OAK VIEW NATIONAL BANK

Warrenton, Virginia

FINANCIAL REPORT

DECEMBER 31, 2015

C O N T E N T S

YHB Yount Hyde & Barbour
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
Oak View National Bank
Warrenton, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence 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 Oak View National Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
April 20, 2016

OAK VIEW NATIONAL BANK
Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and due from banks	$ 1,550,497	$ 1,203,046
Interest-bearing deposits in other banks	20,115,820	24,182,747
Securities held to maturity, at cost (fair value of $1,900,514 and $999,921 for 2015 and 2014)	1,902,630	1,000,660
Restricted stock, at cost	1,546,050	1,322,080
Loans, net of allowance for loan losses of $1,488,191 and $1,455,977 for 2015 and 2014, respectively	142,360,985	137,102,912
Premises and equipment, net	6,023,402	6,248,710
Bank owned life insurance	4,596,613	- -
Accrued interest receivable	407,610	370,003
Deferred tax asset, net	948,238	1,355,671
Other assets	184,829	178,772
Total assets	$ 179,636,674	$ 172,964,601
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 27,537,586	$ 22,219,335
Savings, interest-bearing checking and money market accounts	59,141,006	64,108,060
Time, $250,000 and over	5,963,308	6,762,243
Other time	49,996,310	50,046,557
Total deposits	$ 142,638,210	$ 143,136,195
Federal Home Loan Bank advances	17,900,000	12,900,000
Accrued expenses and other liabilities	760,492	663,570
Total liabilities	$ 161,298,702	$ 156,699,765
Commitments and Contingent Liabilities	$ - -	$ - -
Shareholders' Equity		
Preferred stock		
$ 5 par value, authorized 2,000,000 shares, none issued and outstanding	- -	- -
Common stock		
$ 1 par value, authorized 10,000,000 shares, 2,873,456 shares issued and outstanding at December 31, 2015; 2,623,456 shares issued and outstanding at December 31, 2014	$ 2,873,456	$ 2,623,456
Additional paid-in capital	17,347,989	16,347,989
Retained (deficit)	(1,883,473)	(2,706,609)
Total shareholders' equity	$ 18,337,972	$ 16,264,836
Total liabilities and shareholders' equity	$ 179,636,674	$ 172,964,601

See Notes to Financial Statements.

OAK VIEW NATIONAL BANK
Statements of Income
For the Years Ended December 31, 2015 and 2014

	2015	2014
Interest and Dividend Income		
Interest and fees on loans	$ 6,573,050	$ 6,424,339
Interest on held to maturity securities	18,099	8,650
Dividends on restricted stock	79,975	65,510
Interest on interest-bearing deposits in other banks	235,578	176,672
Interest on federal funds sold	10,191	16,909
Total interest and dividend income	$ 6,916,893	$ 6,692,080
Interest Expense		
Interest on deposits	$ 829,369	$ 965,051
Interest on Federal Home Loan Bank advances	181,676	180,520
Interest on federal funds purchased	962	- -
Total interest expense	$ 1,012,007	$ 1,145,571
Net Interest Income	$ 5,904,886	$ 5,546,509
Provision for (Recovery of) Loan Losses	(20,204)	173,044
Net interest income after provision for (recovery of) loan losses	$ 5,925,090	$ 5,373,465
Noninterest Income		
Service charges on deposit accounts	$ 59,684	$ 53,885
Card fee income	148,840	115,234
Income on Bank owned life insurance	96,653	- -
Other income	170,567	164,529
Total noninterest income	$ 475,744	$ 333,648
Noninterest Expenses		
Salaries and employee benefits	$ 2,935,813	$ 2,942,943
Occupancy and equipment expense	540,723	558,235
Professional services	376,187	336,738
Data processing	697,363	645,162
Promotional and marketing	141,759	148,442
Other operating expenses	478,420	410,425
Total noninterest expenses	$ 5,170,265	$ 5,041,945
Net income before tax	$ 1,230,569	$ 665,168
Income tax expense	407,433	226,146
Net income	$ 823,136	$ 439,022
Earnings per Share, basic and diluted	$ 0.31	$ 0.17
Weighted Average Shares Outstanding, basic	2,687,155	2,623,456
Weighted Average Shares Outstanding, diluted	2,692,651	2,650,696

See Notes to Financial Statements.

OAK VIEW NATIONAL BANK
Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2015 and 2014

	Common Stock	Additional Paid-In Capital	Retained (Deficit)	Total
Balance at December 31, 2013	$ 2,623,456	$ 16,344,480	$ (3,145,631)	$ 15,822,305
Net income	- -	- -	439,022	439,022
Common stock issued	- -	3,509	- -	3,509
Balance at December 31, 2014	$ 2,623,456	$ 16,347,989	$ (2,706,609)	$ 16,264,836
Net income			823,136	823,136
Common stock issued from exercise of warrants	250,000	1,000,000	- -	1,250,000
Balance at December 31, 2015	$ 2,873,456	$ 17,347,989	$ (1,883,473)	$ 18,337,972

See Notes to Financial Statements.

OAK VIEW NATIONAL BANK
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 823,136	$ 439,022
Net amortization and accretion of securities	530	191
Depreciation and amortization	259,329	272,481
Provision for (recovery of) loan losses	(20,204)	173,044
Gain on sale and write down on other real estate owned, net	(819)	- -
Deferred tax expense	407,433	226,146
Income on bank owned life insurance	(96,653)	- -
Changes in assets and liabilities:		
(Increase) in accrued interest and other assets	(43,624)	(40,455)
Increase in accrued expenses and other liabilities	96,922	46,860
Net cash provided by operating activities	$ 1,426,050	$ 1,117,289
Cash Flows from Investing Activities		
Purchases of securities held to maturity	$ (1,402,500)	$ (500,781)
Maturities of securities held to maturity	500,000	500,000
(Increase) decrease in interest-bearing deposits in other banks	4,066,927	(2,819,733)
Net (purchases) of restricted stock	(223,970)	(17,200)
Purchase of bank owned life insurance	(4,500,000)	- -
Net (increase) in loans	(5,368,603)	(16,289,433)
Proceeds from the sale of other real estate owned	131,553	- -
Purchases of premises and equipment	(34,021)	(523,973)
Net cash (used in) investing activities	$ (6,830,614)	$ (19,651,120)
Cash Flows from Financing Activities		
Net increase in demand, savings, interest-bearing checking and money market deposits	$ 351,197	$ 13,388,834
Net increase (decrease) in time deposits	(849,182)	5,413,396
Net increase in FHLB advances	5,000,000	- -
Refund of stock issuance costs	- -	3,509
Exercise of warrants	1,250,000	- -
Net cash provided by financing activities	$ 5,752,015	$ 18,805,739
Net increase in cash and cash equivalents	$ 347,451	$ 271,908
Cash and cash equivalents, beginning	1,203,046	931,138
Cash and cash equivalents, ending	$ 1,550,497	$ 1,203,046
Supplemental Disclosures of Cash Flow Information,		
Cash payments for interest	$ 1,022,303	$ 1,148,983
Transfer from loans to other real estate owned	$ 130,734	$ - -

See Notes to Financial Statements.

OAK VIEW NATIONAL BANK

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Oak View National Bank (the Bank) was organized under federal law as a national banking association to engage in a general banking business serving the communities in and around Marshall and Warrenton, Virginia.

The Bank commenced regular operations on June 8, 2009 and is a member of the Federal Deposit Insurance Corporation. It is subject to the regulations of the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency.

In the Bank's initial common stock offering in 2009, the Bank sold 1,402,606 shares of its common stock par value $1 per share, at $10 per share. Of the proceeds, $1,402,606 was credited to common stock and $12,623,454 was credited to additional paid-in capital.

On August 26, 2011, the Bank issued a Private Placement Memorandum relating to a private offering of up to 200,000 units at $10 per unit. Each unit consisted of one share of common stock and one warrant to purchase one share of common stock at a price of $11.00 at any time until December 31, 2018. On December 15, 2011, the Board approved a modification to the private offering changing the offering price from $10 to $5 for each share of common stock with no attached warrant. In the private offering, which closed on December 31, 2011, the Bank sold 189,100 shares of its common stock par value $1 per share at $5 per share. Of the net proceeds, $189,100 was credited to common stock and $726,770 was credited to additional paid-in-capital, net of offering costs.

On June 4, 2012, the Bank issued a prospectus for the sale of up to 1,200,000 shares of common stock. Of the 1,200,000 shares, 600,000 shares were allocated to be offered in a community offering to existing shareholders and investors primarily residing or doing business in the Warrenton, Marshall, Culpeper and Fauquier County areas of Virginia. The remaining 600,000 shares, plus any shares not subscribed in the community offering, were to be offered in a public offering through McKinnon & Company, Inc., acting as underwriter on a best efforts basis. In the community offering, the Bank sold 401,750 shares of its common stock par value $1 per share at $4 per share with 377,250 shares closing on August 16, 2012 and 24,500 shares closing on September 6, 2012. In the public offering, 625,000 shares of the Bank’s $1 par value common stock were sold at $4 per share and closed on August 21, 2012. From the net proceeds of the combined offerings, $1,026,750 was credited to common stock and $2,658,288 to additional paid-in capital, net of offering costs.

In recognition of the substantial financial risks undertaken by the organizing directors, the Bank granted these parties an aggregate 255,000 warrants. These warrants were exercisable at a price of $5.00 per share. On September 30, 2015 all of the Bank’s outstanding warrants were exercised by their holders resulting in the issuance of 250,000 shares of the Bank’s $1 par value common stock. Based upon the exercise price of $5 per share, $250,000 was credited to common stock and $1,000,000 to additional paid-in capital.

Significant Accounting Policies

The following is a description of the significant accounting policies and practices followed by the Bank, which conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and amounts due from banks. The Bank is a member of the Federal Reserve System and is required to maintain certain levels of its cash and cash equivalents as reserves based on regulatory requirements. This reserve requirement was $411,000 at December 31, 2015 and $208,000 at December 31, 2014. The Company maintains cash accounts in other commercial banks. The amount on deposit with correspondent institutions at December 31, 2015 exceeded the insurance limits of the Federal Deposit Insurance Corporation by $40,343.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks have various maturities with a maximum of 120 months and are carried at cost.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the Bank intends to sell the security of (ii) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more-than-likely that the Bank will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income. For equity securities carried at cost as restricted securities, impairment is considered to be other-than-temporary based on our ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in income.

Restricted Stock

As a requirement for membership, the Bank invests in the stock of the Federal Home Loan Bank of Atlanta ("FHLB"), the Federal Reserve Bank, Community Bankers Bank and Banker's Title. These investments are carried at cost.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by residential and commercial loans throughout the Fauquier County area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

The Bank segments its loan portfolio into real estate mortgage loans, commercial loans and consumer loans. Real estate mortgage loans are further divided into the following classes: construction and land development, residential real estate, nonresidential real estate and home equity loans. Risk factors evaluated include the economic environment's impact on each portfolio segment and the following specific risk factors:

- Construction and land development real estate loans carry risk associated with the completion of the project, the value of the collateral, and the continued credit-worthiness of the borrower.

- Residential real estate mortgage loans include loans for consumer purposes and loans for investment purposes. Single family residential (1-4 units) loans for consumer purposes carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral. Single family residential (1-4 units) loans for investment purposes carry risks associated with the continued credit-worthiness of the borrower, the value of the collateral, and either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral.

- Nonresidential real estate loans include owner-occupied commercial real estate loans and non owner-occupied commercial loans. Owner-occupied commercial real estate loans carry risk associated with the operations of the business that occupies the property and the value of the collateral. Non owner-occupied commercial real estate loans carry risk associated with either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral. Other risk factors include the credit-worthiness of the sponsor and the value of the collateral.

- Home equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.

- Commercial non-real estate loans carry risk associated with the operations of the business and the value of the collateral, if any.

- Consumer loans represent a small portion of the portfolio and carry risk associated with the credit-worthiness of the borrower and the value of the collateral, if any.

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 unpaid principal balances adjusted for the allowance for loan losses and any unamortized deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

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

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

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 uncollectability 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 collectability of the loans in light of historical experience of peer banks, 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.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the collateral value, less costs to sell or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Characteristics of the Bank's risk classification grades are as follows:

- Pass rated loans include all loans which are considered to be either high quality, good quality or acceptable quality. Borrowers in this category have acceptable financial condition with demonstrated repayment ability.
- Special mention loans have potential developing weaknesses that deserve extra

attention. If the developing weakness is not corrected or mitigated, there may be deterioration in the ability of the borrower to repay.

- Substandard loans are considered to have a well-defined weakness and a possibility that some future loss will be sustained if such weakness is not corrected.

- Doubtful loans have all the weaknesses inherent in loans classified Substandard, plus 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 represents a classification for loans which are considered uncollectable and are in the process of being charged off.

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 on a loan-by-loan basis for commercial and construction loans 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Premises and Equipment

Land is carried at cost. Furniture, equipment, leasehold improvements and software are carried at cost less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years, or the expected terms of the leases, if shorter.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Bank did not recognize any uncertain tax positions at December 31, 2015 and 2014.

Bank Owned Life Insurance

The Bank purchased life insurance policies during 2015 on certain key executives. These policies are recorded at their cash surrender values. Increases in the cash surrender value of the life insurance contracts are included in noninterest income.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less anticipated cost to sell at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management, and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Changes in the valuation allowance are included in the income statement in the line "Other operating expenses." As of December 31, 2015 and 2014, the Bank had no other real estate owned and there were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising expenses were $50,723 and $45,872 in 2015 and 2014, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The Bank had no other comprehensive income at December 31, 2015 and 2014.

Earnings Per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank related solely to outstanding stock options and stock warrants, and are determined using the treasury stock method. At December 31, 2015, stock options to purchase 147,905 shares were outstanding. 83,571 options were not included in the calculation of dilutive weighted average shares as their impact would be anti-dilutive.

Reclassifications

Certain reclassifications have been made to prior periods to conform to current year presentation. None were of a material nature.

Recent Accounting Pronouncements

In June 2014, the FASB issued ASU No. 2014-12, “Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in “Compensation – Stock Compensation (Topic 718),” should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The adoption of the new guidance did not have a material impact on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” This update is intended to provide guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Bank does not expect the adoption of ASU 2014-15 to have a material impact on its financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The amendments in this ASU are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Bank does not expect the adoption of ASU 2015-03 to have a material impact on its financial statements.

In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date.” The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09. The Bank does not expect the adoption of ASU 2015-14 (or ASU 2014-09) to have a material impact on its financial statements.

In August 2015, the FASB issued ASU 2015-15, “Interest – Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting).” On April 7, 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance in ASU 2015-03 (see paragraph 835-30-45-1A) does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 adds these SEC comments to the "S" section of the Codification. The adoption of ASU 2015-15 did not have a material impact on our financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: 1) 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. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank is currently assessing the impact that ASU 2016-01 will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Bank is currently assessing the impact that ASU 2016-02 will have on its financial statements.

Note 2. Securities

Amortized cost and fair values of securities held to maturity as of December 31, 2015 and 2014, are as follows:

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government, and Federal agencies	$ 1,252,630	2,685	(4,801)	$ 1,250,514
Corporate Debt Securities	650,000	- -	- -	650,000
Total	$ 1,902,630	$ 2,685	$ (4,801)	$ 1,900,514

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and Federal agencies	$ 1,000,660	$ 129	$ (868)	$ 999,921

The amortized cost and fair value of securities held to maturity as of December 31, 2015 and 2014, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$ - -	$ - -	$ 499,988	$ 500,117
One to three years	- -	- -	- -	- -
Three to five years	1,252,630	1,250,514	500,672	499,804
Five to ten years	650,000	650,000	- -	- -
	$ 1,902,630	$ 1,900,514	$ 1,000,660	$ 999,921

The held to maturity investments in an unrealized loss position at December 31, 2015 and 2014 that were temporarily impaired are as follows:

	2015					
	Less than 12 months		12 Months of More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Securities of U.S. government and Federal agencies	$ 747,311	$ (4,801)	$ - -	$ - -	$ 747,311	$ (4,801)

	2014					
	Less than 12 months		12 Months of More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Securities of U.S. government and Federal agencies	$ 499,804	$ (868)	$ - -	$ - -	$ 499,804	$ (868)

There are no trading securities or available for sale securities at December 31, 2015 or 2014.

At December 31, 2015, $1,250,000 of U.S. Government and Agency obligations with a carrying value of $1,252,630 were pledged to the Virginia Treasury Board as security for public deposits. At December 31, 2014, $1,000,000 of U.S. Government obligations with a carrying value of $1,000,660 were pledged to the Virginia Treasury Board as security for public deposits.

Note 3. Loans

A summary of the balances of loans follows:

	2015	2014
Real Estate Mortgage:		
Construction and land development	$ 3,796,970	$ 950,007
Residential real estate	71,285,977	70,392,757
Nonresidential	38,592,749	40,343,710
Home equity loans	8,619,042	7,282,498
Consumer	2,886,129	2,815,207
Commercial	18,610,316	16,686,425
Loans, gross	$ 143,791,183	$ 138,470,604
Less:		
Allowance for loan losses	1,488,191	1,455,977
Unearned income (deferred costs), net	(57,993)	(88,285)
Loans, net	$ 142,360,985	$ 137,102,912

Overdrafts totaling $3,061 and $2,148 at December 31, 2015 and 2014 were reclassified from deposits to loans.

A summary of activity in the allowance for loan losses is as follows for the years ended December 31, 2015 and 2014:

	December 31, 2015			
	Real Estate Mortgage	Consumer	Commercial	Total
Allowance for Loan Losses:				
Balance, December 31, 2014	$ 1,333,110	$ 16,390	$ 106,477	$ 1,455,977
Loans charged off	- -	(1,396)	(40,000)	(41,396)
Recoveries	92,322	150	1,342	93,814
Net loans charged off	$ 92,322	$ (1,246)	$ (38,658)	$ 52,418
Provision for (recovery of) loan losses	(55,619)	4,061	31,354	(20,204)
Balance, December 31, 2015	$ 1,369,813	$ 19,205	$ 99,173	$ 1,488,191
Ending balance: individually evaluated for impairment	$ - -	$ - -	$ - -	$ - -
Ending balance: collectively evaluated for impairment	$ 1,369,813	$ 19,205	$ 99,173	$ 1,488,191
Loans:				
Balance, December 31, 2015	$ 122,294,738	$ 2,886,129	$ 18,610,316	$ 143,791,183
Ending balance: individually evaluated for impairment	$ - -	$ - -	$ - -	$ - -
Ending balance: collectively evaluated for impairment	$ 122,294,738	$ 2,886,129	$ 18,610,316	$ 143,791,183

	December 31, 2014			
	Real Estate Mortgage	Consumer	Commercial	Total
Allowance for Loan Losses:				
Balance, December 31, 2013	$ 1,207,329	$ 42,217	$ 169,274	$ 1,418,820
Loans charged off	(135,822)	(203)	- -	(136,025)
Recoveries	- -	138	- -	138
Net loans charged off	$ (135,822)	$ (65)	$ - -	$ (135,887)
Provision for loan losses	252,796	(24,485)	(55,267)	173,044
Balance, December 31, 2014	$ 1,324,303	$ 17,667	$ 114,007	$ 1,455,977
Ending balance: individually evaluated for impairment	$ - -	$ - -	$ - -	$ - -
Ending balance: collectively evaluated for impairment	$ 1,324,303	$ 17,667	$ 114,007	$ 1,455,977
Loans:				
Balance, December 31, 2014	$ 118,968,972	$ 2,815,207	$ 16,686,425	$ 138,470,604
Ending balance: individually evaluated for impairment	$ 371,481	$ - -	$ 40,000	$ 411,481
Ending balance: collectively evaluated for impairment	$ 118,597,491	$ 2,815,207	$ 16,646,425	$ 138,059,123

The following table represents the credit quality of loan by class as December 31, 2015 and 2014:

	December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Loss
Real estate mortgage	$ 119,059,609	$ 1,517,033	$ 1,718,096	$ - -	$ - -
Consumer	2,886,129	- -	- -	- -	- -
Commercial	18,610,316	- -	- -	- -	- -
Total	$ 140,556,054	$ 1,517,033	$ 1,718,096	$ - -	$ - -

	December 31, 2014				
	Pass	Special Mention	Substandard	Doubtful	Loss
Real estate mortgage	$ 117,206,756	$ - -	$ 1,762,216	$ - -	$ - -
Consumer	2,815,207	- -	- -	- -	- -
Commercial	16,646,425	- -	40,000	- -	- -
Total	$ 136,668,388	$ - -	$ 1,802,216	$ - -	$ - -

There were no impaired loans as of December 31, 2015 and $411,481 of impaired loans as of December 31, 2014. There were no nonaccrual loans at December 31, 2015 and $411,481 of nonaccrual loans at December 31, 2014. There were no loans considered a troubled debt restructuring at December 31, 2015 or December 31, 2014.

There were no loans greater than 30 days past due at December 31, 2015 and four loans with a principal balance of $146,508 greater than 30 days past due at December 31, 2014.

Note 4. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2015	2014
Land	$ 3,072,655	$ 3,064,372
Building and improvements	2,821,783	2,812,883
Furniture, fixtures and equipment	1,180,708	1,163,870
Software	81,591	81,591
	$ 7,156,737	$ 7,122,716
Less accumulated depreciation	1,133,335	874,006
	$ 6,023,402	$ 6,248,710

For the years ended December 31, 2015 and 2014, depreciation expense was $259,329 and $272,481, respectively.

Following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2015:

During the year ending December 31:		
2016	$	13,947
2017		8,891
2018		4,446
	$	27,284

Total rent expense for the year ended December 31, 2015 and 2014 amounted to $17,522 and $18,205, respectively.

Note 5. Related Party Transactions

Executive officers, directors and their affiliates had loans outstanding of $3,445,069 and $2,378,864 at December 31, 2015 and 2014, respectively. Unfunded commitments were $195,864 and $205,402 at December 31, 2015 and 2014, respectively. During the year ended December 31, 2015, total principal additions were $2,244,621 and total principal repayments were $1,178,416.

Deposits from related parties held by the Bank amounted to $2,194,746 and $1,575,818 at December 31, 2015 and 2014, respectively.

In management's opinion, these transactions occurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with unrelated persons.

Note 6. Time Deposits

Remaining maturities on certificates of deposit are as follows:

Certificates of Deposit		
2016	$	23,274,414
2017		13,968,088
2018		11,472,103
2019		3,117,842
2020		4,127,170
	$	55,959,618

There were no brokered deposits at December 31, 2015 and 2014.

Note 7. Borrowings

The Bank has a credit line available with the Federal Home Loan Bank totaling $43.2 million at December 31, 2015. As of December 31, 2015 and 2014, the Bank had advances outstanding of $17.9 million and $12.9 million, respectively. These advances are secured by a blanket floating lien on real estate mortgage loans secured by 1 to 4 family residential properties. Total collateral under the blanket lien amounted to approximately $60 million and $59 million as of December 31, 2015 and 2014, respectively.

The contractual maturities of Federal Home Loan Bank advances are as follows:

	Balance	Rate
2016	$ 10,000,000	1.15%
2017	7,900,000	1.14%
Total	$ 17,900,000	1.15%

The Bank established a credit facility with the Federal Reserve Bank in 2015. This facility is secured by a blanket floating lien on real estate mortgage loans secured by commercial properties and commercial loans. No amounts were outstanding at December 31, 2015. The collateral under the blanket lien amounted to approximately $44 million with availability on the facility of $30.9 million.

The Bank has unsecured federal fund lines available with correspondent banks totaling $8 million available for overnight borrowing. No amounts were outstanding at December 31, 2015 and 2014.

Note 8. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014 are presented below:

	2015	2014
Deferred Tax Assets:		
Allowance for loan losses	$ 476,154	$ 483,023
Organizational and start-up expenses	303,198	339,222
Net operating loss carryforward	154,426	547,002
HELOC expenses	724	- -
Stock based compensation	31,279	31,279
Charitable contributions	5,609	5,094
	$ 971,390	$ 1,405,620
Deferred Tax Liabilities:		
Depreciation	$ 3,669	$ 19,932
Deferred loan fees	19,483	30,017
	$ 23,152	$ 49,949
Net deferred tax assets	$ 948,238	$ 1,355,671

The provision for income taxes charged to operations for the years ended December 31, 2015 and 2014, consists of the following:

	2015	2014
Current tax expense	$ - -	$ - -
Deferred tax expense	407,433	226,146
	$ 407,433	$ 226,146

Under the provisions of the Internal Revenue Code, the Bank has approximately $454,194 of net operating loss carryforwards which can be offset against future taxable income. The carryforwards expire through December 31, 2031. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the carryforward period.

The Bank is no longer subject to examination for federal purposes for the tax years prior to 2012.

Note 9. Financial Instruments With Off-Balance-Sheet Risk

The Bank is party to credit related 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 and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2015 and 2014, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2015	2014
Commitments to extend credit	$ 1,900,700	$ 2,529,500
Unfunded commitments under lines of credit	22,352,865	15,604,354
Commercial and standby letters of credit	548,463	144,400
	$ 24,802,028	$ 18,278,254

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary.

Note 10. Minimum Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in January 1, 2019. As part of the new requirements, the Common Equity Tier 1 Capital is calculated and utilized in the assessment of capital for all institutions. Capital amounts and ratios for December 31, 2014 were calculated using the Basel I rules, which were effective until January 1, 2015. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2015, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2015 and 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are not conditions or events since that notification that management believes have changed the institution's category.

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

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
As of December 31, 2015:						
Total Capital (to Risk Weighted Assets)	$ 19,674	15.95%	$ 9,868	8.00%	$ 12,336	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 18,185	14.74%	$ 7,401	6.00%	$ 9,868	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 18,185	14.74%	$ 5,551	4.50%	$ 8,018	6.50%
Tier 1 Capital (to Average Assets)	$ 18,185	10.34%	$ 7,037	4.00%	$ 8,796	6.00%
As of December 31, 2014:						
Total Capital (to Risk Weighted Assets)	$ 16,796	14.64%	$ 9,180	8.00%	$ 11,475	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 15,361	13.39%	$ 4,590	4.00%	$ 6,885	6.00%
Tier 1 Capital (to Average Assets)	$ 15,361	8.94%	$ 13,749	8.00%	$ 13,749	8.00%

Note 11. Fair Value Measurements

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The Bank had no financial instruments that were recognized at fair value in the financial statements on a recurring or nonrecurring basis at December 31, 2015 and 2014.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

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

Securities: The fair value of securities is based on quoted market prices. If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data.

Restricted stock: For these restricted equity securities, the carrying amount is a reasonable estimate of fair value based on the redemption provisions of the related entities.

Loans: For each category of loans fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit liabilities: The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. For all other deposits, the fair value of deposits is estimated using discounted cash flow analysis using discount rates derived from bank specific estimations for deposits of similar remaining maturities.

Other borrowed funds: Fair values of other borrowed funds are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Bank owned life insurance: The cash values of these policies are estimates using information provided by insurance carriers. The policies are carried at their cash surrender value, which approximates fair value.

Accrued interest: The carrying amount of accrued interest approximates fair value.

The estimated fair values and related carrying amounts of the Bank's financial instruments as of December 31, 2015 and 2014 are as follows:

		Fair Value Measurements at December 31, 2015 using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
			(In thousands)		
Financial assets:					
Cash and cash equivalents	$ 1,550	$ 1,550	$ - -	$ - -	$ 1,550
Interest-bearing deposits in banks	20,116	1,866	18,590	- -	20,456
Securities held to maturity	1,903	- -	1,258	650	1,908
Restricted stock	1,546	- -	1,546	- -	1,546
Loans, net	142,360	- -	- -	141,051	141,051
Bank owned life insurance	4,597	- -	4,597		4,597
Accrued interest receivable	408	- -	408	- -	408
Total financial assets	$ 172,480	$ 3,416	$ 26,399	$ 141,701	$ 171,516
Financial liabilities:					
Deposits	$ 142,638	$ - -	$ 142,601	$ - -	$ 142,601
Federal Home Loan Bank advances	17,900	- -	17,911	- -	17,911
Accrued interest payable	75	- -	75	- -	75
Total financial liabilities	$ 160,613	$ - -	$ 160,587	$ - -	$ 160,587

		Fair Value Measurements at December 31, 2014 using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
			(In thousands)		
Financial assets:					
Cash and cash equivalents	$ 1,203	$ 1,203	$ - -	$ - -	$ 1,203
Interest-bearing deposits in banks	24,183	7,667	16,592	- -	24,259
Securities held to maturity	1,001	- -	1,000	- -	1,000
Restricted stock	1,322	- -	1,322		1,322
Loans, net	137,103	- -	- -	136,510	136,510
Accrued interest receivable	370	- -	370	- -	370
Total financial assets	$ 165,182	$ 8,870	$ 19,284	$ 136,510	$ 164,664
Financial liabilities:					
Deposits	$ 143,136	$ - -	$ 143,356	$ - -	$ 143,356
Federal Home Loan Bank advances	12,900	- -	12,985	- -	12,985
Accrued interest payable	85	- -	85	- -	85
Total financial liabilities	$ 156,121	$ - -	$ 156,426	$ - -	$ 156,426

Note 12. 401(k) Plan

The Bank has adopted a contributory 401(k) profit sharing plan which covers substantially all employees. Participating employees may elect to contribute up to the maximum percentage allowed by the Internal Revenue Service, as defined in the plan. The Bank contributes 3% of the employees' pay regardless of whether the employees contribute. The Bank also matches 100% of the employees' contribution, up to 4%. Therefore, in combination, the maximum that the Bank contributes is 7%. The amount charged to expense for this plan for the years ended December 31, 2015 and 2014 was $170,280 and $156,200, respectively.

Note 13. Stock Compensation Plan

The shareholders approved a Stock Compensation Plan on May 24, 2010. Incentive stock options, nonqualified stock options and restricted stock may be granted under the Plan. The exercise price of each option equals the market price of the Bank's stock on the date of grant and an option's maximum term is ten years. For the years ended December 31, 2015 and 2014, the Bank did not recognize any expense in stock based compensation.

The Plan provides for stock options to be granted to the Bank's directors, officers and employees for up to 210,000 shares of Common Stock. A summary of the status of the Bank's stock incentive plan is presented below:

	2015			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (1)
Outstanding at beginning of year	147,905	$ 7.83	5.98	
Granted	- -	- -	- -	
Exercised	- -	- -	- -	
Forfeited	- -	- -	- -	
Outstanding and exercisable at end of year	147,905	$ 7.83	4.98	$ 19,300

(1) The aggregate intrinsic value of the stock options in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders (where the options had intrinsic value) exercised their options on December 31, 2015.

The Bank did not grant any shares to employees in 2015 or 2014.

As of December 31, 2015, there was no unrecognized compensation cost related to share-based compensation arrangements granted under the Plan.

Note 14. Other Noninterest Income

Other income in the noninterest income section of the statements of income include the following components:

	Years Ended December 31, 2015	Years Ended December 31, 2014
Mortgage loan fee income	$ 75,467	$ 81,823
Wire fees	20,695	14,830
Safe deposit box rental	8,282	7,420
Rental income	56,180	55,968
Other non-interest income	9,944	4,488
Total other non-interest income	$ 170,567	$ 164,529

Note 15. Other Operating Expenses

Other operating expenses in the statements of income include the following components:

	Years Ended December 31, 2015	Years Ended December 31, 2014
Printing and office supplies	$ 57,043	$ 64,474
Telephone expense	55,621	66,656
Postage	14,672	14,082
Insurance expense	45,580	48,800
Dues and memberships	36,181	33,309
Directors fees	26,324	19,261
State franchise tax	144,683	107,841
Other operating expense	98,316	56,002
Total other operating expenses	$ 478,420	$ 410,425

Note 16. Subsequent Events

In accordance with ASC 855-10, the Bank evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Bank evaluated subsequent events through April 20, 2016, the date the financial statements were available to be issued.