FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

VERUS BANK OF COMMERCE

December 31, 2015 and 2014

FORTNER, BAYENS, LEVKULICH
&
GARRISON, P.C.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Verus Bank of Commerce
Fort Collins, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Verus Bank of Commerce, which are comprised of the balance sheets as of December 31, 2015 and 2014, and the related statements of income, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Verus Bank of Commerce at December 31, 2015 and 2014 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Fortner, Bayens, Levkulich & Garrison, P.C.

Denver, Colorado
March 17, 2016

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Certified Public Accountants • A Professional Corporation

Verus Bank of Commerce

BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(in thousands)	
ASSETS		
Cash and due from banks	$ 2,268	$ 2,291
Interest-bearing deposits with banks	14,949	8,557
Federal funds sold	495	496
Cash and cash equivalents	17,712	11,344
Interest-bearing time deposits with banks	5,808	5,559
Nonmarketable equity securities	1,757	1,821
Loans	245,211	246,361
Less allowance for loan losses	(2,240)	(2,256)
	242,971	244,105
Foreclosed real estate	198	683
Premises and equipment	79	161
Accrued interest receivable	662	510
Other assets	1,620	2,481
	$ 270,807	$ 266,664
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 41,418	$ 39,050
Interest-bearing	167,602	165,191
	209,020	204,241
Federal Home Loan Bank borrowings	2,500	2,500
Short-term borrowings	13,300	15,100
Accrued interest payable	42	48
Other liabilities	5,268	6,104
Total liabilities	230,130	227,993
Commitments (notes D and H)		
Stockholders' equity		
Preferred stock - $1,000 par value, 8,766 shares authorized; 8,766 shares issued and outstanding	8,766	8,766
Common stock - $2.50 par value, 7,000,000 shares authorized; 5,287,460 and 5,188,155 shares issued and outstanding at December 31, 2015 and 2014, respectively	13,219	12,970
Capital surplus	12,942	12,594
Retained earnings	5,750	4,341
	40,677	38,671
	$ 270,807	$ 266,664

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

Verus Bank of Commerce

STATEMENTS OF INCOME

	Years Ended December 31, 2015	Years Ended December 31, 2014
	(in thousands)	
Interest and dividend income		
Interest and fees on loans	$ 13,748	$ 13,716
Federal funds sold	1	1
Interest-bearing deposits with banks	129	96
Dividends	93	72
Total interest and dividend income	13,971	13,885
Interest expense		
Deposits	1,332	1,465
Federal Home Loan Bank borrowings	64	73
Total interest expense	1,396	1,538
Net interest income	12,575	12,347
Provision for (reduction in) allowance for loan losses	(10)	(260)
Net interest income after provision for loan losses	12,585	12,607
Noninterest income		
Service charges on deposit accounts	515	358
Fees from servicing government-guaranteed loans	30	53
Gain on sale of foreclosed real estate	29	70
Loss on disposal of premises and equipment	-	(93)
Other	218	200
Total noninterest income	792	588
Noninterest expense		
Salaries and employee benefits	2,978	2,560
Occupancy and equipment	386	541
Other expenses	1,016	1,165
Total noninterest expense	4,380	4,266
Income before income taxes	8,997	8,929
Income tax expense	3,251	3,227
NET INCOME	$ 5,746	$ 5,702
Net income	$ 5,746	$ 5,702
Less: Preferred dividends	107	107
Net income available to common shareholders	$ 5,639	$ 5,595

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

Verus Bank of Commerce

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2015 and 2014

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Total
			(in thousands)		
Balance at December 31, 2013	$ 8,766	$ 12,740	$ 12,283	$ 3,623	$ 37,412
Issuance of 100,450 shares of common stock	-	251	336	-	587
Repurchase of 8,315 shares of common stock	-	(21)	(25)	-	(46)
Comprehensive income					
Net income	-	-	-	5,702	5,702
Common stock dividends declared and paid	-	-	-	(4,877)	(4,877)
Preferred stock dividends declared and paid	-	-	-	(107)	(107)
Balance at December 31, 2014	8,766	12,970	12,594	4,341	38,671
Issuance of 102,345 shares of common stock	-	256	358	-	614
Repurchase of 3,040 shares of common stock	-	(7)	(10)	-	(17)
Comprehensive income					
Net income	-	-	-	5,746	5,746
Common stock dividends declared	-	-	-	(4,230)	(4,230)
Preferred stock dividends declared and paid	-	-	-	(107)	(107)
Balance at December 31, 2015	$ 8,766	$ 13,219	$ 12,942	$ 5,750	$ 40,677

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

Verus Bank of Commerce

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
	(in thousands)	
Cash flows from operating activities		
Net income	$ 5,746	$ 5,702
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	99	152
Reduction in allowance for loan losses	(10)	(260)
Federal Home Loan Bank stock dividends	(31)	(11)
Gain on sale of foreclosed real estate	(29)	(70)
Loss on disposal of premises and equipment	-	93
Deferred income taxes	(53)	831
Net changes in:		
Accrued interest receivable and other assets	762	(535)
Accrued interest payable and other liabilities	(842)	369
Net cash provided by operating activities	5,642	6,271
Cash flows from investing activities		
Net change in interest-bearing time deposits with banks	(249)	-
Purchases of nonmarketable equity securities	(1,361)	(877)
Redemptions of nonmarketable equity securities	1,456	630
Loan originations and principal collections, net	1,144	(4,982)
Expenditures for premises and equipment	(17)	(61)
Proceeds from sale of foreclosed real estate	514	2,318
Net cash provided (used) by investing activities	1,487	(2,972)
Cash flows from financing activities		
Net change in deposits	4,779	(13,099)
Proceeds from long-term borrowings	-	2,000
Payments of long-term borrowings	-	(3,711)
Change in short-term borrowings	(1,800)	13,800
Issuance of common stock	614	587
Repurchase of common stock	(17)	(46)
Cash dividends paid on common stock	(4,230)	(4,877)
Cash dividends paid on preferred stock	(107)	(107)
Net cash used in financing activities	(761)	(5,453)
Net change in cash and cash equivalents	6,368	(2,154)
Cash and cash equivalents at beginning of year	11,344	13,498
Cash and cash equivalents at end of year	$ 17,712	$ 11,344
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 1,402	$ 1,540
Income taxes	2,604	2,879

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Nature of Operations

The Bank provides a full range of banking and mortgage services to individual and corporate customers, principally in Larimer County, Colorado and the surrounding area. The Bank commenced operations in 2005. Until October 28, 2010, the Fort Collins Commerce Bank was 51%-owned by Capital Bancorp Colorado Limited (CBCL), a bank-development company, and controlled subsidiary of Capital Bancorp Limited, a national community bank development company. On October 29, 2010, this 51% interest was purchased from CBCL by Verus Acquisition Group, Inc. (Verus), a Bank holding company located in Fort Collins, Colorado. Verus also purchased 51% interests from CBCL in the following two Colorado banks: Larimer Bank of Commerce and Loveland Bank of Commerce.

On February 14, 2011, Larimer Bank of Commerce and Loveland Bank of Commerce were merged into Fort Collins Commerce Bank. Following the merger, the name of the Bank was changed to Verus Bank of Commerce (the Bank). The merger was accounted for as a combination of commonly controlled entities.

The Bank provides banking services to individuals, businesses and other customers located in its community. A variety of deposit products are offered, including checking, savings, money market, individual retirement accounts and certificates of deposit. The principal market for the Bank’s financial services is the community in which it is located and the areas immediately surrounding that community. The Bank is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and the valuation of foreclosed real estate.

In connection with the determination of the allowance for loan losses and the valuation of foreclosed real estate, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located in the Larimer County, Colorado area. Note B discusses the types of lending that the Bank engages in.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits with banks and federal funds sold.

Interest-Bearing Time Deposits with Banks

Interest-bearing time deposits with banks are carried at cost, mature within four years and are fully covered by federal deposit insurance.

Nonmarketable Equity Securities

Nonmarketable equity securities, consisting of Federal Home Loan Bank and Federal Reserve Bank stock, are recorded at cost.

Loans

The Bank primarily grants construction, land and land development and real estate loans to customers primarily in the Larimer County, Colorado area. The ability of the Bank's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on all loans is discontinued at the time a loan is 90 days delinquent unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Bank's nonaccrual criteria.

Generally, loans are charged off in whole or in part on a loan-by-loan basis after they become significantly past due and based upon management's review of the collectability of all or a portion of the loan unless the loan is in the process of restructuring. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components as follows:

> The specific component relates to loans that are considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis. Impaired loans are all specifically identified loans for which it is probable that the Bank will not collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system. Included in impaired loans are all nonaccrual loans and all accruing troubled debt restructurings. Loans that experience

insignificant payment delays or payment shortfalls generally are not considered impaired. For impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. Qualitative factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; and portfolio concentrations.

Although the allowance contains a specific component, the entire allowance is available for any loan that, in management's judgment, should be charged-off.

On a monthly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Bank's major loan segments. Significant overall risk factors for both the Bank's real estate, commercial and consumer portfolios include the strength of the real estate market and the strength of economy in the Bank's lending area.

The quality of the Bank's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated monthly by management. The ratings on the Bank's internal credit scale are broadly grouped into the categories "non-classified" and "classified." Non-classified loans are those loans with minimal identified credit risk, as well as loans with potential credit weaknesses which deserve management's attention but for which full collection of contractual principal and interest is not significantly at risk. Classified loans are those loans that have well-defined weakness that put full collection of contractual principal or interest at risk, and classified loans for which it is probable that the Bank will not collect all contractual principal or interest are also considered impaired. The credit quality ratings are an important part of the Bank's overall credit risk management process and are considered in the determination of the allowance for loan losses.

Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination.

Off- Balance Sheet Financial Instruments

In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed loans in process. These financial instruments are recorded in the financial statements when they are funded.

In conjunction with the determination of the allowance for loan losses, and using the same criteria, the Bank determines the extent of credit risk on its off-balance sheet financial instruments and whether there are probable incurred credit losses on those instruments for which a loss provision is necessary. The Bank has determined that there is minimal credit risk on its off-balance sheet financial instruments, and accordingly has not recorded a loss provision or allowance for those instruments.

Foreclosed Real Estate

Real estate acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Premises and Equipment

Land is carried at cost. Buildings, leasehold improvements, furniture and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the lease for financial statement purposes. Expected terms include lease option periods to the extent that the exercise of such option is reasonable assured. Normal costs of maintenance and repairs are charged to expense as incurred.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

The Bank has adopted guidance issued by the Financial Accounting Standards Board with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes, not meeting the “more likely than not” test, no tax benefit is recorded. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that a portion of the deferred tax asset may not be realized within a year. The Bank is no longer subject to examination by taxing authorities for years before 2012.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Bank, 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 the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (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. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Subsequent Events

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. If a subsequent event evidences conditions existing at the balance sheet date, the effects are recognized in the financial statements (recognized subsequent event). If a subsequent event evidences conditions arising after the balance sheet date, the effects are not recognized in the financial statements but rather disclosed in the notes to the financial statements (non-recognized subsequent events). The effects of subsequent events are only recognized if material, or disclosed if the financial statements would otherwise be misleading.

With respect to the December 31, 2015 financial statements, Management has considered subsequent events through March 17, 2016.

New Accounting Pronouncements

The Financial Accounting Standards Board recently issued Accounting Standards Update 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Under the new standard, certain equity investments are required to be carried at fair value, with changes in fair value recognized in net income. This applies to equity investments with readily determinable fair values that are not consolidated or carried on the equity method. Debt securities classified as available-for-sale will continue to be carried at fair value with changes in fair value recorded through other comprehensive income. The standard also reduces or eliminates several financial reporting disclosure requirements. The standard is effective for the Bank beginning January 1, 2019; however, for 2015 the Bank has early adopted a provision that eliminates the disclosures of the fair values of financial instruments carried at amortized cost. Other provisions of the standard are not expected to have a significant impact to the consolidated financial statements.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. The Bank has no other comprehensive income for the years ended December 31, 2015 and 2014.

Reclassifications

Certain reclassifications have been made to 2014 amounts to conform to the current year presentation. Reclassifications had no effect on prior year income or stockholders' equity.

NOTE B - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the balances of loans follows:

	December 31, 2015	December 31, 2014
	(in thousands)	
Construction, land and land development		
Residential 1-4 family	$ 4,426	$ 4,216
Other	7,273	12,327
	11,699	16,543
Real estate		
Residential 1-4 family	27,017	28,560
Multifamily	17,078	13,309
Commercial	178,629	171,047
Farmland	1,213	2,484
	223,937	215,400
Commercial and industrial	9,500	14,097
Consumer and other	75	321
	$ 245,211	$ 246,361

At December 31, 2015, the Bank had approximately $53,017,000 of SBA 504 and $3,022,000 of SBA 7A loans. Management believes these loans are considered liquid assets given the active and mature secondary market for these loans as well as their associated premiums. Management includes these assets as part of its liquidity measurement and includes them in the Bank's Contingent Liquidity Plan, which is updated quarterly. These loans may be periodically sold for liquidity purposes and to manage industry concentrations and interest rate risk.

Transactions in the allowance for loan losses are as follows:

	Year ended December 31, 2015 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Balance at December 31, 2014	$ 207	$ 1,836	$ 212	$ 1	$ 2,256
Provision for loan losses	(103)	193	(100)	-	(10)
Charge-offs	-	-	(15)	-	(15)
Recoveries	-	3	6	-	9
Net (charge-offs) recoveries	-	3	(9)	-	(6)
Balance at December 31, 2015	$ 104	$ 2,032	$ 103	$ 1	$ 2,240

	Year ended December 31, 2014 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Balance at December 31, 2013	$ 703	$ 1,594	$ 1,632	$ 1	$ 3,930
Provision for loan losses	(496)	242	(6)	-	(260)
Charge-offs	-	-	(1,419)	-	(1,419)
Recoveries	-	-	5	-	5
Net (charge-offs) recoveries	-	-	(1,414)	-	(1,414)
Balance at December 31, 2014	$ 207	$ 1,836	$ 212	$ 1	$ 2,256

Components of the allowance for losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

	December 31, 2015 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Allocation of Allowance To:					
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	48	-	-	48
Total impaired loans	-	48	-	-	48
Unimpaired loans - evaluated collectively	104	1,984	103	1	2,192
	$ 104	$ 2,032	$ 103	$ 1	$ 2,240
Recorded Investment In:					
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	95	-	-	95
Total impaired loans	-	95	-	-	95
Unimpaired loans - evaluated collectively	11,699	223,842	9,500	75	245,116
	$ 11,699	$ 223,937	$ 9,500	$ 75	$ 245,211

	December 31, 2014 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Allocation of Allowance To:					
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	202	-	-	202
Total impaired loans	-	202	-	-	202
Unimpaired loans - evaluated collectively	207	1,634	212	1	2,054
	$ 207	$ 1,836	$ 212	$ 1	$ 2,256
Recorded Investment In:					
Impaired loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Impaired loans - evaluated collectively	-	716	-	-	716
Total impaired loans	-	716	-	-	716
Unimpaired loans - evaluated collectively	16,543	214,684	14,097	321	245,645
	$ 16,543	$ 215,400	$ 14,097	$ 321	$ 246,361

Information relative to impaired loans is as follows:

As of and for the year ended December 31, 2015
(in thousands)

	Recorded Investment In Impaired Loans With No Valuation Allowance	Recorded Investment In Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance On Impaired Loans	Contractual Principal Of Impaired Loans	Commitments To Extend Credit On Impaired Loans	Average Impaired Loans
Construction, land and land development							
Residential 1-4 family	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Real estate							
Residential 1-4 family	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Commercial	-	95	95	48	95	-	305
Farmland	-	-	-	-	-	-	273
	-	95	95	48	95	-	578
Commercial and industrial	-	-	-	-	-	-	87
Consumer and other	-	-	-	-	-	-	-
	$ -	$ 95	$ 95	$ 48	$ 95	$ -	$ 665

As of and for the year ended December 31, 2014 (in thousands)							
	Recorded Investment In Impaired Loans With No Valuation Allowance	Recorded Investment In Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance On Impaired Loans	Contractual Principal Of Impaired Loans	Commitments To Extend Credit On Impaired Loans	Average Impaired Loans
Construction, land and land development							
Residential 1-4 family	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Real estate							
Residential 1-4 family	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Commercial	-	716	716	202	716	-	896
Farmland	-	-	-	-	-	-	-
	-	716	716	202	716	-	896
Commercial and industrial	-	-	-	-	-	-	591
Consumer and other	-	-	-	-	-	-	-
	$ -	$ 716	$ 716	$ 202	$ 716	$ -	$ 1,487

Interest income recognized on impaired loans was immaterial for the years ended December 31, 2015 and 2014.

The Banks had one troubled debt restructuring with a principal balance of $95,000 and a related provision of $48,000 as of December 31, 2015. The Bank had no troubled debt restructurings for the year ended December 31, 2014.

The carrying amounts of loans by performance status and credit quality indicator are as follows:

December 31, 2015
(in thousands)

	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
Construction, land and land development								
Residential 1-4 family	$ 4,426	$ -	$ -	$ -	$ 4,426	$ 4,426	$ -	$ -
Other	7,273	-	-	-	7,273	7,174	99	-
	11,699	-	-	-	11,699	11,600	99	-
Real estate								
Residential 1-4 family	27,017	-	-	-	27,017	26,604	413	-
Multifamily	17,078	-	-	-	17,078	17,078	-	-
Commercial	178,534	-	-	95	178,629	174,367	4,167	95
Farmland	1,213	-	-	-	1,213	1,213	-	-
	223,842	-	-	95	223,937	219,262	4,580	95
Commercial and industrial	9,500	-	-	-	9,500	9,410	90	-
Consumer and other	75	-	-	-	75	75	-	-
	$ 245,116	$ -	$ -	$ 95	$ 245,211	$ 240,347	$ 4,769	$ 95

December 31, 2014
(in thousands)

	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
Construction, land and land development								
Residential 1-4 family	$ 4,216	$ -	$ -	$ -	$ 4,216	$ 4,216	$ -	$ -
Other	12,327	-	-	-	12,327	10,744	1,583	-
	16,543	-	-	-	16,543	14,960	1,583	-
Real estate								
Residential 1-4 family	28,560	-	-	-	28,560	28,143	417	-
Multifamily	13,309	-	-	-	13,309	13,309	-	-
Commercial	170,499	-	-	548	171,047	169,738	593	716
Farmland	2,484	-	-	-	2,484	2,484	-	-
	214,852	-	-	548	215,400	213,674	1,010	716
Commercial and industrial	14,097	-	-	-	14,097	13,997	100	-
Consumer and other	321	-	-	-	321	320	1	-
	$ 245,813	$ -	$ -	$ 548	$ 246,361	$ 242,951	$ 2,694	$ 716

NOTE C – FORECLOSED REAL ESTATE

A summary of the activity in foreclosed real estate held for sale is as follows:

	Year Ended December 31, 2015	2014
	(in thousands)	
Balance at beginning of year	$ 683	$ 2,724
Transfers from loans	-	207
Valuation allowances recorded	-	-
Dispositions	(485)	(2,248)
Balance at end of year	$ 198	$ 683

Net (income) expense from foreclosed real estate included in noninterest expenses is as follows:

	Year Ended December 31, 2015	2014
	(in thousands)	
Net (gain) loss on disposition	$ (29)	$ (70)
Valuation allowances recorded	-	-
Other related expenses	21	137
	$ (8)	$ 67

NOTE D - PREMISES AND EQUIPMENT

At December 31, premises and equipment, less accumulated depreciation and amortization consisted of the following:

	December 31, 2015	2014
	(in thousands)	
Leasehold improvements	$ 650	$ 650
Furniture, fixtures and equipment	1,292	1,308
	1,942	1,958
Accumulated depreciation and amortization	(1,863)	(1,797)
	$ 79	$ 161

The Bank rents office space under an operating lease. The lease is for five years with renewal options. Rent expense in 2015 and 2014 was $187,000 and $261,000, respectively.

Future lease payments under the lease are as follows:

Years ending December 31,	(in thousands)
2016	$ 129
2017	132
2018	135
2019	138
2020	11
Thereafter	-
	$ 545

NOTE E – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2015 and 2014 was $33,880,000 and $35,717,000, respectively.

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

Years ending December 31,	(in thousands)
2016	$ 36,186
2017	20,754
2018	17,080
2019	3,020
2020	571
Thereafter	3,613
	$ 81,224

NOTE F – BORROWINGS

At December 31, 2015 and 2014, long-term debt (debt with original maturities of more than one year) of $2,500,000, consisted of a Federal Home Loan Bank fixed-rate advances with rates ranging from 0.95% - 1.68%, with a weighted average interest rate of 1.10%.

At December 31, 2015 and 2014, short-term borrowings of $13,300,000 and $15,100,000 consisted of Federal Home Loan Bank fixed-rate advances with an interest rate of 0.48% and 0.25%, respectively. These borrowings mature within 30 days.

At December 31, 2015 and 2014, loans totaling $132,819,000 and $129,058,000 were pledged to secure all Federal Home Loan Bank borrowings. At December 31, 2015, the Bank had additional borrowing capacity at the Federal Home Loan Bank of approximately $72,180,000.

At December 31, 2015, the Bank maintained various additional short and long-term lines of credit, with available facilities of $16,000,000.

At December 31, 2015, scheduled maturities of long-term borrowings were as follows:

Years ending December 31,	(in thousands)
2016	$ 2,500
Thereafter	-
	$ 2,500

NOTE G – INCOME TAXES

Following is an analysis of income taxes included in the statements of income:

	2015	2014
	(in thousands)	
Current tax expense		
Federal	$ 2,891	$ 2,097
State	413	299
	3,304	2,396
Deferred tax expense		
Federal	(46)	727
State	(7)	104
	(53)	831
	$ 3,251	$ 3,227

Listed below are the components of the net deferred tax assets, which are included in other assets:

	December 31,	
	2015	2014
	(in thousands)	
Deferred tax assets		
Allowance for loan losses	$ 830	$ 836
Organizational costs	172	201
Writedowns on foreclosed real estate	-	4
Deferred loan fees	275	182
Other, net	120	109
Total deferred tax assets	1,397	1,332
Deferred tax liabilities		
FHLB dividends	(30)	(18)
Total deferred tax liabilities	(30)	(18)
Net deferred tax asset	$ 1,367	$ 1,314

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows:

	Year Ended December 31,	
	2015	2014
	(percentage)	
Statutory federal tax rate	34.0	34.0
Increase (decrease) resulting from:		
State tax, net of federal tax benefit	3.0	3.0
Other	(0.9)	(0.9)
Effective rate	36.1	36.1

NOTE H - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit.

Those instruments involve, to a varying degree, elements of credit risk in excess of the amount recognized in the statement of financial position. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and stand-by 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.

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

	2015	2014
Commitments to extend credit	$ 22,533	$ 20,123
Letters of credit	807	571

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Stand-by letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

NOTE I - EMPLOYEE BENEFIT AND COMPENSATION PLANS

401(k) Plan

The Bank maintains a 401(k) retirement plan whereby substantially all employees who meet certain age and length of service requirements may participate in the plan. For 2015 and 2014, expense attributable to the Plan amounted to approximately $62,000 and $48,000, respectively.

Employment Agreements

The Bank has employment agreements with its CEO and President. The agreements establish a salary that is increased annually based on performance factors relating to Bank earnings, asset growth and asset quality. The CEO and President are also entitled to participate in annual bonuses based on Bank earnings and asset quality. These are subject to annual review and approval by the Board.

Stock Appreciation Rights

The Bank has a Stock Appreciation Rights (SAR) plan for senior officers. Under the plan, participants are granted a number of SARs at the discretion of the Bank's Board of Directors. Each SAR entitles the holder to the book value appreciation in one share of the Bank's common stock for the periods following the date of grant. The value of the stock appreciation vests immediately, at which time the holder is entitled to receive the value in cash. Expense attributable to the plan in 2015 and 2014 was $595,000 and $462,000, respectively. All expenses were paid as part of 2015 and 2014 compensation, and no liability related to this expense existed as of December 31, 2015 and 2014.

NOTE J – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank may make loans to executive officers, directors and principal shareholders of the Bank, including their immediate families and companies in which they are principal owners. At December 31, 2015 and 2014, total loans to these persons approximated $4,516,000 and $4,921,000, respectively. Deposits by related parties held by the Bank at December 31, 2015 and 2014 were approximately $3,931,000 and $2,862,000, respectively.

NOTE K – STOCKHOLDERS' EQUITY AND DIVIDENDS

Preferred Stock

In 2011, the Bank issued 8,766 shares of perpetual, non-cumulative preferred stock ($1,000 per share liquidation preference) to the Bank's majority shareholder, Verus. The transaction was in conjunction with Verus's issuance of preferred stock to the United States Department of Treasury as part of the Treasury's Small Business Lending Fund (SBLF) program.

The SBLF is a dedicated investment fund that encourages lending to small businesses by providing capital to qualified community banks. The SBLF is structured to encourage small business lending through a tiered dividend structure where the dividend rate, for Verus, on the preferred stock is based on the growth of the Bank's small business lending. The initial dividend rate payable on SBLF capital is, at most, 5%, and the rate falls to 1% if a bank's small business lending increases by 10% or more. Banks that increase their lending by less than 10% pay dividend rates between 2% and 4%. If a bank's lending does not increase in the first two years after issuance, however, the dividend rate increases to 7%. Four and one-half years after issuance, the dividend rate for all banks increases to 9%. Dividends on the SBLF preferred stock are payable quarterly in arrears each January 1, April 1, July 1 and October 1. Verus' dividend rate in 2015 and 2014 was approximately 1%.

Dividends

Federal banking regulations place certain restrictions on dividends paid by the Bank to its shareholders. Approval by the banking regulators is required if the total of all dividends declared by the Bank exceeds the total of its net profits for the year combined with its retained net profits of the preceding two years.

In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be deemed below the applicable minimum capital requirements.

NOTE L - MINIMUM REGULATORY CAPITAL REQUIREMENTS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Bank meets all capital adequacy requirements to which it is subject.

When fully phased in on January 1, 2019, the Basel III capital rules will require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital ratio as the buffer is phased in, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7% upon full phase in). The Bank will also be required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer phases in at 0.625% annually over a four year period beginning January 1, 2016, and is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2015 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2015 based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

	Actual		Minimum required for capital adequacy purposes - Basel III phase-in schedule		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2015						
Total capital (to risk weighted assets)	$ 41,576	17.4%	$ 19,102	8.0%	$ 23,877	10.0%
Tier 1 capital (to risk weighted assets)	39,337	16.5	14,326	6.0	19,102	8.0
Common Tier 1 capital (to risk weighted assets)	31,375	13.1	10,745	4.5	15,520	6.5
Tier 1 capital (to average assets)	39,337	14.7	10,722	4.0	13,402	5.0

The following table presents the Bank's actual and required capital ratios as of December 31, 2014 under the regulatory capital rules then in effect.

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2014						
Total capital (to risk weighted assets)	$ 40,928	17.6%	$ 18,570	8.0%	$ 23,213	10.0%
Tier 1 capital (to risk weighted assets)	38,672	16.7	9,285	4.0	13,928	6.0
Tier 1 capital (to average assets)	38,672	14.5	10,688	4.0	13,360	5.0

NOTE M – FAIR VALUE MEASUREMENT

The Bank used the following methods and significant assumptions to estimate fair value:

Impaired loans – The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for impaired loans are obtained from real estate brokers or other third-party consultants (Level 3).

Foreclosed Real Estate - Nonrecurring adjustments to certain commercial and residential real estate properties classified as foreclosed real estate are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Impaired loans	$ -	$ -	$ -	$ -
Foreclosed real estate	-	-	198	198

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Impaired loans	$ -	$ -	$ 514	$ 514
Foreclosed real estate	-	-	683	683

At December 31, 2015 and 2014, impaired loans, which are measured for impairment using the fair value of the collateral, with a carrying value of $0 and $716,000, respectively, were written down to their fair value of $0 and $514, resulting in an additional provision for loan losses, which was included in earnings for the year.

At December 31, 2015 and 2014, foreclosed real estate with a cost basis of $198,000 and $694,000, respectively, is carried at its estimated fair value of $198,000 and $683,000, respectively. The valuation allowance of $0 and $11,000, respectively, has been recorded through expense.

During 2015 and 2014, there were no changes or amounts in Level 3 assets or liabilities recorded at fair value on a recurring basis.

NOTE N – SUBSEQUENT EVENT

On January 13, 2016 the Bank's redeemed its preferred stock of $8,766,000 which was held by Verus.