SUMMITBANK

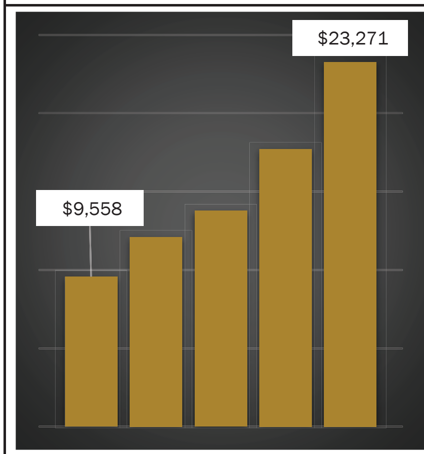
2018 ANNUAL REPORT

PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS (DOLLARS IN THOUSANDS)	2014	2015	2016	2017	2018
REVENUES	$ 9,558	$ 12,109	$ 13,785	$ 17,726	$ 23,271
NET INCOME	$ 2,401	$ 2,740	$ 2,855	$ 3,283	$ 5,762
TOTAL TIER 1 CAPITAL	$ 16,819	$ 21,746	$ 24,899	$ 34,542	$ 40,588
TOTAL ASSETS	$ 179,266	$ 236,305	$ 281,997	$ 335,689	$ 416,468
TOTAL LOANS	$ 149,731	$ 187,792	$ 231,084	$ 281,435	$ 348,462
TOTAL DEPOSITS	$ 157,726	$ 209,729	$ 253,710	$ 298,613	$ 371,404

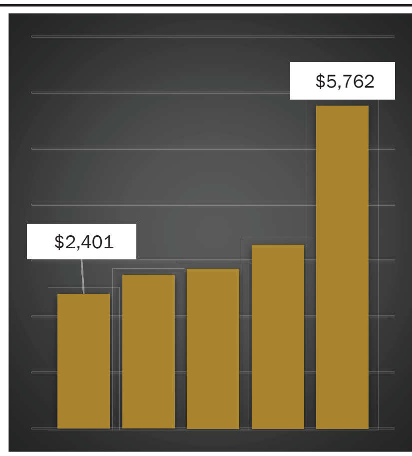
REVENUES (CAGR)

+25%



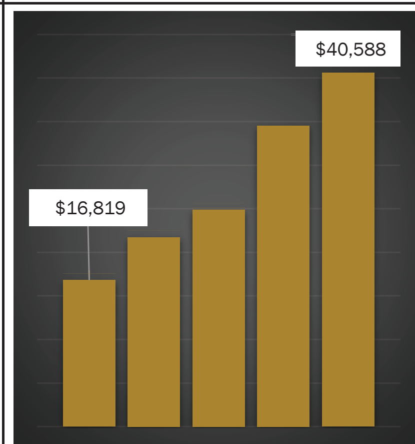
NET INCOME (CAGR)

+25%



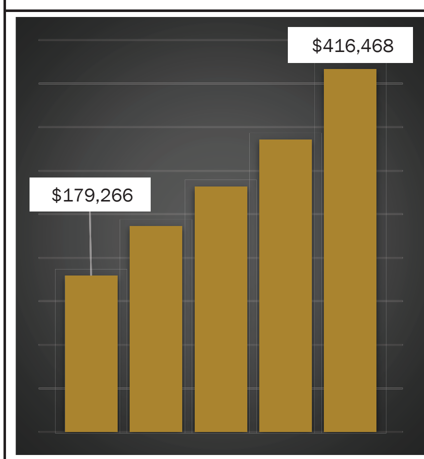
TOTAL TIER 1 CAPITAL (CAGR)

+25%



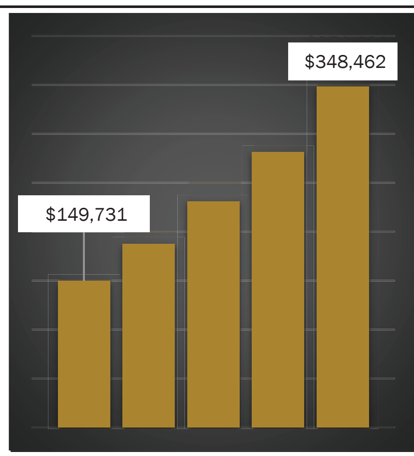
TOTAL ASSETS (CAGR)

+24%



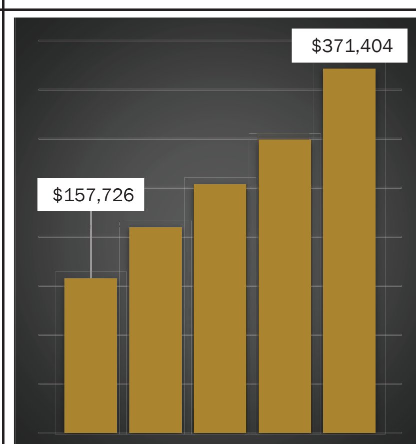
TOTAL LOANS (CAGR)

+24%



TOTAL DEPOSITS (CAGR)

+24%



**CAGR = Compounded Annual Growth Rate for Years 2014 through 2018*

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SUMMITBANK

To our Shareholders,

WE BEGIN THIS LETTER WITH A SENSE OF PRIDE AND APPRECIATION for what we've accomplished since we opened Summit Bank's doors, 15 years ago, in 2004. As we look back on 2018, it was exciting to see how well our company has performed thanks to our clients, colleagues, shareholders, community and board of directors. 2018 was a record year for Summit Bank.

Net income for the fiscal year was $5.76 million or $1.10 per fully diluted share. Our excellent earnings resulted from strong contributions from all of Summit's operating units combined with the lower federal tax rate in effect for 2018. These returns represented an increase of $0.44 per fully diluted share over 2017 earnings of $3.28 million. Perhaps of equal importance for the long term, we achieved our sixth consecutive year of annual loan growth in excess of 20 percent. Total net loans as of December 31, 2018 were $342.1 million, representing a 24 percent increase over the previous year end total of $276.5 million. We are also pleased to report that deposit growth mirrored the strength of loan production, with total deposits increasing by $72.8 million or 24 percent over 2017.

Other highlights for the year come from our Small Business Administration Division. Summit's SBA Division was named for the fourth consecutive year as the Most Active Community Bank Lender in Oregon for U.S. Small Business Administration (SBA) loans, per the Portland Business Journal. In addition, our Equipment Finance Group also had a record year in production and profit. Other noteworthy items in 2018 included Summit Bank receiving the "Reader's Choice" award for "Favorite Bank" in the Register-Guard. We were one of the three finalists for the second year in a row for the City of Eugene's "Bold Steps" award, which recognizes local companies who create initiatives surrounding innovation and sustainability in the community.

Summit's SBA Division was named for the fourth consecutive year as the Most Active Community Bank Lender in Oregon for U.S. Small Business Administration loans.

Summit continually enhances our client service proposition through technology. Some of our accomplishments and initiatives completed this year include: Card Valet, which allows clients to manage debit and credit card usage through their mobile devices; a new Business Online Banking platform, new and easier to use Treasury Management software; and new account opening procedures which provides more rapid turnaround times for client requests. Additional technological initiatives we are pursuing in 2019 include Notifi, which provides real-time alerts on retail and business accounts and Debit Card Tokenization, which allows our clients to provide retail and business payments with cell phones through Apple Pay and Samsung Pay.

2018 was a great year, but we are looking for strong new growth in 2019. In January of 2019, we hired eight accomplished bankers who are based in downtown Portland. The team is providing Summit's relationship-based banking model to the Portland business community.

Summit Bank remains steadfast in our dedication to our colleagues, who make our company a great place a work; our clients, who allow us to help their businesses grow; and to our shareholders, for believing in and supporting us. It is through continued collaboration that we make our bank – and our community – an ideal place to work and live.

Sincerely,

R. Paul Weinhold
Board Chair

Craig A. Wanichek
President & CEO

In January of 2019, we hired eight accomplished bankers who are based in downtown Portland.

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Independent Auditors' Report

To the Board of Directors and
Stockholders of Summit Bank

We have audited the accompanying balance sheets of Summit Bank as of December 31, 2018 and 2017, and the related statements of income, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Bank as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Delap LLP

March 12, 2019

BALANCE SHEETS

	December 31 2018	December 31 2017
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 14,821,609	$ 10,289,330
Interest-bearing deposits with other banks	2,349,021	2,173,218
Deposits with Federal Reserve Bank	39,348,682	28,502,391
Total cash and cash equivalents	56,519,312	40,964,939
Investment securities available-for-sale, at estimated fair value	3,312,446	5,388,179
Loans, less allowance for loan losses	342,092,865	276,502,843
Interest receivable	1,398,211	1,034,066
FHLB and PCBB stock, at cost	842,900	778,400
Premises and equipment, net of accumulated depreciation	5,771,693	4,834,430
Deferred income taxes, net	1,204,990	924,195
Repossessed assets, net	764,670	1,031,060
Cash surrender value of bank-owned life insurance	3,800,680	3,708,474
Other assets	760,049	522,852
	359,948,504	294,724,499
Total assets	$ 416,467,816	$ 335,689,438
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 92,610,276	$ 86,498,040
Savings and interest-bearing demand	259,137,037	185,881,945
Time deposits	19,657,014	26,232,634
Total deposits	371,404,327	298,612,619
Interest payable	107,633	89,591
Other liabilities	2,782,628	2,317,001
Repurchase agreements	1,608,776	136,378
Total liabilities	375,903,364	301,155,589
Stockholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; none issued	-	-
Common stock, no par value; 10,000,000 shares authorized, 5,149,699 and 5,119,951 shares outstanding in 2018 and 2017	20,172,918	19,888,805
Retained earnings	20,414,916	14,652,721
Accumulated other comprehensive loss	(23,382)	(7,677)
Total stockholders' equity	40,564,452	34,533,849
Total liabilities and stockholders' equity	$ 416,467,816	$ 335,689,438

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

STATEMENTS OF INCOME

	Year Ended December 31	
	2018	2017
Interest income:		
Interest and fees on loans	$ 20,671,413	$ 15,885,890
Interest on investment securities	117,166	116,656
Interest on deposits with other banks	749,740	365,885
Total interest income	21,538,319	16,368,431
Interest expense	2,079,620	676,566
Net interest income	19,458,699	15,691,865
Provision for loan losses	2,167,062	2,280,085
Net interest income after provision for loan losses	17,291,637	13,411,780
Noninterest income:		
Gains on sales of loans	666,360	775,463
Bank card and interchange fees	386,564	309,738
Service charges on deposit accounts	112,949	92,908
Real estate lease income	90,233	81,462
Loan servicing fees	210,303	157,206
Bank-owned life insurance income	90,519	52,936
Losses on sales and write-downs of repossessed assets, net	(200,433)	(415,762)
Other	376,590	303,202
Total noninterest income	1,733,085	1,357,153
Noninterest expense:		
Salaries and employee benefits	7,932,706	6,028,641
Occupancy and equipment expense	747,444	599,053
Data processing	687,692	589,139
Repossessed assets expenses	134,276	172,421
Other	1,774,570	1,458,132
Total noninterest expense	11,276,688	8,847,386
Income before income taxes	7,748,034	5,921,547
Income tax provision	1,985,839	2,638,292
Net income	$ 5,762,195	$ 3,283,255
Earnings per share:		
Basic	$ 1.12	$ .67
Diluted	$ 1.10	$ .66

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

STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31	
	2018	2017
Net income	$ 5,762,195	$ 3,283,255
Other comprehensive income (loss):		
Change in unrealized gains (losses) on investment securities available-for-sale	(18,472)	(6,254)
Tax effect of the change in unrealized gains (losses) on investment securities available-for-sale	2,767	5,633
Comprehensive income	$ 5,746,490	$ 3,282,634

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

SUMMITBANK

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2018 and 2017

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income (loss)	Total
Balance, December 31, 2016	4,437,207	$ 13,529,594	$ 11,369,466	$ (7,056)	$ 24,892,004
Net income			3,283,255		3,283,255
Other comprehensive income (loss)				(621)	(621)
Issuance of common stock, net of stock offering costs	587,560	5,993,113			5,993,113
Stock options exercised	83,944	238,680			238,680
Share-based compensation	11,240	127,418			127,418
Balance, December 31, 2017	5,119,951	19,888,805	14,652,721	(7,677)	34,533,849
Net income			5,762,195		5,762,195
Other comprehensive income (loss)				(15,705)	(15,705)
Issuance of common stock, net	4	-			-
Stock options exercised	11,813	28,655			28,655
Share-based compensation	17,931	255,458			255,458
Balance, December 31, 2018	5,149,699	$ 20,172,918	$ 20,414,916	$ (23,382)	$ 40,564,452

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

SUMMITBANK

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2018	2017
Cash flows from operating activities:		
Net income	$ 5,762,195	$ 3,283,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	338,602	339,144
Share-based compensation	255,458	127,418
Amortization of investment premiums, net	16,310	32,791
Provision for loan losses	2,167,062	2,280,085
Gains on sales of loans	(666,360)	(775,463)
Bank-owned life insurance income	(90,519)	(52,936)
Losses on sales of repossessed assets, net	89,483	184,183
Write-downs of repossessed assets	110,950	231,579
Deferred income taxes	(274,247)	155,772
Change in:		
Interest receivable and other assets	(603,029)	(411,991)
Deferred loan fees	347,872	146,106
Interest payable and other liabilities	483,669	643,021
Net cash provided by operating activities	7,937,446	6,182,964
Cash flows from investing activities:		
Purchases of investment securities	(467,288)	(1,957,137)
Purchases of FHLB stock	(64,500)	(54,800)
Principal payments and maturities of investment securities	2,504,458	2,368,814
Net proceeds from sales of loans	8,782,093	9,272,394
Purchases of loans	(4,492,022)	(1,402,605)
Proceeds from sales of repossessed assets	1,175,974	1,182,683
Loans originated, net of principal collected	(72,838,684)	(60,668,903)
Purchases of premises and equipment	(1,275,865)	(246,670)
Net cash used in investing activities	(66,675,834)	(51,506,224)
Cash flows from financing activities:		
Net increase in deposits	72,791,708	44,903,016
Proceeds from common stock offering, net of costs	-	5,993,113
Increase (decrease) in repurchase agreements	1,472,398	(1,495,286)
Proceeds from stock options exercised	28,655	238,680
Net cash provided by financing activities	74,292,761	49,639,523
Net increase in cash and cash equivalents	15,554,373	4,316,263
Cash and cash equivalents, beginning of year	40,964,939	36,648,676
Cash and cash equivalents, end of year	$ 56,519,312	$ 40,964,939
Supplemental information:		
Cash paid during the year for interest	$ 2,061,578	$ 665,681
Cash paid during the year for income taxes	2,683,380	1,779,849
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	(15,705)	(621)
Transfer of loans to repossessed assets	1,110,017	1,613,201

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

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

Nature of Operations – Summit Bank (the Bank) provides commercial banking, financing, real estate lending and other services primarily in Lane and Deschutes Counties in Oregon.

Financial Statement Presentation – The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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 12, 2019, the date the financial statements were available to be issued.

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

Investment Securities – The Bank classifies all investments in debt 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 reported at estimated fair value. Unrealized gains and losses are excluded from earnings and are included in accumulated other comprehensive income (loss) in stockholders' equity, net of applicable deferred taxes.

Gains and losses realized on sales of securities are recognized using the specific identification method. Interest income on securities is included in income using the effective interest method. Interest 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 GAAP. Accordingly, for investment securities that are in an unrealized loss position, 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.

For investment 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 expected future cash flows would be due to factors that are not credit related and would be recognized in other comprehensive income (loss). Management believes that any unrealized losses on investment securities at December 31, 2018 are temporary.

Loans and Income Recognition – Loans are stated at the amount of unpaid principal, reduced by net 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 amounts 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. 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 deferred and amortized using the interest or straight-line method over the contractual life of the loan as an adjustment of the yield of the related loan. If a loan is repaid prior to maturity, any remaining unamortized net deferred origination fee is recognized in income at the time of repayment.

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. While management has allocated the allowance for loan losses to various loan classes, the allowance is general in nature and is available for the loan portfolio in its entirety. The allowance for loan losses consists of general and specific components.

The general component covers all non-impaired loans. For all such loans – other than small commercial equipment loans – the general component is based on the Bank's risk rating system and historical loss experience adjusted for qualitative factors. The Bank calculates its historical loss rates by using a combination of (1) a weighted-average of the Bank's most recent 36 months of loss history, with more weight applied to more current months, and (2) historical loss data for Oregon and certain peer banks. The Bank calculates and applies its historical loss rates by individual loan types in its portfolio. These historical loss rates are adjusted for qualitative and environmental factors including, but not limited to: changes in the concentrations, trends and current nature of the loan portfolio; 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.

Small commercial equipment loans are reserved for as a pool of smaller-balance homogeneous loans. The methodology employed to assign reserve rates is migration analysis wherein probable loss rates are established as migration occurs through risk ratings. The Bank revisits these loss rates at regular intervals, and adjusts the applicable rates as dictated through loss experience. As individual loans migrate downward through established risk ratings, increasing reserves as estimated by the aforementioned migration analysis are applied to related loan balances.

The specific component of the allowance relates to loans that are considered impaired. 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 (less estimated costs to sell) 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.

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

Allowance for Unfunded Loan Commitments – The Bank maintains a separate reserve for estimated losses related to unfunded loan commitments. The Bank estimates the amount of probable losses related to unfunded loan commitments by applying an estimated loss factor to the expected amount of commitments that will actually require funding. In accordance with industry practice and regulatory guidance, the reserve for estimated losses related to unfunded loan commitments is included in other liabilities in the accompanying balance sheets and was $85,907 and $77,669 as of December 31, 2018 and 2017, respectively. Changes in the reserve for estimated losses related to unfunded loan commitments are recorded in provision for loan losses in the accompanying statements of income.

Federal Home Loan Bank (FHLB) and Pacific Coast Bankers' Bank (PCBB) Stock – FHLB and PCBB stock consists of the following at December 31:

	2018	2017
FHLB stock	$ 402,900	$ 338,400
PCBB stock	440,000	440,000
	$ 842,900	$ 778,400

The Bank, as a member of the FHLB system, 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, 2018, the Bank's minimum required investment was $402,900. Stock redemptions may be requested at par value and are made at the discretion of the FHLB. The Bank's investment in FHLB stock is carried at cost, which approximates its fair value. The Bank evaluates its investment in FHLB stock for impairment as needed. The Bank's determination of whether this investment is impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value.

The Bank also holds an investment in its primary correspondent bank, PCBB. This investment is accounted for under the cost method.

Premises and Equipment – Premises and equipment are stated at cost, net of accumulated depreciation. Additions and betterments are capitalized. Expenditures for repairs and maintenance 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.

Impairment of Long-lived Assets – The Bank accounts for long-lived assets at amortized cost. Management reviews long-lived assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

Repossessed Assets – Repossessed assets consist of commercial equipment and commercial real property and are considered 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. Any excess of the loan balance over the net realizable value of the property is charged to the allowance for loan losses when a property is acquired. Subsequent to acquisition, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Any revenue and expenses from operations are included in other noninterest expense. Gains and losses on sales, write-downs, and changes in valuation allowances are recorded in non-interest income.

The valuation of repossessed assets is subjective in nature and may be adjusted in future periods because of changes in economic conditions. The valuation of repossessed assets is also subject to review by bank regulatory authorities who may require increases or decreases to carrying amounts based on their evaluation of the information available to them at the time of their examination of the Bank.

Bank-owned Life Insurance (BOLI) - The Bank is the owner and beneficiary of BOLI on certain Bank officers. BOLI policies are recorded at their cash surrender values (net of surrender charges). Income from BOLI policies is recognized when earned and is included in noninterest income.

Advertising – Advertising costs are charged to expense during the period in which they are incurred. Advertising expenses were $156,660 and $132,910 for the years ended December 31, 2018 and 2017, 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 the financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to be realized. A valuation allowance is recognized if, based on the available evidence, it is determined it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement. The Bank's policy is to recognize interest and penalties related to income tax settlements as a component of income tax expense.

The Bank files income tax returns for federal and various state jurisdictions. There is no material impact of potential tax uncertainties on the Bank's financial condition or results of operations at December 31, 2018.

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

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 and generally exhibit 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 values. 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: (1) it is determined that a derivative is no longer effective in offsetting changes in the fair value of the associated hedged loan asset; (2) the derivative expires or is sold, terminated, or exercised; or (3) 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 9. During 2018, the Bank completed a five-for-four stock split, effected in the form of a stock dividend, on the shares of the Bank's common stock. All references in the financial statements and notes to the number of shares outstanding, per-share amounts, and stock option data of the Bank's common stock have been restated to reflect the effect of the stock split for all periods presented.

Share-Based Compensation – GAAP requires companies to measure compensation expense for all share-based payments based on the fair value of the awards at the grant date and recognize such costs as an expense over the requisite service period (which is generally the vesting period). See Note 9 for discussion of the Bank's share-based compensation arrangements.

SBA Loans Sales and Servicing—The Bank 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 sold loans when it retains the servicing rights. This asset is included in other assets in the accompanying balance sheet. The carrying value of loans sold is allocated between the loans 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, if any, 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, the fair value of servicing rights is based on a discounted cash flow methodology, which considers current prepayment speeds and market discount rates. Impairment is measured as the amount by which the carrying value of servicing rights exceeds the related fair value. The Bank held no servicing rights assets as of December 31, 2018 and 2017.

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which created FASB Accounting Standards Codification (ASC) Topic 606 (ASC 606). ASC 606 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASC 606 was effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The Bank adopted ASC 606 on January 1, 2018 using the modified retrospective approach. Therefore, the comparative information has not been adjusted and continues to be reported under superseded ASC 605. There was no cumulative effect adjustment as of January 1, 2018, and there were no material changes to the timing or amount of revenue recognized for the year ended December 31, 2018; however, additional disclosures were incorporated in the notes to the financial statements upon adoption. The majority of the Bank's revenue is comprised of interest income from financial assets, which is explicitly excluded from the scope of ASC 606. The Bank elected to apply the practical expedient pursuant to ASC 606 and therefore does not disclose information about remaining performance obligations that have an original expected term of one year or less and allows the Bank to expense costs related to obtaining a contract as incurred when the amortization period would have been one year or less. See Note 10 for additional discussion.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 generally requires equity investments – except those accounted for under the equity method of accounting or those that result in consolidation of the investee – to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 is intended to simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. ASU 2016-01 also eliminates certain disclosures related to the fair value of financial instruments and requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. ASU 2016-01 was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank adopted ASU 2016-01 on January 1, 2018. As required by ASU 2016-01, the fair value disclosure for loans receivable was computed using an exit price notion and deposits with no stated maturity are no longer included in the fair value disclosures in Note 15.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 is intended to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities in the balance sheet and disclosure of key information about leasing arrangements. The principal change required by ASU 2016-02 relates to lessee accounting, and is that for operating leases, a lessee is required to (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term generally on a straight-line basis, and (3) classify all cash payments within operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 also changes disclosure requirements related to leasing activities and requires certain qualitative disclosures along with specific quantitative disclosures. In addition, in July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) Targeted Improvements* (ASU 2018-11). ASU 2018-11 amended ASU 2016-02 to give entities another option for transition and to provide lessors with a practical expedient. The transition option allows entities to not apply the new leases standard in the comparative periods they present in their financial statements in the year of adoption. The practical expedient provides lessors with an option to not separate non-lease components from the associated lease components when certain criteria are met and requires them to account for the combined component in accordance with the ASC 606 if the associated non-lease components are the predominant components. The amendments have the same effective date as ASU 2016-02. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of ASU 2016-02 is permitted. Once adopted, the Bank expects to report a greater amount of assets and liabilities as a result of including right-of-use assets and lease liabilities related to certain non-cancelable operating lease agreements; however, based on the Bank's current leases, the adoption of ASU 2016-02 is not expected to have a material impact on the Bank's future financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 replaces the existing incurred losses methodology for estimating allowances with a current expected credit losses methodology with respect to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held to maturity investment securities and off-balance sheet commitments. In addition, ASU 2016-13 requires credit losses relating to available for sale debt securities to be recorded through an allowance for credit losses rather than as a reduction of carrying amount. ASU 2016-13 also changes the accounting for purchased credit-impaired debt securities and loans. ASU 2016-13 retains many of the current disclosure requirements in GAAP and expands certain disclosure requirements. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Upon adoption, the Bank expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current accounting policy and procedures for other-than-temporary impairment on investment securities available for sale will be replaced with an allowance approach. The Bank is reviewing the requirements of ASU 2016-13 and expects to begin developing and implementing processes and procedures to ensure it is fully compliant with the amendments at the adoption date. At this time, management anticipates the allowance for loan losses will increase as a result of the implementation of ASU 2016-13; however, until its evaluation is complete, the magnitude of the increase will not be known.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities* (ASU 2017-08). ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of ASU 2017-08 is not expected to have a material impact on the Bank's future financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation: Scope of Modification Accounting* (ASU 2017-09). ASU 2017-09 was issued to provide clarity as to when to apply modification accounting when there is a change in the terms or conditions of a share-based payment award. ASU 2017-09 requires that an entity should account for the effects of a modification unless the fair value, vesting conditions, and balance sheet classification of the award are the same after the modification as compared to the original award prior to modification. ASU 2017-09 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Bank adopted ASU 2017-09 on January 1, 2018, and it did not have a material impact on the Bank's financial statements for the year ended December 31, 2018.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). ASU 2018-13 modifies the disclosure requirements on fair value measurements. The following disclosure requirements were removed from ASC Topic 820, *Fair Value Measurement*: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; and (3) the valuation processes for Level 3 fair value measurements. ASU 2018-13 clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. In addition, ASU 2018-13 adds the following disclosure requirements for Level 3 measurements: (1) changes in unrealized gains and losses for the period included in other comprehensive income for the recurring Level 3 fair value measurements held at the end of the reporting period, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for any removed or modified disclosures. The adoption of ASU 2018-13 is not expected to have a material impact on the Bank's future financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred, consistent with the accounting for internal-use software costs. The amendments in ASU 2018-15 are intended to result in consistent capitalization of implementation costs of a hosting arrangement that is a service contract and implementation costs incurred to develop or obtain internal use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of ASU 2018-15 is not expected to have a material impact on the Bank's future financial statements.

2. Restricted Assets:

The Bank must meet reserve requirements as established by Federal Reserve Board (FRB) regulation which were $6,342,000 and $5,786,000 at December 31, 2018 and 2017, respectively. Accordingly, the Bank complies with such requirements by holding cash on hand and maintaining average reserve balances on deposit with its primary correspondent bank in accordance with the regulations.

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

The tables below detail the amortized cost and estimated fair values of available-for-sale investment securities, as well as the amount of any unrealized losses and the length of time these unrealized losses existed as of the dates indicated:

	December 31, 2018							
	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	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Corporate debt securities	$ 750,000	$ 3,972	$ (4,098)	$ 749,874	$ -	$ -	$ 245,903	$ (4,098)
Mortgage-backed securities	2,594,228	2,839	(34,495)	2,562,572	530,857	(3,713)	1,511,347	(30,782)
	$ 3,344,228	$ 6,811	$ (38,593)	$ 3,312,446	$ 530,857	$ (3,713)	$ 1,757,250	$ (34,880)

	December 31, 2017							
	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	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Obligations of U.S. Government and U.S. sponsored agencies	$ 1,151,580	$ -	$ (4,864)	$ 1,146,716	$ -	$ -	$ 1,146,716	$ (4,864)
Corporate debt securities	750,000	4,315	(3,579)	750,736	246,421	(3,579)	-	-
Mortgage-backed securities	3,499,909	7,044	(16,226)	3,490,727	1,810,718	(10,374)	415,499	(5,852)
	$ 5,401,489	$ 11,359	$ (24,669)	$ 5,388,179	$ 2,057,139	$ (13,953)	$ 1,562,215	$ (10,716)

The unrealized losses on the Bank's investment securities were primarily attributable to increases in market interest rates subsequent to their purchase by the Bank. The Bank expects the fair value of these securities to recover as the securities approach their maturity dates or sooner if market yields for such securities decline. The Bank does not believe that these securities are other than temporarily impaired because of their credit quality or related to any issuer or industry specific event. Based on management's evaluation and intent, the unrealized losses related to the investment securities in the above tables are considered temporary.

The amortized cost and estimated fair value of investment securities at December 31, 2018 are shown below by contractual 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	Estimated Fair Value
Due in one year or less	$ 595,057	$ 588,038
Due after one year through five years	2,266,588	2,239,493
Due after five years through ten years	482,583	484,915
	$ 3,344,228	$ 3,312,446

There were no sales of investment securities during 2018 or 2017.

At December 31, 2018, investment securities with a total estimated fair value of $2,532,929 and amortized cost of $2,565,086 were pledged for FHLB borrowings, repurchase agreements and other purposes. At December 31, 2017, investment securities with a total estimated fair value of $4,594,240 and amortized cost of $4,609,000 were pledged for FHLB borrowings, repurchase agreements and other purposes.

4. Loans and Allowance for Loan Losses:

Major classifications of loans at December 31 are as follows:

	2018	2017
Real Estate		
Acquisition, Development & Construction	$ 18,534,373	$ 13,778,058
Commercial	106,089,376	77,110,635
Multifamily	15,365,694	13,294,047
Owner Occupied	77,871,380	71,482,684
Commercial and Industrial		
Small Commercial Equipment	46,220,863	36,271,703
Other Commercial & Industrial	63,900,592	50,811,362
Consumer		
Secured	17,877,312	16,123,679
Unsecured	2,602,750	2,563,195
	348,462,340	281,435,363
Deferred Loan Origination Fees, net	(1,234,373)	(886,501)
	347,227,967	280,548,862
Allowance for Loan Losses	(5,135,102)	(4,046,019)
Loans receivable, net	$ 342,092,865	$ 276,502,843

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. The Bank also obtains periodic credit file reviews from independent third-parties as part of its ongoing credit monitoring process. The following are the loan segment risk characteristics of the Bank's portfolio:

Acquisition, Development & Construction– includes both loans and lines of credit for the purpose of purchasing, carrying and developing land into commercial developments or residential subdivisions. Also included in this designation are loans and lines of credit for construction of residential, multi-family and commercial buildings. Generally, the primary source of repayment is dependent upon the sale or refinance of the real estate collateral. Construction lending can involve a higher level of risk than other types of lending because funds are advanced based on a prospective value of the project at completion, the total estimated construction cost of the project, and the borrowers' equity at risk. Additionally, the repayment of the loan may be conditional on the success of the ultimate project which could be subject to interest rate changes, governmental regulations, general economic conditions and the ability of the borrower to sell or lease the property or refinance the indebtedness. The bank attempts to mitigate the risks associated with this type of credit by limiting concentration exposure and utilizing enhanced underwriting procedures as outlined in proprietary policies and procedures as approved by the board of directors not less than annually.

Commercial Real Estate – loans in this category are assigned to one of two specific subcategories:

- Commercial – includes loans to finance income-producing commercial properties. Loans in this class include retail centers, hotels, office buildings, single-tenant retail buildings, warehouses and other properties where the source of repayment on the loan comes primarily from non-related tenant lease income. There are board-approved enhanced underwriting procedures in place that govern the approval and funding of these types of loans, ensuring the highest probability of full repayment of principal.

- Owner Occupied – includes loans secured by business facilities to finance business operations, equipment and owner-occupied facilities for commercial customers. Generally, the primary source of repayment is the operating cash flow from business activities of the owner of the property or related entity. These loans are underwritten in such a way as to ensure the highest probability of repayment in full, according to board-approved policies and procedures.

Multi-family Real Estate – these loans are secured by – and are generally repaid by the lease income from – real estate properties built to house 5 or more families in a single property or complex. Apartment buildings and complexes are the major collateral in this category. This category does not include 1-4 family rental properties. These loans are underwritten in such a way as to ensure the highest probability of repayment in full, according to board-approved policies and procedures.

Commercial & Industrial - loans in this category are assigned to one of two specific subcategories:

- Small Commercial Equipment – includes loans secured by commercial equipment, typically rolling stock. The primary source of repayment is generally derived from income generated by utilization of the equipment collateralizing the loans, and thus, is more subject to potential disruption relative to larger and more diversified borrowers. The lack of significant secondary sources of repayment results in a higher risk of loss and thus these loans carry market rates of interest that are higher than the Bank's other loan types. These loans possess homogeneous risk characteristics unique to small business lending to the transportation industry. These risks are mitigated via ongoing industry trend analysis and through concentration limits on the portfolio as a whole as well as within industry subclasses. The majority of these loans are originated to borrowers outside of the Bank's primary market areas of Lane and Deschutes counties, throughout the western United States.

- Other Commercial and Industrial – The primary source of repayment for these loans is generally cash flow from continuing business operations. These loans are underwritten according to board-approved internal policies and procedures. Under the Bank's policy, primary and secondary repayment sources must be identified upon approval and prior to funding.

Consumer – the bank engages in limited consumer lending of both a secured and unsecured nature. This primarily takes the form of home equity lines of credit and personal and professional lines of credit which may or may not be secured by tangible collateral. These loans are underwritten in such a way as to ensure the highest probability of repayment in full, according to board-approved policies and procedures.

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of such serviced loans were $33,525,643 and $27,505,000 at December 31, 2018 and 2017, respectively.

The loan portfolio at December 31, 2018 and 2017 includes $51,518,637 and $45,153,144, respectively, of loans which have rates of interest that change more often than annually. The loan portfolio additionally includes at December 31, 2018 and 2017, fixed rate loans of $82,492,377 and $59,909,731, respectively, that are effectively converted to variable rate loans via interest rate swaps. The December 31, 2018 loan portfolio includes $109,370 of loans with interest rates at their contractual floors.

Changes in the allowance for loan losses for the year ended December 31, 2018 are as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Real Estate							
Acquisition, Development & Construction	$ 209,574	$ -	$ -	$ 77,458	$ 287,032	$ -	$ 287,032
Commercial	637,824	-	-	264,023	901,847	-	901,847
Multifamily	137,630	-	-	34,093	171,723	-	171,723
Owner Occupied	528,249	-	-	112,214	640,463	-	640,463
Commercial and Industrial							
Small Commercial Equipment	1,505,291	(956,775)	43,031	1,288,638	1,880,185	4,990	1,875,195
Other Commercial & Industrial	875,142	(155,997)	-	357,310	1,076,455	43,526	1,032,929
Consumer							
Secured	122,629	-	-	22,994	145,623	-	145,623
Unsecured	29,680	-	-	2,094	31,774	7,830	23,944
Total	$ 4,046,019	$ (1,112,772)	$ 43,031	$ 2,158,824	$ 5,135,102	$ 56,346	$ 5,078,756

Changes in the allowance for loan losses for the year ended December 31, 2017 are as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Real Estate							
Acquisition, Development & Construction	$ 209,420	$ -	$ -	$ 154	$ 209,574	$ -	$ 209,574
Commercial	528,814	-	-	109,010	637,824	-	637,824
Multifamily	151,807	-	-	(14,177)	137,630	-	137,630
Owner Occupied	410,933	-	-	117,316	528,249	-	528,249
Commercial and Industrial							
Small Commercial Equipment	1,326,302	(1,647,741)	39,199	1,787,531	1,505,291	24,759	1,480,532
Other Commercial & Industrial	575,863	-	-	299,279	875,142	93,320	781,822
Consumer							
Secured	147,070	-	11,860	(36,301)	122,629	-	122,629
Unsecured	26,206	-	-	3,474	29,680	7,390	22,290
Total	$ 3,376,415	$ (1,647,741)	$ 51,059	$ 2,266,286	$ 4,046,019	$ 125,469	$ 3,920,550

Risk Rating – The monitoring process of the Bank's loan portfolio includes periodic reviews of individual loans with a risk rating assigned to each loan. Risk ratings are assigned according to various qualitative and quantitative measurements.

- Risk ratings 1 – 6 represent increasing degrees of risk within the regulatory definition of "Pass" loans as ratings move from 1 to 6. Regulatory bodies do not draw distinctions between these categories; as such, assignment of these ratings is for internal management purposes only.
- Risk Rating 7 – loans in this category adhere to the regulatory definition of "Special Mention" loans. 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 loan or in the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the institution to sufficient risk to warrant adverse classification.
- Risk Rating 8 – loans in this category adhere to the regulatory definition of "Substandard." Loans classified Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the borrower's debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Risk Rating 9 – loans in this category adhere to the regulatory definition of "Doubtful." Loans classified Doubtful have all of the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
- Risk Rating 10 – loans in this category adhere to the regulatory definition of "Loss." Loans classified Loss are uncollectible and of such little value that their continuance as a bankable asset is not warranted. When identified, these loans are 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 tables present the Bank's loan portfolio by loan type and credit quality indicator as of December 31, 2018 and 2017:

As of December 31, 2018

	Loan Grade				
	Pass (Ratings 1-6)	Special Mention (Rating 7)	Substandard (Rating 8)	Doubtful (Rating 9)	Totals
Real Estate					
Acquisition, Development & Construction	$ 18,534,373	$ -	$ -	$ -	$ 18,534,373
Commercial	106,089,376	-	-	-	106,089,376
Multifamily	15,365,694	-	-	-	15,365,694
Owner Occupied	75,973,586	1,748,333	149,461	-	77,871,380
Commercial and Industrial					
Small Commercial Equipment	45,979,024	222,457	8,068	11,314	46,220,863
Other Commercial & Industrial	58,660,385	3,143,649	2,096,558	-	63,900,592
Consumer					
Secured	17,752,312	125,000	-	-	17,877,312
Unsecured	2,602,750	-	-	-	2,602,750
Total	$ 340,957,500	$ 5,239,439	$ 2,254,087	$ 11,314	$ 348,462,340
Percentage of Total Portfolio	97.85%	1.50%	0.65%	0.00%	100.00%

As of December 31, 2017

	Loan Grade				
	Pass (Ratings 1-6)	Special Mention (Rating 7)	Substandard (Rating 8)	Doubtful (Rating 9)	Totals
Real Estate					
Acquisition, Development & Construction	$ 13,778,058	$ -	$ -	$ -	$ 13,778,058
Commercial	76,500,486	610,149	-	-	77,110,635
Multifamily	13,294,047	-	-	-	13,294,047
Owner Occupied	69,379,678	2,103,006	-	-	71,482,684
Commercial and Industrial					
Small Commercial Equipment	35,812,280	294,114	87,265	78,044	36,271,703
Other Commercial & Industrial	47,521,676	2,212,638	1,077,048	-	50,811,362
Consumer					
Secured	15,925,970	-	197,709	-	16,123,679
Unsecured	2,563,195	-	-	-	2,563,195
Total	$ 274,775,390	$ 5,219,907	$ 1,362,022	$ 78,044	$ 281,435,363
Percentage of Total Portfolio	97.64%	1.85%	0.48%	0.03%	100.00%

The following tables present an aged analysis of past due and nonaccrual loans at December 31, 2018 and 2017:

As of December 31, 2018	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater than 90 Days Past Due Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Total Current	Total Loans Receivable
Real Estate							
Acquisition, Development & Construction	$ -	$ -	$ -	$ -	$ -	$ 18,534,373	$ 18,534,373
Commercial	-	-	-		-	106,089,376	106,089,376
Multifamily	-	-	-	-	-	15,365,694	15,365,694
Owner Occupied	-	-	-	-	-	77,871,380	77,871,380
Commercial and Industrial							
Small Commercial Equipment	759,309	142,440	-	29,071	930,820	45,290,043	46,220,863
Other Commercial & Industrial	-	-	-	1,501,361	1,501,361	62,399,231	63,900,592
Consumer							
Secured	-	-	-	-	-	17,877,312	17,877,312
Unsecured	-	-	-	-	-	2,602,750	2,602,750
Total	$ 759,309	$ 142,440	$ -	$ 1,530,432	$ 2,432,181	$ 346,030,159	$ 348,462,340
Percentage of Total Portfolio	0.22%	0.04%	0.00%	0.44%	0.70%	99.30%	100.00%

As of December 31, 2017	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater than 90 Days Past Due Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Total Current	Total Loans Receivable
Real Estate							
Acquisition, Development & Construction	$ -	$ -	$ -	$ -	$ -	$ 13,778,058	$ 13,778,058
Commercial	-	-	-		-	77,110,635	77,110,635
Multifamily	-	-	-	-	-	13,294,047	13,294,047
Owner Occupied	-	-	-	-	-	71,482,684	71,482,684
Commercial and Industrial							
Small Commercial Equipment	521,965	251,679	-	165,309	938,953	35,332,750	36,271,703
Other Commercial & Industrial	-	-	-	218,975	218,975	50,592,387	50,811,362
Consumer							
Secured	-	-	-	-	-	16,123,679	16,123,679
Unsecured	-	-	-	-	-	2,563,195	2,563,195
Total	$ 521,965	$ 251,679	$ -	$ 384,284	$ 1,157,928	$ 280,277,435	$ 281,435,363
Percentage of Total Portfolio	0.19%	0.09%	0.00%	0.14%	0.41%	99.59%	100.00%

The following is an analysis of impaired loans as of December 31, 2018:

	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 and Industrial							
Small Commercial Equipment							
Nonaccrual	$ 16,756	$ 16,632	$ 4,990	$ 207	$ -	$ 16,963	$ 16,632
Other	-	-	-	-	-	-	-
Other Commercial & Industrial							
Nonaccrual	51,418	51,361	33,016	1,450,000	1,450,000	1,501,418	1,501,361
Other	55,082	54,863	10,510	166,381	160,028	221,463	214,891
Subtotals	123,256	122,856	48,516	1,616,588	1,610,028	1,739,844	1,732,884
Consumer							
Secured							
Nonaccrual	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Unsecured							
Nonaccrual	-	-	-	-	-	-	-
Other	35,135	34,985	7,830	-	-	35,135	34,985
Subtotals	35,135	34,985	7,830	-	-	35,135	34,985
Totals	$ 158,391	$ 157,841	$ 56,346	$ 1,616,588	$ 1,610,028	$ 1,774,979	$ 1,767,869

The following is an analysis of impaired loans as of December 31, 2017:

	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 and Industrial							
Small Commercial Equipment							
Nonaccrual	$ 83,187	$ 82,532	$ 24,759	$ -	$ -	$ 83,187	$ 82,532
Other	-	-	-	-	-	-	-
Other Commercial & Industrial							
Nonaccrual	219,681	218,975	73,560	-	-	219,681	218,975
Other	124,068	123,641	19,760	-	-	124,068	123,641
Subtotals	426,936	425,148	118,079	-	-	426,936	425,148
Consumer							
Secured							
Nonaccrual	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Unsecured							
Nonaccrual	-	-	-	-	-	-	-
Other	37,122	36,958	7,390	-	-	37,122	36,958
Subtotals	37,122	36,958	7,390	-	-	37,122	36,958
Totals	$ 464,058	$ 462,106	$ 125,469	$ -	$ -	$ 464,058	$ 462,106

The following tables present the average recorded investment in impaired loans and interest income recognized for the periods indicated:

	Year Ended December 31, 2018	
	Average Recorded Investment	Interest Recognized on Impaired Loans
Real Estate		
Acquisition, Development & Construction	$ -	$ -
Commercial	-	-
Multifamily	-	-
Owner Occupied	12,930	9,775
Commercial and Industrial		
Small Commercial Equipment	16,423	14,592
Other Commercial & Industrial	1,465,560	25,544
Consumer		
Secured	-	-
Unsecured	36,020	2,157
Total	$ 1,530,933	$ 52,068

	Year Ended December 31, 2017	
	Average Recorded Investment	Interest Recognized on Impaired Loans
Commercial and Industrial		
Small Commercial Equipment	$ 53,211	$ 28,123
Other Commercial & Industrial	301,436	6,521
Consumer		
Secured	235,679	16,332
Unsecured	37,863	2,268
Total	$ 628,189	$ 53,244

The cash basis interest income on impaired loans was not materially different than the interest recognized on impaired loans as shown in the above tables.

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 $45,552 and $58,777at December 31, 2018 and 2017 respectively.

There were no loans modified and recorded as a TDR during 2018. The Bank modified (by extending an interest only payment period) and recorded a single loan with a principal balance of $21,819 as a TDR during 2017. There were no TDR loans restructured during 2018 or 2017, nor were there any TDRs which incurred a payment default within twelve months of the restructure date during 2018 or 2017. There were no commitments to lend additional funds to borrowers whose loans have been modified and recorded as TDRs at December 31, 2018. Determination of the allowance for loan losses for TDR loans does not differ materially from the process for other impaired loans in the Bank's portfolio.

5. **Premises and Equipment**:

Premises and equipment at December 31 consists of the following:

	2018	2017
Land	$ 1,862,215	$ 1,862,215
Building and improvements	5,049,757	3,916,033
Computer equipment and software	642,804	612,140
Furniture and equipment	1,021,560	910,083
Total	8,576,336	7,300,471
Accumulated depreciation	(2,804,643)	(2,466,041)
Property, net	$ 5,771,693	$ 4,834,430

The Bank owns its headquarters building and leases to others approximately 40% of the building. Rental income recorded under noncancelable leases as well as other month-to-month agreements totalled $90,233 and $81,462 for the years ended December 31, 2018 and 2017, respectively, and is recorded in noninterest income. At December 31, 2018, future expected rental revenues to be received under such noncancelable leases are as follows:

2019	$ 83,715
2020	43,464
2021	43,464
2022	23,056
Total	$ 193,699

6. **Time Deposits**:

Individual time deposits that met or exceeded the FDIC standard insurance coverage limit of $250,000 totalled $3,811,454 and $2,964,280 at December 31, 2018 and 2017, respectively.

At December 31, 2018, the scheduled annual maturities of time deposits is as follows:

2019	$	17,701,078
2020		1,828,442
2021		127,494
	$	19,657,014

7. **Borrowings**:

The Bank has repurchase agreements (REPOs) of $1,608,776 (average rate 0.68%) and $136,378 (average rate 0.26%) at December 31, 2018 and 2017, respectively. A REPO represents an agreement between the Bank and a customer to collateralize funds deposited by the customer in an interest-bearing repurchase sweep account. Investment securities are pledged by the Bank as collateral in an amount equal to the REPOs.

The Bank has a borrowing line with the FHLB equal to a maximum of 35% of the Bank's total assets, subject to limits based on 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, 2018 is approximately $10,440,000.

The Bank has secured and unsecured federal funds borrowing lines available with correspondent banks totalling $11,000,000 at December 31, 2018. The Bank had no outstanding borrowings against these lines at December 31, 2018. The Bank also has a borrowing line available with the Federal Reserve Discount Window totalling approximately $2,937,000 at December 31, 2018, which is secured by a portion of the Bank's loan portfolio. The Bank had no outstanding borrowings against this line at December 31, 2018.

8. **Benefit Plans**:

The Bank has a defined contribution 401(k) profit sharing plan covering substantially all employees. Employer contributions are discretionary and are determined annually by the Board of Directors. Employer contributions were $174,589 and $143,313 in 2018 and 2017, 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 to these plans totalled $78,950 and $69,650 in 2018 and 2017, respectively. The liability for benefits under these plans totalled $434,278 and $313,803 as of December 31, 2018 and 2017, respectively, and is included in other liabilities in the accompanying balance sheets.

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

The Bank has employee and nonemployee equity compensation plans (the Plans) that reserve shares of stock for issuance to employees and directors in the form of stock options, restricted stock, or restricted stock units (RSUs). Under the Plans, the exercise price (for options) or the fair value (for restricted stock and RSUs) of awards granted 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 periods ranging from one to three years. At December 31, 2018 and 2017, there were 235,361 and 281,659 shares of common stock available for future grants under the Plans.

The following table presents the activity related to stock options under the Plans for the years ended December 31:

	2018		2017	
	Options outstanding	Weighted-average exercise price	Options outstanding	Weighted-average exercise price
Balance, beginning of year	142,996	$6.16	193,682	$4.21
Granted:				
Directors	12,188	12.78	14,063	9.06
Employees	22,860	13.00	19,195	10.11
Exercised	(11,813)	2.43	(83,944)	3.05
Expired	(7,456)	n/a	-	n/a
Balance, end of year	158,775	$ 7.76	142,996	$6.16
Exercisable, end of year	100,502		88,899	

The total intrinsic value of stock options exercised was $150,413 and $818,822 for the years ended December 31, 2018 and 2017, respectively.

The following table presents additional information regarding stock options outstanding as of December 31, 2018:

Expiration	Weighted average exercise price per share	Weighted average remaining contractual life	December 31, 2018 Exercisable	December 31, 2018 Outstanding
2020	$ 2.20	2.00	24,616	24,616
2021	1.97	2.25	6,300	6,300
2023	3.31	4.53	13,500	13,500
2025	7.65	6.36	31,875	31,875
2026	8.26	7.49	9,377	18,750
2027	9.55	8.17	9,053	30,189
2028	12.93	9.12	5,781	33,545
			100,502	158,775
Aggregate intrinsic value			$926,867	$1,176,795

The fair value of options granted under the Plans is estimated on the date of the grant using the Black-Scholes option pricing model. The fair value of the grants is amortized on a straight line basis over the requisite vesting periods. The expected life of options granted represents the period of time that they are expected to be outstanding. The expected life is determined based on the actual historical weighted average life of the Bank's options. Expected volatility is estimated at the date of grant based on the historical volatility of the Bank's common stock over a period similar to the expected life of the option. Dividends during the expected life are assumed to be zero. The risk-free interest rate is derived from the trailing twenty day U.S. Treasury yield at the time of the grant for a term equivalent to the expected life of the option. The Black-Scholes model used the following assumptions for the stock options granted during the years indicated:

	Expected Life (years)	Expected Volatility	Expected Dividends	Risk Free Rate
2018	7.0	17.1%	0.00%	2.60%
2017	10.0	14.8%	0.00%	0.89%

The weighted average fair value of options granted in 2018 and 2017 was $3.37 and $2.19, respectively. As of December 31, 2018, the total unrecognized compensation expense related to options granted amounted to $161,039, which is expected to be recognized during 2019-2021, a weighted average period of 1.3 years.

The fair value of restricted stock and RSUs awarded under the Plans is measured based on the number of shares granted and the market price of the Bank's common stock on the date of grant. This amount is recognized as an expense over the corresponding requisite service period. As of December 31, 2018, the total unrecognized compensation expense related to restricted stock awards granted amounted to $270,270, which is expected to be recognized during 2019-2021. Weighted average years to vest for outstanding restricted stock grants as of December 31, 2018 is 0.4 years. The following presents the Bank's restricted stock and RSU activity for the years ended December 31, 2018 and 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2016	11,968	$ 8.17
Granted	20,690	9.30
Vested	(11,240)	8.40
Forfeited	-	-
Unvested as of December 31, 2017	21,418	9.14
Granted	19,122	12.77
Vested	(17,912)	9.21
Forfeited	(416)	10.30
Unvested as of December 31, 2018	22,212	$ 12.17

There were a total of 54,170 shares of restricted stock and options granted during 2018 of which 6,559 vested in 2018 and 47,611 are expected to vest during 2019-2021. There were 24,583 and 16,369 options that vested during the years ended December 31, 2018 and 2017 with a total fair value of $59,231 and $32,238, respectively. There were 17,912 and 11,240 shares of restricted stock that vested during years ended December 31, 2018 and 2017 with a total fair value of $203,210 and $94,445, respectively.

Weighted average shares outstanding at December 31 are as follows:

	2018	2017
Basic	5,138,622	4,903,829
Common stock equivalents attributable to stock based grants outstanding	76,963	51,304
Fully Diluted	5,215,585	4,955,133

10. **Revenue from Contracts with Customers**:

In accordance with ASC 606, revenues are recognized when goods or services are transferred to a customer in exchange for the consideration the Bank expects to be entitled to receive. The largest portion of the Bank's revenue is from interest income, which is excluded from the scope of ASC 606. All of the Bank's revenue from contracts with customers which is within the scope of ASC 606 is recognized in noninterest income.

If a contract is determined to be within the scope of ASC 606, the Bank recognizes revenue as it satisfies a performance obligation. Payments from customers are generally collected at the time services are rendered, monthly, or quarterly. For contracts with customers within the scope of ASC 606, revenue is either earned at a point in time or revenue is earned over time. Examples of revenue earned at a point in time are automated teller machine ("ATM") transaction fees, wire transfer fees, overdraft fees and interchange fees. Revenue is primarily based on the number and type of transactions that are generally derived from transactional information accumulated by the Bank's systems and is recognized immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Bank is generally the principal in these contracts, with the exception of interchange fees, in which case the Bank is acting as the agent and records revenue net of expenses paid to the principal. Examples of revenue earned over time, which generally occur on a monthly basis, are deposit account maintenance fees, merchant revenue, and safe deposit box fees. Revenue is generally derived from transactional information accumulated by the Bank's systems or those of third-parties and is recognized as the related transactions occur or services are rendered to the customer.

The following table includes the Bank's noninterest income disaggregated by type of service for the years ended December 31, 2018 and 2017:

	2018	2017
Gains on sales of loans [1]	$ 666,360	$ 775,463
Bank card and interchange fees	386,564	309,738
Loan servicing fees [1]	210,303	157,206
Other noninterest loan income	179,409	155,286
Service charges on deposit accounts	112,949	92,908
Bank-owned life insurance income [1]	90,519	52,936
Real estate lease income [1]	90,233	81,462
Losses on sales and write-downs of repossessed assets, net	(200,433)	(415,762)
Other	197,181	147,916
Total noninterest income	$ 1,733,085	$ 1,357,153

[1] Not in the scope of ASC 606

For the years ended December 31, 2018 and 2017, substantially all of the Bank's revenues within the scope of ASC 606 are for performance obligations satisfied at a specified date. Revenues recognized within the scope of ASC 606 include:

Bank card and interchange fees: Bank card and interchange fees are earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Visa® payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the debit cards are recorded on a net basis with the interchange income.

Other noninterest loan income: Other noninterest loan income includes early termination fees and other income from loans that the Bank services. These fees are recognized on a daily, monthly, quarterly or annual basis, depending on the type of service.

Service charges on deposit accounts: Fees are earned on the Bank's deposit accounts for various products offered to or services performed for the Bank's customers. Fees include business account fees, non-sufficient fund fees, stop payment fees, wire services, safe deposit box and others. These fees are recognized on a daily, monthly or quarterly basis, depending on the type of service.

Losses on sales and write-downs of repossessed assets, net: The Bank records a gain or loss from the sale of repossessed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed or title.

Other: Fees earned on other services, such as merchant services or occasional non-recurring type services, are recognized at the time of the event or the applicable billing cycle.

As of December 31, 2018, the Bank had no significant contract liabilities where the Bank had an obligation to transfer goods or services for which the Bank had already received consideration. In addition, the Bank had no material unsatisfied performance obligations as of this date.

11. **Other Expense**:

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

	2018	2017
Professional services	$ 276,928	$ 300,736
Printing, supplies and postage	279,605	170,764
Regulatory assessments	211,362	170,372
Advertising, marketing and public relations	368,948	298,032
Loan expenses and collection	178,623	144,306
Communications	113,089	113,376
Correspondent bank fees	66,827	45,702
Other operating expenses	279,188	214,844
Total other expense	$ 1,774,570	$ 1,458,132

12. Income Taxes:

On December 22, 2017, the U.S. government enacted the *Tax Cuts and Jobs Act* (the Tax Act), which introduced significant changes to U.S. income tax law. The Tax Act, among other things lowered the U.S. corporate income tax rate from 35.0% to 21.0% effective January 1, 2018. The reduction of the corporate tax rate required the Bank to remeasure its deferred tax assets and liabilities based upon the lower federal tax rate of 21.0%. As a result, during the year ended December 31, 2017, the Bank recorded a one-time income tax expense of approximately $411,000 in conjunction with writing down its net deferred tax assets.

The income tax provision consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Current		
Federal	$ 1,616,713	$ 2,109,821
State	643,373	372,699
Deferred	(274,247)	155,772
Total income tax provision	$ 1,985,839	$ 2,638,292

The income tax provision results in effective tax rates that are different than the federal income tax statutory rate. The nature of the differences for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Expected federal income tax provision at statutory rates	$ 1,627,087	$ 2,013,326
State taxes	486,370	297,262
Permanent differences	(95,850)	(97,940)
Net impact of the Tax Act	-	410,991
Other	(31,768)	14,653
Total income tax provision	$ 1,985,839	$ 2,638,292

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 1,058,302	$ 833,495
Accrued vacation	15,426	15,117
Repossessed assets	88,765	66,187
Deferred compensation	149,261	84,740
Share-based compensation	37,343	-
Unrealized losses on investment securities	8,400	1,852
Secondary accrued interest	57,495	23,307
Total deferred tax assets	1,414,992	1,024,698
Deferred tax liabilities:		
Depreciation	(132,410)	(30,933)
Loan origination costs	(58,366)	(60,276)
Prepaid expenses and other	(19,226)	(9,294)
Total deferred tax liabilities	(210,002)	(100,503)
Total net deferred tax assets	$ 1,204,990	$ 924,195

The Bank has determined that it is not required to establish a valuation allowance for the net deferred tax assets as of December 31, 2018 and 2017, as management believes it is more likely than not that the net deferred tax assets will be realized through reversals of existing taxable temporary differences and future taxable income.

13. **Commitments and Contingencies**:

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 nonperformance 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 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. Cash and investment securities at December 31, 2018 totalling $3,024,460 are held by counterparties and are pledged as security for these interest rate swaps.

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

	2018	2017
Commitments to extend credit	$ 103,789,026	$ 73,108,563
Standby letters of credit	4,487,334	4,560,362
Interest rate swaps (receive variable - pay fixed, maturing 2018-2048):		
Principal amount of hedged loans	82,492,377	59,909,731
Fair value adjustment (included in other liabilities and other assets)	405,611	(75,303)
Total fair value of hedged loans	$ 82,897,988	$ 59,834,428

Due to the nature of its activities, the Bank is periodically subject to litigation arising in the ordinary course of business. In the opinion of management, liabilities arising from these actions, if any, will not have a material effect on the Bank's financial position, results of operations, and cash flows as of and for the year ended December 31, 2018.

The Bank has entered into employment agreements with certain key employees, which provide for contingent payments upon a change in control of the Bank, as defined in the agreements.

14. **Related Party Transactions**:

In the normal course of business, 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 years ended December 31 was as follows:

	2018	2017
Balance, beginning of year	$ 8,246,516	$ 4,056,272
Additions or renewals	126,546	5,045,337
Principal repayments	(2,447,673)	(855,093)
Balance, end of year	$ 5,925,389	$ 8,246,516

In addition, there were $2,757,304 in commitments to extend credit to officers and directors, including related entities, at December 31, 2018 which are included as part of commitments in Note 13.

Deposits from officers and directors totalled $8,812,424 and $5,810,364 at December 31, 2018 and 2017, respectively.

15. **Fair Value Measurements**:

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based upon the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

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

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

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

The following disclosures are made in accordance with provisions of GAAP. 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 carrying amount and estimated fair value of the Bank's financial instruments are as follows at the dates indicated:

December 31 2018	Carrying Amount	Level I	Level II	Level III	Estimated Fair Value
Assets:					
Cash and cash equivalents	$ 56,519,312	$ 56,519,312	$ -	$ -	$ 56,519,312
Investment securities available-for-sale	3,312,446	-	3,312,446	-	3,312,446
Hedged loans	82,897,988	-	82,897,988	-	82,897,988
Other loans, net of allowance for loan losses	259,194,877	-	263,431,766	102,044	263,533,810
Interest receivable	1,398,211	-	1,398,211	-	1,398,211
FHLB and PCBB stock	842,900	-	842,900	-	842,900
Cash surrender value of bank-owned life insurance	3,800,680	-	3,800,680	-	3,800,680
Liabilities:					
Time deposits	19,657,014	-	19,754,276	-	19,754,276
Repurchase agreements	1,608,776	-	1,608,776	-	1,608,776
Term borrowings	-	-	-	-	-
Interest rate swap agreements	405,611	-	405,611	-	405,611

December 31 2017	Carrying Amount	Level I	Level II	Level III	Estimated Fair Value
Assets:					
Cash and cash equivalents	$ 40,964,939	$ 40,964,939	$ -	$ -	$ 40,964,939
Investment securities available-for-sale	5,388,179	-	5,388,179	-	5,388,179
Hedged loans	59,834,428	-	59,834,428	-	59,834,428
Other loans, net of allowance for loan losses	216,668,415	-	220,049,589	338,589	220,388,178
Interest receivable	1,034,066	-	1,034,066	-	1,034,066
FHLB and PCBB stock	778,400	-	778,400	-	778,400
Cash surrender value of bank-owned life insurance	3,708,474	-	3,708,474	-	3,708,474
Liabilities:					
Time deposits	26,232,634	-	26,233,886	-	26,233,886
Repurchase agreements	136,378	-	136,378	-	136,378
Term borrowings	-	-	-	-	-
Interest rate swap agreements	(75,303)	-	(75,303)	-	(75,303)

The following methods were used to estimate the fair value of each class of financial instrument above that is measured and recorded at estimated fair value on a recurring basis:

Investment Securities Available-for-Sale– Fair value is estimated using quoted market prices for similar securities.

Hedged Loans – Fair value of hedged 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.

Interest Rate Swap Agreements – Fair value of interest rate swap agreements is estimated based upon quoted prices for similar instruments in the over the counter swaps market.

The following tables present assets that are measured at estimated fair value on a nonrecurring basis at the dates indicated:

		Estimated fair value measurements using		
December 31 2018	Total estimated fair value	Level I	Level II	Level III
Repossessed assets	$ 764,670	$ -	$ -	$ 764,670
Impaired loans	$ 102,044	$ -	$ -	$ 102,044
December 31 2017				
Repossessed assets	$ 1,031,060	$ -	$ -	$ 1,031,060
Impaired loans	$ 338,589	$ -	$ -	$ 338,589

	Valuation technique	Significant unobservable inputs
Repossessed assets	Market approach	Appraised value of collateral less selling costs
Impaired loans	Market and income approach	Discounted cash flows or appraised value of collateral less selling costs

The Bank considers third party appraisals in determining the fair value of repossessed assets and impaired loans. Appraisals are adjusted by the Bank in consideration of economic and market conditions that could impact the value of the assets.

The fair values presented above represent management's best estimates based on a range of methodologies and assumptions. 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.

There were no transfers to or from Level III during 2018 or 2017.

16. **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 Tier 1 and Common Equity 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, 2018, the most recent notification from the FDIC 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 and Common Equity Tier 1 risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts (in thousands) and ratios are as follows at the dates indicated:

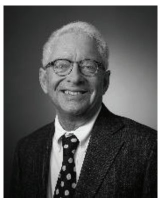
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Total capital (to risk-weighted assets)	$ 45,331	11.96%	$ 30,314	8.00%	$ 37,893	10.00%
Tier I capital (to risk-weighted assets)	$ 40,588	10.71%	$ 22,736	6.00%	$ 30,314	8.00%
Common Equity Tier I (to risk-weighted assets)	$ 40,588	10.71%	$ 17,052	4.50%	$ 24,630	6.50%
Tier I capital (to leverage assets)	$ 40,588	10.07%	$ 16,130	4.00%	$ 20,162	5.00%
December 31, 2017						
Total capital (to risk-weighted assets)	$ 38,444	12.32%	$ 24,956	8.00%	$ 31,195	10.00%
Tier I capital (to risk-weighted assets)	$ 34,542	11.07%	$ 18,717	6.00%	$ 24,956	8.00%
Common Equity Tier I (to risk-weighted assets)	$ 34,542	11.07%	$ 14,038	4.50%	$ 20,277	6.50%
Tier I capital (to leverage assets)	$ 34,542	10.15%	$ 13,616	4.00%	$ 17,020	5.00%

The Federal Deposit Insurance Corporation has not reviewed these financial statements for accuracy or relevance.

BOARD OF DIRECTORS

RICHARD M. ABRAHAM, MD
Dr. Abraham has been a practicing Emergency and Occupational Medicine physician with Cascade Medical Associates since 1979. He is a founding member of Nova Urgent Care (formally Eugene 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 Health and Safety Institute and the Marist Foundation. Director since 2003.

PATRICIA O. BUEHLER, MD
Dr. Buehler joined Summit Bank Board of Directors in 2016. She is a surgeon specializing in cataract and Lasik surgery and an owner of two small businesses. Dr. Buehler is a managing partner of InFocus Eye Care, a specialty vision correction facility in Bend with 32 employees and an owner of the Bend Surgery Center which has 120 employees. She is active at the St. Charles Health System and is on the board of directors of Lines for Life, a statewide substance abuse and suicide prevention non-profit. Director since 2016.



ALAN V. EVANS
Mr. Evans is a 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 on the board of directors of the Arts and Business Alliance of Eugene. Director since 2003.

DANIEL P. HOBIN
Mr. Hobin has more than 25 years of experience building technology companies and currently oversees the strategic direction of G5, a company located in Bend that is a leading provider of digital marketing in the property management sector. He joined the Bank Board of Directors in 2016. Mr. Hobin is a co-founder of the Bend Venture Conference and participates on the advisory board for Oregon State University Cascades. Director since 2016.

ROSS J. 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 specialty finance company. Director since 2015.

STEVEN J. KORTH
Mr. Korth is a partner and 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. Director since 2008.

ANN MARIE MEHLUM
Ms. Mehlum is the founding President & Chief Executive Officer of Summit Bank. Prior to re-joining Summit's Board, she served as Associate Administrator of the US Small Business Administration, where she oversaw SBA's loan guarantee programs that together with participating banks all over the country provided access to capital for small businesses and a portfolio that exceeded $100 billion. She has served on the FDIC Community Bank Advisory Council, the US Treasury CDFI Advisory Board and as Chair of the Oregon Bankers Association. Locally, she has served on non-profit boards including the United Way of Lane County and the Eugene Area Chamber of Commerce. In 2015, she was inducted into the State of Oregon Bankers Hall of Fame for lifetime contributions to the industry. Initial Director from 2004 to 2013. Current Director since 2017.

BOARD OF DIRECTORS

J. ANDREW MOORE
Mr. Moore is co-president of Bigfoot Beverages. He has been a Director of the Bank for more than nine years and also serves on the boards of the Oregon Beverage Association, the American Beverage Association, Cascade Health Solutions, Pepsi Northwest Beverages, and the Pepsi-Cola Bottlers Association. Director since 2010.

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. Director since 2003.

ANDY J. STORMENT
Mr. Storment is a founding director of the Bank and current Board Vice Chair. He also manages investments in commercial real estate and operating companies primarily in the Northwest. He serves on the boards of Jerry's Home Improvement Centers, The Ford Family Foundation and Oregon21. Director since 2003.

CRAIG A. WANICHEK
Mr. Wanichek currently serves as the Bank's President and Chief Executive Officer. Mr. Wanichek joined the Bank in 2009 holding various Executive Management positions including President and Chief Credit Administrator prior to succeeding the Bank's founding CEO in 2013. Mr. Wanichek previously served in several management positions with a local NYSE- traded manufacturing company following seventeen years in commercial banking. Mr. Wanichek has served as chair of the Eugene Chamber of Commerce and Cascade Health. He is currently Chair-Elect and on the Board of Directors for the Oregon Bankers Association and also represents the state of Oregon on the Independent Community Bankers of America Federal Delegate Board. He is a graduate of the University of Oregon with a Bachelor's degree in Economics. Director since 2013.

R. PAUL WEINHOLD
Mr. Weinhold is the President and Chief Executive Officer 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 and currently serves as the Chair of Oregon21, the local organizing committee that will stage the 2021 IAAF World Track and Field Championships in Eugene. Prior to joining the University of Oregon Foundation, he spent more than twenty years in leadership roles in the commercial insurance industry. Director since 2003.

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. Director since 2003.

SUMMIT BANK TEAM

EUGENE/SPRINGFIELD OFFICE

SHELLY ADAIR, EFG, Account Collections Associate
MIKE ALBIN, Technology Support Specialist I
LINDA ALGER, EFG Account Manager
RACHEL ARBOGAST, Operations Specialist
THOMAS BALL, Associate Business Client Advisor
MARY BARTLETT, VP and Business Client Advisor
JENNY BENNETT, SVP Marketing & Business Dev.
MEGAN BROWN, HR Specialist
PIOTREK BUCIARSKI, VP and Corp. & Business Dev.
JORDAN BURCHAM, Assoc. Business Client Advisor
SUZANNE CALDWELL, SBA Administrative Specialist
MICHELLE CORONA, AVP, Senior Operations Officer
RACHAEL CRAWFORD, Client Services Advisor
MACAELA CROWLEY, Universal Banker
VICKIE CUSSINS, Corporate Secretary & Admin. Officer
DARRYL DARE, VP Information Technology Services
TRACI FOURNIER, Support Specialist II
DARVIN FOWLER, VP and Business Client Advisor
MELANIE FREI, Administrative Assistant
RODNEY GOEBEL, Business Client Courier
SCOTT GOLDSTEIN, SVP & Chief Financial Officer
MARYANN GONZALES, SBA Program Advisor
CHRIS HEMMINGS, VP & Controller
KAREN HOECK, Sr. Client Services Representative
ASHLEY HORNER, VP and SBA Program Administrator
MEGAN HORVATH, VP Business Client Advisor
KIMBERLY HOWARD, Support Specialist II
CLAYTON JIMENEZ, Portfolio Manager
JAMES JOHNSON, Equipment Finance Program Manager
KAITLYNN JOURNEY, Client Services Advisor
CHRIS KLINE, VP & Business Client Advisor
EDWARD LACKINGTON, EFG, Account Manager
DAAN MAASLAND, Associate Business Client Advisor
MICHAELA MARCOTTE, Director Human Resources
VICKI MERAY, Business Client Services Specialist
KATHY METZLER, Sr. Business Client Services Specialist
LAUREN MICHELSON, Client Services Representative I
TERRI MITCHELL, Support Specialist II
SUZETTE MOLINSKI, AVP, EFG Account Manager
LEAH MORTENSEN, Business Client Services Specialist II
TANNER NELSON, SBA, Portfolio Associate
JACK OMLIN, Support Specialist III
JACOB PAINTER, Associate Business Client Advisor
CHASE PEARSON, Associate Business Client Advisor
PAM PLILER, AVP and Compliance/Risk Manager
EMILEE PRESCOTT, Business Client Services Specialist I
SEAN RUIZ, Technology Support Specialist II
KIM SCOFIELD, AVP & Business Client Services Manager
KYLE SHAVERE, Credit Administration Associate
CARRIE STAMOS, EFG Account Manager
MARC STEINBAUGH, VP Relationship Banking Team Lead
ADAM STEVENS, VP Business Client Advisor
DEEANNE THOMAS, AVP & Branch Operations Manager
MARGARET HOLMES TIBBETS, SVP & Chief Admin. Officer
ARIANA TRUJILLO, Support Specialist I
KIMBERLEE VOORHIES, Business Client Services Specialist
HEATHER WALING, Business Client Services Specialist II
CRAIG WANICHEK, President & Chief Executive Officer
WILLIAM WHALEN, SVP & Chief Credit Officer
MIRANDA WILLIAMS, Client Services Representative I
TATIANA WINDON, Client Services Representative I
RENDA WOLFORD, AVP eBanking Manager
JAMIE YAGER, Relationship Banking Officer
ANGIE ZASH, Sr. Staff Accountant

CENTRAL OREGON OFFICE

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JOHN BOYLEN, VP and Business Client Advisor
CARLYN CARMICHAEL, AVP Business Client Advisor
GALAN CARTER, Associate Business Client Advisor
DAVID COMER, Client Services Advisor
MICHELLE CROSS, Associate Business Client Advisor
JILL CUMMINGS, AVP, Market Development Officer
MELINDA DEHART, Business Client Courier
JEAN MILLER, AVP and Branch Operations Supervisor
SARAH MILLER, Business Banking Associate
MICHAEL SANDBERG, Senior Client Services Advisor
AL STEINHAUS, VP, Business Client Advisor
GARY O'CONNELL, SVP & Central Oregon Market President
MARY RAISANEN, Senior Client Services Advisor

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