for income taxes is based on income and expenses as reported for financial statement purposes using the "asset and liability method" for accounting for deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 (benefit) for income taxes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. During 2016, the Bank reduced its valuation allowance against its deferred tax assets to zero (see Note 7).

Income tax positions that meet the "more-likely-than-not" recognition threshold are measured at the largest amount of income tax benefit that is more than 50 percent likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as additional income taxes in the accompanying statements of income. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed as of and for the years ended December 31, 2016 and 2015.

The Bank files income tax returns in the United States (U.S.) federal and Oregon jurisdictions.

Stock-based compensation

The Bank recognizes as compensation expense all stock-based awards made to employees and Board members. The compensation cost is measured based on the grant-date fair value of the related stock-based awards and is recognized over the service period of stock-based awards, which is generally the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model, which estimates the fair value of each award on the date of grant based on a variety of assumptions including expected stock price volatility, expected terms of the options, risk-free interest rate, and dividend rates, if applicable.

The Bank's stock-based compensation plan is described more fully in Note 11.

New authoritative accounting guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The Bank does not expect the adoption of ASU 2014-09 to have a material impact on the Bank's future financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 generally requires equity investments – except those accounted for under the equity method of accounting or those that result in consolidation of the investee – to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. ASU 2016-01 is intended to simplify the impairment assessment of equity instruments without readily determinable fair values by requiring a qualitative assessment to identify impairment. ASU 2016-01 also eliminates certain disclosures related to the fair value of financial instruments and requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank does not expect the adoption of ASU 2016-01 to have a material impact on the Bank's future financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 is intended to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. The principal change required by ASU 2016-02 relates to lessee accounting, and is that for operating leases, a lessee is required to (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (3) classify all cash payments within operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 also changes disclosure requirements related to leasing activities and requires certain qualitative disclosures along with specific quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Bank is currently evaluating the impact that the adoption of ASU 2016-02 will have on the Bank’s future financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses* (ASU 2016-13). ASU 2016-13 replaces the existing incurred losses methodology for estimating allowances with a current expected credit losses methodology with respect to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity investment securities, and off-balance sheet commitments. In addition, ASU 2016-13 requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses rather than a reduction of the carrying amount. ASU 2016-13 also changes the accounting for purchased credit-impaired debt securities and loans. ASU 2016-13 retains many of the disclosure requirements in current GAAP and expands certain disclosure requirements. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Bank is currently evaluating the impact that the adoption of ASU 2016-13 will have on the Bank’s future financial statements.

2. Loans

Loans by portfolio segment as of December 31, 2016 and 2015 consisted of the following:

	2016	2015
One to four family residential construction loans	$ 5,387,211	$ 1,522,478
Other construction, land development, and other land loans	752,846	1,491,564
Home equity lines of credit	3,944,522	3,993,835
One to four family residential, first lien position	7,362,988	6,413,160
One to four family residential, junior lien position	74,475	-
Multi-family	5,201,281	5,065,779
Owner occupied commercial real estate	9,558,764	10,976,782
Non-owner occupied commercial real estate	10,011,711	6,418,795
Commercial and industrial (excluding loans to finance commercial real estate activity)	5,140,014	4,600,822
Non-real estate-secured loans to finance commercial real estate activity	273,000	386,283
Consumer	594,989	532,192
All other loans	81,831	38,082
Total	48,383,632	41,439,772
Allowance for loan losses	(721,233)	(712,066)
Deferred loan fees	(82,792)	(108,087)
Loans - net	$ 47,579,607	$ 40,619,619

The Bank has lending policies, practices, and procedures in place that are designed to generate loan income within an acceptable level of risk. The Board reviews and approves the Bank's loan policies on an annual basis or when changes and/or additions are recommended to the Board by the Bank's loan administration department. A reporting and review process is provided by Management to the Board with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification within the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Loans are underwritten after evaluating and understanding the borrower's loan request. Underwriting standards are designed to promote relationship banking by understanding a borrower's entire banking needs. The Bank examines current and projected cash flows to determine the ability of the borrower to repay its obligation as agreed upon and, secondarily, evaluates the underlying collateral provided by the borrower.

The Bank additionally obtains an independent third-party review of its loan portfolio on a regular basis for quality and accuracy in underwriting loans. Results of these reviews are presented to Management and the Board's loan committee. The loan review process complements and reinforces the risk identification and assessment decisions made by the Bank's lenders and credit personnel, as well as the Bank's policies and procedures.

The Bank believes that its loan classes are the same as its loan segments. The Bank's loan segments are characterized by different risk factors as described below:

- The one to four family residential construction loan segment and other construction, land development, and other land loan segment include loans for which the loan proceeds are controlled by the Bank and are used exclusively for the improvement of real estate on which the Bank holds a mortgage. One to four family residential construction loans are specifically collateralized by one to four family residences. These loans are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, government regulation of real property, general economic conditions, the availability of long-term financing, and the inherent difficulty in estimating both a property's value at the completion of the project and the estimated cost of the project. The Bank attempts to mitigate these risks by adhering to strict underwriting policies, disbursement procedures, and monitoring practices.

- Home equity lines of credit generally have a greater credit risk than other one to four family residential loans because they are secured by mortgages that are usually subordinated to the existing first mortgage on the property, which may or may not be held by the Bank. The Bank attempts to mitigate these risks by adhering to its underwriting policies in evaluating the collateral and the credit worthiness of the borrower.

- One to four family residential loans in the first lien position and junior lien position are collateralized by one to four family residences (e.g., owner occupied properties and non-owner occupied rental units) that may fluctuate in value due to economic or individual performance factors. The Bank's lending policies generally limit the term of one to four family residential loans to 15 years and the maximum loan-to-value ratio on one to four family residential loans to 80%, with appropriate credit enhancement in the form of either mortgage insurance or readily marketable additional collateral if this loan-to-value ratio is exceeded.

- Multi-family loans are secured by multi-family dwelling units (more than four units) and generally provide the Bank an opportunity to receive interest at rates higher than those generally available from one to four family residential lending. However, loans secured by multi-family properties typically are greater in amount and are more difficult to evaluate and monitor, and thus involve a greater degree of risk than one to four family residential mortgage loans. As payments on loans secured by multi-family properties are highly dependent on the successful operation and management of such properties, repayment of such loans may be influenced by adverse conditions in the real estate market or economy.

- Commercial real estate loans in the owner occupied and non-owner occupied segments are secured by such properties as office buildings, retail/wholesale facilities, and other commercial properties. These loans are viewed primarily as cash flow loans, and the repayment of these loans is largely dependent on the successful operation of the related property, particularly if the loan is non-owner occupied. Loan performance may be adversely affected by factors impacting the general economy and conditions specific to the real estate market, such as geographic location and/or property type. The Bank attempts to minimize these risks by generally limiting the maximum loan-to-value ratio to 80% for owner occupied properties and requiring a minimum debt service coverage ratio for non-owner occupied properties. The Bank also scrutinizes the financial condition of the borrower, the quality of the collateral, and the management of the property securing the loan.

- Commercial and industrial loans are generally secured by accounts receivable, inventory, equipment, or other property. Commercial and industrial loans are made based primarily on the historical and projected cash flow of the borrower and, secondarily, on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as forecasted, and collateral securing such loans is often an insufficient source of repayment, because accounts receivable may be uncollectible and inventories and equipment may be obsolete or of limited use. Minimum standards and underwriting guidelines have been established for all commercial loan types.

- Loans to finance commercial real estate activity not secured by real estate relates to loans for acquiring, developing, and renovating commercial real estate, but these loans are not secured by real estate. They may be unsecured or may have other collateral. The Bank attempts to limit the risks relating to these loans by following strict underwriting guidelines to ensure that the borrowers are creditworthy.

- Consumer loans are loans to purchase various items such as automobiles, boats, and recreational vehicles. The terms and rates are established periodically by Management. Consumer loans tend to involve relatively small loan amounts that are spread across many individual borrowers, minimizing the risk of significant loss to the Bank.

The Bank's branches and many of its customers are located in Clackamas County, Oregon, and a substantial portion of the Bank's loans are collateralized by real estate in this geographic area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the economic conditions in this market.

The Bank's operations, like those of other financial institutions operating in the Bank's market, are significantly influenced by various economic conditions including local economies, the strength of the real estate market, and the fiscal and regulatory policies of the federal and state government and the regulatory authorities that govern financial institutions. Any downturn in the real estate markets could materially and adversely affect the Bank's business, because a significant portion of the Bank's loans are secured by real estate. The Bank's ability to recover on defaulted loans by selling the real estate collateral would then be diminished and the Bank would be more likely to suffer losses on defaulted loans. Consequently, the Bank's results of operations and financial condition are dependent upon the general trends in the economy and, in particular, the residential and commercial real estate markets. If there is a decline in real estate values, the collateral for the Bank's loans would provide less security. Real estate values could be affected by, among other things, a worsening of economic conditions, an increase in foreclosures, a decline in home sale volumes, and an increase in interest rates. Furthermore, the Bank may experience an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws, or default on their loans or other obligations to the Bank given a sustained weakness or a weakening in business and economic conditions generally or specifically in the principal market in which the Bank does business. An increase in the number of delinquencies, bankruptcies, or defaults could result in a higher level of non-performing assets, net charge-offs, and provision for loan losses.

The following tables set forth information for the years ended December 31, 2016 and 2015 regarding activity in the allowance for loan losses by portfolio segment:

2016	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
One to four family residential construction loans	$ 19,025	$ 34,845	$ -	$ -	$ 53,870
Other construction, land development, and other land loans	18,650	(11,120)	-	-	7,530
Home equity lines of credit	37,445	(9,149)	-	-	28,296
One to four family residential, first lien position	64,130	(8,907)	-	-	55,223
One to four family residential, junior lien position	-	555			555
Multi-family	63,325	(11,315)	-	-	52,010
Owner occupied commercial real estate	137,213	(41,623)	-	-	95,590
Non-owner occupied commercial real estate	80,238	19,882	-	-	100,120
Commercial and industrial (excluding loans to finance commercial real estate activity)	74,322	(44,939)	-	9,167	38,550
Non-real estate-secured loans to finance commercial real estate activity	4,825	(2,095)	-	-	2,730
Consumer	5,530	(361)	-	-	5,169
All other loans	453	430	-	-	883
Unallocated	206,910	73,797	-	-	280,707
Total	$ 712,066	$ -	$ -	$ 9,167	$ 721,233

2015	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
One to four family residential construction loans	$ 13,468	$ 5,557	$ -	$ -	$ 19,025
Other construction, land development, and other land loans	-	18,650	-	-	18,650
Home equity lines of credit	41,813	(4,368)	-	-	37,445
One to four family residential, first lien position	57,211	6,919	-	-	64,130
Multi-family	47,575	15,750	-	-	63,325
Owner occupied commercial real estate	133,288	3,925	-	-	137,213
Non-owner occupied commercial real estate	74,867	5,371	-	-	80,238
Commercial and industrial (excluding loans to finance commercial real estate activity)	137,045	(67,789)	-	5,066	74,322
Non-real estate-secured loans to finance commercial real estate activity	5,450	(625)	-	-	4,825
Consumer	8,240	(2,710)	-	-	5,530
All other loans	-	453	-	-	453
Unallocated	249,043	(42,133)	-	-	206,910
Total	$ 768,000	$ (61,000)	$ -	$ 5,066	$ 712,066

The following tables present information, by portfolio segment, on loans evaluated individually and collectively for impairment in the allowance for loan losses as of December 31, 2016 and 2015:

	Allowance for Loan Losses			Recorded Investment in Loans		
2016	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**
One to four family residential construction loans	$ -	$ 53,870	$ 53,870	$ -	$ 5,387,211	$ 5,387,211
Other construction, land development, and other land loans	-	7,530	7,530	-	752,846	752,846
Home equity lines of credit	-	28,296	28,296	172,215	3,772,307	3,944,522
One to four family residential, first lien position	-	55,223	55,223	-	7,362,988	7,362,988
One to four family residential, junior lien position	-	555	555	-	74,475	74,475
Multi-family	-	52,010	52,010	-	5,201,281	5,201,281
Owner occupied commercial real estate	-	95,590	95,590	-	9,558,764	9,558,764
Non-owner occupied commercial real estate	-	100,120	100,120	-	10,011,711	10,011,711
Commercial and industrial (excluding loans to finance commercial real estate activity)	-	38,550	38,550	-	5,140,014	5,140,014
Non-real estate-secured loans to finance commercial real estate activity	-	2,730	2,730	-	273,000	273,000
Consumer	-	5,169	5,169	-	594,989	594,989
All other loans	-	883	883	-	81,831	81,831
Unallocated	-	280,707	280,707	-	-	-
Total	$ -	$ 721,233	$ 721,233	$ 172,215	$ 48,211,417	$ 48,383,632

	Allowance for Loan Losses			Recorded Investment in Loans		
2015	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**
One to four family residential construction loans	$ -	$ 19,025	$ 19,025	$ -	$ 1,522,478	$ 1,522,478
Other construction, land development, and other land loans	-	18,650	18,650	-	1,491,564	1,491,564
Home equity lines of credit	-	37,445	37,445	249,502	3,744,333	3,993,835
One to four family residential, first lien position	-	64,130	64,130	-	6,413,160	6,413,160
Multi-family	-	63,325	63,325	-	5,065,779	5,065,779
Owner occupied commercial real estate	-	137,213	137,213	-	10,976,782	10,976,782
Non-owner occupied commercial real estate	-	80,238	80,238	-	6,418,795	6,418,795
Commercial and industrial (excluding loans to finance commercial real estate activity)	28,606	45,716	74,322	29,945	4,570,877	4,600,822
Non-real estate-secured loans to finance commercial real estate activity	-	4,825	4,825	-	386,283	386,283
Consumer	-	5,530	5,530	-	532,192	532,192
All other loans	-	453	453	-	38,082	38,082
Unallocated	-	206,910	206,910	-	-	-
Total	$ 28,606	$ 683,460	$ 712,066	$ 279,447	$ 41,160,325	$ 41,439,772

The following tables present, by portfolio segment, the recorded investment in loans by aging category and in total as of December 31, 2016 and 2015:

	Days Past Due					
2016	**30 - 59**	**60 - 89**	**90 or More**	**Total Past Due**	**Current**	**Total Loans**
One to four family residential construction loans	$ -	$ -	$ -	$ -	$ 5,387,211	$ 5,387,211
Other construction, land development, and other land loans	-	-	-	-	752,846	752,846
Home equity lines of credit	-	-	-	-	3,944,522	3,944,522
One to four family residential, first lien position	-	-	-	-	7,362,988	7,362,988
One to four family residential, junior lien position	-	-	-	-	74,475	74,475
Multi-family	-	-	-	-	5,201,281	5,201,281
Owner occupied commercial real estate	-	-	-	-	9,558,764	9,558,764
Non-owner occupied commercial real estate	-	-	-	-	10,011,711	10,011,711
Commercial and industrial (excluding loans to finance commercial real estate activity)	-	-	-	-	5,140,014	5,140,014
Non-real estate-secured loans to finance commercial real estate activity	-	-	-	-	273,000	273,000
Consumer	-	-	-	-	594,989	594,989
All other loans	-	-	-	-	81,831	81,831
Total	$ -	$ -	$ -	$ -	$ 48,383,632	$ 48,383,632

	Days Past Due					
2015	**30 - 59**	**60 - 89**	**90 or More**	**Total Past Due**	**Current**	**Total Loans**
One to four family residential construction loans	$ -	$ -	$ -	$ -	$ 1,522,478	$ 1,522,478
Other construction, land development, and other land loans	-	-	-	-	1,491,564	1,491,564
Home equity lines of credit	-	-	-	-	3,993,835	3,993,835
One to four family residential, first lien position	-	-	-	-	6,413,160	6,413,160
Multi-family	-	-	-	-	5,065,779	5,065,779
Owner occupied commercial real estate	-	-	-	-	10,976,782	10,976,782
Non-owner occupied commercial real estate	-	-	-	-	6,418,795	6,418,795
Commercial and industrial (excluding loans to finance commercial real estate activity)	-	28,606	-	28,606	4,572,216	4,600,822
Non-real estate-secured loans to finance commercial real estate activity	-	-	-	-	386,283	386,283
Consumer	-	-	-	-	532,192	532,192
All other loans	-	-	-	-	38,082	38,082
Total	$ -	$ 28,606	$ -	$ 28,606	$ 41,411,166	$ 41,439,772

Generally, all loans more than 90 days past due are on nonaccrual status. As of December 31, 2016, there were no loans that were on nonaccrual status. As of December 31, 2015, one commercial and industrial loan with an aggregate balance of $28,606 in the 60-89 days past due category was on nonaccrual status.

Credit quality indicators

The Bank categorizes all loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: quality of management, current financial information, historical payment experience, credit documentation, and geographic and industry risk, among other factors. Loan risk ratings are updated whenever information comes to Management's attention that indicates that a loan's risk has changed. In addition, Management reviews the risk ratings of all loans greater than $400,000 at least annually. The Bank uses the following definitions for risk ratings:

Special Mention – Loans classified as Special Mention have potential weaknesses that deserve Management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date.

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

Doubtful – Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full – on the basis of currently existing facts, conditions, and values – highly questionable and improbable.

Loss – Loans classified as Loss are considered uncollectible and of such minimal value that continuance as an asset is not warranted. Loans are charged-off when Management determines that Loss ratings are appropriate.

Loans not meeting the criteria above are considered Pass rated loans.

The following tables present, by portfolio segment, the recorded investment in loans by risk rating as of December 31, 2016 and 2015, based on the most recent rating assigned by Management to each loan:

2016	Pass	Special Mention	Sub-standard	Doubtful	Total
One to four family residential construction loans	$ 5,387,211	$ -	$ -	$ -	$ 5,387,211
Other construction, land development, and other land loans	752,846	-	-	-	752,846
Home equity lines of credit	2,852,307	-	1,092,215	-	3,944,522
One to four family residential, first lien position	7,362,988	-	-	-	7,362,988
One to four family residential, junior lien position	74,475	-	-	-	74,475
Multi-family	5,201,281	-	-	-	5,201,281
Owner occupied commercial real estate	9,558,764	-	-	-	9,558,764
Non-owner occupied commercial real estate	9,417,724	593,987	-	-	10,011,711
Commercial and industrial (excluding loans to finance commercial real estate activity)	5,113,508	-	26,506	-	5,140,014
Non-real estate-secured loans to finance commercial real estate activity	273,000	-	-	-	273,000
Consumer	594,989	-	-	-	594,989
All other loans	81,831	-	-	-	81,831
Total	$ 46,670,924	$ 593,987	$ 1,118,721	$ -	$ 48,383,632

2015	Pass	Special Mention	Sub-standard	Doubtful	Total
One to four family residential construction loans	$ 1,522,478	$ -	$ -	$ -	$ 1,522,478
Other construction, land development, and other land loans	1,491,564	-	-	-	1,491,564
Home equity lines of credit	3,744,333	-	249,502	-	3,993,835
One to four family residential, first lien position	6,276,856	-	136,304	-	6,413,160
Multi-family	5,065,779	-	-	-	5,065,779
Owner occupied commercial real estate	10,976,782	-	-	-	10,976,782
Non-owner occupied commercial real estate	5,810,929	607,866	-	-	6,418,795
Commercial and industrial (excluding loans to finance commercial real estate activity)	4,432,914	-	167,908	-	4,600,822
Non-real estate-secured loans to finance commercial real estate activity	273,000	-	113,283	-	386,283
Consumer	503,841	-	28,351	-	532,192
All other loans	38,082	-	-	-	38,082
Total	$ 40,136,558	$ 607,866	$ 695,348	$ -	$ 41,439,772

The following tables summarize information related to impaired loans by portfolio segment as of and for the years ended December 31, 2016 and 2015:

	December 31, 2016			For the year ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Home equity lines of credit	$ 172,215	$ 172,215	$ -	$ 233,573	$ 14,639
Commercial and industrial (excluding loans to finance commercial real estate activity)	-	-	-	268	7
Subtotal	172,215	172,215	-	233,841	14,646
With an allowance recorded					
Commercial and industrial (excluding loans to finance commercial real estate activity)	-	-	-	11,964	8,362
Subtotal	-	-	-	11,964	8,362
Total					
Home equity lines of credit	172,215	172,215	-	233,573	14,639
Commercial and industrial (excluding loans to finance commercial real estate activity)	-	-	-	12,232	8,369
Total	$ 172,215	$ 172,215	$ -	$ 245,805	$ 23,008

	December 31, 2015			For the year ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Home equity lines of credit	$ 249,502	$ 249,502	$ -	$ 99,900	$ 4,391
Owner occupied commercial real estate	-	-	-	120,477	17,296
Non-owner occupied commercial real estate	-	-	-	181,397	13,976
Commercial and industrial (excluding loans to finance commercial real estate activity)	1,339	1,339	-	4,348	160
Subtotal	250,841	250,841	-	406,122	35,823
With an allowance recorded					
Commercial and industrial (excluding loans to finance commercial real estate activity)	28,606	28,606	28,606	50,201	-
Subtotal	28,606	28,606	28,606	50,201	-
Total					
Home equity lines of credit	249,502	249,502	-	99,900	4,391
Owner occupied commercial real estate	-	-	-	120,477	17,296
Non-owner occupied commercial real estate	-	-	-	181,397	13,976
Commercial and industrial (excluding loans to finance commercial real estate activity)	29,945	29,945	28,606	54,549	160
Total	$ 279,447	$ 279,447	$ 28,606	$ 456,323	$ 35,823

There was $8,369 and $31,272 of cash basis interest income recognized for the years ended December 31, 2016 and 2015, respectively.

During 2016, the Bank did not record a TDR loan in any portfolio segment. During 2015, the Bank recorded one TDR loan in the home equity lines of credit portfolio segment. The loan had a pre-modification and post-modification outstanding recorded investment of $250,000. The loan modification was the result of a forbearance agreement related to a matured line of credit for a borrower with deteriorating credit. The Bank had no TDRs which defaulted in 2016 or 2015 that had been modified within the previous twelve months. As of December 31, 2016 and 2015, there were no commitments to lend additional funds on TDR loans.

TDR loans are considered to be impaired and are individually evaluated for impairment in determining the allowance for loan losses. During 2015, the loan identified as a TDR loan by the Bank was not on nonaccrual status but was reported as impaired prior to restructuring. As of December 31, 2015, the total recorded investment in the TDR loan restructured during 2015 was $249,502, and there was no associated allowance for loan losses. The following tables set forth the Bank's TDR loans as of December 31, 2016 and 2015 by interest accrual status:

2016	**Accruing**	**Non-Accrual**	**Total**
Home equity lines of credit	$ 172,215	$ -	$ 172,215
Total	$ 172,215	$ -	$ 172,215

2015	**Accruing**	**Non-Accrual**	**Total**
Home equity lines of credit	$ 249,502	$ -	$ 249,502
Commercial and industrial (excluding loans to finance commercial real estate activity)	466	28,606	29,072
Total	$ 249,968	$ 28,606	$ 278,574

3. Premises and Equipment

Premises and equipment as of December 31, 2016 and 2015 consisted of the following:

	2016	**2015**
Land	$ 400,000	$ 400,000
Building and improvements	2,484,284	2,484,284
Furniture, fixtures, and equipment	361,299	358,774
Computer software and hardware	221,166	209,710
Leasehold improvements	86,106	86,106
Total	3,552,855	3,538,874
Less accumulated depreciation and amortization	(1,132,423)	(1,036,483)
Premises and equipment - net	$ 2,420,432	$ 2,502,391

4. Time Deposits

Time deposits that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 aggregated $4,161,567 and $4,059,664 as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, the scheduled annual maturities of all time deposits were as follows:

2017	$ 8,327,449
2018	8,307,315
2019	433,256
2020	1,388,036
2021	1,423,972
Total	$ 19,880,028

5. Other Borrowings

The Bank is a member of the FHLB. As a member, the Bank has a committed line of credit up to 25% of the Bank's total assets for the years ended December 31, 2016 and 2015. The committed line of credit is subject to the Bank pledging sufficient collateral and maintaining the required investment in FHLB stock. As of December 31, 2016, the Bank had $1,000,000 of outstanding borrowings with the FHLB. This borrowing may be prepaid in whole, subject to a prepayment fee. The borrowing bears a 1.23% interest rate and matures in March 2018. As of December 31, 2015, the Bank had no outstanding borrowings with the FHLB. All

outstanding borrowings with the FHLB are collateralized by a blanket pledge agreement on the Bank's FHLB stock, any funds on deposit with the FHLB, and certain of the Bank's loans. The Bank had loans pledged for collateral of approximately $17,498,000 as of December 31, 2016. As of December 31, 2016, the Bank's maximum available borrowing capacity, given current collateral, borrowings, and the 25% total asset limitation, was approximately $11,928,000.

As an additional source of liquidity, the Bank has a federal funds borrowing agreement with a correspondent bank aggregating $1,500,000 as of December 31, 2016 and 2015. The agreement was unsecured as of December 31, 2016 and 2015. There were no outstanding borrowings under this agreement as of December 31, 2016 or 2015.

6. Commitments and Contingencies

Off-balance sheet financial instruments

In the ordinary course of business, the Bank has financial instruments with off-balance sheet risk to extend credit to its customers. These financial instruments involve elements of credit and interest-rate risk in excess of amounts recognized in the accompanying balance sheets. As of December 31, 2016 and 2015, the Bank had no commitments to extend credit at below-market interest rates and held no derivative financial instruments.

The Bank's exposure to credit loss for commitments to extend credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in underwriting and offering commitments as it does for on-balance sheet financial instruments. As of December 31, 2016 and 2015, outstanding commitments to extend credit totaled approximately $11,478,000 and $9,802,000, respectively.

A commitment to extend credit is an agreement 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 the payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank applies established credit-related standards and underwriting practices in evaluating the creditworthiness of such obligors. The amount of collateral obtained, if it is deemed necessary by the Bank upon the extension of credit, is based on Management's credit evaluation of the counterparty. Collateral held for commitments varies but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Operating leases

The Bank leases space for banking operations under an operating lease with a limited liability company that is partially owned by certain Board members. The lease runs through October 31, 2018 and requires monthly graduated rent payments ranging from approximately $6,500 to $7,300 over the lease term. In addition, the Bank leases office equipment from a third party through October 2021 with monthly rent payments of approximately $1,200.

As of December 31, 2016, future minimum annual rental commitments under the Bank's operating leases are as follows:

2017	$ 99,687
2018	87,247
2019	14,448
2020	14,448
2021	12,040
Total	$ 227,870

Total rental expense was approximately $93,000 and $87,000 for the years ended December 31, 2016 and 2015, respectively. Substantially all of the Bank's rental expense for 2016 and 2015 was pursuant to the related party lease.

Litigation

In the ordinary course of business, the Bank becomes involved in various litigation proceedings arising from normal banking activities. In the opinion of Management, the ultimate disposition of these actions will not have a material adverse effect on the Bank's financial statements as of and for the year ended December 31, 2016.

7. Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Current		
Federal	$ -	$ -
State	1,510	1,500
Total current	1,510	1,500
Deferred	(2,933,437)	-
Total provision (benefit) for income taxes	$ (2,931,927)	$ 1,500

The provision (benefit) for income taxes results in effective tax rates which are different than the federal income tax statutory rate. The nature of the differences in 2016 and 2015 were as follows:

	2016	2015
Expected federal income tax provision at statutory rate	$ 120,837	$ 28,530
State income taxes, net of federal effect	15,481	4,209
Permanent differences	2,322	1,437
Valuation allowance	(3,126,424)	(32,000)
Other - net	55,857	(676)
Provision (benefit) for income taxes	$ (2,931,927)	$ 1,500

The components of the net deferred tax assets and liabilities as of December 31, 2016 and 2015 consisted of the following:

	2016	2015
Deferred tax assets		
Stock-based compensation	$ 42,206	$ 42,932
Net operating loss carryforwards	3,155,821	3,340,697
Other	38,621	25,024
Total deferred tax assets	3,236,648	3,408,653
Valuation allowance	-	(3,126,424)
Total deferred tax assets - net of valuation allowance	3,236,648	282,229
Deferred tax liabilities		
Allowance for loan losses	(33,482)	(25,579)
Deferred loan fee income	(43,029)	(31,666)
Accumulated depreciation and amortization	(187,558)	(189,885)
Prepaid expenses and other	(39,142)	(35,099)
Total deferred tax liabilities	(303,211)	(282,229)
Deferred tax assets - net	$ 2,933,437	$ -

As of December 31, 2016 and 2015, the Bank has federal and state net operating loss carryforwards available to reduce future federal and state taxable income. As of December 31, 2016 and 2015, federal net operating loss carryforwards were approximately $8,193,000 and $8,523,000, respectively, and (if not utilized) expire between 2029 and 2035. As of December 31, 2016 and 2015, state net operating loss carryforwards were approximately $8,500,000 and $8,831,000, respectively, and (if not utilized) expire between 2024 and 2030.

As of December 31, 2016, Management evaluated the nature and amount of historical and projected taxable income, the scheduled reversal of deferred tax assets and liabilities, and available tax planning strategies, and determined that a valuation allowance for the Bank's deferred tax assets was no longer required. Accordingly, the Bank reduced its valuation allowance to zero as of December 31, 2016.

8. Basic and Diluted Net Income Per Common Share

The Bank's basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The Bank's diluted net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding plus dilutive common shares related to stock options.

The numerators and denominators used in computing basic and diluted net income per common share for the years ended December 31, 2016 and 2015 are as follows:

	Net Income (Numerator)	Weighted-average Shares (Denominator)	Per-share Amount
2016			
Basic and diluted net income per common share	$ 3,287,330	706,467	$ 4.65
2015			
Basic and diluted net income per common share	$ 82,411	611,868	$ 0.13

9. Transactions with Related Parties

Certain directors, officers, and principal shareholders of the Bank (and the companies with which they are associated) are customers of, and have had banking transactions with, the Bank in the ordinary course of the Bank's business. In addition, the Bank expects to continue to have such banking transactions in the future. All loans, and commitments to loan, to such parties are generally made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. In the opinion of Management, these transactions do not involve more than the normal risk of collectability or present any other unfavorable features.

An analysis of activity with respect to such loans for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Balances - beginning of year	$ 2,400,554	$ 1,908,740
Additions	371,808	930,503
Repayments	(718,161)	(438,689)
Balances - end of year	$ 2,054,201	$ 2,400,554

10. Employee Benefit Plan

The Bank has a salary deferral and profit sharing plan (the 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 have completed 90 days of service and be over 21 years of age. Employees may contribute up to the maximum permitted by the Internal Revenue Code. The Bank may make

matching and/or discretionary contributions to the Plan as determined by the Board. Matching contributions vest immediately while discretionary contributions vest over a period of three years. For the year ended December 31, 2016, the Bank made matching contributions of $17,653 and elected to make no discretionary contributions. The Bank did not make any matching or discretionary contributions to the Plan for the year ended December 31, 2015.

11. Stock-Based Compensation Plan

The Bank had a stock-based compensation plan which provided that the Bank could grant incentive and non-qualified options and restricted stock awards for up to 16,680 shares of its common stock to certain employees and directors. The exercise price of each incentive option could not be less than the fair market value of the Bank's common stock on the date of grant. Options became exercisable and restricted stock grants vested at the discretion of the Board. Generally, options expire after a period of ten years. The Bank's stock-based compensation plan expired in 2014. Accordingly, no further shares under this plan are available for future grant; however, any awards granted prior to its expiration remain outstanding subject to their original terms.

The following table presents the activity related to stock options for the years ended December 31, 2016 and 2015:

	2016		2015	
	Options Outstanding	Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Exercise Price
Balances - beginning of year	2,700	$ 109.10	7,032	$ 105.20
Expired	(750)	113.75	(3,707)	101.30
Forfeited	-	-	(625)	111.30
Balances - end of year	1,950	107.24	2,700	109.10
Exercisable - end of year	1,950	107.24	2,700	109.10

Information regarding the range of exercise prices, number, weighted-average exercise price, and weighted-average remaining contractual life of stock options as of December 31, 2016 and 2015 is as follows:

	2016		2015	
	Options Outstanding	Exercisable Options	Options Outstanding	Exercisable Options
Range of exercise prices	$105 - $110	$105 - $110	$105 - $113.80	$105 - $113.80
Shares subject to options	1,950	1,950	2,700	2,700
Weighted-average exercise price	$ 107.24	$ 107.24	$ 109.10	$ 109.10
Remaining contractual life (years)	1.20	1.20	1.83	1.83

Outstanding stock options had no intrinsic value as of December 31, 2016 and 2015. There was no unrecognized stock-based compensation expense related to stock options as of December 31, 2016.

12. Fair Value

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. GAAP permits an entity to choose to measure many financial instruments and certain other items at fair value and contains financial statement presentation and disclosure requirements for assets and liabilities for which the fair value option is elected. As of December 31, 2016 and 2015, Management has elected to not report any of the Bank's assets or liabilities at fair value under the

"fair value option" provided by GAAP. The hierarchy of fair value valuation techniques under GAAP provides for three levels: Level 1 provides the most reliable measure of fair value, whereas Level 3, if applicable, generally would require significant management judgment. The three levels for categorizing assets and liabilities under GAAP's fair value measurement requirements are as follows:

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

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

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

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. GAAP requires that valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Certain assets and liabilities are measured at fair value on a recurring or non-recurring basis. Assets and liabilities measured at fair value on a recurring basis are initially measured at fair value and then re-measured at fair value at each financial statement reporting date. Assets and liabilities measured at fair value on a non-recurring basis result from write-downs due to impairment or lower-of-cost-or-market accounting on assets or liabilities not initially measured at fair value.

The Bank's valuation methodologies may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. While Management believes that the Bank's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and, therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Bank records nonrecurring adjustments to the carrying value of certain impaired loans for partial charge-offs of the uncollectible portions of those loans based on fair value measurements. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan, and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals, independent fair market value assessments from realtors or other persons involved in selling real estate, or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace.

As of December 31, 2016 and 2015, the Bank had no assets or liabilities measured at fair value on a recurring basis and had no liabilities measured at fair value on a nonrecurring basis.

As of December 31, 2016, the Bank had no assets measured at fair value on a nonrecurring basis. As of December 31, 2015, the Bank's assets measured at fair value on a nonrecurring basis consisted of impaired loans. Management determined by using Level 3 inputs that the impaired loans had no value.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis as of December 31, 2015:

	Fair Value	Valuation Technique	Unobservable Input(s)	Range
Impaired loans	$ –	Market approach	Appraised value of collateral less selling costs	NA

The following methods and assumptions were used by the Bank in estimating the fair value of its other financial instruments:

Cash and due from banks: The carrying amount of cash and due from banks approximates the estimated fair value.

Interest-bearing time deposits with banks: The estimated fair value of interest-bearing time deposits with banks is computed by discounting future cash flows using a rate which approximates the current offering rate of time deposits with a comparable remaining life.

FHLB stock: No ready market exists for this stock, and it has no quoted market value. However, redemption of this stock has historically been at par value. Accordingly, cost is deemed to be a reasonable estimate of fair value.

Loans - net: The estimated fair value of loans is estimated using comparable market statistics. An average valuation discount that approximates similar loan sales is applied to the portfolio.

Accrued interest: The recorded amount of accrued interest approximates the estimated fair value.

Deposits: The estimated fair value of deposits with no stated maturity date is the amount payable on demand. In general, the estimated fair value of fixed maturity time deposits is computed by discounting future cash flows using the rates currently offered by the Bank for deposits of similar remaining maturities.

FHLB borrowings: The estimated fair value of FHLB borrowings is estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar borrowing arrangements.

Loan commitments: The majority of the Bank's commitments to extend credit have variable interest rates and "escape" clauses if the customer's credit quality deteriorates. Therefore, the fair values of these items are not significant and are not included in the following tables.

Because GAAP excludes certain financial and nonfinancial instruments from its disclosure requirements, any aggregation of the fair value amounts presented below would not represent the underlying value of the Bank.

The estimated fair values of financial instruments were as follows as of December 31, 2016 and 2015:

	Recorded Amount	Estimated Fair Value	Level 1	Level 2	Level 3
2016					
Financial Assets					
Cash and due from banks	$ 9,848,673	$ 9,848,673	$ 9,848,673	$ -	$ -
Interest-bearing time deposits with banks	2,734,000	2,748,794	-	-	2,748,794
FHLB stock	105,000	105,000	105,000	-	-
Loans - net	47,579,607	46,888,184	-	-	46,888,184
Accrued interest receivable	136,311	136,311	136,311	-	-
Financial Liabilities					
Deposits	55,322,457	55,391,770	35,442,429	-	19,949,341
FHLB borrowings	1,000,000	998,315	-	-	998,315
Accrued interest payable	8,052	8,052	8,052	-	-
2015					
Financial Assets					
Cash and due from banks	$ 7,973,297	$ 7,973,297	$ 7,973,297	$ -	$ -
Interest-bearing time deposits with banks	2,734,000	2,677,359	-	-	2,677,359
FHLB stock	62,000	62,000	62,000	-	-
Loans - net	40,619,619	40,950,663	-	-	40,950,663
Accrued interest receivable	119,413	119,413	119,413	-	-
Financial Liabilities					
Deposits	47,821,845	47,888,998	29,150,786	-	18,738,212
Accrued interest payable	6,297	6,297	6,297	-	-

The Bank did not change the methodology used to determine fair value for any financial or non-financial instruments during the years ended December 31, 2016 and 2015. In addition, the Bank did not have any transfers among Level 1, Level 2, or Level 3 during these years.

13. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal and state 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 Bank's 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. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following tables) of tier 1 capital to average assets and common equity tier 1, tier 1, and total capital to risk-weighted assets (all as defined in the regulations). Management believes that, as of December 31, 2016 and 2015, the Bank met or exceeded all capital adequacy requirements to which it is subject.

To be categorized as "adequately capitalized" or "well-capitalized," the Bank must maintain minimum common equity tier 1, tier 1 leverage, tier 1 risk-based, and total risk-based capital ratios as set forth in the following tables. As of December 31, 2016, the most recent notification from the Bank's regulator categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action.

There are no conditions or events since that notification that Management believes would change the Bank's regulatory capital categorization.

The Bank's actual and required capital amounts and ratios as of December 31, 2016 and 2015 are presented in the following table (dollars in thousands):

	Actual		Regulatory Minimum to be "Adequately Capitalized"		Regulatory Minimum to be "Well Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2016						
Common equity tier 1 capital (to risk-weighted assets)	$ 6,497	13.28%	$ 2,201	4.50%	$ 3,180	6.50%
Tier 1 capital (to average assets)	6,497	10.50	2,475	4.00	3,094	5.00
Tier 1 capital (to risk-weighted assets)	6,497	13.28	2,935	6.00	3,913	8.00
Total capital (to risk-weighted assets)	7,124	14.56	3,913	8.00	4,892	10.00
2015						
Common equity tier 1 capital (to risk-weighted assets)	$ 6,143	14.37%	$ 1,924	4.50%	$ 2,779	6.50%
Tier 1 capital (to average assets)	6,143	11.22	2,190	4.00	2,737	5.00
Tier 1 capital (to risk-weighted assets)	6,143	14.37	2,565	6.00	3,420	8.00
Total capital (to risk-weighted assets)	6,681	15.63	3,420	8.00	4,276	10.00