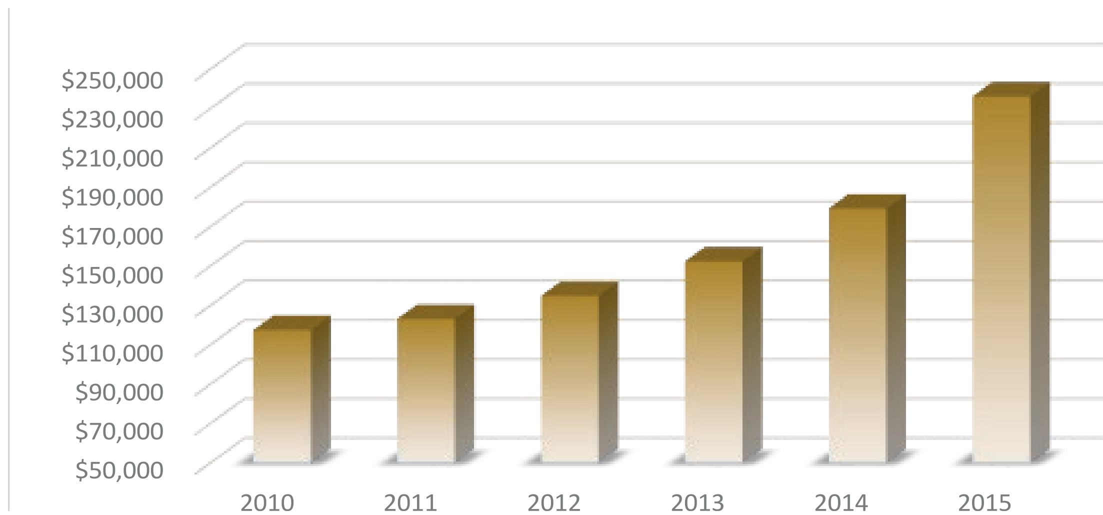
SUMMITBANK

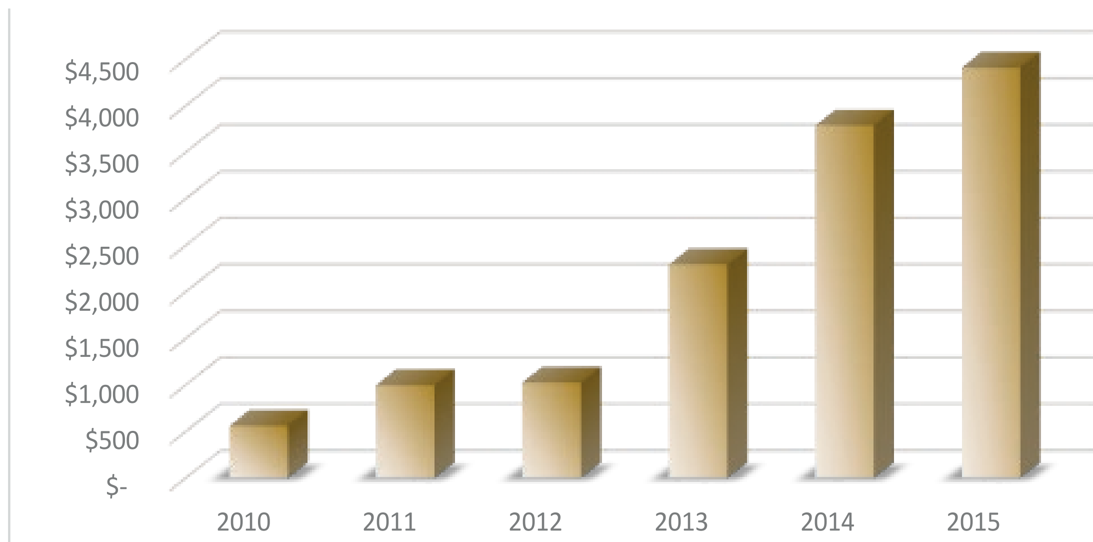
2015 ANNUAL REPORT

PERFORMANCE HIGHLIGHTS

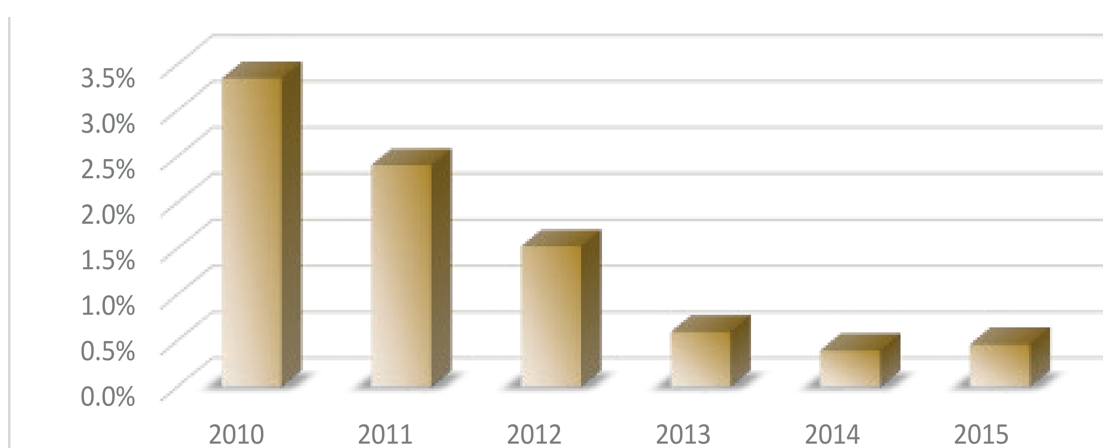
TOTAL ASSETS (in thousands)



NET INCOME BEFORE TAXES (in thousands)



NON-PERFORMING ASSETS AS A PERCENTAGE OF ASSETS



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SUMMITBANK

March 18, 2016

SUMMITBANK

To our Shareholders:

Summit Bank surpassed several important milestones during 2015. We opened our second office in Bend to bring our unique brand of banking services to clients in Central Oregon, successfully concluded a $2 million issuance of new common stock, increased our streak of consecutive quarters of double-digit loan growth to twelve over the course of the year, and mid-way through 2015, exceeded $200 million in total assets. Importantly for our shareholders, we were able to achieve all of these important goals and increase earnings per share at the same time.

Summit's net income for 2015 was $2.7 million or $1.20 per fully diluted share, an increase of 9.0% over the $1.10 per share that the Bank earned during 2014. 2015 earnings before the impact of the Central Oregon startup activity were $1.32 per share, demonstrating that the Bank's underlying profitability continues to be very strong. Total revenue, net of interest expense, rose 25.8% to $11.8 million compared to 2014. Our success during 2015 in adding new loan and deposit clients to Summit, in addition to the growth of our existing relationships, allowed us to realize excellent loan and deposit growth during the year. Total net loans increased by $37.4 million to $184.4 million, representing a 25.4% increase over the December 31, 2014 total of $147.0 million. Total deposits increased by $52.0 million to $209.7 million, a 33.0% increase over the previous year. Our robust deposit growth allowed us to finish the fiscal year with $40.7 million in cash and marketable securities up from $24.2 million the previous year.

Small business lending forms a critical part of Summit's successful business model. We launched our Equipment Finance operation in 2012 and our Small Business Administration lending operation in 2014 and are pleased to note strong growth and excellent performance in 2015. Non-interest income from these units (primarily gains and servicing income on loans sold) was a significant contributor to the Bank's profitability. Summit experienced a slight increase in the level of non-performing assets and loan losses in 2015 related to our Equipment Finance Group. Non-performing assets totaled 0.5% of total assets at year-end 2015 compared to 0.4% at year-end 2014.

Our Central Oregon office in Bend is off to a great start. Our community bank delivery model in Central Oregon continues to be very well received. Please stop by and visit us in our beautiful new office at 560 SW Columbia.

2015 was an excellent year for Summit Bank thanks to our clients, our outstanding team of Summit colleagues, and our exceptional board of directors. Our expectation, as always, is to build on our successes, meet challenges and take advantage of opportunities, and to continue to increase the value of your investment in Summit Bank.

Sincerely,

R. Paul Weinhold Board Chair	Craig A. Wanichek President & CEO

Independent Auditor's Report

To the Board of Directors
Summit Bank:

Report on the Financial Statements
We have audited the financial statements of Summit Bank (the "Bank") which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, other comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

Isler CPA, LLC

March 16, 2016

1976 Garden Ave., Eugene, OR 97403
541-342-5161 www.islercpa.com

BALANCE SHEETS

	December 31 2015	December 31 2014
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 16,979,714	$ 9,201,301
Interest-bearing deposits with other banks	2,349,455	3,814,726
Deposits with Federal Reserve Bank	15,060,000	4,970,000
Total cash and cash equivalents	34,389,169	17,986,028
Investment securities available-for-sale	5,639,918	5,767,087
Loans, less allowance for loan losses	184,409,963	147,010,150
Interest receivable	675,759	541,444
Equity investments	655,200	516,700
Property, net of accumulated depreciation	5,157,732	2,819,784
Deferred income taxes	1,076,967	651,311
Net repossessed assets	988,141	723,200
Cash surrender value of bank owned life insurance	3,088,422	3,011,143
Other assets	223,630	239,331
	201,915,733	161,280,152
Total assets	$ 236,304,902	$ 179,266,179
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 59,410,270	$ 49,079,259
Savings and interest-bearing demand	132,600,590	93,200,414
Time, $100,000 and over, maturing 2015-2020	17,021,687	11,480,247
Other time, maturing 2015-2020	696,153	3,966,523
Total deposits	209,728,700	157,726,442
Interest payable	74,698	70,190
Other liabilities	3,305,369	3,307,771
Repurchase agreements	1,442,296	1,272,111
Term borrowings	-	41,797
Total liabilities	214,551,063	162,418,310
Stockholders' equity:		
Common stock, no par value; 20,000,000 shares authorized, 2,340,159 and 2,168,332 shares outstanding in 2015 and 2014	13,231,581	11,051,665
Retained earnings	8,514,064	5,773,888
Accumulated other comprehensive income	8,192	22,315
Total stockholders' equity	21,753,838	16,847,868
Total liabilities and stockholders' equity	$ 236,304,902	$ 179,266,179

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

STATEMENTS OF INCOME

	Year Ended December 31	
	2015	2014
Interest income:		
Interest and fees on loans	$ 10,454,070	$ 8,295,388
Interest on investment securities	120,182	153,031
Interest on deposits with other banks	81,693	73,033
	10,655,944	8,521,452
Interest expense:	318,331	247,032
Net interest income	10,337,613	8,274,419
Provision for loan losses:	951,387	383,380
Net interest income after provision for loan losses	9,386,226	7,891,039
Noninterest income:		
Real estate lease income	137,006	142,914
Service charges on deposit accounts	152,388	150,712
Bank card and interchange fees	174,526	147,802
Loan servicing fees	53,698	54,212
Bank owned life insurance income	77,279	80,978
Gain on sale of loans and securities	857,943	498,309
Gain (loss) on sale of repossesed property	(121,171)	(114,166)
Other	121,198	76,165
	1,452,868	1,036,925
Noninterest expense:		
Salaries and employee benefits	4,455,322	3,673,958
Occupancy and equipment expense	477,773	322,543
Data processing	415,961	362,664
Repossessed property expenses	29,590	32,028
Other	1,048,836	747,392
	6,427,482	5,138,586
Income before income taxes	4,411,612	3,789,377
Income tax provision	1,671,436	1,388,659
Net income	$ 2,740,176	$ 2,400,718
Earnings per share:		
Basic	$ 1.22	$ 1.12
Diluted	$ 1.20	$ 1.10

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

STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31	
	2015	2014
Net income	$ 2,740,176	$ 2,400,718
Other comprehensive income (loss):		
Change in unrealized gains on investment securities available for sale	(41,778)	(28,686)
Tax effect of the change in unrealized gains on investment securities available for sale	27,656	-
Comprehensive income	$ 2,726,054	$ 2,372,032

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2015 and 2014

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income	Total
Balance, December 31, 2013	1,048,884	$ 10,671,008	$ 3,373,170	$ 51,002	$ 14,095,181
Common stock dividend	1,048,884				
Net income			2,400,718		2,400,718
Other comprehensive income:					
Increase in unrealized gains on investment securities				(28,686)	
Deferred income taxes				-	
				(28,686)	(28,686)
Comprehensive income					2,372,032
Stock options exercised and related tax benefit	70,564	380,657			380,657
Share-based compensation		-			-
Balance, December 31, 2014	2,168,332	11,051,665	5,773,888	22,315	16,847,868
Net income			2,740,176		2,740,176
Other comprehensive income:					
Increase in unrealized gains on investment securities				(41,778)	
Deferred income taxes				27,656	
				(14,122)	(14,122)
Comprehensive income					2,726,054
Sale of common stock, net of stock offering costs	134,331	1,979,928			1,979,928
Stock options exercised and related tax benefit	37,496	199,988			199,988
Share-based compensation		-			-
Balance, December 31, 2015	2,340,159	$ 13,231,581	$ 8,514,064	$ 8,192	$ 21,753,838

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

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2015	2014
Cash flows from operating activities:		
Net income	$ 2,740,176	$ 2,400,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	296,254	164,557
Amortization of investment premiums, net	65,409	42,664
Provision for loan losses	951,387	383,380
Gain on sale of loans and securities	(857,943)	(498,309)
Loss (gain) on sale of repossesed property	56,169	29,341
Write downs of repossesed property	65,001	84,825
Deferred income taxes	(425,656)	(224,452)
Change in:		
Interest receivable and other assets	(118,614)	(95,627)
Deferred loan fees	126,361	161,416
Interest payable and other liabilities	2,106	267,816
Net cash provided by operating activities	2,900,651	2,716,329
Cash flows from investing activities:		
Purchase of investment securities	(3,210,917)	(1,778,642)
Sales of investment securities	-	365,750
Principal payments and maturities of investment securities	2,470,900	2,564,855
Net proceeds from sale of loans	14,133,423	11,852,090
Purchase of loans	(1,724,997)	(1,400,000)
Proceeds from sale of repossesed property	164,875	305,733
Loans originated, net of principal collected	(50,007,153)	(40,245,702)
Purchase of fixed assets	(2,634,202)	(215,195)
Net cash provided by (used in) investing activities	(40,808,071)	(28,551,111)
Cash flows from financing activities:		
Net increase in deposits	52,002,258	23,951,760
Proceeds from common stock offering, net of costs	1,979,928	-
Increase (decrease) in repurchase agreements	170,185	(69,006)
Proceeds from stock options exercised	199,988	380,657
Payments on term borrowings	(41,797)	(94,317)
Net cash provided by financing activities	54,310,561	24,169,094
Net increase (decrease) in cash and cash equivalents	16,403,141	(1,665,689)
Cash and cash equivalents, beginning of year	17,986,028	19,651,716
Cash and cash equivalents, end of year	$ 34,389,169	$ 17,986,028
Supplemental information:		
Cash paid during the year for interest	$ 313,823	$ 239,821
Cash paid during the year for income taxes	1,566,000	1,275,364
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	(14,122)	(28,686)
Transfer of loans to repossesed property	541,793	219,742

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

1. **Summary of Significant Accounting Policies**:

General – The Bank provides commercial banking, financing, real estate lending and other services primarily in Oregon in Lane and Deschutes Counties. The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Financial Statement Presentation – The preparation of the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures, and actual results could differ from those estimates. The most significant estimates are the allowance for loan losses and fair value estimates. The Bank has evaluated subsequent events through March 16, 2016, the date the financial statements were available for distribution. Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents – For purposes of reporting cash flows, cash and cash equivalents are cash and due from banks. Such amounts include both interest-bearing and non interest-bearing deposits with other banks, principally short-term time deposits, and federal funds sold on an overnight basis and may exceed amounts insured by the FDIC.

Investment Securities – The Bank classifies all investment securities as available-for-sale. Securities available-for-sale are held for indefinite periods of time and may be sold in response to changes in market interest rates, shifts in the maturity mix or concentration of bank assets or liabilities or to alleviate liquidity demands. Securities designated as available-for-sale are carried at estimated fair value. Unrealized gains and losses are excluded from earnings and are included in other comprehensive income in stockholders' equity, net of applicable deferred taxes.

Interest income on debt securities is included in income using the effective interest method. Gains and losses realized on sales of securities are recognized using the specific identification method. Investment income includes accretion and amortization of discounts and premiums resulting from securities purchased at other than par value. Both are calculated using a "constant yield" methodology either to maturity (for non-callable securities) or to "worst call date" for callable securities. Premiums and discounts on mortgage backed securities are amortized/accreted based upon current and expected future rates of prepayments on the securities.

The Bank evaluates its securities classified as available for sale for other-than-temporary impairments (OTTI) in accordance with ASC Topic 320. Accordingly, the Bank assesses whether it intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Bank would separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component would be recognized in earnings and would be the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows would be due to factors that are not credit related and, therefore, would not be required to be recognized as losses in the income statement, but would be recognized in other comprehensive income. Management believes that any unrealized losses on investment securities at December 31, 2015 and December 31, 2014 are temporary.

Loans and Income Recognition – Loans are stated at the amount of unpaid principal, reduced by deferred loan origination fees and an allowance for loan losses. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the interest is doubtful. In accordance with GAAP, payments received on nonaccrual loans are applied to the principal balance and no interest income is recognized. Interest income is subsequently recognized only to the extent cash payments are received satisfying all delinquent principal and interest amounts, and the prospects for future payments in accordance with the loan agreement appear relatively certain. A nonaccrual loan may be restored to accrual status when none of its principal and interest is due and unpaid and the Bank expects full repayment of the remaining contractual principal and interest, or when it otherwise becomes well secured and in the process of collection. Loan origination fees, net of associated direct costs, if significant, are amortized by the interest or straight-line method over the contractual life of the loan.

Allowance for Loan Losses – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged off against the allowance when management believes that the collectability of the principal is unlikely. The allowance is an amount that management considers adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectability of loans and prior loss experience. The evaluations take into consideration factors including, but not limited to; changes in the concentrations, trends and current nature of the loan portfolio, historical loss experience for the Bank and its peers, overall portfolio quality, results from internal and external loan reviews, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

A loan is considered impaired when management believes that it is probable that all amounts will not be collected according to the contractual terms. An impaired loan is valued using the estimated fair value of the loan's collateral or related government guaranty, the present value of expected cash flows discounted at the loan's effective interest rate, or the observable market price of the loan. These estimates are necessarily subjective and may be adjusted as more current information becomes available. Any adjustment could be significant. Loans deemed impaired are specifically allocated for in the allowance for loan losses.

The Bank classifies loss reserves for unfunded loan commitments in other liabilities.

Federal and state bank regulatory agencies, as an integral part of their examination process, periodically review the Bank's reserve for loan losses. Such agencies may require the Bank to recognize additions to the reserve in the future based on their judgment of the information available to them at the time of their examinations.

Equity Investments – Equity investments consist of the following at December 31:

	2015	2014
Federal Home Loan Bank stock	$ 215,200	$ 76,700
Pacific Coast Bankers' Bancshares stock	440,000	440,000
	$ 655,200	$ 516,700

The investment in Federal Home Loan Bank ("FHLB") stock is carried at par, which approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets and FHLB advances. At December 31, 2015, the Bank's minimum required investment was $215,200. Stock redemptions may be requested at par value and are made at the discretion of the FHLB.

The Bank also holds an investment in its primary correspondent bank, Pacific Coast Bankers' Bancshares. This investment is carried at cost, which approximates fair value.

Property – Property is stated at cost, net of accumulated depreciation. Additions, betterments and replacements of major units are capitalized. Expenditures for normal maintenance, repairs and replacements of minor units are charged to expense as incurred. Gains or losses realized from sales or retirements are reflected in current operations. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

Repossessed Assets– All repossessed assets are held-for-sale. Repossessed assets are initially recorded at fair value at the date of acquisition based on current appraisals and management's estimate of value, establishing a new cost basis. Subsequent to acquisition, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

Bank-owned Life Insurance (BOLI) The Bank is beneficiary of BOLI on certain Bank officers. The BOLI is recorded at fair value, which is based on the cash surrender value (net of surrender charges) of the insurance contracts. Changes in the cash surrender value are included in noninterest income.

Advertising – Advertising costs are charged to expense during the period in which they are incurred. Advertising expenses were $60,325 and $43,800 for the years ended December 31, 2015 and 2014, respectively.

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are calculated on differences between financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recognized if, based on the available evidence, it is determined it is more likely than not some portion or all of the deferred tax assets will not be realized.

Uncertain tax positions are accounted for in accordance with ASC 740 which prescribes recognition and measurement standards for uncertain income tax positions. The Standard provides guidance on recognition, derecognition, interest, penalties and disclosure. Tax returns subject to 2011 remain open to examination. There is no material impact of potential tax uncertainties on Bank's financial condition or results of operations at December 31, 2015.

Derivative Instruments – The Bank uses derivative financial instruments (interest rate swaps) to limit exposure to changes in interest rates related to specific loan assets. Derivatives entered into by the Bank are designated as fair value hedges with perfect effectiveness between changes in the value of the interest rate swap and the hedged instrument (loan asset). All derivatives and related hedged loans are recognized in the balance sheet at their fair value. Changes in the fair value of a derivative that is highly effective, along with the loss or gain on the hedged loan asset that is attributable to the hedged risk, are recorded in current-period earnings. The Bank formally documents all relationships between hedging instruments and hedged assets, as well as its risk-management objective and strategy for undertaking various hedged transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The Bank would discontinue hedge accounting when: (a) it is determined that a derivative is no longer effective in offsetting changes in the fair value of the associated hedged loan asset; (b) the derivative expires or is sold, terminated, or exercised; or (c) management determines that designation of the derivative as a hedge instrument is no longer appropriate. The hedged loan asset would no longer be adjusted for changes in fair value and the derivative would be carried at its fair value in the balance sheet, with changes in its fair value recognized in current-period earnings.

Stockholders' Equity and Earnings Per Share – Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share include the effect of common stock equivalents that would arise from the exercise of stock options and the vesting of restricted stock and restricted stock units discussed in Note 11. On March 10, 2014, the Company's board of directors declared a two-for-one stock split, effected in the form of a stock dividend, on the shares of the Company's common stock. Each shareholder of record on April 9, 2014 received an additional share of common stock for each share of common stock then held. The stock was issued April 24, 2014. All references in the financial statements to the number of shares outstanding, per-share amounts, and stock option data of the Company's common stock have been restated to reflect the effect of the stock split for all periods presented.

Share-Based Compensation – Financial accounting standards require companies to measure and recognize compensation expense for all share-based payments at the grant date based on the fair value of the award, as defined in the ASC 718, and include such costs as an expense over the requisite service (vesting) period. The Bank adopted ASC 718 using the modified prospective application, whereby the provisions of the statement have been applied prospectively only from the date of adoption for new (issued subsequent to December 31, 2005) and unvested stock option awards for which the requisite service is rendered after the date of adoption. Thus, the Bank recognizes as expense the fair value of stock options issued prior to January 1, 2006, but vesting after January 1, 2006, over the remaining vesting period.

SBA/USDA Loans Sales and Servicing - The Bank, on a limited basis, sells or transfers loans, including the government guaranteed portion of the loans (with loan servicing retained) for proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Bank records an asset representing the right to service loans for others when it sells a loan and retains the servicing rights included in other assets. The carrying value of loans is allocated between the loan and the servicing rights, based on their relative fair values. The fair value of servicing rights is estimated by discounting estimated future cash flows from servicing using discount rates that approximate current market rates and using estimated prepayment rates. The servicing rights are carried at the lower of cost or market and are amortized in proportion to, and over the period of the estimated net servicing income, assuming prepayments.

For purposes of evaluating and measuring impairment, servicing rights are based on a discounted cash flow methodology, current prepayment speeds and market discount rates. Impairment is measured as the amount by which the carrying value of servicing rights for a loan asset exceeds its fair value. The carrying value of the servicing rights at December 31, 2015 and 2014 were $0 and $42,543, respectively. An impairment charge was recorded for the year ended December 31, 2015 of $26,916 related to early retirement of a loan asset. No impairment charges were recorded in 2014 related to the servicing assets.

Fair Value – The Bank applies the hierarchy and framework for measuring fair value, and expanded disclosure about fair value measurements and the reliability of valuation inputs as provided in ASC 820. When determining fair value, the Bank considers the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or through market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market such as Bank-developed future cash flow estimates, and are considered the least reliable. Valuations for all of the Bank's financial instruments fall within Levels 2 and 3.

Recently Issued Accounting Pronouncements Adopted in 2015: FASB Accounting Standard Update No. ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* These amendments provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This update is effective for the Bank for the year ended December 31, 2015.

FASB Accounting Standard Update No. ASU 2014-02, *Intangibles—Goodwill and Other (Topic 350)—Accounting for Goodwill.*" These amendments permit a private company to subsequently amortize goodwill on a straight-line basis over a period of ten years, or less if the company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill. Under the goodwill accounting alternative, goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of a company (or a reporting unit) may be below its carrying amount. A private company that elects the accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the company level or the reporting unit level. This update is effective for the Bank for the year ended December 31, 2015.

FASB Accounting Standard Update No. ASU 2014-04, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)—Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* These amendments are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon certain conditions. This update is effective for the Bank for the year ended December 31, 2015.

Recently Issued Accounting Pronouncements Effective in 2016 and subsequent years:
FASB Accounting Standard Update No. ASU 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 amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

FASB Accounting Standard Update No. ASU 2014-14, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.* The amendments in ASU 2014-14 affect creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met:

1. The loan has a government guarantee that is not separable from the loan before foreclosure.

2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.

3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This update is effective for the Bank for the year ended December 31, 2016.

FASB Accounting Standard Update No. ASU 2015-1 *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* The amendments in ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item.

If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item.

FASB Accounting Standard Update No. ASU 2015-1 *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* The amendments in ASU 2015-03 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. This update is effective for the Bank for the year ended December 31, 2016.

FASB Accounting Standard Update No. ASU 2015 – 5 *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets.

The Bank is currently evaluating the impact that the amendments effective in 2016 will have on its future financial statements.

2. Interest-bearing Deposits with Other Banks:

Interest-bearing deposits with other banks at December 31, 2015 consist of balances due from the Federal Reserve Bank, FDIC insured demand account balances at the Federal Home Loan Bank of Des Moines and FDIC insured time deposits at commercial banks.

3. **Investment Securities Available for Sale**:

The amortized cost and estimated fair values of available-for-sale investment securities at December 31 are as follows:

	December 31, 2015					
	Available-for-Sale				Securities in Continuous Unrealized Loss Position for Less Than 12 Months	Securities in Continuous Unrealized Loss Position for 12 Months or Longer
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value		
Obligations of U.S. Government and U.S. sponsored agencies	$ 480,414	$ -	$ (2,485)	477,930	$ 480,414	-
Corporate securities	500,000	-	(1,802)	498,198	249,374	248,825
Mortgage-backed securities	4,646,268	29,378	(11,856)	4,663,790	2,090,451	-
	$ 5,626,682	$ 29,378	$ (16,142)	$ 5,639,918	$ 2,820,239	$ 248,825

	December 31, 2014					
	Available-for-Sale				Securities in Continuous Unrealized Loss Position for Less Than 12 Months	Securities in Continuous Unrealized Loss Position for 12 Months or Longer
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value		
Obligations of U.S. Government and U.S. sponsored agencies	$ 379,991	$ 247	$ -	380,238	$ -	-
Corporate securities	500,000	1,205	(680)	500,525	-	-
Mortgage-backed securities	4,832,083	61,107	(6,865)	4,886,325	-	-
	$ 5,712,074	$ 62,558	$ (7,545)	$ 5,767,087	$ -	$ -

The amortized cost and estimated fair value of investment securities at December 31, 2015 are shown below by maturity or projected average life depending on the type of security. Obligations of U.S. government sponsored agencies and corporations are shown by contractual maturity. Mortgage backed securities are disclosed by projected average life.

	Available-for-Sale		
	Amortized Cost	Percentage of Total Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,000,232	18%	$ 1,005,920
Due after one year through five years	4,626,451	82%	4,633,997
Due after five years through ten years	-	0%	-
	$ 5,626,682	100%	$ 5,639,918

No investment securities were sold during 2015. Investment securities with a total amortized cost of $354,602 were sold during 2014. The specific identification method was used to determine the cost of the securities sold. The sales resulted in a net pre-tax gain of $11,148 which was included in period earnings.

At December 31, 2015, investment securities with estimated fair value of $4,546,152 and amortized cost of $4,535,561 were pledged for Federal Home Loan Bank borrowing, repurchase agreements and other purposes. At December 31, 2014, investment securities with estimated fair value of $5,106,348 and amortized cost of $4,988,452 were pledged for Federal Home Loan Bank borrowing, repurchase agreements and other purposes.

4. Loans:

Major classifications of loans at December 31 are as follows:

	2015	2014
Real estate loans	$ 124,454,193	$ 95,419,019
Commercial loans	60,487,094	52,035,472
Consumer loans	2,662,663	2,011,017
	187,603,950	149,465,508
Deferred loan origination fees	(585,710)	(459,349)
Net purchase premiums (discounts)	187,619	265,649
	187,205,859	149,271,808
Allowance for loan losses	(2,795,896)	(2,261,658)
Loans, net	$ 184,409,963	$ 147,010,150

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of such serviced loans were $20,756,223 and $22,561,010 at December 31, 2015 and December 31, 2014, respectively.

The loan portfolio at December 31, 2015 and December 31, 2014 includes $31,462,526 and $21,736,453, respectively, of loans which have rates of interest that change more often than annually, exclusive of fixed rate loans that total $32,069,869 that are effectively converted to variable rate loans via interest rate swaps. The December 31, 2015 loan portfolio includes $11,849,853 of loans with interest rates at their contractual floors.

The following is an analysis of impaired loans as of December 31, 2015:

	Impaired Loans with Allowance			Impaired Loans without Allowance		Total Impaired Loans	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
Commercial loans:							
Nonaccrual	$ 60,584	$ 61,071	$ 9,161	$ -	$ -	$ 60,584	$ 61,071
Other	167,863	167,915	17,492	51,418	51,361	219,281	219,276
Subtotals	228,447	228,986	26,653	51,418	51,361	279,865	280,347
Real estate loans:							
Nonaccrual	-	-	-	-	-	-	-
Other	39,647	39,686	9,260	264,691	281,544	304,339	321,230
Subtotals	39,647	39,686	9,260	264,691	281,544	304,339	321,230
Totals	$ 268,094	$ 268,672	$ 35,913	$ 316,109	$ 332,905	$ 584,204	$ 601,577

Bank held a single impaired commercial loan with a recorded investment of $13,385, an unpaid principal balance of $13,934 and a related allowance of $2,090 at December 31, 2014.

Recorded investment[1] in financing receivables as of December 31, 2015 and 2014 was:

	2015	2014
Individually evaluated for impairment	$ 584,204	$ 2,560,023
Collectively evaluated for impairment	187,274,933	147,228,660
Totals	$ 187,859,136	$ 149,788,683

[1] Recorded investment includes unpaid principal balance, net of charge-offs, unamortized deferred loan fees and costs, and accrued interest.

The average recorded investment in impaired loans was $1,168,120 in 2015 and $2,423 in 2014. The Bank held six loans and three loans with total recorded investments of $111,274 and $42,882 that were in nonaccrual status as of December 31, 2015 and December 31, 2014 respectively. The

Bank held loans with total recorded investments of $418,961 and $117,529 that were contractually past due more than 29 days and still accruing interest as of December 31, 2015 and December 31, 2014, respectively.

The Bank reports certain loans as troubled debt restructurings (TDRs) when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include extending the maturity date(s) or providing a lower interest rate than would normally be available for a transaction of similar risk. A TDR loan is considered to be impaired and is individually evaluated for impairment. Loans reported as TDRs accruing interest totalled $39,686 and $835,044 at December 31, 2015 and 2014 respectively.

There were no loans modified and recorded as TDRs during 2015. The Bank modified and recorded two loans with a total recorded investment of $150,500 during 2014 which subsequently were repaid in full in 2015.

There were no TDR loans restructured in 2015 or 2014, nor were there any TDRs which incurred a payment default within twelve months of the restructure date during 2015 or 2014. There were no commitments to lend additional funds to borrowers whose loans have been modified and recorded as TDRs at December 31, 2015. Determination of the allowance for credit losses for TDR loans does not differ materially from the process for other loans in the Bank's portfolio.

5. **Allowance for loan losses**:

The 2015 changes in the allowance for loan losses are as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Real Estate							
Acquisition, Development & Construction	$ 99,056			$ 43,777	$ 142,833	$ -	$ 142,833
Commercial	385,512		2,824	68,655	456,991	-	456,991
Multifamily	74,141			672	74,813	-	74,813
Owner Occupied	323,068			129,628	452,695	-	452,695
Commercial and Industrial	1,261,749	(408,624)		665,685	1,518,810	26,653	1,492,157
Consumer							
Secured	109,350			15,085	124,435	-	124,435
Unsecured	8,783			16,536	25,319	9,260	16,060
Total	$ 2,261,658	$ (408,624)	$ 2,824	$ 942,128	$ 2,795,896	$ 35,913	$ 2,759,983

The 2014 changes in the allowance for loan losses are summarized as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Real Estate							
Acquisition, Development & Construction	$ 286,732			$ (187,676)	$ 99,056	$ -	$ 99,056
Commercial	349,016		5,047	31,449	385,512	-	385,512
Multifamily	38,766			35,374	74,141	-	74,141
Owner Occupied	274,072			48,995	323,068	-	323,068
Commercial and Industrial	784,532	(143,536)	168,000	452,752	1,261,749	2,090	1,259,659
Consumer							
Secured	107,232			2,118	109,350	-	109,350
Unsecured	18,705			(9,922)	8,783	-	8,783
Total	$ 1,859,056	$ (143,536)	$ 173,047	$ 373,090	$ 2,261,658	$ 2,090	$ 2,259,568

Risk Elements – The Bank manages credit risk through lending limit constraints, credit review, approval policies and extensive ongoing internal monitoring. Additionally, credit risk is managed via diversification of the loan portfolio by loan, industry and borrower type as well as limits on the aggregation of debt to a single borrower.

Risk Rating – The monitoring process for the Bank's loan portfolio includes periodic reviews of individual loans with risk ratings assigned to each loan. Based upon the analysis, loans are given a risk rating of 1-10 based on the following criteria;

- Ratings of 1-3 indicate minimal to low credit risk,
- Ratings of 4-5 indicate average to acceptable credit risk,
- Ratings of 6-7 indicate potential weakness and elevated credit risk requiring greater attention by Bank personnel and Management,
- Rating of 8 indicates a loss is possible if loan deficiencies are not corrected,
- Rating of 9 indicates a loss is possible,
- Rating of 10 indicates that the loan is uncollectable, and when identified is charged off.

Loans risk rated 8, 9 or 10 are reviewed regularly to assess the ability of the borrowers to service all interest and principal obligations and, as a result the risk ratings may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and if warranted, placed on non-accrual status even though the loan may be current as to principal and interest payments. Additionally, an assessment is made as to whether an impairment of a loan warrants specific reserves or a write down of the loan.

The following is an analysis of the credit quality of the Bank's loan portfolio as of December 31, 2015:

	Weighted - Average Risk Rating	Recorded Investment in Loans [1]	Percentage
Real Estate			
Acquisition, Development & Construction	4.45	9,671,725	5.1%
Commercial	4.19	47,915,507	25.5%
Multifamily	4.14	9,242,581	4.9%
Owner Occupied	4.45	46,833,906	24.9%
Commercial and Industrial	4.79	60,384,014	32.1%
Consumer			
Secured	4.55	11,749,857	6.3%
Unsecured	4.26	2,061,547	1.1%
Total		$ 187,859,136	100.0%

[1] Recorded investment includes unpaid principal balance, net of charge-offs, unamortized deferred loan fees and costs, and accrued interest.

The following is an analysis of the credit quality of the Bank's loan portfolio as of December 31, 2014:

	Weighted - Average Risk Rating	Recorded Investment in Loans [1]	Percentage
Real Estate			
Acquisition, Development & Construction	4.68	4,053,059	2.7%
Commercial	4.18	35,628,084	23.8%
Multifamily	4.18	8,382,827	5.6%
Owner Occupied	4.22	36,815,997	24.6%
Commercial and Industrial	4.75	51,825,596	34.6%
Consumer			
Secured	4.38	11,113,143	7.4%
Unsecured	4.18	1,969,978	1.3%
Total		$ 149,788,683	100.0%

[1] Recorded investment includes unpaid principal balance, net of charge-offs, unamortized deferred loan fees and costs, and accrued interest.

6. **Property**:

Property at December 31 consists of the following:

	2015	2014
Land	$ 1,862,215	$ 1,139,500
Building and improvements	3,798,891	2,356,133
Computer equipment and software	520,334	397,277
Furniture and equipment	760,647	414,975
Total	6,942,088	4,307,886
Accumulated depreciation	(1,784,355)	(1,488,101)
Property, net	$ 5,157,732	$ 2,819,784

The Bank owns its headquarters building and leases to others approximately 50% of the building. Rental income recorded under noncancelable leases as well as other month-to-month agreements totalled $137,006 in 2015 and $142,914 in 2014, respectively and is recorded in noninterest income. Future expected rental revenues from noncancelable leases are:

2016	$ 109,098
2017	102,191
2018	32,376
2019	15,750
2020	0
	$ 259,415

7. **Borrowings**:

Short-term borrowings are repurchase agreements of $1,442,296 (average rate 0.24%) and $1,272,111 (average rate 0.20%) at December 31, 2015 and 2014, respectively. Investment securities are pledged as collateral in an amount equal to the repurchase agreements.

Term borrowings at December 31, 2014 consisted of an FHLB term advance payable monthly with interest at 4.68%, fixed, which matured in 2015, and there were no term borrowings at December 31, 2015.

The Bank has a borrowing limit with the FHLB equal to a maximum of 35% of total assets. This borrowing line is limited to collateral consisting of FHLB stock, funds on deposit with FHLB and eligible portions of the Bank's loan and securities portfolios. The available borrowing line at December 31, 2015 is approximately $8,413,000.

The Bank has secured and unsecured federal funds borrowing lines available with correspondent banks totalling $6,000,000 at December 31, 2015. There were no borrowings against these lines at December 31, 2015. The Bank has a secured borrowing line available with the Federal Reserve Discount Window which is secured by a portion of the Bank's loan portfolio. The Bank had no outstanding advances from the facility at December 31, 2015 which had an availability of approximately $1,620,000.

8. **Interest and Fees on Loans**:

Interest and fees on loans for the years ended December 31 is comprised of the following:

	2015	2014
Real Estate	$ 4,778,074	$ 3,843,763
Commercial	5,535,131	4,322,354
Consumer	140,865	122,135
Total interest and fees on loans	$ 10,454,070	$ 8,288,253

9. **Interest Expense:**

Interest expense for the years ended December 31 is comprised of the following:

	2015	2014
Savings and interest-bearing demand	$ 230,707	$ 212,474
Time deposits in excess of $100,000	69,739	21,309
Other time deposits	14,034	5,188
Other borrowings	3,851	8,062
Total interest expense	$ 318,331	$ 247,032

10. **Benefit Plans:**

The Bank has a defined contribution 401(k) profit sharing plan covering substantially all employees. Employer contributions are determined annually by the Board of Directors. Employer contributions were $115,858 and $98,772 in 2015 and 2014, respectively.

The Bank has a deferred cash incentive plan for the benefit of certain key employees and a directors' deferred compensation plan for the Bank's directors. Bank contributions totalled $63,650 and $60,059 in 2015 and 2014, respectively.

11. **Stock Option and Equity Compensation Plans:**

The Bank has Employee and Nonemployee Director Stock Option and Equity Compensation Plans that reserve shares of stock for issuance to employees and directors. Under the plans, the exercise price (for options) or the fair value (for restricted stock and restricted stock units) must equal the market price of the Bank's stock on the date of the grant. Options granted under the plans have a maximum term of ten years. Vesting generally occurs over one to three-year periods. Information with respect to stock based awards granted under the stock option and equity compensation plans is as follows:

	2015		2014	
	Options Outstanding	Weighted-average exercise price	Options Outstanding	Weighted-average exercise price
Balance, beginning of year	133,702	$5.80	204,266	$5.66
Net new authorized for grant				
Granted:				
Directors	-	n/a	-	n/a
Employees	15,000	14.80	-	n/a
Exercised	(37,496)	5.33	(70,564)	5.39
Expired	-	n/a	-	n/a
Balance, end of year	111,206	$7.18	133,702	$5.80
Exercisable, end of year	84,356		118,102	

Stock based awards available for grant are as follows:

	2015	2014
Stock based awards available for grant, beginning of year	14,812	14,812
Options terminated at expiration of 2005 Plan	(14,812)	-
2015 Plan authorized stock based awards	220,000	-
Options granted	(15,000)	-
Restricted stock and restricted stock units granted	(5,000)	-
Stock based awards available for grant, end of year	200,000	14,812

Outstanding options are as follows:

			December 31, 2015	
Expiration	Average exercise price per share		Exercisable	Outstanding
2016			-	-
2017	$	9.72	18,258	18,258
2018	$	7.44	8,700	8,700
2019	$	4.74	29,800	29,800
2020	$	4.12	17,128	17,128
2021	$	3.70	6,720	6,720
2022			-	-
2023	$	5.33	-	15,600
2024			-	-
2025	$	14.80	3,750	15,000
			84,356	111,206
Aggregate intrinsic value			$751,218	$896,750

Weighted average shares outstanding at December 31 are as follows:

	2015	2014
Basic	2,240,239	2,168,332
Common stock equivalents attributable stock based grants outstanding	43,802	47,223
Fully Diluted	2,284,041	2,215,555

Compensation expense related to stock based awards charged against income (included in salaries and employee benefits) for the year ended December 31, 2015 was $13,965. There was no compensation cost related to stock based awards charged against income for the year ended December 31, 2014. The total income tax benefit recognized in the income statement related to stock options was $4,198 and $26,285 for the years ended December 31, 2015 and 2014 respectively. As of December 31, 2015, there was $63,799 of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 0.9 years.

The fair value of options granted under the Bank's Stock Option Plans is estimated on the date of the grant using the Black-Scholes option pricing model. The weighted average fair value of options granted in 2015 was $3.96. There were no options granted during 2014.

There were a total of 5,000 shares of restricted stock and restricted stock units granted during 2015, which are expected to vest in 2016. The fair value of restricted stock and restricted stock units awarded under the Plan's method is measured based on the number of shares granted and the market price of the Bank's common stock on the date of grant. Such value is recognized as an expense over the corresponding requisite service period. As of December 31, 2015, the total unrecognized compensation expense related to restricted stock and restricted stock unit awards granted amounted to $76,000, which is expected to be recognized during 2016.

12. **Other Expense**:

Other expense for the years ended December 31 is comprised of the following:

		2015		2014
Regulatory assessments	$	132,816	$	125,170
Professional services		230,896		150,141
Loan expenses and collection		57,356		45,402
Advertising, marketing and public relations		159,227		106,950
Printing, supplies and postage		136,260		93,010
Correspondent bank fees		29,796		49,867
Communications		80,967		54,472
Other operating expenses		221,517		122,380
Total other expense	$	1,048,836	$	747,392

13. **Income Taxes**:

The income tax provision for the years ended December 31, 2015 and December 31, 2014 is as follows:

	2015	2014
Expense		
Tax on income at statutory rate	$ 1,499,948	$ 1,121,599
State income tax, net	221,286	261,785
Deferred tax rate adjustments	(49,799)	5,275
	$ 1,671,436	$ 1,388,659

The components of deferred tax assets and liabilities at December 31 are as follows:

	2015	2014
Assets:		
Allowance for loan losses	$ 1,167,330	$ 673,281
Accrued vacation pay	9,492	8,532
Other real estate owned	65,937	51,891
Deferred compensation	64,907	70,873
Secondary accrued interest	3,173	-
	$ 1,310,839	$ 804,577
Liabilities		
Excess tax over book depreciation	$ 138,025	$ 23,675
Loan origination costs	72,246	63,255
Prepaid expenses deducted for tax	18,437	44,872
Unrealized gain on securities	5,164	21,464
	233,872	153,266
Net deferred tax assets	$ 1,076,967	$ 651,311

It is anticipated that all deferred tax asset items will be fully utilized in the normal course of operations and, accordingly, management has not reduced deferred tax assets by a valuation allowance.

14. **Financial Instruments with Off-Balance-Sheet Risk**:

In order to meet the financing needs of its clients, the Bank commits to extensions of credit and issues standby letters of credit. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a client 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 clients.

To manage interest rate risk, the Bank enters into interest rate swaps that effectively convert fixed rate loans into a variable rate instruments earning a margin over the one month or three month LIBOR rate. These fair value hedges have been structured to be perfectly effective, thus no ineffectiveness is recognized in earnings. Investment securities totalling of $3,206,485 held by counterparties are pledged as security for these interest rate swaps.

Financial instruments with off-balance-sheet risk at December 31 are as follows:

	2015	2014
Commitments to extend credit	$ 42,885,534	$ 32,613,513
Standby letters of credit	$ 2,949,909	$ 1,872,929
Interest rate swaps (receive variable - pay fixed, maturing 2014-2024):		
Principal amount of hedged loans	$ 32,069,869	$ 20,751,634
Credit risk amount (included in other liabilities)	1,664,245	2,180,099
Total fair value of hedged loans	$ 33,734,114	$ 22,931,733

15. **Related Party Transactions**:

The Bank has granted loans to officers and directors and to companies with which they are associated. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. Activity with respect to these loans during the periods ended December 31 was as follows:

	2015	2014
Balance, beginning of year	$ 5,449,205	$ 3,003,797
Additions or renewals	-	2,141,479
Amounts collected or renewed	(519,151)	303,929
Balance, end of year	$ 4,930,054	$ 5,449,205

In addition, there were $969,212 in commitments to extend credit to officers and directors, including related entities, at December 31, 2015 which are included as part of commitments in Note 14.

Deposits from officers, directors and related parties totalled $10,600,505 and $8,486,836 at December 31, 2015 and 2014, respectively.

16. **Fair Value Disclosures of Financial Instruments**:

The following disclosures are made in accordance with provisions of ASC 825. The use of different assumptions and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates of fair value herein are not necessarily indicative of the amounts that might be realized in a current market exchange.

The estimated fair values of the financial instruments at December 31 are as follows:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 34,389,169	$ 34,389,169	$ 17,986,028	$ 17,986,028
Investment securities available-for-sale	5,639,918	5,639,918	5,767,087	5,767,087
Hedged loans	33,734,114	33,734,114	22,931,733	22,931,733
Other loans, net of allowance for loan losses	155,811,318	156,747,536	128,604,723	128,077,101
Interest receivable	675,759	675,759	541,444	541,444
Equity investments	655,200	655,200	516,700	516,700
Cash surrender value of bank owned life insurance	3,088,422	3,088,422	3,011,143	3,011,143
Financial liabilities:				
Deposits	209,728,700	209,729,536	157,726,442	157,755,236
Interest payable	74,698	74,698	70,190	70,190
Repurchase agreements	1,442,296	1,442,296	1,272,111	1,272,111
Term borrowings	-	-	41,797	41,410
Interest rate swap agreements	1,664,245	1,664,245	2,180,099	2,180,099

Cash and Cash Equivalents – The fair value approximates carrying amount.
Securities – Fair value is estimated using quoted market prices from similar securities.

Loans – Fair value of fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit characteristics and for the same remaining maturities. Variable rate loans not at contractual floors have carrying amounts that are a reasonable estimate of fair value.

Equity investments – Equity investments are carried at cost which approximates fair value.

Deposits – Fair value of demand, interest-bearing demand and savings deposits is the amount payable on demand at the reporting date. Fair value of time deposits is estimated using the interest rates currently offered for deposits of similar remaining maturities. The estimated fair values of deposits do not take into account the benefit that results from the low-cost funding such deposits provide.

Repurchase agreements – The carrying amount is a reasonable estimate of fair value because of the short-term nature of these borrowings.

Borrowings – The fair value of fixed rate issuances is estimated using a discounted cash flow calculation.

The following table presents the Bank's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2015:

		Fair Value Measurements Using			
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total Period Losses Included in Earnings
Recurring items:					
Assets					
Securities	$ 5,639,918	$ -	$ 5,639,918	$ -	$ -
Cash surrender value of life insurance	3,088,422	-	3,088,422	-	-
Hedged loans	33,734,114	-	33,734,114	-	-
Total assets measured at fair value on a recurring basis	$ 42,462,453	$ -	$ 42,462,453	$ -	$ -
Liabilities					
Interest rate swap agreements	$ 1,664,245	$ -	$ 1,664,245	$ -	$ -
Non-recurring items:					
Assets					
Repossessed property	$ 1,014,141	$ -	$ -	$ 988,141	$ 26,000

There were no transfers to or from Level III during 2015.

The following table presents the Bank's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

Description	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total Period Losses Included in Earnings
Recurring items:					
Assets					
Securities	$ 5,767,087	$ -	$ 5,767,087	$ -	$ -
Cash surrender value of life insurance	3,011,143	-	3,011,143	-	-
Hedged loans	22,931,733	-	22,931,733	-	-
Total assets measured at fair value on a recurring basis	$ 31,709,963	$ -	$ 31,709,963	$ -	$ -
Liabilities					
Interest rate swap agreements	$ 2,180,099	$ -	$ 2,180,099	$ -	$ -
Non-recurring items:					
Assets					
Repossessed property	$ 888,025	$ -	$ -	$ 723,200	$ 164,825

There were no transfers to or from Level III during 2014.

The fair value represents management's best estimates based on a range of methodologies and assumptions. Significant emphasis is placed upon value of collateral for loans with doubt as to collectability as well as for foreclosed real estate. Where appropriate, expected cash flows are discounted using an applicable rate considering the time of collection, credit risk, and the discount for the uncertainty of the flows.

17. **Regulatory Matters**:

The Bank is subject to the regulations of certain federal and state agencies and receives periodic examinations by those regulatory authorities. In addition, the Bank is subject to various regulatory capital requirements administered by 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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the following table below) of Total and Tier I capital to risk-weighted assets, and of Tier I capital to leverage assets, all as defined in the regulations. As of December 31, 2015, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized as defined by regulations. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts (in thousands) and ratios are also presented in the following table:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Beginning balance 12/31/15						
Total capital (to risk-weighted assets)	$ 24,306	11.88%	$ 16,362	8.00%	$ 20,452	10.00%
Tier I capital (to risk-weighted assets)	$ 21,746	10.63%	$ 8,181	4.00%	$ 12,271	6.00%
Tier I capital (to leverage assets)	$ 21,746	9.41%	$ 9,243	4.00%	$ 11,554	5.00%
Beginning balance 12/31/14						
Total capital (to risk-weighted assets)	$ 18,786	11.96%	$ 12,563	8.00%	$ 15,704	10.00%
Tier I capital (to risk-weighted assets)	$ 16,819	10.71%	$ 6,282	4.00%	$ 9,422	6.00%
Tier I capital (to leverage assets)	$ 16,819	9.50%	$ 7,084	4.00%	$ 8,855	5.00%

BOARD OF DIRECTORS

RICHARD M. ABRAHAM, MD

Dr. Abraham has been a practicing Emergency and Occupational Medicine physician with Cascade Medical Associates since 1979 and is their current president. He is also managing partner of Eugene/Thurston/Junction City/Roseburg Urgent Care walk-in clinics and the medical director of Cascade Health Solutions Occupational Medicine Program. He is a founding Director of the Bank and also serves on the boards of Cascade Health Solutions and McKenzie Willamette Medical Center. He has previously served on the boards of MWMC Foundation, PacificSource, the Safety and Health Institute, and the Marist Foundation.

ALAN V. EVANS

Mr. Evans is a is founder and president of Evans, Elder & Brown, Inc., a commercial real estate brokerage active in sales, leasing, and development of commercial properties. He is a founding Director of the Bank and also serves as vice chair of the Arts and Business Alliance of Eugene.

ROSS KARI

Mr. Kari retired as executive vice president and chief financial officer of Freddie Mac. He currently serves as a Trustee on the University of Oregon's Board of Trustees and is a director of Goldman Sachs BDC. Ross has served as chief financial officer of Fifth Third Bank, Safeco, and Wells Fargo Bank and also as executive vice president and chief operating officer for the Federal Home Loan Bank of San Francisco. Additionally, he served as a director and chair of the audit committee for KKR Financial Holdings LLC, a publicly traded speciality finance company.

STEVEN J. KORTH

Mr. Korth is the director of real estate and development for his family business, McKay Investment Company. He has been a Director of the Bank since 2008 and has served on the boards of the Eugene Chamber of Commerce, Lane Metro Partnership, and the Oregon Community Foundation. He is also active in local government, having served on the Mayor of Eugene's Economic Development Committee, the Eugene Enterprise Zone Committee, and as a member of the Eugene School Districts "Shaping 4-J's Future" task force.

J. ANDREW MOORE

Mr. Moore is co-president of Bigfoot Beverages. He has been a Director of the Bank since 2010 and also serves on the boards of the Oregon Soft Drink Association, the American Beverage Association, Cascade Health Solutions, and the Eugene Country Club. He previously served on the boards of the Pepsi-Cola Bottler's Association and Lane Community College Foundation.

DENNIS G. OREM

Mr. Orem is the CEO of Jerry's Home Improvement Centers located in Eugene and Springfield. He is a founding Director of the Bank and has been an active participant in local, regional, and national industry trade organizations including serving on the boards of the Western Building Materials Association, the Home Center Institute, and the Eugene Chamber of Commerce.

GRETCHEN N. PIERCE

Mrs. Pierce is president and General Manager of Hult & Associates, LLC, a local commercial and industrial real estate development company. She is a founding Director of the Bank and also serves on the boards of PacificSource and the Southern Oregon Leadership Council of the Oregon Community Foundation. She previously served on the boards of the University of Oregon Foundation, the Eugene Chamber of Commerce, the Oregon Community Foundation, PeaceHealth, Associated Oregon Industries, and Siuslaw Bank.

ANDY J. STORMENT

Mr. Storment is the CEO of Kerr Concentrates, an Oregon based food ingredient company. He is a Founding Director of the Bank and current Board Vice Chair. He also manages investments in commercial real estate.

CRAIG WANICHEK

Mr. Wanichek is a Director and President & CEO of the Bank. He is a graduate of the University of Oregon with a degree in Economics. He has over 20 years of banking and financial services experience. Craig is a long time board member and past chair of Cascade Health Solutions and also serves on the boards of the Oregon Bankers Association, the Eugene Chamber of Commerce (of which he is currently past chair), and Southern Willamette Economic Development Corporation. He has previously served as Director of Investor Relations and Treasury Services for a NYSE traded firm, as chair of the City of Eugene Budget Committee and on the board of Associated Oregon Industries.

BOARD OF DIRECTORS

R. PAUL WEINHOLD
Mr. Weinhold is the president of the University of Oregon Foundation. He is a founding Director of the Bank and currently serves as the Board Chair. He has served in leadership roles for a variety of local non-profits. Prior to joining the University of Oregon Foundation, he spent more than twenty years in leadership roles in the commercial insurance industry.

JOHN R. YORK, MD
Dr. York is the retired president of Women's Care Associates. He is a founding Director of the Bank. He previously served on the boards of Trillium Holdings, Agate Resources, PacificSource, Medical and Surgical Specialists, and was the OBGYN department chair for PeaceHealth.

SUMMIT BANK TEAM

CORPORATE OFFICE

LINDA ALGER, EFG Account Manager
RACHEL ARBOGAST, Banking Specialist
MARY BARTLETT, VP and Business Client Advisor
JENNIFER BENNETT, AVP Business Development Officer
TIM CALHOUN, Client Services Officer
CAROLYN COLE, VP and Business Client Advisor
VICKIE CUSSINS, Corporate Secretary and Administrative Officer
DARRYL DARE, VP and Technology Support Manager
JAYSON DAVIS, Business Client Advisor
M. (MICKEY) FENTON, SPHR, Human Resources and Admin. Officer
RODNEY GOEBEL, Courier
SCOTT GOLDSTEIN, Corporate Cashier and Chief Financial Officer
MARYANN GONZALES, SBA Program Associate
CHRIS HEMMINGS, Financial Analyst
OLIVIA HEMMINGS, Client Services Advisor
ASHLEY HORNER, SBA Program Administrator
CLAYTON JIMENEZ, Associate Business Client Advisor
JAMES JOHNSON, Equipment Finance Program Manager
CHRIS KLINE, Vice President and Business Client Advisor
HANS McKNIGHT, AAP, Client Services Specialist
VICKI MERAY, Business Client Services Specialist
J. MICHAEL MERCER, SVP and Chief Banking Officer
MARY MERRIMAN, SVP and Chief Credit Officer
KATHY METZLER, Business Client Services Specialist
SUZETTE MOLINSKI, EFG Account Manager
LEAH MORTENSEN, Business Client Services Specialist
JACK OMLIN, Banking Specialist
KRISTINA PARKER, Senior Associate Business Client Advisor
CHASE PEARSON, Intern Business Client Services
PAM PLILER, Compliance and Risk Manager
SEAN RUIZ, Technology Support Specialist
LISA SCHOR, Business Development
KIM SCOFIELD, Business Client Services Officer
CARRIE STAMOS, EFG Account Manager
LARA STOYANOV, EFG Account Support Specialist
GENEVIEVE SUMNALL, Treasury Management Officer
KIMBERLEE VOORHIES, Business Client Services Specialist
CRAIG WANICHEK, President and Chief Executive Officer
WILLIAM WHALEN, SVP and Chief Lending Officer
KIMBERLY WORLEY, Senior Client Services Advisor

CENTRAL OREGON OFFICE

RACHAEL BAKER, Associate Business Client Advisor
JOHN BOYLEN, VP and Business Client Advisor
MICHAEL HUDSON, Client Services Officer
GARY O'CONNELL, Central Oregon Market President
MARY RAISANEN, Senior Client Services Advisor
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