Report of Independent Auditors
and Consolidated Financial Statements for

Puget Sound Bancorp, Inc.
and Subsidiary

December 31, 2015 and 2014

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
Puget Sound Bancorp, Inc. and Subsidiary

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Puget Sound Bancorp, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Puget Sound Bancorp, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Everett, Washington
March 15, 2016

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

PUGET SOUND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2015	December 31, 2014
CASH AND DUE FROM BANKS	$ 29,312,734	$ 18,137,860
INTEREST-BEARING DEPOSITS IN BANKS	54,722,168	9,961,006
SECURITIES AVAILABLE-FOR-SALE, at fair value	53,831,655	39,445,706
FEDERAL HOME LOAN BANK STOCK AND PACIFIC COAST BANKERS' BANK STOCK, at cost	655,300	585,700
LOANS	337,552,706	315,015,292
Less allowance for loan losses	4,095,618	4,013,425
Total loans, net	333,457,088	311,001,867
LEASEHOLDS AND EQUIPMENT, net	193,721	386,147
ACCRUED INTEREST RECEIVABLE	1,060,940	894,339
BANK-OWNED LIFE INSURANCE, net	3,077,318	2,980,895
DEFERRED TAX ASSET, net	1,925,000	1,745,000
GOODWILL	1,995,000	1,995,000
OTHER ASSETS	582,243	595,669
Total assets	$ 480,813,167	$ 387,729,189

LIABILITIES AND STOCKHOLDERS' EQUITY

DEPOSITS		
Noninterest-bearing	$ 208,033,213	$ 177,372,542
Interest-bearing	217,291,571	159,220,000
Total deposits	425,324,784	336,592,542
ACCRUED INTEREST PAYABLE	64,747	37,531
BORROWINGS	6,000,000	-
OTHER LIABILITIES	3,004,371	2,650,851
Total liabilities	434,393,902	339,280,924
STOCKHOLDERS' EQUITY		
Preferred stock, $0 par value, 100,000 shares authorized, 0 and 9,886 shares issued and outstanding as senior preferred stock at December 31, 2015 and 2014, respectively	-	-
Senior preferred stock, $1,000 par value, 9,886 shares authorized, 0 and 9,886 Series C shares issued and outstanding at December 31, 2015 and 2014, respectively	-	9,886,000
Common stock, $1 par value, 50,000,000 shares authorized, 3,347,312 and 2,991,434 issued and outstanding at December 31, 2015 and 2014, respectively	3,347,312	2,991,434
Additional paid-in capital	32,201,949	28,663,342
Retained earnings	11,012,330	7,037,715
Accumulated other comprehensive loss, net of tax	(142,326)	(130,226)
Total stockholders' equity	46,419,265	48,448,265
Total liabilities and stockholders' equity	$ 480,813,167	$ 387,729,189

See accompanying notes.

PUGET SOUND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2015	2014
INTEREST INCOME		
Loans, including fees	$ 15,287,834	$ 14,041,001
Investments	753,955	687,631
Interest-bearing deposits in banks	98,458	18,552
Total interest income	16,140,247	14,747,184
INTEREST EXPENSE		
Deposits	720,600	610,077
Borrowings	36,157	33,070
Total interest expense	756,757	643,147
NET INTEREST INCOME	15,383,490	14,104,037
PROVISION FOR LOAN LOSSES	103,225	612,557
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,280,265	13,491,480
NONINTEREST INCOME		
Service fees	643,678	572,571
Increase in cash surrender value of bank-owned life insurance	96,423	95,238
Gain on sale of loans	6,430	1,682
Gain on sale of securities	-	4,423
Other income	2,426	-
Total noninterest income	748,957	673,914
NONINTEREST EXPENSE		
Salaries and employee benefits	6,393,894	5,960,192
Occupancy and equipment	989,687	1,035,723
Professional services	599,620	434,470
Data processing	385,588	440,967
FDIC insurance	219,000	181,000
Other expenses	1,324,452	1,410,055
Total noninterest expense	9,912,241	9,462,407
NET INCOME BEFORE PROVISION FOR INCOME TAX EXPENSE	6,116,981	4,702,987
Provision for income tax expense	2,033,896	1,479,561
NET INCOME	4,083,085	3,223,426
Preferred stock dividends	108,470	98,860
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 3,974,615	$ 3,124,566
Earnings per common share		
Basic	$ 1.22	$ 1.06
Diluted	$ 1.21	$ 1.01

See accompanying notes.

PUGET SOUND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2015	2014
NET INCOME	$ 4,083,085	$ 3,223,426
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities		
Unrealized holding gain (loss), net of tax (benefit) of ($6,233) and $139,357, respectively	(12,100)	270,517
Reclassification adjustments for realized gains on sales of securities, net of taxes of $0 and $1,504, respectively	-	(2,919)
Other comprehensive income (loss)	(12,100)	267,598
COMPREHENSIVE INCOME	$ 4,070,985	$ 3,491,024

See accompanying notes.

PUGET SOUND BANCORP, INC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Senior Preferred Stock		Common Stock				Accumulated Other	
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, December 31, 2013	9,886	$ 9,886,000	2,933,564	$ 2,933,564	$ 28,133,950	$ 3,913,149	$ (397,824)	$ 44,468,839
Vested share awards	-	-	26,035	26,035	(26,035)	-	-	-
Preferred stock cash dividend	-	-	-	-	-	(98,860)	-	(98,860)
Stock issued in lieu of compensation	-	-	12,135	12,135	169,283	-	-	181,418
Stock compensation expense	-	-	-	-	195,908	-	-	195,908
Exercise of stock options	-	-	19,700	19,700	128,578	-	-	148,278
Excess tax benefits from stock compensation	-	-	-	-	61,658	-	-	61,658
Net income	-	-	-	-	-	3,223,426	-	3,223,426
Unrealized gain on securities, net of tax	-	-	-	-	-	-	267,598	267,598
BALANCE, December 31, 2014	9,886	9,886,000	2,991,434	2,991,434	28,663,342	7,037,715	(130,226)	48,448,265
Vested share awards	-	-	15,350	15,350	(15,350)	-	-	-
Redemption of preferred stock	(9,886)	(9,886,000)						(9,886,000)
Preferred stock cash dividend	-	-	-	-	-	(108,470)	-	(108,470)
Stock issued in lieu of compensation	-	-	8,318	8,318	139,327	-	-	147,645
Stock compensation expense	-	-	-	-	374,423	-	-	374,423
Exercise of stock options	-	-	242,210	242,210	1,950,278	-	-	2,192,488
Exercise of warrants			90,000	90,000	810,000			900,000
Excess tax benefits from stock compensation	-	-	-	-	279,929	-	-	279,929
Net income	-	-	-	-	-	4,083,085	-	4,083,085
Unrealized gain on securities, net of tax	-	-	-	-	-	-	(12,100)	(12,100)
BALANCE, December 31, 2015	-	$ -	3,347,312	$ 3,347,312	$ 32,201,949	$ 11,012,330	$ (142,326)	$ 46,419,265

See accompanying notes.

PUGET SOUND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,083,085	$ 3,223,426
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	103,225	612,557
Provision for off-balance-sheet commitments	28,170	35,648
Gain on sale of loans	(6,430)	(1,682)
Amortization of loan fees	(511,922)	(427,535)
Depreciation and amortization	200,377	306,146
Gain on sale of available-for-sale securities	-	(4,423)
Net amortization of securities	485,929	456,590
Increase in cash surrender value of bank-owned life insurance	(96,423)	(95,238)
Stock issued in lieu of compensation	147,645	181,418
Stock compensation expense	374,423	195,908
Deferred tax provision	173,000	(475,000)
Changes in operating assets and liabilities		
Accrued interest receivable	(166,601)	(14,908)
Other assets	(332,892)	116,924
Accrued interest payable	27,216	1,706
Other liabilities	325,350	623,985
Net cash from operating activities	4,834,152	4,735,522
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing deposits in banks	(44,761,162)	(5,755,439)
Activity in available-for-sale securities		
Proceeds from sales	-	651,321
Maturities, prepayments, and calls	7,880,181	8,784,836
Purchases	(22,770,841)	(10,979,232)
Purchase of Federal Home Loan Bank stock	(69,600)	(7,100)
Proceeds from sale of loans	949,288	1,956,435
Net change in loans made to customers	(22,989,382)	(41,769,161)
Net additions to leaseholds and equipment	(7,951)	(43,041)
Net cash from investing activities	(81,769,467)	(47,161,381)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in noninterest-bearing deposits	30,660,671	55,345,836
Net increase in interest-bearing deposits	58,071,571	479,777
Advances from the Federal Home Loan Bank	26,800,000	277,500,000
Repayments of advances from the Federal Home Loan Bank	(26,800,000)	(289,500,000)
Advances from Bell State Bank & Trust	6,000,000	-
Proceeds from exercise of stock options	2,192,488	148,278
Proceeds from exercise of warrants	900,000	-
Excess tax benefits from stock compensation	279,929	61,658
Redemption of preferred stock	(9,886,000)	-
Dividends on preferred stock	(108,470)	(98,860)
Net cash from financing activities	88,110,189	43,936,689
NET CHANGE IN CASH AND DUE FROM BANKS	11,174,874	1,510,830
CASH AND DUE FROM BANKS, beginning of year	18,137,860	16,627,030
CASH AND DUE FROM BANKS, end of year	$ 29,312,734	$ 18,137,860
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 729,541	$ 641,441
Cash paid during the period for federal income taxes	$ 2,070,000	$ 1,875,000
Change in unrealized gain (loss) on securities available-for-sale	$ (18,782)	$ 267,598

See accompanying notes.

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of operations - Puget Sound Bancorp, Inc. (the Bancorp), a Washington corporation, was formed on November 4, 2015 for the purpose of becoming the holding company for Puget Sound Bank (Puget Sound Bank or the Bank). The Bancorp's business activities generally are limited to passive investment activities and oversight of its wholly-owned investment in Puget Sound Bank. Accordingly, the information presented in the consolidated financial statements and related data, relates primarily to Puget Sound Bank. Puget Sound Bancorp, Inc. is a bank holding company and is subject to regulation by the Board of Governors of the Federal Reserve Bank of San Francisco (FRB).

Puget Sound Bank provides a full range of banking services to individual and corporate customers through its sole office in Bellevue, Washington. Its primary deposit products are checking, money market, savings, and term certificate accounts, and its primary lending products are commercial loans, commercial real estate loans, and consumer loans. The Bank is subject to significant competition from other financial institutions. The Bank is also subject to the regulations of certain federal and state of Washington agencies and undergoes periodic examinations by those regulatory authorities.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of Puget Sound Bancorp, Inc. and its wholly-owned subsidiary Puget Sound Bank (collectively, the Company). All significant intercompany balances and transactions between Puget Sound Bancorp, Inc. and its subsidiary have been eliminated in consolidation.

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

Cash and due from banks - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold, all with maturities of three months or less. Generally, federal funds are purchased and sold for one-day periods. Investments in federal funds sold are made with major banks as approved by the board of directors.

Interest-bearing deposits in banks - Interest-bearing deposits in banks include interest-bearing deposits and certificates of deposit in federally insured financial institutions located throughout the United States, and the Federal Reserve Bank. At times, these deposits may exceed the Federal Deposit Insurance Corporation (FDIC)-insured amount.

Restricted assets - Federal Reserve Board regulations generally require maintenance of certain minimum reserve balances on deposit with the Federal Reserve Bank or another institution in a pass-through relationship. These requirements are generally based on size and other factors. At December 31, 2015 and 2014, the Company's required reserve was $12,162,000 and $8,596,000, respectively.

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

Investment securities - Investment securities are classified into one of three categories: (1) held-to-maturity, (2) available-for-sale, or (3) trading. The Company had no trading or held-to-maturity securities at December 31, 2015 or 2014. Investment securities are categorized as held-to-maturity when the Company has the positive intent and ability to hold those securities to maturity. Securities that are held-to-maturity are carried at amortized cost. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Investment securities categorized as available-for-sale are generally held for investment purposes (to maturity), although unanticipated future events may result in the sale of some securities. Available-for-sale securities are recorded at estimated fair value, with unrealized gains or losses reported in accumulated other comprehensive income, net of tax. Realized gains or losses on sales are based on the net proceeds and the adjusted carrying amount of securities sold, using the specific identification method, and are included in earnings.

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

Federal Home Loan Bank stock - The Company's investment in Federal Home Loan Bank (FHLB) of Des Moines stock is carried at par value ($100 per share), which reasonably approximates its fair value. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB stock based on specified percentages of its outstanding FHLB advances. The Company may request redemption at par value of any stock in excess of the amount the Company is required to hold. Stock redemptions are at the discretion of the FHLB.

The Company had $465,300 and $395,700 in shares of FHLB stock at December 31, 2015 and 2014, respectively. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par.

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

Pacific Coast Bankers' Bank stock - Pacific Coast Bankers' Bank (PCBB) stock represents an investment by the Company in the capital stock of PCBB of $190,000 at December 31, 2015 and 2014, and is carried at par value ($47.50), which reasonably approximates fair value.

Loans held-for-sale - Loans held-for-sale consist of the guaranteed portion of Small Business Administration (SBA) loans the Company intends to sell after origination and are reflected at the lower of aggregate cost or fair value. Loans are sold with servicing of the sold portion retained by the Company. When the sale of the loan occurs, the premium received is combined with the estimated present value of future cash flows on the related servicing asset and recorded as a gain on sale of loans in noninterest income. There were no loans held-for-sale at December 31, 2015 or 2014.

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

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

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

Most of the Company's business activity is with customers located within King County, Washington. The Company originates commercial, real estate, and consumer loans. Generally, loans are secured by accounts receivable, inventory, deposit accounts, personal property, or real estate. Rights to collateral vary and are legally documented to the extent practicable. Although the Company has a diversified loan portfolio, local economic conditions may affect borrowers' ability to meet the stated repayment terms.

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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

A troubled debt restructuring is a loan for which the Company, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider. The loan terms that have been modified or restructured due to the borrower's financial difficulty include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity; an interest rate below market; a reduction in the face amount of the debt; a reduction in the accrued interest; or extension, deferral, renewal, or rewrite of the original loan terms.

Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject to a restructuring agreement due to financial difficulties of the borrower.

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

SBA servicing assets - The Company accounts for SBA servicing rights as separately recognized servicing rights and initially measures them at fair value. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Company subsequently measures each SBA servicing asset using the amortization method. Under the amortization method, servicing assets are amortized into noninterest income in proportion to, and over the period of, estimated net servicing income. The amortized assets are assessed for impairment or increased obligation, at the loan level, based on the fair value at each reporting date. The SBA servicing asset is not material at December 31, 2015 and 2014.

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

Leaseholds and equipment - Bank leaseholds and equipment are stated at cost less accumulated depreciation. Leaseholds and equipment are depreciated or amortized using the straight-line method over the estimated useful lives of the related assets, which range from 1 to 8 years. Total depreciation and amortization expense was $200,377 and $306,146 for the years ended December 31, 2015 and 2014, respectively.

Bank-owned life insurance - The carrying amount of bank-owned life insurance approximates its fair value, net of any surrender charges.

Foreclosed assets - Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at the lower of cost or estimated fair value at the date of foreclosure. Losses arising from the acquisition of property, in full or partial satisfaction of loans, are charged to the allowance for loan losses. Subsequent to foreclosure, assets are carried at the lower of fair value less cost to sell and any valuation allowance is recorded through noninterest expense. Operating costs after acquisition are expensed. There were no foreclosed assets at December 31, 2015 or 2014.

Goodwill and other intangibles - Intangible assets consist of goodwill and other intangibles acquired in business combinations. Goodwill and intangible assets with indefinite useful lives are not amortized. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed for impairment. Amortization of intangible assets is included in other noninterest expense in the statements of income. The acquisition of Core Business Bank in 2013 resulted in $1,995,000 of goodwill and a core deposit intangible of $223,000. The entire amount of the goodwill is tax deductible over a period of 15 years. The core deposit intangible is being amortized over a period of 10 years.

The Company performs a goodwill impairment analysis on an annual basis as of September 30. Additionally, the Company will perform a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists.

The Company assesses the qualitative factors to determine whether it is necessary to perform a quantitative impairment test. The quantitative impairment test involves a two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to proceed to the second step. In the second step, the Company calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for the purposes of determining the amount of goodwill impairment. No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess.

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

Income taxes - The Company files a consolidated federal income tax return. The Company records its provision for income tax under the liability method. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred taxes result from temporary differences in the recognition of certain income and expense amounts between the Company's consolidated financial statements and its consolidated tax return. The recognition of a deferred tax asset is based on more-likely-than-not recognition criteria.

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

Advertising and marketing costs - The Company expenses advertising and marketing costs as they are incurred. Total advertising and marketing expenses were $101,811 and $48,944 for the years ended December 31, 2015 and 2014, respectively.

Comprehensive income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. In addition to net income, other components of comprehensive income include the net of tax effect of changes in the net unrealized gains and losses on securities available-for-sale.

Stock-based compensation plans - The Company has a stock-based compensation plan (Note 11). Stock-based compensation cost is recognized at the grant-date fair value and is based on awards that are ultimately expected to vest. The cost is recognized over the period during which an employee is required to provide services in exchange for the award. The tax benefit resulting from tax deductions in excess of the compensation cost recognized is classified as a financing activity in the statements of cash flows. In 2015 and 2014 there were windfall adjustments of $279,929 and $84,479, respectively.

Earnings per common share - Earnings per common share (EPS) are computed using the two-class method. Basic EPS are computed by dividing net income allocated to common shares by the weighted-average number of common shares outstanding for the period, excluding any participating securities. Participating securities include unvested restricted shares. Unvested restricted shares are considered participating securities because holders of these securities receive nonforfeitable dividends at the same rate as the holders of the Company's common stock. Diluted EPS are computed by dividing net income allocated to common shares adjusted for reallocation of undistributed earnings of unvested restricted shares by the weighted-average number of common shares determined for the basic EPS plus the dilutive effect of common stock equivalents using the treasury stock method based on the average market price for the period. Some stock options are anti-dilutive and, therefore, are not included in the calculation of diluted EPS.

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

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

Segment information - The Company's activities are considered to be a single industry segment for financial reporting purposes. The Company is engaged in the business of attracting deposits from the general public and providing lending services. Substantially all income is derived from a diverse base of commercial and consumer lending activities and investments.

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

The Company has evaluated subsequent events through March 15, 2016, which is the date the consolidated financial statements were issued.

Note 2 - Investment Securities

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

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
U.S. government agencies	$ 4,739,425	$ 26,718	$ 11,116	$ 4,755,027
Mortgage-backed securities	21,188,750	56,181	179,915	21,065,016
Collateralized mortgage obligations	9,130,004	10,654	77,501	9,063,157
Municipal securities	7,366,796	77,320	16,692	7,427,424
SBA-related securities	11,620,704	10,907	110,580	11,521,031
Total available-for-sale securities	$ 54,045,679	$ 181,780	$ 395,804	$ 53,831,655
December 31, 2014				
Available-for-sale securities				
U.S. government agencies	$ 6,893,836	$ 7,939	$ 28,222	$ 6,873,553
Mortgage-backed securities	15,316,563	121,064	87,944	15,349,683
Collateralized mortgage obligations	7,415,578	25,360	60,139	7,380,799
Municipal securities	3,453,749	12,145	21,752	3,444,142
SBA-related securities	6,561,222	-	163,693	6,397,529
Total available-for-sale securities	$ 39,640,948	$ 166,508	$ 361,750	$ 39,445,706

Note 2 - Investment Securities (continued)

The amortized cost and estimated fair value of investment securities at December 31, 2015, by contractual or expected maturity, are shown below. Expected maturities will differ from contractual maturities, because issuers of certain debt securities have the right to call or prepay their obligations without penalty.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in 1 to 5 years	$ 10,944,518	$ 10,956,777
Due in 5 to 10 years	20,592,836	20,597,178
Due in over 10 years	22,508,325	22,277,700
	$ 54,045,679	$ 53,831,655

The Company did not have any security sales in 2015. Proceeds from the sale of securities were $651,321 in 2014. Gross realized gains totaled $4,423 and gross realized losses were $0 from the sales of securities in 2014.

At December 31, 2015 and 2014, the Company has also pledged securities with a carrying amount of $43,309,390 and $28,280,704, respectively, to collateralize borrowings (Note 6).

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		Over 12 Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2015					
Available-for-sale securities					
U.S. government agencies	$ 11,116	$ 1,985,650	$ -	$ -	$ 11,116
Mortgage-backed securities	136,556	14,331,881	43,359	1,894,665	179,915
Collateralized mortgage obligations	32,927	5,299,528	44,574	1,137,025	77,501
Municipal securities	12,462	1,951,342	4,230	361,904	16,692
SBA-related securities	31,820	6,294,146	78,760	3,161,083	110,580
	$ 224,881	$ 29,862,547	$ 170,923	$ 6,554,677	$ 395,804
December 31, 2014					
Available-for-sale securities					
U.S. government agencies	$ 281	$ 1,006,430	$ 27,941	$ 2,967,250	$ 28,222
Mortgage-backed securities	12,721	2,877,901	75,223	5,064,488	87,944
Collateralized mortgage obligations	3,606	2,183,825	56,533	2,114,238	60,139
Municipal securities	4,313	1,020,969	17,439	882,115	21,752
SBA-related securities	8,434	847,890	155,259	5,549,639	163,693
	$ 29,355	$ 7,937,015	$ 332,395	$ 16,577,730	$ 361,750

Note 2 - Investment Securities (continued)

Certain investment securities shown in the table currently have fair values less than amortized cost and, therefore, contain unrealized losses. The Company has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any Company- or industry-specific event. There are 55 investment securities with unrealized losses at December 31, 2015, and 41 with unrealized losses at December 31, 2014. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment. Management does not intend to sell and will not be required to sell these securities in the near term; therefore, no declines are deemed to be other than temporary.

Note 3 - Loans

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

	2015	2014
Commercial real estate		
Owner-occupied	$ 71,170,512	$ 61,207,824
Nonowner-occupied	82,443,490	61,659,322
Construction and land development	12,090,744	29,146,067
Commercial	143,155,197	132,614,970
Consumer		
Real estate	26,467,269	27,740,031
Other	2,758,700	3,154,291
	338,085,912	315,522,505
Deferred loan fees	(533,206)	(507,213)
Allowance for loan losses	(4,095,618)	(4,013,425)
Total loans, net	$ 333,457,088	$ 311,001,867

The Company maintains an allowance for loan and lease losses (ALLL) to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. The Company's methodology for making such assessments and determining the adequacy of the ALLL includes the following key elements:

1. General valuation allowance consistent with the *Contingencies* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

2. Classified loss reserves on specific relationships. Specific allowances for identified problem loans are determined in accordance with the *Receivables* topic of the FASB ASC.

Note 3 - Loans (continued)

3. The unallocated allowance provides for other factors inherent in the Company's loan portfolio that may not have been contemplated in the general and specific components of the allowance. This unallocated amount generally comprises less than 20% of the allowance. The unallocated amount is reviewed quarterly based on trends in credit losses, the results of credit reviews, and overall economic trends.

The general valuation allowance is systematically calculated quarterly using quantitative and qualitative information about specific loan classes. The minimum required level in which an entity develops a systematic methodology to determine its allowance for loan and lease losses is at the segment level. However, the Company's systematic methodology in determining its allowance for loan and lease losses is prepared at the loan level, which is more detailed than the segment level. The quantitative information uses historical losses from specific loan classes and incorporates the loan's risk rating migration from origination to the point of loss. A loan's risk rating is primarily determined based upon the borrower's ability to fulfill its debt obligation from a cash flow perspective. In the event there is financial deterioration of the borrower, the borrower's other sources of income or repayment are also considered, including recent appraisal values for collateral-dependent loans. The qualitative information takes into account general economic and business conditions affecting the Company's marketplace, seasoning of the loan portfolio, duration of the business cycle, etc., to ensure its methodologies reflect the current economic environment and other factors, because using historical loss information exclusively may not give an accurate estimate of inherent losses within the Company's loan portfolio.

The specific valuation allowance is a reserve for each loan determined to be impaired when the value of the impaired loan is less than its recorded investment. The Company measures the impairment based on the discounted expected future cash flows, observable market price, or the fair value of the collateral, if the loan is collateral-dependent or if foreclosure is probable. The specific reserve for each loan is equal to the difference between the recorded investment in the loan and its determined impairment value.

The ALLL is increased by provisions for loan and lease losses charged to expense, and is reduced by loans charged off, net of recoveries. Although the Company's management believes the best information available is used to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income if circumstances differ from the assumptions used in determining the ALLL.

Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each pool of loans. The Company reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Company strives to maintain a conservative approach to credit quality and will continue to prudently add to the ALLL as necessary to maintain adequate reserves. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality while continuously strengthening loan monitoring systems and controls.

Note 3 - Loans (continued)

The allowance for loan losses and the recorded investment in loans for the years ended December 31 and changes during the years are as follows:

	Beginning Balance	Provision (Recapture) for Loan Losses	Charge-offs	Recoveries	Ending Balance
2015					
Commercial	$ 1,452,463	$ 59,333	$ (92,393)	$ 157,809	$ 1,577,212
Commercial real estate	919,745	60,901	-	-	980,646
Construction and land development	582,498	(214,525)	(86,448)	-	281,525
Consumer	349,908	(25,184)	-	-	324,724
Unallocated	708,811	222,700	-	-	931,511
	$ 4,013,425	$ 103,225	$ (178,841)	$ 157,809	$ 4,095,618
2014					
Commercial	$ 1,271,294	$ 173,470	$ -	$ 7,699	$ 1,452,463
Commercial real estate	878,702	41,043	-	-	919,745
Construction and land development	365,599	361,925	(145,026)	-	582,498
Consumer	246,263	103,645	-	-	349,908
Unallocated	776,337	(67,526)	-	-	708,811
	$ 3,538,195	$ 612,557	$ (145,026)	$ 7,699	$ 4,013,425

The following presents the activity in the allowance for loan losses and impairment method by segment for the years ended December 31:

	Allowance			Loans		
	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
2015						
Commercial	$ 1,577,212	$ 12,463	$ 1,564,749	$ 143,155,197	$ 25,777	$ 143,129,420
Commercial real estate	980,646	-	980,646	153,614,002	-	153,614,002
Construction and land development	281,525	56,615	224,910	12,090,744	450,768	11,639,976
Consumer	324,724	-	324,724	29,225,969	-	29,225,969
Unallocated	931,511	-	931,511	-	-	-
	$ 4,095,618	$ 69,078	$ 4,026,540	$ 338,085,912	$ 476,545	$ 337,609,367
2014						
Commercial	$ 1,452,463	$ -	$ 1,452,463	$ 132,614,970	$ 46,177	$ 132,568,793
Commercial real estate	919,745	-	919,745	122,867,146	-	122,867,146
Construction and land development	582,498	107,443	475,055	29,146,067	537,216	28,608,851
Consumer	349,908	-	349,908	30,894,322	-	30,894,322
Unallocated	708,811	-	708,811	-	-	-
	$ 4,013,425	$ 107,443	$ 3,905,982	$ 315,522,505	$ 583,393	$ 314,939,112

Note 3 - Loans (continued)

The following table shows impaired loans for the years ended December 31:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
2015					
With an allowance recorded					
Commercial	$ 25,777	$ 25,777	$ 12,463	$ 71,954	$ -
With an allowance recorded					
Construction and land development	450,768	1,702,610	56,615	471,847	-
Total					
Commercial	25,777	25,777	12,463	71,954	-
Construction and land development	450,768	1,702,610	56,615	471,847	-
2014					
With no related allowance recorded					
Commercial	$ 46,177	$ 602,443	$ -	$ 46,177	$ -
With an allowance recorded					
Construction and land development	537,216	1,616,162	107,443	651,154	-
Total					
Commercial	46,177	602,443	-	46,177	-
Construction and land development	537,216	1,616,162	107,443	651,154	-

When the Company classifies problem assets as either substandard or doubtful, pursuant to federal regulations, it may establish a specific allowance in an amount it deems prudent and approved by management and the board to address the risk specifically, or it may allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but, unlike specific allowances, have not been specifically allocated to the particular problem assets. When an insured institution classifies problem assets as a loss, pursuant to federal regulations, it is required to charge off such assets in the period in which they are deemed uncollectible. The Company's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the FDIC and the State Department of Financial Institutions, which can require the establishment of additional loss allowances.

Loan risk grades are used by the Company to identify and track potential problem loans that do not rise to the levels described for substandard, doubtful, or loss. The grades for watch and special mention are assigned to loans that have been criticized based upon known characteristics such as periodic payment delinquency or deteriorating financial condition of the borrower and/or guarantors.

Note 3 - Loans (continued)

The following tables show credit quality indicators as of December 31:

Credit risk profile by internally assigned grade

2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate					
Owner-occupied	$ 71,170,512	$ -	$ -	$ -	$ 71,170,512
Nonowner-occupied	82,443,490	-	-	-	82,443,490
Construction and land development	11,639,976	-	450,768	-	12,090,744
Commercial	142,767,380	362,040	25,777	-	143,155,197
Consumer					
Real estate	26,467,269	-	-	-	26,467,269
Other	2,758,700	-	-	-	2,758,700
	$ 337,247,327	$ 362,040	$ 476,545	$ -	$ 338,085,912
2014					
Commercial real estate					
Owner-occupied	$ 59,480,691	$ -	$ 1,727,133	$ -	$ 61,207,824
Nonowner-occupied	61,659,322	-	-	-	61,659,322
Construction and land development	28,608,851	-	537,216	-	29,146,067
Commercial	131,781,998	-	832,972	-	132,614,970
Consumer					
Real estate	27,740,031	-	-	-	27,740,031
Other	3,154,291	-	-	-	3,154,291
	$ 312,425,184	$ -	$ 3,097,321	$ -	$ 315,522,505

The following table shows the age analysis of past due loans as of December 31:

2015	30 - 59 Days Past Due	60 - 90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Nonaccrual Status
Commercial real estate							
Owner-occupied	$ -	$ -	$ -	$ -	$ 71,170,512	$ 71,170,512	$ -
Non-owner-occupied	-	-	-	-	82,443,490	82,443,490	-
Construction and land development	-	-	450,768	450,768	11,639,976	12,090,744	450,768
Commercial	-	-	25,777	25,777	143,129,420	143,155,197	25,777
Consumer						-	
Real estate	-	-	-	-	26,467,269	26,467,269	-
Other	-	-	-	-	2,758,700	2,758,700	-
	$ -	$ -	$ 476,545	$ 476,545	$ 337,609,367	$ 338,085,912	$ 476,545
2014							
Commercial real estate							
Owner-occupied	$ 1,727,133	$ -	$ -	$ 1,727,133	$ 59,480,691	$ 61,207,824	$ -
Non-owner-occupied	-	-	-	-	61,659,322	61,659,322	-
Construction and land development	-	-	537,216	537,216	28,608,851	29,146,067	537,216
Commercial	-	-	46,177	46,177	132,568,793	132,614,970	46,177
Consumer							
Real estate	-	-	-	-	27,740,031	27,740,031	-
Other	-	-	-	-	3,154,291	3,154,291	-
	$ 1,727,133	$ -	$ 583,393	$ 2,310,526	$ 313,211,979	$ 315,522,505	$ 583,393

Note 3 - Loans (continued)

There were no loans with a balance more than 90 days past due and still accruing at December 31, 2015 or 2014.

Loans classified as troubled debt restructurings totaled $186,199 and $551,674 at December 31, 2015 and 2014, respectively. A troubled debt restructuring is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Company is granting the borrower a concession of some kind. The Company has granted a variety of concessions to borrowers in the form of loan modifications. The modifications granted can include a variety of concessions such as rate, term, or payment modification.

Upon identifying those receivables as troubled debt restructurings, the Company identified them as impaired for purposes of determining the allowance for loan losses. This requires the loans to be evaluated individually for impairment, generally based on the expected cash flows under the new terms discounted at the loans' original effective interest rates, or, if the loan is deemed to be collateral-dependent, the impairment is based on the fair value of the collateral less estimated selling costs. For troubled debt restructured loans that subsequently default, the method of determining impairment is generally the fair value of the collateral less estimated selling costs.

One commercial and industrial term loan in the amount of $262,393 was granted a principal reduction concession during 2015. There were no newly restructured loans during 2014. There were no payment defaults on restructured loans during the years ended December 31, 2015 or 2014.

The Company had no commitments to extend additional credit to borrowers owing receivables whose terms have been modified in troubled debt restructurings.

Note 4 - Leaseholds and Equipment

Leaseholds and equipment at December 31 are classified as follows:

	2015	2014
Leasehold improvements	$ 508,416	$ 508,416
Furniture, fixtures, and office equipment	1,112,438	1,104,487
	1,620,854	1,612,903
Less accumulated depreciation and amortization	(1,427,133)	(1,226,756)
	$ 193,721	$ 386,147

Note 5 - Deposits

Deposits as of December 31 consisted of the following:

	2015	2014
Savings accounts	$ 880,305	$ 244,753
Certificates of deposit	29,775,997	26,852,167
Demand accounts		
Noninterest-bearing	208,033,213	177,372,542
Interest-bearing	26,742,198	24,040,550
Money market accounts	159,893,071	108,082,530
	$ 425,324,784	$ 336,592,542

At December 31, 2015, scheduled maturities of certificates of deposit are as follows:

2016	$ 22,615,213
2017	5,821,816
2018	1,338,968
	$ 29,775,997

The Company had $8,591,236 and $10,143,846 of certificates of deposit that met or exceeded the $250,000 federally insured limit at December 31, 2015 and 2014, respectively.

Note 6 - Borrowings and Credit Arrangements

At December 31, 2015, the Company has one outstanding long-term borrowing and a committed line of credit with Bell State Bank & Trust. The borrowing is a five-year term loan that matures on November 10, 2020. The interest rate is fixed at 4.01% for the term of the loan. Payment terms require quarterly interest payments beginning in April 2016, four annual principal reductions of $600,000 beginning in January 2017, and a final principal and interest payment due on November 10, 2020, that will retire the debt. The debt is secured with the Bancorp's holdings of 100% of the shares of Puget Sound Bank, its wholly owned subsidiary. The lender requires that the Company submit periodic financial and problem loan reports and maintain certain metrics to remain in compliance with the terms of the loan. The committed line of credit allows an additional $6,000,000 to be advanced at a then-current market rate of interest. At December 31, 2015, there was an outstanding balance of $6,000,000 on the long-term debt and there was no outstanding balance on the line of credit.

Note 6 - Borrowings and Credit Arrangements (continued)

The Company is a member of the FHLB of Des Moines and, as such, has a committed credit line up to 35% of total assets, subject to sufficient collateral to support the advances. At December 31, 2015, the principal balance of loans pledged as collateral was $106,862,291, and the amount available to borrow totaled $68,069,854. At December 31, 2015, the carrying amount of securities pledged as collateral of $43,309,390 supported additional borrowing capacity of $40,454,313. Borrowings generally provide for interest at the then-current published rates. There were no outstanding balances under this credit arrangement at December 31, 2015 and 2014.

The Company has a committed line of credit through the Federal Reserve Bank of San Francisco. Borrowings generally provide for interest at the then-current published rates. At December 31, 2015, the principal balance of loans pledged as collateral was $79,016,606, and the amount available to borrow totaled $62,447,640. There were no outstanding balances under these credit arrangements at December 31, 2015 and 2014.

At December 31, 2015, the Company has line-of-credit agreements with unaffiliated banks totaling approximately $34,000,000. Such lines generally provide for interest at the lending bank's federal funds rate or other money market rates. These lines are not committed and are still subject to approval by the unaffiliated banks prior to funding. There were no borrowings outstanding or compensating balance requirements under these credit arrangements at December 31, 2015 and 2014.

Note 7 - Income Taxes

The components of the provision for income taxes are as follows at December 31:

	2015	2014
Current	$ 1,860,896	$ 1,954,561
Deferred	173,000	(475,000)
Total	$ 2,033,896	$ 1,479,561

A reconciliation of the tax provision based on statutory corporate tax rates, estimated to be 34%, on pre-tax income and the provision shown in the accompanying statements of income for the years ended December 31 is summarized as follows:

	2015		2014	
	Amount	Percent of Pre-Tax Income	Amount	Percent of Pre-Tax Income
Income taxes at computed statutory rates	$ 2,079,774	34.0%	$ 1,599,016	34.0%
Permanent differences and other, net	(45,878)	(0.8)	(119,455)	(2.5)
Total	$ 2,033,896	33.2%	$ 1,479,561	31.5%

Note 7 - Income Taxes (continued)

The nature and components of the Company's net deferred tax assets established at an estimated tax rate of 34% at December 31 are as follows:

	2015	2014
Allowance for loan losses	$ 1,212,000	$ 1,187,000
Organization expenditures	86,000	62,000
Equity compensation	146,000	81,000
Deferred compensation	287,000	222,000
Unrealized loss on securities	73,000	66,000
Property and equipment depreciation	73,000	10,000
Other	324,000	310,000
Deferred tax asset	2,201,000	1,938,000
Deferred loan costs	217,000	193,000
Other	59,000	-
Deferred tax liability	276,000	193,000
Net deferred tax asset	$ 1,925,000	$ 1,745,000

At December 31, 2015, the Company had unamortized pre-opening expenditures of approximately $252,000 (for tax reporting purposes), which can be used to offset future federal income taxes. These expenditures are amortizing at a rate of approximately $45,000 per year.

The Company applies the provisions of FASB ASC 740 that relate to accounting for uncertainty in income taxes. The Company had no unrecognized tax benefits at December 31, 2015 or 2014. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2015 and 2014, the Company recognized no interest and penalties. The Company files consolidated income tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2012.

Note 8 - Employee Benefits

The Company has a 401(k) defined contribution plan for those employees who meet the eligibility requirements set forth in the plan. Eligible employees can contribute up to 100% of compensation, subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 100%, up to 3% of employee compensation, and 50%, up to the next 2% of employee compensation. Matching contributions vest immediately. The Company's contribution for the years ended December 31, 2015 and 2014, was $148,092 and $137,435, respectively.

The Company provides deferred compensation to certain members of management. The current agreements provide for an annual accrual plus interest to an account over a 10-year period. The accrual under such agreements was $193,044 and $161,545 in 2015 and 2014, respectively. The Company accrues interest on the liability at 5.5%. The liability accrued for under the agreements is included in other liabilities on the consolidated balance sheets. The liability accrued was $845,247 and $652,203 as of December 31, 2015 and 2014, respectively.

Note 9 - Stockholders' Equity

Warrants - At December 31, 2014, there were warrants outstanding to purchase 90,000 shares of the Company's common stock at $10 per share with a 10-year term that were issued in connection with the Company's initial offering. Warrants to purchase 90,000 shares of the Company's common stock were exercised in 2015 prior to their expiration on April 11, 2015.

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

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

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

Note 9 - Stockholders' Equity (continued)

As of December 31, 2015, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier I risked-based, Tier I risk-based, and Tier I leverage ratios, as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31 are also presented in the table.

The Company has elected to be classified as a small bank holding company with the Federal Reserve Board and, therefore, is not required to maintain minimum capital levels at the bank holding company level.

	Actual (in 000's)		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total capital (to risk-weighted assets)	$ 54,087	14.1%	$ 30,663	≥ 8.0%	$ 38,328	≥ 10.0%
Tier I capital (to risk-weighted assets)	$ 49,776	13.0%	$ 22,997	≥ 6.0%	$ 30,663	≥ 8.0%
Tier I common equity capital (to risk-weighted assets)	$ 49,776	13.0%	$ 17,248	≥ 4.5%	$ 24,913	≥ 6.5%
Tier I capital (to average assets)	$ 49,776	10.5%	$ 18,925	≥ 4.0%	$ 23,657	≥ 5.0%
As of December 31, 2014						
Total capital (to risk-weighted assets)	$ 50,658	14.9%	$ 27,135	≥ 8.0%	$ 33,920	≥ 10.0%
Tier I capital (to risk-weighted assets)	$ 46,418	13.7%	$ 13,568	≥ 4.0%	$ 20,352	≥ 6.0%
Tier I capital (to average assets)	$ 46,418	12.4%	$ 15,026	≥ 4.0%	$ 18,783	≥ 5.0%

The Federal Reserve and the FDIC approved final capital rules in July 2013 that substantially amend the existing capital rules for banks. These 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.

Under the amended capital rules, there is a new capital ratio of common equity Tier 1 capital to risk-weighted assets. Common equity Tier 1 capital generally consists of retained earnings and common stock (subject to certain adjustments). In March 2015, the Bank exercised a one-time irrevocable option to exclude investment components of accumulated other comprehensive income (AOCI). The Bank is also required to establish a "conservation buffer" consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets to be phased in by 2019. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

Note 10 - Earnings Per Common Share

Earnings per common share are summarized in the following table:

	2015	2014
Net income	$ 4,083,085	$ 3,223,426
Preferred stock dividends	108,470	98,860
Net income available to common stockholders	$ 3,974,615	$ 3,124,566
Basic weighted-average common shares outstanding	3,255,557	2,958,848
Plus common stock options considered outstanding for dilutive purposes (excludes antidilutive options)	33,496	134,946
Diluted weighted-average common shares outstanding	3,289,053	3,093,794
Basic earnings per share	$ 1.22	$ 1.06
Diluted earnings per share	$ 1.21	$ 1.01

Potential dilutive shares are excluded from the computation of earnings per share if their effect is anti-dilutive. There were 18 anti-dilutive shares outstanding related to options to acquire the Company's common stock at December 31, 2015, and none outstanding at December 31, 2014.

Note 11 - Stock Purchase Agreement and Option Plan

The stockholders of the Company approved the 2012 Long-Term Equity Incentive Plan (the Incentive Plan) in May 2012, which permits the grant of incentive stock options, nonqualified stock options, restricted stock grants, and restricted stock units. The Company believes that such awards better align the interests of its employees and directors with those of its stockholders. The number of shares of common stock awards that may be granted under the Incentive Plan, when added to the number of options granted under the Incentive Plan, shall not exceed 600,000 shares. Restricted stock grants or restricted stock units will be limited to 70% of the share of common stock reserved for issuance under the Incentive Plan. The vesting requirements of these awards are determined by the board of directors and are on an individual basis. The employee must be employed by the Company at the time of vesting or the award is forfeited. There are 494,545 shares available for grant under the Incentive Plan at December 31, 2015.

Compensation cost recognized for the Incentive Plan was $374,423 and $195,908 for December 31, 2015 and 2014, respectively. There was no compensation cost capitalized in 2015 or 2014.

Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest and become exercisable in incremental percentages over three and four years of continuous service from the grant date and expire after 10 years. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the plans).

Note 11 - Stock Purchase Agreement and Option Plan (continued)

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton valuation model that uses the following assumptions. Expected volatilities are based on historical volatility of the Company's stock and other factors. The Company uses historical data and other factors to estimate option exercises and employee terminations because separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of that analysis and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no option grants in 2015 or 2014.

A summary of stock option transactions is presented below:

	Granted Options for Common Stock	Weighted-Average Exercise Price of Shares Under Plan	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2014	291,916	$ 10.03	0.44
Granted	-	-	
Exercised	(242,210)	10.00	
Forfeited	(39,706)	10.00	
Outstanding at December 31, 2015	10,000	$ 11.00	0.55
Options exercisable at December 31, 2015	10,000	$ 11.00	0.55

The total intrinsic value of options exercised during the years ended December 31, 2015 and 2014, was $1,195,509 and $80,414, respectively.

Restricted stock plan - Restricted shares granted vest on an annual basis over four years. The following table summarizes information about restricted shares outstanding at December 31, 2015:

	Restricted Shares Outstanding	Average Grant-Date Fair Value
Balance, beginning of year	41,426	$ 12.52
Granted	54,022	14.75
Vested	(15,350)	12.28
Forfeited/expired	(753)	13.00
Balance, end of year	79,345	$ 14.09

As of December 31, 2015, there was $787,350 of total unrecognized compensation cost related to all stock-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.41 years.

Note 12 - Preferred Stock Issuance

On August 11, 2011, the Company issued a series of preferred stock as part of the United States Department of the Treasury's Small Business Lending Fund (SBLF) Program for gross proceeds of $9,886,000. The Company issued 9,886 shares of Series C preferred stock with a price of $1,000 per share. The redemption price of the SBLF remains $9,886,000, plus any unpaid dividends. The Company's dividend rate was 1% during 2015 and 2014.

The Company redeemed the outstanding SBLF preferred stock on November 6, 2015.

Note 13 - Lease Commitments

Operating lease commitments - The Company leases office premises for its operations and office equipment. The office lease expires in 2020. The office lease requires the Company to pay its pro rata share of building operating expenses. As a result of the acquisition of Core Business Bank, the Company also leases space in another Bellevue, Washington, building. The space under the acquired lease is subleased as of December 31, 2013, of which expires in 2017. The annual lease obligations through the initial lease term, for all of the office space and equipment, are as follows:

	As Lessee	As Lessor
2016	$ 548,922	$ 100,819
2017	723,946	77,330
2018	645,058	-
2019	637,056	-
2020	637,056	-
	$ 3,192,038	$ 178,149

Rental expense, including operating expenses, offset by rental income received that was charged to operations was $600,560 and $541,880 for the years ended December 31, 2015 and 2014, respectively.

Note 14 - Related Party Transactions

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

	2015	2014
Loans outstanding	$ 1,596,133	$ 2,486,257
New loans	991,800	-
Repayments	(1,010,161)	(890,124)
Loans outstanding	$ 1,577,772	$ 1,596,133
Commitments to extend credit	$ -	$ -

Deposits to related parties were $16,107,733 and $13,254,455 at December 31, 2015 and 2014, respectively.

Note 15 - Commitments and Contingencies

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

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

Note 15 - Commitments and Contingencies (continued)

Commitments to extend credit and financial guarantees - Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that approximately 50% of loan commitments are drawn upon by customers. The Company evaluates customers' creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment;, and income-producing commercial properties.

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company maintains various levels of collateral supporting those commitments for which collateral is deemed necessary.

The Company has not been required to perform on any financial guarantees. The Company has not incurred any losses on its commitments in 2015 or 2014.

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

	2015	2014
Commitments to extend credit	$ 127,246,369	$ 129,113,747
Standby letters of credit	10,958,978	6,999,038

At periodic intervals, the state of Washington and the FDIC routinely examine the Bank's consolidated financial statements as part of their legally prescribed oversight of the banking system. Based on these examinations, the regulators can direct that the Company's consolidated financial statements be adjusted in accordance with their findings.

Note 16 - Fair Value of Financial Instruments

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

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

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

There is a three-level valuation hierarchy for determining fair value that is based on the transparency of the inputs used in the valuation process. The inputs used in determining fair value in each of the three levels of the hierarchy are as follows:

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

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

Level 3 - Unobservable inputs.

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

Qualitative disclosures of valuation techniques

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

Note 16 - Fair Value of Financial Instruments (continued)

Impaired loans - The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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

	Level 1	Level 2	Level 3	Total
2015				
Securities available-for-sale				
U.S. government agencies	$ -	$ 4,755,027	$ -	$ 4,755,027
Mortgage-backed securities	-	21,065,016	-	21,065,016
Collateralized mortgage obligations	-	9,063,157	-	9,063,157
Municipal securities	-	7,427,424	-	7,427,424
SBA-related securities	-	11,521,031	-	11,521,031
2014				
Securities available-for-sale				
U.S. government agencies	$ -	$ 6,873,553	$ -	$ 6,873,553
Mortgage-backed securities	-	15,349,683	-	15,349,683
Collateralized mortgage obligations	-	7,380,799	-	7,380,799
Municipal securities	-	3,444,142	-	3,444,142
SBA-related securities	-	6,397,529	-	6,397,529

There were no significant transfers between levels during 2015.

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

	Level 1	Level 2	Level 3	Total
2015				
Impaired loans	$ -	$ -	$ 476,545	$ 476,545
2014				
Impaired loans	$ -	$ -	$ 583,393	$ 583,393

Note 16 - Fair Value of Financial Instruments (continued)

Quantitative information about Level 3 fair value measurements - The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the years ending December 31, 2015 and 2014, along with the valuation techniques used, are shown in the following table:

	Fair Value at December 31	Valuation Technique	Unobservable Input	Range (Weighted-Average) [1]
2015				
Impaired loans	$ 476,545	Purchase price	Adjustment to purchase price	25% - 50% (25.9%)

[1] Discount to purchase price

2014				
Impaired loans	$ 583,393	Market comparable	Adjustment to appraisal value	0% - 44% (37.9%)

[1] Discount to appraised value

The fair value estimates that follow are subjective in nature and involve uncertainties and matters of significant judgment; therefore, they are not necessarily indicative of the amounts the Company could realize in a current market exchange. The Company has not included certain material items in its disclosure, such as the value of the long-term relationships with the Company's lending and deposit clients, since this is an intangible and not a financial instrument. Additionally, the estimates do not include any tax ramifications. There may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could materially affect the results. For all of these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

Estimated fair values of the Company's financial instruments at December 31 were as follows:

	Carrying	Fair	Fair Value Measurements Using		
2015	Amount	Value	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 29,312,734	$ 29,312,734	$ 29,312,734	$ -	$ -
Interest-bearing deposits in banks	54,722,168	54,722,168	54,722,168	-	-
Securities available-for-sale	53,831,655	53,831,655	-	53,831,655	-
Federal Home Loan Bank and Pacific Coast Bankers' Bank stock	655,300	655,300	-	655,300	-
Loans, net	333,457,088	328,664,063	-	-	328,664,063
Accrued interest receivable	1,060,940	1,060,940	1,060,940	-	-
Financial liabilities					
Deposits	$ 425,324,784	$ 425,299,317	$ 395,548,787	$ 29,750,530	$ -
Accrued interest payable	64,747	64,747	64,747	-	-
Borrowings	6,000,000	5,906,975	-	-	5,906,975

Note 16 - Fair Value of Financial Instruments (continued)

2014	Carrying Amount	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 18,137,860	$ 18,137,860	$ 18,137,860	$ -	$ -
Interest-bearing deposits in banks	9,961,006	9,961,006	9,961,006	-	-
Securities available-for-sale	39,445,706	39,445,706	-	39,445,706	-
Federal Home Loan Bank and Pacific Coast Bankers' Bank stock	585,700	585,700	-	585,700	-
Loans, net	311,001,867	307,839,801	-	-	307,839,801
Accrued interest receivable	894,339	894,339	894,339	-	-
Financial liabilities					
Deposits	$ 336,592,542	$ 336,604,837	$ 309,740,375	$ 26,864,462	$ -
Accrued interest payable	37,531	37,531	37,531	-	-

Cash and due from banks and accrued interest - The carrying amount represents fair value.

Interest-bearing deposits in banks - The carrying amounts of interest-bearing deposits maturing within 90 days approximate their fair values. Fair values of interest-bearing deposits maturing after 90 days are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities available-for-sale - Fair values are based on quoted market prices or dealer quotations.

Federal Home Loan Bank stock and Pacific Coast Bankers' Bank stock - The carrying value is par value and there is no readily determinable fair value.

Net loans - Fair values are estimated using current market interest rates to discount future cash flows. Interest rates used to discount the cash flows are based on the U.S. Treasury yields or other market interest rates with appropriate spreads. The spread over the treasury yields or other market rates is used to account for liquidity, credit quality, and higher servicing costs. Prepayment rates are based on expected future prepayment rates or, where appropriate and available, market prepayment rates.

Deposit accounts - The fair value of deposits with no stated maturity, such as demand, checking, money market, and savings accounts, equals the amount payable on demand. The fair value of certificates of deposit is calculated based on the discounted value of contractual cash flows. The discount rate is equal to the rate currently offered on similar products.

Borrowings - The fair value of borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Off-balance-sheet instruments - The fair value of commitments to extend credit and letters of credit was estimated using the fees currently charged to enter into similar arrangements, taking into account the remaining terms of the agreements and the present creditworthiness of the customers. Because the majority of the Company's off-balance-sheet instruments consist of non-fee-producing, variable-rate commitments, the Company has determined they do not have a distinguishable fair value.