Report of Independent Auditors
and Financial Statements for

Willamette Community Bank

December 31, 2016 and 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
of Willamette Community Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Willamette Community Bank, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Willamette Community Bank as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
March 9, 2017

WILLAMETTE COMMUNITY BANK
BALANCE SHEETS

	December 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 10,172,246	$ 7,734,111
Investment securities available-for-sale, at fair value	6,849,499	11,240,128
Investment securities held-to-maturity, at amortized cost	5,312,932	4,501,176
Restricted equity securities	218,700	213,300
Loans, net	73,487,030	72,864,459
Premises and equipment, net	1,392,164	1,457,414
Accrued interest and other assets	848,876	871,383
Total assets	$ 98,281,447	$ 98,881,971
LIABILITIES		
Non-interest bearing demand deposits	$ 22,320,671	$ 21,346,989
Interest-bearing demand deposits	9,396,876	9,239,406
Money market and savings accounts	49,541,267	50,829,324
Time deposits	5,855,472	6,881,645
Total deposits	87,114,286	88,297,364
Accrued interest and other liabilities	97,274	56,262
Total liabilities	87,211,560	88,353,626
COMMITMENTS AND CONTINGENCIES (Note 10 and 12)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, 10,000,000 shares authorized 1,019,112 shares issued and outstanding at December 31, 2016 and 2015	8,816,839	8,681,680
Retained earnings	2,275,816	1,852,456
Accumulated other comprehensive loss	(22,768)	(5,791)
Total shareholders' equity	11,069,887	10,528,345
Total liabilities and shareholders' equity	$ 98,281,447	$ 98,881,971

WILLAMETTE COMMUNITY BANK
STATEMENTS OF INCOME

	Years Ended December 31, 2016	2015
INTEREST INCOME		
Interest and fees on loans	$ 4,124,161	$ 3,915,539
Interest on investment securities	310,327	341,654
Other interest income	29,916	23,718
Total interest income	4,464,404	4,280,911
INTEREST EXPENSE		
Interest-bearing demand, money market, and savings deposits	154,421	114,581
Time and other borrowings	31,666	52,373
Total interest expense	186,087	166,954
NET INTEREST INCOME	4,278,317	4,113,957
LOAN LOSS PROVISION (RECAPTURE)	20,000	(100,000)
Net interest income after loan loss provision (recapture)	4,258,317	4,213,957
NON-INTEREST INCOME		
Interchange fee income	120,160	126,974
Service charges on deposit accounts	79,175	76,014
Gains on sales and early redemptions of securities	11,277	1,300
Other	47,572	39,636
Total non-interest income	258,184	243,924
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,014,153	1,946,377
Premises and equipment	574,331	587,023
Data processing	402,923	415,490
Legal and professional	209,030	124,839
FDIC Assessment	65,683	130,169
Advertising, marketing and business development	60,374	43,627
Other	391,488	315,786
Total non-interest expenses	3,717,982	3,563,311
Income before income taxes	798,519	893,270
Provision for income taxes	240,000	302,800
NET INCOME	$ 558,519	$ 590,470
Basic and diluted earnings per common share	$ 0.55	$ 0.58

WILLAMETTE COMMUNITY BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2016	2015
NET INCOME	$ 558,519	$ 590,470
OTHER COMPREHENSIVE INCOME		
Unrealized holding gains (losses) during period	(14,446)	(28,550)
Reclassification adjustment for amounts included in net income	(11,277)	(1,300)
Other comprehensive loss before income taxes	(25,723)	(29,850)
Income tax benefit related to items of other comprehensive loss	(8,746)	(10,149)
Other comprehensive loss, net of tax	(16,977)	(19,701)
Comprehensive income	$ 541,542	$ 570,769

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2014	998,999	$ 8,681,680	$ 1,261,986	$ 13,910	$ 9,957,576
Net income	-	-	590,470	-	590,470
Other comprehensive loss	-	-	-	(19,701)	(19,701)
Balances at December 31, 2015	998,999	8,681,680	1,852,456	(5,791)	10,528,345
2% stock dividend	20,113	135,159	(135,159)	-	-
Net income	-	-	558,519	-	558,519
Other comprehensive loss	-	-	-	(16,977)	(16,977)
Balances at December 31, 2016	1,019,112	$ 8,816,839	$ 2,275,816	$ (22,768)	$ 11,069,887

WILLAMETTE COMMUNITY BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 558,519	$ 590,470
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	135,938	142,403
Loan loss provision (recapture)	20,000	(100,000)
Net amortization of premiums/discounts on investment securities	87,940	176,078
Gains on sales and early redemptions of securities	(11,277)	(1,300)
Impairment of other real estate owned	-	4,203
Loss on disposition of equipment	554	982
Deferred income taxes (decrease) increase	(2,381)	78,182
Changes in certain assets and liabilities		
Accrued interest and other assets	38,133	(52,561)
Accrued interest and other liabilities	41,012	(59,206)
Net cash from operating activities	868,438	779,251
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(2,505,735)	-
Proceeds from sales, maturities, calls, and principal payments received on available-for-sale securities	6,815,362	6,282,843
Purchases of held-to-maturity securities	(833,140)	(1,527,621)
Purchase of Federal Home Loan Bank stock	(5,400)	(57,700)
Net increase in loans	(642,571)	(5,382,331)
Proceeds from sale of other real estate owned	-	6,797
Purchases of computer software	(4,499)	(6,977)
Purchases of premises and equipment	(71,242)	(44,045)
Net cash from investing activities	2,752,775	(729,034)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(1,183,078)	4,029,970
Net cash from financing activities	(1,183,078)	4,029,970
Net decrease in cash and cash equivalents	2,438,135	4,080,187
Cash and cash equivalents at beginning of year	7,734,111	3,653,924
Cash and cash equivalents at end of year	$ 10,172,246	$ 7,734,111
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 184,433	$ 175,043
Cash paid for income taxes	$ 210,000	$ 228,628
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Changes in fair value of available-for-sale investment securities, net of tax	$ (16,977)	$ (19,701)
Issuance of stock dividend	$ 135,159	$ -

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – Willamette Community Bank (the Bank) is a state-chartered, FDIC-insured institution headquartered in Albany, Oregon, with branches in Lebanon and Albany, Oregon and a loan production office in Salem, Oregon. The Bank offers a full range of traditional banking products and services, primarily to business, professional and consumer customers located in Linn and Benton counties of Oregon. The Bank is subject to the regulations of certain federal and state agencies and undergoes periodic examination by those regulatory authorities.

The Bank declared a 2% stock dividend during 2016. All per share amounts and calculations in the accompanying financial statements have been restated to reflect the effects of the stock dividend.

Method of accounting and use of estimates – The financial statements have been prepared in accordance with generally accepted accounting principles and reporting practices applicable to the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates or assumptions made by management relate to the adequacy of the allowance for loan losses, the fair value of available-for-sale investment securities and other financial instruments, and the useful lives and methods of depreciating premises and equipment.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits at other financial institutions with original maturities of 90 days or less and Federal Funds sold overnight. From time to time, the Bank holds cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Bank places these deposits with large, well-capitalized financial institutions, management believes the risk of loss to be minimal. The Bank processes transactions through correspondent accounts with Pacific Coast Bankers' Bank (PCBB), United Bankers' Bank (UBB), and The Independent Bankers' Bank (TIB). PCBB requires that the Bank maintain a reserve in the form of deposit balances, which were $245,000 and $250,000 as of December 31, 2016 and 2015, respectively. UBB requires the Bank maintain a nominal reserve account balance. TIB requires that the Bank maintain a deposit balance reserve, which was $100,000 as of December 31, 2016.

Investment securities – The Bank is required to specifically identify its investment securities as "available-for-sale," "held-to-maturity," or "trading accounts." Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity," and such securities are reported at amortized cost. Securities are classified as "available-for-sale" if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms.

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

Gains or losses on the sale of available-for-sale securities are determined using the specific-identification method. Unrealized holding gains and losses, net of tax, on available-for-sale securities are carried as accumulated other comprehensive income or loss within shareholders' equity until realized. Fair values for these investment securities are generally based on quoted market prices for the same or similar instruments. Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. Such related write-downs would be included in earnings as other-than-temporary impairment losses.

Premiums and discounts are recognized in interest income using the effective interest method over the period to maturity.

Management reviews investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions; fair value in relationship to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether management intends to sell a security or if it is likely that the Bank will be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. For debt securities, if management intends to sell the security or it is likely that the Bank will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If management does not intend to sell the security and it is not likely that the Bank will be required to sell the security, but management does not expect to recover the entire carrying value of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings.

The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, representing the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income or loss.

Restricted equity securities – The Bank's investment in Federal Home Loan Bank of Des Moines (FHLB) stock is a restricted investment carried at par value, 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 assets. The Bank may request redemption at par value of any stock in excess of the amount the Bank is required to hold. Stock redemptions are at the discretion of the FHLB.

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

Stock in the FHLB is classified as restricted stock and is evaluated for impairment at each reporting date. The determination of whether the investment is impaired is based on the Bank's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria, such as (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. The Bank has concluded that its FHLB stock investment was not impaired as of December 31, 2016 and 2015.

The Bank's investment in PCBB stock is a restricted investment carried at par value, which approximates its fair value. PCBB operates under a special purpose charter to provide wholesale correspondent banking services to depository institutions. By statute, 100% of PCBB's outstanding stock is held by depository institutions that utilize its correspondent banking services. Stock redemptions are made at the discretion of the PCBB.

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

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

A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Specific loans evaluated for impairment are adjusted to the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan's observable market price or the fair value of the underlying collateral securing the loan. Collateral may be real estate or business assets, including equipment. The value of collateral is determined based on independent appraisals. Accrual of interest is discontinued on impaired loans when management believes, after considering economic and business conditions, collection efforts, and collateral position, that the borrower's financial condition is such that collection of interest is doubtful.

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

When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized, and the accrual of interest is reinstated, only after scheduled cash payments are received and the collection of principal in full is assured.

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

Premises and equipment, net – Leasehold improvements, furniture and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the expected useful lives of the assets, ranging from two to ten years. Leasehold improvements are amortized using the straight-line method over the terms of the related leases or the estimated lives of the improvements, whichever is shorter. The costs of maintenance and repairs are expensed as they are incurred, while major expenditures for leasehold improvements and betterments are capitalized.

Other real estate owned – Other real estate owned, which represents property acquired through foreclosure or deeds in lieu of foreclosure, is carried at the lower of cost or estimated net realizable value. Any excess of the loan balance over the estimated fair value of the property at the time of transfer, less estimated disposition costs, is charged to the allowance for loan losses and any excess estimated fair value over the loan's carrying value is recognized first as a recovery to the allowance for loan losses, to the extent that amounts have been charged-off for that loan. Then, any fair value in excess of the loan's carrying value is recognized as a reduction in noninterest expense. Subsequent write-downs to fair value, if any, or any disposition gains or losses are included in noninterest expense.

Income taxes – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Bank evaluates the realizability of its deferred tax assets by assessing the need for a valuation allowance and by adjusting the amount of such allowance, if necessary.

The Bank recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the position. A tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Bank recognizes interest and penalties related to income tax matters in income tax expense. The Bank does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

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

There were no interest and penalties related to income taxes recognized for the years ended December 31, 2016 and 2015. The Bank files U.S. federal and Oregon state income tax returns, which are subject to examination by the taxing authorities for years 2013 and later.

Advertising – The Bank expenses advertising and marketing costs as they are incurred. Advertising and marketing costs were $60,374 and $43,626 for the years ended December 31, 2016 and 2015, respectively.

Earnings per share of common stock – Basic earnings per share of common stock is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed similarly to basic earnings per share of common stock, except that the denominator is increased to include the number of additional common shares related to stock warrants that would have been outstanding if such dilutive potential common shares had been issued, unless they are determined to be anti-dilutive.

Off-balance sheet financial instruments – In the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The Bank maintains an allowance for off-balance sheet items, established as an accrued liability through charges to noninterest expense. The allowance is an amount that management believes will be adequate to absorb possible losses associated with off-balance sheet credit risk. The evaluations take into consideration such factors as changes in the nature and volume of the commitments to extend credit and undisbursed balances of existing lines of credit and letters of credit.

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

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

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

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

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

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

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

Available-for-sale investment securities – For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing. The Bank has determined this is a Level 2 input.

Impaired loans – Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral, less costs to sell (5-10% discount), if the loan is collateral dependent. The Bank has determined this is a Level 3 input.

Other real estate owned – These assets represent impaired real estate that has been adjusted to its estimated fair value as a result of management's periodic impairment evaluation using property appraisals from independent real estate appraisers, less costs to sell (5-10% discount). The Bank has determined this is a Level 3 input.

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

Cash and cash equivalents – The carrying amounts of these short-term instruments approximate their fair value. Therefore, the measurement of fair value of cash and cash equivalents is derived from Level 1 inputs.

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

Held-to-maturity investment securities – The fair values of these securities are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing. The Bank has determined these are Level 2 inputs.

Restricted equity securities – Due to significant restrictions on these securities, the fair value of Federal Home Loan Bank (FHLB) and Pacific Coast Bankers' Bank (PCBB) stock is considered to be equivalent to the value it has if redeemed by the FHLB or PCBB, respectively. However, there is no active market for exchanging these securities to a willing party other than the FHLB or PCBB; as such, the Bank has determined these are Level 2 inputs.

Loans receivable – For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. The Bank has determined these are Level 3 inputs.

Deposit liabilities – The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (their carrying amounts), which is determined using Level 1 inputs. The carrying amounts of variable rate, fixed-term money market accounts, and certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The Bank has determined these are Level 2 inputs.

Lines of credit and other borrowings – The fair value of the Bank's borrowings is estimated using a discounted cash flow analysis based on the Bank's current incremental borrowing rate for similar types of borrowing arrangements. The Bank has determined these are Level 2 inputs.

Off-balance sheet instruments – The Bank's off-balance sheet instruments include unfunded commitments to extend credit, and standby letters of credit. The fair value of these instruments is not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. Given the uncertainty of a commitment being drawn upon, it is not reasonable to estimate the fair value of these commitments; therefore, the Bank has not made any disclosure on the fair value of off-balance sheet financial instruments.

Reclassifications – Certain reclassifications have been made to the 2015 financial statements to conform with current year presentations. These reclassifications have no effect on previously reported net income or earnings per share.

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

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

The Bank has evaluated subsequent events through March 9, 2017, which is the date the financial statements became available for issuance.

Note 2 – Investment Securities

The amortized cost and estimated fair values of available-for-sale and held-to-maturity investment securities at December 31, 2016 and 2015:

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale investment securities				
U.S. Government treasury notes	$ 500,000	$ -	$ (156)	$ 499,844
U.S. Government agency notes	2,505,415	637	(40,126)	2,465,926
U.S. Government agency mortgage-backed securities	360,830	-	(1,137)	359,693
U.S. Government/agency collateralized mortgage obligations	3,517,751	15,444	(9,159)	3,524,036
	$ 6,883,996	$ 16,081	$ (50,578)	$ 6,849,499
Held-to-maturity investment securities				
Municipal bonds - general obligations	$ 3,642,282	$ 88,053	$ (38,430)	$ 3,691,905
Municipal bonds - revenue	1,670,650	38,060	(515)	1,708,195
	$ 5,312,932	$ 126,113	$ (38,945)	$ 5,400,100

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale investment securities				
U.S. Government agency notes	$ 500,000	$ -	$ (970)	$ 499,030
U.S. Government agency mortgage-backed securities	912,873	-	(6,164)	906,709
U.S. Government/agency collateralized mortgage obligations	9,836,029	35,268	(36,908)	9,834,389
	$ 11,248,902	$ 35,268	$ (44,042)	$ 11,240,128
Held-to-maturity investment securities				
Municipal bonds - general obligations	$ 2,831,023	$ 142,814	$ -	$ 2,973,837
Municipal bonds - revenue	1,670,153	108,142	-	1,778,295
	$ 4,501,176	$ 250,956	$ -	$ 4,752,132

The Bank had one general obligations municipal bond, one revenue municipal bond, eight collateralized mortgage obligation securities, one treasury note security, four agency note securities, and two mortgage-backed securities in the following table with gross unrealized losses at December 31, 2016. Included in the totals above was one collateralized mortgage obligation security that had been in a gross unrealized loss position for greater than one year. At December 31, 2015, the bank had thirteen collateralized mortgage obligations securities, one agency note security, and four mortgage-backed securities with gross unrealized losses. Included in the totals above were three collateralized mortgage obligations with gross unrealized loss positions greater than one year. The Bank evaluated these unrealized losses and determined that the declines in value at December 31, 2016 and 2015 were temporary and related to the change in market interest rates since the date of their purchases. The Bank currently has the ability to hold these securities until maturity or until market conditions favorably affect value.

Note 2 – Investment Securities (continued)

Investment securities with unrealized losses at December 31, 2016 and 2015 were as follows:

	Continuous Unrealized Loss for Less Than 12 Months		Continuous Unrealized Loss for More Than 12 Months		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
December 31, 2016						
Available-for-sale investment securities						
U.S. Government treasury notes	$ 499,844	$ (156)	$ -	$ -	$ 499,844	$ (156)
U.S. Government agency notes	1,965,289	(40,126)	-	-	1,965,289	(40,126)
U.S. Government agency mortgage-backed securities	359,693	(1,137)	-	-	359,693	(1,137)
U.S. Government/agency collateralized mortgage obligations	1,162,237	(4,661)	165,878	(4,498)	1,328,115	(9,159)
	$ 3,987,063	$ (46,080)	$ 165,878	$ (4,498)	$ 4,152,941	$ (50,578)
Held-to-maturity investment securities						
Municipal bonds - general obligations	$ 788,873	$ (38,430)	$ -	$ -	$ 788,873	$ (38,430)
Municipal bonds - revenue	771,145	(515)	-	-	771,145	(515)
	$ 1,560,018	$ (38,945)	$ -	$ -	$ 1,560,018	$ (38,945)

	Continuous Unrealized Loss for Less Than 12 Months		Continuous Unrealized Loss for More Than 12 Months		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
December 31, 2015						
Available-for-sale investment securities						
U.S. Government agency notes	$ 499,030	$ (970)	$ -	$ -	$ 499,030	$ (970)
U.S. Government agency mortgage-backed securities	906,710	(6,164)	-	-	906,710	(6,164)
U.S. Government/agency collateralized mortgage obligations	3,077,403	(19,508)	779,384	(17,400)	3,856,787	(36,908)
	$ 4,483,143	$ (26,642)	$ 779,384	$ (17,400)	$ 5,262,527	$ (44,042)

Note 2 – Investment Securities (continued)

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers could have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 500,000	$ 499,844	$ -	$ -
Due after one through five years	2,505,415	2,465,926	813,062	823,424
Due after five through ten years	-	-	3,021,682	3,041,057
Due after ten years	-	-	1,478,188	1,535,619
Collateralized mortgage obligations and mortgage-backed securities	3,878,581	3,883,729	-	-
Total	$ 6,883,996	$ 6,849,499	$ 5,312,932	$ 5,400,100

In 2016 and 2015 there were gross gains from the sales of securities of $11,277 and $1,300, respectively.

At December 31, 2016, available-for-sale investment securities of $1,950,250 and held-to-maturity securities of $4,541,272, were pledged to secure public funds, as permitted or required by law. At December 31, 2015, available-for-sale investments securities of $2,508,078 and held-to-maturity securities of $3,730,017 were pledged to secure public funds, as permitted or required by law.

Note 3 – Loans

As of December 31, the loan portfolio consisted of the following:

	2016	2015
Real estate loans	$ 53,398,338	$ 56,195,083
Commercial	16,947,956	13,008,136
Agricultural	3,786,980	3,933,142
Consumer	307,961	680,453
Other and overdrafts	286,074	279,754
	74,727,309	74,096,568
Less unearned loan fees, net	(283,504)	(302,939)
Less allowance for loan losses	(956,775)	(929,170)
Loans, net	$ 73,487,030	$ 72,864,459

Note 4 – Allowance for Loan Losses

The following table displays the allocation of, and activity within, the allowance for loan losses to significant segments of the loan portfolio as of and for the year ended December 31, 2016:

2016	Real Estate	Commercial	Agricultural	Consumer	Other	Totals
Allowance						
Balance, beginning of the period	$ 737,818	$ 138,286	$ 36,541	$ 13,500	$ 3,025	$ 929,170
Charge-offs	-	-	-	(292)	-	(292)
Recoveries	-	-	-	7,897	-	7,897
Provision for loan losses	15,000	5,000	-	-	-	20,000
Balance, end of the period	$ 752,818	$ 143,286	$ 36,541	$ 21,105	$ 3,025	$ 956,775
Ending balance individually evaluated for impairment	$ -	$ 35,700	$ -	$ 6,100	$ -	$ 41,800
Ending balance collectively evaluated for impairment	$ 752,818	$ 107,586	$ 36,541	$ 15,005	$ 3,025	$ 914,975
Loans						
Ending balance	$ 53,398,338	$ 16,947,956	$ 3,786,980	$ 307,961	$ 286,074	$ 74,727,309
Ending balance individually evaluated for impairment	$ 3,048,429	$ 237,885	$ -	$ 23,213	$ -	$ 3,309,527
Ending balance collectively evaluated for impairment	$ 50,349,909	$ 16,710,071	$ 3,786,980	$ 284,748	$ 286,074	$ 71,417,782

Transactions in the allowance for loan losses for the year ended December 31, 2015 were as follows:

2015	Real Estate	Commercial	Agricultural	Consumer	Other	Totals
Allowance						
Balance, beginning of the period	$ 840,818	$ 120,681	$ 26,541	$ 32,584	$ 6,025	$ 1,026,649
Charge-offs	-	-	-	(16,084)	-	(16,084)
Recoveries	-	18,605	-	-	-	18,605
Provision for loan losses	(103,000)	(1,000)	10,000	(3,000)	(3,000)	(100,000)
Balance, end of the period	$ 737,818	$ 138,286	$ 36,541	$ 13,500	$ 3,025	$ 929,170
Ending balance individually evaluated for impairment	$ 600	$ 15,800	$ -	$ 7,200	$ -	$ 23,600
Ending balance collectively evaluated for impairment	$ 737,218	$ 122,486	$ 36,541	$ 6,300	$ 3,025	$ 905,570
Loans						
Ending balance	$ 56,195,083	$ 13,008,136	$ 3,933,142	$ 680,453	$ 279,754	$ 74,096,568
Ending balance individually evaluated for impairment	$ 1,482,170	$ 266,096	$ -	$ 32,331	$ -	$ 1,780,597
Ending balance collectively evaluated for impairment	$ 54,712,913	$ 12,742,040	$ 3,933,142	$ 648,122	$ 279,754	$ 72,315,971

Note 4 – Allowance for Loan Losses (continued)

Credit quality indicators – The Bank's risk rating methodology assigns risk ratings ranging from 1 to 8, where a higher rating represents higher risk. The 8 risk rating categories can be generally described by the following groupings:

Pass (risk rating 1 through 3) – These loans range from minimal credit risk to higher than average, but still acceptable, credit risk. Primary repayment sources generate satisfactory debt service coverage under normal conditions. Cash flow from recurring sources is expected to continue to produce adequate debt service capacity. There are many categories within the pass definition, but none of the loans rise to the level of Watch.

Watch (risk rating 4) – Loans are graded as Watch when, for various reasons, close monitoring is required. This includes loans that have performed satisfactorily, but because of recent events, deteriorating trends, or signs of developing problems require close monitoring. While continued satisfactory performance is expected, the situation, if not monitored, could develop into weaknesses that result in the loan being adversely risk rated.

Special Mention (risk rated 5) – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the Bank's credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a Substandard classification. Unlike a Substandard credit, there is a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

Substandard (risk rated 6) – A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not necessarily exist in each individual asset classified as Substandard. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations, is the key distinction between Special Mention and Substandard loans.

Doubtful (risk rated 7) – Loans classified as Doubtful have all the weaknesses inherent in one classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a Loss (and immediate charge-off) is deferred until more exact status may be determined.

Note 4 – Allowance for Loan Losses (continued)

Loss (risk rated 8) – These loans are considered uncollectible and of such little value that their continuance as active assets of the Bank is not warranted. This classification does not mean that the loan has no recovery or salvage value, but rather that it is not practical or desirable to defer writing it off as an asset. While Loss is an active grade in the risk rating system, any loan considered to be in this category is to be charged-off as soon as possible.

The following tables show credit quality indicators as of December 31, 2016 and 2015:

	Real Estate		Commercial		Agriculture	
	2016	2015	2016	2015	2016	2015
Grade						
Pass	$ 51,848,151	$ 54,439,044	$ 16,742,491	$ 12,802,824	$ 3,786,980	$ 3,933,142
Special Mention	-	123,426	-	-	-	-
Substandard	1,550,187	1,632,614	205,465	205,312	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
	$ 53,398,338	$ 56,195,084	$ 16,947,956	$ 13,008,136	$ 3,786,980	$ 3,933,142

	Consumer		Other		Totals	
	2016	2015	2016	2015	2016	2015
Grade						
Pass	$ 289,546	$ 651,765	$ 286,074	$ 279,754	$ 72,953,242	$ 72,106,529
Special Mention	-	-	-	-	-	123,426
Substandard	18,415	28,688	-	-	1,774,067	1,866,614
Doubtful	-	-		-	-	-
Loss	-	-	-	-	-	-
	$ 307,961	$ 680,453	$ 286,074	$ 279,754	$ 74,727,309	$ 74,096,569

The following table shows the age analysis of past due loans as of December 31, 2016 and 2015:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans	Over 90 Days and Accruing
December 31, 2016							
Real estate	$ 221,753	$ -	$ 166,723	$ 388,476	$ 53,009,862	$ 53,398,338	$ -
Commercial	-	149,950	55,515	205,465	16,742,491	16,947,956	-
Agriculture	-	-	-	-	3,786,980	3,786,980	-
Consumer	-	-	-	-	307,961	307,961	-
Other and overdrafts	-	-	-	-	286,074	286,074	-
Total	$ 221,753	$ 149,950	$ 222,238	$ 593,941	$ 74,133,368	$ 74,727,309	$ -
December 31, 2015							
Real estate	$ -	$ -	$ -	$ -	$ 56,195,083	$ 56,195,083	$ -
Commercial	-	-	-	-	16,941,278	13,008,136	-
Agriculture	-	-	-	-	3,933,142	3,933,142	-
Consumer	-	-	-	-	680,453	680,453	
Other and overdrafts	-	-	-	-	279,754	279,754	-
Total	$ -	$ -	$ -	$ -	$ 78,029,710	$ 74,096,568	$ -

Note 4 – Allowance for Loan Losses (continued)

The following table shows impaired loans as of and for the years ended December 31, 2016 and 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2016					
With no related allowance recorded:					
Real estate	$ 3,048,429	$ 3,048,429	$ -	$ 3,085,541	$ 153,474
Commercial	54,959	54,959	-	57,947	4,648
With a related allowance recorded:					
Commercial	182,926	182,926	35,700	199,623	11,128
Consumer	23,213	23,213	6,100	30,370	1,853
	$ 3,309,527	$ 3,309,527	$ 41,800	$ 3,373,481	$ 171,103
December 31, 2015					
With no related allowance recorded:					
Real estate	$ 1,437,782	$ 1,437,782	$ -	$ 1,418,335	$ 87,251
Commercial	73,555	73,555	-	91,914	6,520
With a related allowance recorded:					
Real estate	44,388	44,388	600	45,155	2,639
Commercial	187,865	192,541	15,800	206,343	8,080
Consumer	28,688	32,331	7,200	31,435	520
	$ 1,772,278	$ 1,780,597	$ 23,600	$ 1,793,182	$ 105,010

The Bank had four commercial loans totaling $195,783, one real estate loan with a balance of $166,723, and one consumer loan with a balance of $13,286 on non-accrual status as of December 31, 2016. A commercial loan with a balance of $86,130 and a consumer loan with a balance of $16,703 were in non-accrual status as of December 31, 2015.

Troubled debt restructurings – A troubled debt restructuring occurs when a creditor, for economic or legal reasons related to the debtor's financial difficulties, makes a concession to a debtor that it would not otherwise consider. The Bank offers a variety of modifications to borrowers that are considered to be troubled debt restructurings (TDR’s). The modification categories offered can generally be described as follows:

Rate modification – A modification in which the interest rate is changed.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest only modification – A modification in which the loan is converted to interest only payments for a period of time.

Note 4 – Allowance for Loan Losses (continued)

Payment modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

Combination modification – Any other type of modification, including the use of multiple categories above.

At December 31, 2016 and 2015, $1,726,036 and $1,755,575, respectively, in loans were classified as troubled debt restructurings. Newly restructured loans during the years ended December 31, 2016 and 2015 were as follows:

	Number of Contracts	Outstanding Recorded Investment Before Modification	Outstanding Recorded Investment After Modification	Concession Granted	Impairment Amount at December 31
December 31, 2016					
Commercial	1	$ 96,463	$ 96,463	Note term(s)	$ -
Total	1	$ 96,463	$ 96,463		$ -
December 31, 2015					
Real estate	2	$ 1,284,959	$ 1,357,670	Note term(s)	$ 600
Commercial and agricultural	3	218,359	218,359	Note term(s)	15,700
Total	5	$ 1,503,318	$ 1,576,029		$ 16,300

During 2016, there were no loans modified as troubled debt restructurings that had a payment default within 12 months of the restructure date. There were two commercial loans totaling $140,267 that were restructured during 2015, which subsequently had a payment default within 12 months of the restructure date. Troubled debt restructuring on nonaccrual status totaled $140,267 and $86,130 as of December 31, 2016 and 2015, respectively. There were no available commitments to lend additional funds on troubled debt restructurings as of December 31, 2016 and 2015.

Note 5 – Premises and Equipment

As of December 31, the composition of premises and equipment is summarized as follows:

	2016	2015
Land and improvements	$ 336,939	$ 336,939
Leasehold improvements	435,410	435,410
Building	1,097,164	1,097,164
Furniture and equipment	817,252	812,724
Construction in progress	52,924	-
	2,739,689	2,682,237
Less accumulated depreciation and amortization	(1,347,525)	(1,224,823)
Premises and equipment, net	$ 1,392,164	$ 1,457,414

Depreciation and amortization expense was $135,938 and $142,403 for the years ended December 31, 2016 and 2015, respectively.

Note 6 – Time Deposits

The aggregate amount of certificates of deposit $250,000 and over totaled $941,326 and $0, as of December 31, 2016 and 2015, respectively.

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

2017	$ 3,053,502
2018	2,074,407
2019	654,622
2020	72,941
	$ 5,855,472

Note 7 – Lines of Credit and Other Borrowings

At December 31, 2016, the Bank had borrowing availability of approximately $2,750,000 under its Cash Management Advance ("CMA") facility with the Federal Home Loan Bank of Des Moines. The CMA facility is secured by multifamily, residential-mortgage loans. In addition, the Bank maintains an unsecured $3,000,000 federal funds facility with its primary correspondent bank, Pacific Coast Bankers' Bank. Both facilities were fully available at December 31, 2016. The Bank also maintains a discount window primary credit facility with the Federal Reserve Bank of San Francisco, which had a fully available borrowing limit of approximately $2,600,000 as of December 31, 2016. The discount window facility is secured by pledged commercial real estate loans. The Bank also maintains federal fund lines with the Independent Bankers Bank and the United Bankers Bank, with an unsecured, fully available borrowing limit of $2,600,000 and $5,000,000, respectively.

Note 8 – Income Taxes

The provision for income taxes consists of the following for the years ended December 31:

	2016	2015
Current		
Federal	$ 189,947	$ 186,718
State	58,314	46,275
Less state tax credit benefit	(5,880)	(8,375)
	242,381	224,618
Deferred		
Federal	(1,941)	63,782
State	(440)	14,400
	(2,381)	78,182
Provision for income taxes	$ 240,000	$ 302,800

Note 8 – Income Taxes (continued)

Deferred income taxes represent the tax effect of differences in timing between financial income and taxable income. As of December 31, 2016 and 2015, net deferred tax benefits are included in the category accrued interest receivable and other assets in the accompanying balance sheets and include the following components:

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 325,050	$ 317,570
State tax credits	21,841	31,932
Market adjustment on investment securities available-for-sale	13,172	2,983
Other reserves	38	17,627
	360,101	370,112
Deferred tax liabilities:		
Accrued interest receivable	(141,842)	(153,839)
Prepaid expenses	(61,230)	(55,877)
Book tax depreciation differences	(6,804)	(900)
	(209,876)	(210,616)
Net deferred tax asset	$ 150,225	$ 159,496

Management believes, based upon the Bank's historical performance, the deferred tax assets will be realized in the normal course of operations, and has determined that no valuation allowance is deemed necessary as of December 31, 2016 or 2015.

The following summarizes the differences between the provision for income taxes for financial statement purposes and the federal statutory rate of 34.00% for the years ended December 31, 2016 and 2015:

	2016		2015	
Federal tax at statutory rates	$ 271,495	34.00%	$ 303,712	34.00%
State income taxes, net of federal effect	34,783	4.36%	38,911	4.36%
Tax exempt income	(57,662)	-7.22%	(37,067)	-4.15%
Other	(8,616)	-1.08%	(2,756)	-0.31%
	$ 240,000	30.06%	$ 302,800	33.90%

Note 9 – Transactions with Related Parties

Certain directors, executive officers, and principal shareholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. Management believes loans and commitments to loan funds included in such transactions are made in compliance with applicable laws on substantially equivalent terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collection or present any other unfavorable features. At December 31, 2016 and 2015, loans outstanding to directors and their affiliates were as follows:

	2016	2015
Beginning balance	$ 2,081,764	$ 2,201,831
Additions or renewals	-	-
Removed from related party status	(1,690,473)	-
Repayments	(30,971)	(120,067)
Ending balance	$ 360,320	$ 2,081,764

At December 31, 2016, there were no unused commitments to extend credit to directors and their affiliates.

Related-party deposits held by the Bank at December 31, 2016 and 2015 were $3,760,894 and $1,409,097, respectively.

Note 10 – Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, in order to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheets. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the 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.

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

A summary of the notional amounts of the Bank's financial instruments with off-balance sheet risk at December 31, 2016 and 2015, are as follows:

	2016	2015
Commitments to extend credit by type:		
Real estate	$ 6,943,588	$ 5,847,300
Commercial	12,652,653	8,231,729
Agricultural	3,484,642	3,126,803
Consumer	147,433	158,345
Other	1,200,839	1,226,015
Standby letter of credit	17,000	17,000
Total commitments to extend credit	$ 24,446,155	$ 18,607,192

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

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, accounts receivable, inventories, equipment, securities, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

The Bank maintains a reserve for off-balance-sheet credit exposure representing management's recognition of the assumed risks of extending credit. The reserve for off- balance sheet credit exposure totaled $100 and $500 at December 31, 2016 and 2015, respectively, and is included with accrued interest and other liabilities in the accompanying statements of financial condition.

Note 11 – Concentrations of Credit Risk

A majority of the Bank's loans and commitments to lend have been granted to customers in the Bank's market area. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The Bank's loan policies do not allow the extension of credit to any single borrower in excess of 25% of the Bank's capital (15% for other than real estate secured loans).

Note 12 – Commitments and Contingencies

Lease commitments – As of December 31, 2016, the Bank leased its office space in Lebanon, Oregon, under an operating lease agreement which expires on March 20, 2018, and includes a fixed escalation clause. During 2016, the Bank entered into a sub-lease for office space in Salem, Oregon, under an operating agreement which expires March 1, 2028. Approximate future minimum payments under these lease agreements are as follows:

Years ending December 31,	2017	$	118,892
	2018		95,265
	2019		87,654
	2020		89,845
	2021		92,091
	Thereafter		513,600
		$	997,347

Rent expense, including common area maintenance, was $71,030 and $68,211 for the years ended December 31, 2016 and 2015, respectively.

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

Note 13 – Employee Benefit Plan

The Bank has adopted a 401(k) savings investment plan which allows employees to defer certain amounts of compensation for income tax purposes under section 401(k) of the Internal Revenue Code. Essentially, all employees over the age of 18 are eligible to participate in the plan. Employees may elect to defer and contribute up to the statutory limits. Their contributions and those of the Bank, which are discretionary, are invested in employee-designated funds. The Bank’s matching contributions to the plan were $54,899 and $55,142 for the years ended December 31, 2016 and 2015, respectively, and were recorded as employee benefits expense.

Note 14 – Stock Warrants

As part of the Bank's initial stock offering, common stock warrants were issued to each purchaser of the Bank's common stock at a rate of one warrant for every five shares purchased. Additionally, seed capital investors received warrants at a rate of one warrant for every share purchased to the extent of seed capital invested. The warrants entitled holders to purchase one additional share of common stock at a stock-dividend adjusted price of $9.52 until expiration on May 5, 2013. In September 2011, the Bank's Board of Directors approved an extension of the expiration date to May 5, 2016. In April 2016, the Board of Directors approved another extension of the expiration date to May 5, 2019. Warrants outstanding totaled 103,852 and 101,816 at December 31, 2016 and 2015, respectively.

Note 15 – Basic and Diluted Earnings per Common Share

The numerator and denominator used in computing basic and diluted earnings per common share for the years ended December 31, 2016 and 2015 were as follows:

	Net Income (numerator)	Shares (denominator)	Per-share amount
2016			
Basic and diluted earnings per common share	$ 558,519	1,019,112	$ 0.55
	Net Income (numerator)	Shares (denominator)	Per-share amount
2015			
Basic and diluted earnings per common share	$ 590,470	1,019,112	$ 0.58

Because the impact on earnings per share from the outstanding warrants was determined to be anti-dilutive, basic and diluted earnings per share were equivalent.

Note 16 – Regulatory Matters

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

Note 16 – Regulatory Matters (continued)

Quantitative measures, established by regulation to ensure capital adequacy, require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets (as defined in the regulations).

The Bank's and the Company's capital amounts and ratios are substantially equivalent and as of December 31, 2016 and 2015, are as follows:

	Actual		For Capital Adequacy Purposes		To Be Considered Well-Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016:						
Total risk-based capital ratio -						
Total capital (to risk-weighted assets)	$ 12,040	13.1%	$ 7,358	8.0%	$ 9,198	10.0%
Tier 1 risk-based capital ratio -						
Tier 1 capital (to risk-weighted assets)	11,083	12.0%	5,519	6.0%	7,358	8.0%
Common equity tier 1 to risk-weighted assets	11,083	12.0%	4,139	4.5%	5,979	6.5%
Leverage ratio -						
Tier 1 capital (to average assets)	11,083	11.5%	3,864	4.0%	4,830	5.0%
December 31, 2015:						
Total risk-based capital ratio -						
Total capital (to risk-weighted assets)	11,458	13.5%	6,743	8.0%	6,961	10.0%
Tier 1 risk-based capital ratio -						
Tier 1 capital (to risk-weighted assets)	10,528	12.4%	5,057	6.0%	4,176	8.0%
Common equity tier 1 to risk-weighted assets	10,528	12.4%	3,793	4.5%	5,479	6.5%
Leverage ratio -						
Tier 1 capital (to average assets)	10,528	10.8%	3,919	4.0%	4,280	5.0%

As of the most recent notifications from its regulatory agencies, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes may have changed the Bank's category.

The Bank is required to establish and phase-in a "conservation buffer," consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets by 2019. An institution that does not meet the conservation buffer requirement will be subject to restrictions on certain activities, including payment of dividends, stock repurchases, and discretionary bonuses to executive officers. The phase-in began in 2016 and increases 0.625% annually until fully phased-in by 2019.

Dividends – Regulations of the FDIC do not permit the Bank to pay dividends on its common stock if shareholders' equity would thereby be reduced below the Bank's regulatory capital requirements.

Note 17 – Fair Value Measurements

The following table presents information about the Bank's assets and liabilities measured at fair value on a recurring and non-recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value:

		Fair Value Measurements at Report Date Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring items at December 31, 2016				
Available-for-sale investment securities				
U.S. Government treasury notes	$ 499,844	$ -	$ 499,844	$ -
U.S. Government agency notes	2,465,926	-	2,465,926	-
U.S. Government agency mortgage-backed securities	359,693	-	359,693	-
U.S. Government/agency collateralized mortgage obligations	3,524,036	-	3,524,036	-
Total	$ 6,849,499	$ -	$ 6,849,499	$ -
Non-recurring items at December 31, 2016				
Impaired loans, net of specific reserves and charge-offs	$ 3,267,727	$ -	$ -	$ 3,267,727
Total	$ 3,267,727	$ -	$ -	$ 3,267,727
Recurring items at December 31, 2015				
Available-for-sale investment securities				
U.S. Government agency notes	$ 499,030	$ -	$ 499,030	$ -
U.S. Government agency mortgage-backed securities	906,709	-	906,709	-
U.S. Government/agency collateralized mortgage obligations	9,834,389	-	9,834,389	-
Total	$ 11,240,128	$ -	$ 11,240,128	$ -
Non-recurring items at December 31, 2015				
Other real estate owned	$ 11,000	$ -	$ -	$ 11,000
Impaired loans, net of specific reserves and charge-offs	1,748,678	-	-	1,748,678
Total	$ 1,759,678	$ -	$ -	$ 1,759,678

Assets and liabilities are disclosed in the table above by recurring or non-recurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the consolidated financial statements at each reporting date. Assets measured on a non-recurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the consolidated financial statements or at some time during the reporting period.

Note 17 – Fair Value Measurements (continued)

The loans in the previous table represent impaired, collateral dependent loans that have been adjusted to fair value with a specific valuation allowance. When management determines that the value of the underlying collateral is less than the recorded investment in the loan, the Bank recognizes this impairment and adjusts the carrying value of the loan to fair value by charging-off the amount of the impairment to the allowance for loan losses, or recording a specific reserve in the allowance for loan losses.

The other real estate owned balance is real estate in which the Bank has taken ownership in partial or full satisfaction of unpaid loans. At the time of foreclosure, other real estate owned is recorded at the net realizable value, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell.

Fair value adjustments on other real estate owned are recorded as a net loss on real estate owned. This loss represents impairments on other real estate owned for adjustments based on the fair value of the real estate.

The following table discloses the estimated fair value and the related carrying value of the Bank's financial assets and liabilities, in accordance with disclosures about fair value of financial instruments, as of December 31, 2016 and 2015:

		Fair Value at December 31, 2016			
	Carrying Value	Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 10,172,246	$ 10,172,246	$ 10,172,246	$ -	$ -
Investment securities available-for-sale	6,849,499	6,849,499	-	6,849,499	-
Investment securities held-to-maturity	5,312,932	5,400,100	-	5,400,100	-
Restricted equity securities	218,700	218,700	-	218,700	-
Loans, net	73,487,030	74,940,030	-	-	74,940,030
Financial liabilities					
Non-interest bearing demand deposits	22,320,671	22,320,671	-	22,320,671	-
Interest-bearing demand deposits	9,396,876	9,396,876	-	9,396,876	-
Money market and savings accounts	49,541,267	49,541,267	-	49,541,267	-
Time deposits	5,855,472	6,105,472	-	6,105,472	-

		Fair Value at December 31, 2015			
	Carrying Value	Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 7,734,111	$ 7,734,111	$ 7,734,111	$ -	$ -
Investment securities available-for-sale	11,240,128	11,240,128	-	11,240,128	-
Investment securities held-to-maturity, at amortized cost	4,501,176	4,752,132	-	4,752,132	-
Restricted equity securities	213,300	213,300	-	213,300	-
Loans, net	72,864,459	72,219,459	-	-	72,219,459
Financial liabilities					
Non-interest bearing demand deposits	21,346,989	21,346,989	-	21,346,989	-
Interest-bearing demand deposits	9,239,406	9,239,406	-	9,239,406	-
Money market and savings accounts	50,829,324	50,829,324	-	50,829,324	-
Time deposits	6,881,645	6,896,945	-	6,896,945	-