Cashmere Valley Bank

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2015 Annual Report

Due to the electronic nature of this document, our external auditors, BDO USA LLP, advise that this information is provided for convenience and informational purposes only. While reasonable efforts have been made to ensure the integrity of such information, this electronic document should not be relied on. A copy of the consolidated financial statements will be provided on request.

"The little Bank with the big circle of friends"

Member FDIC

Financial Highlights

Performance Results	**2015**	**2014**	**2013**	**2012**	**2011**
Return on average equity	11.24%	11.79%	11.52%	11.45%	11.66%
Return on average assets	1.25%	1.21%	1.14%	1.12%	1.08%
Equity to assets	11.24%	10.73%	9.81%	9.85%	9.43%
Earnings per share - Basic	$4.12	$3.90	$3.52	$3.30	$3.04
Dividends per share	$0.90	$0.79	$0.76	$0.76	$0.76
Book value per share	$38.08	$35.02	$31.13	$30.17	$27.49
Market value per share	$38.42	$35.25	$29.50	$27.40	$23.25
Net overhead to average assets	1.20%	1.14%	1.00%	0.99%	0.73%
Average earning assets to average total assets	97.01%	96.41%	96.66%	96.60%	96.48%
Allowance for credit losses to total loans at December 31	1.49%	1.60%	1.58%	1.81%	2.08%
Yield and Cost of Funds					
Yield on investments	2.58%	2.73%	1.93%	1.87%	2.46%
Yield on loans	4.27%	4.53%	4.98%	5.76%	6.43%
Cost of funds	0.39%	0.53%	0.67%	0.89%	1.33%
Net interest margin	3.28%	3.27%	3.03%	3.06%	3.32%
Selected Items ***(in thousands)***					
Total cash and cash equivalents	$81,315	$54,205	$64,645	$83,262	$48,805
Total investments	$417,566	$482,104	$472,377	$490,863	$507,935
Total loans	$847,547	$753,810	$711,805	$631,543	$585,450
Total assets	$1,381,663	$1,324,604	$1,283,278	$1,238,687	$1,176,287
Total deposits	$1,203,816	$1,159,306	$1,137,897	$1,096,885	$1,042,330
Total equity	$155,343	$142,069	$125,917	$121,969	$110,959

To the Shareholders and Friends of the Bank

2015 was another successful year at Cashmere Valley Bank with profits up 6% in a very challenging environment. The modest increase in interest rates that most expected did not materialize, and as of this writing have drifted back down to the near historic low levels last seen during the financial crisis. We achieved an ROA of 1.25%, and ROE of 11.24%. Loan growth was 12.5%, and we increased non-interest bearing deposits 14.5%. These numbers put us in the very top tier of performance among the banks in the state of Washington. Join me in thanking a dedicated group of high performing employees who make these results possible.

Asset growth was modest at 4.3% as we have now achieved all our goals in terms of Capital. More simply stated, we have enough. The challenge going forward is to deploy that capital to begin growing again in the face of ever increasing demand for technology (cybersecurity) and compliance with new regulation.

There are a number of options to deploy capital. You can grow the bank organically, buy another bank, buy back your stock or pay more dividends. Well, that last one is more of a capital distribution strategy as opposed to a capital deployment strategy. However, rest assured your Board of Directors, along with management, have been and will continue to spend a lot of time thinking and planning strategically about this subject.

We will be accelerating our plans for organic growth into the Yakima market with a new full service branch to begin later this year and into next, with opening planned for 2017. We also are open to the possibility of purchasing another bank. However, the opportunities are few and often the price is too high or the fit is not right.

We are thankful for the efficiencies our size at $1.38 billion provide. Banks that are significantly smaller face potentially insurmountable challenges with regulation and technology that we stand a much better chance to absorb while continuing to prosper.

Our goal for our customers is that when they want to talk to their Banker they won't have to press zero. Their Banker will answer the phone when they call or welcome them into our lobby when they come in. We are also committed to providing the technological solutions that allow our customers to be able to conduct their banking from home, on the job site, or where ever life takes them. We believe that having well-staffed branches coupled with technology that goes the distance with you makes us the preferred option for banking services. We invite everyone to experience the difference at *the Little Bank with the Big Circle of Friends.*

As always, if you have any questions or concerns regarding Cashmere Valley Bank, or the banking industry, please feel free to contact me on my direct number at 509-782-2092.

Sincerely,

Greg Oakes
President and CEO

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Spokane, WA 99201-0611

Management & Audit Committee
Cashmere Valley Bank
Cashmere, Washington

We have audited the accompanying consolidated financial statements of Cashmere Valley Bank, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cashmere Valley Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Spokane, Washington
March 25, 2016

Consolidated Balance Sheets

December 31, 2015 and 2014 *(Dollars in Thousands, Except Share Amounts)*

	2015	2014
Assets		
Cash and Cash Equivalents:		
Cash and due from banks	$18,521	$19,383
Interest-bearing deposits at other financial institutions	57,146	27,775
Federal funds sold	5,648	7,047
Total Cash and Cash Equivalents	81,315	54,205
Securities available for sale at fair value	414,560	477,920
Securities held to maturity (fair value of $1,066 and $1,093)	1,069	1,089
Federal Home Loan Bank (FHLB) stock, at cost	1,699	2,857
Pacific Coast Banker's Bancshares (PCBB) stock, at cost	238	238
Loans held for sale	540	103
Loans and leases	847,547	753,810
Allowance for credit losses	(12,589)	(12,091)
Net loans and leases	834,958	741,719
Premises and equipment, net	13,393	11,434
Accrued interest receivable	4,394	4,474
Foreclosed real estate	343	1,666
Bank owned life insurance	13,627	13,166
Goodwill	6,820	6,820
Intangibles	10	16
Mortgage servicing rights	1,768	1,816
Other assets	6,929	7,081
Total assets	**$1,381,663**	**$1,324,604**
Liabilities		
Deposits:		
Demand	$181,853	$158,802
Savings and interest-bearing demand	782,474	729,221
Time	239,489	271,283
Total deposits	1,203,816	1,159,306
Accrued interest payable	407	530
Short-term borrowings	12,201	12,766
Long-term borrowings	2,671	2,921
Other liabilities	7,225	7,012
Total liabilities	**1,226,320**	**1,182,535**
Commitments and Contingencies (see Note 11)		
Shareholders' Equity		
Common stock (no par value); authorized 10,000,000 shares; Issued and outstanding: 2015 – 4,079,179; 2014 – 4,056,604	--	--
Additional Paid in Capital	1,472	812
Retained earnings	148,425	135,319
Accumulated other comprehensive income	5,446	5,938
Total shareholders' equity	**155,343**	**142,069**
Total liabilities and shareholders' equity	**$1,381,663**	**$1,324,604**

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31, 2015 and 2014 *(Dollars in Thousands, Except Per Share Amounts)*	2015	2014
Interest Income:		
Loans and leases	$32,557	$30,708
Federal Funds sold and deposits at other financial institutions	91	94
Securities available for sale:		
Taxable	6,038	8,452
Tax-exempt	4,153	3,752
Securities held to maturity - tax-exempt	20	37
Total interest income	42,859	43,043
Interest Expense:		
Deposits	4,390	5,931
Short-term borrowings	33	27
Long-term borrowings	167	182
Total interest expense	4,590	6,140
Net interest income	**38,269**	**36,903**
Provision for Credit Losses	1,200	1,850
Net interest income after provision for credit losses	**37,069**	**35,053**
Non-Interest Income:		
Service charges on deposit accounts	1,029	946
Mortgage banking operations	2,182	1,486
Net gain on sales of securities available for sale	212	804
Brokerage commissions	684	692
Insurance commissions and fees	1,708	1,641
Net interchange income	1,634	1,797
BOLI cash value	460	493
Other	1,659	1,364
Total non-interest income	9,568	9,223
Non-Interest Expense:		
Salaries and employee benefits	13,265	12,857
Occupancy and equipment	4,252	3,929
Audits and examinations	440	661
State and local business and occupation taxes	428	198
FDIC Insurance & WA State Assessments	696	704
Legal and professional fees	555	574
Net loss (gain) on foreclosed real estate	616	(9)
Check losses and charge-offs	305	234
Low Income Housing Fund Losses	470	577
Data Processing	762	774
Product Delivery	1,321	1,197
Other	2,588	2,392
Total non-interest expense	25,698	24,088
Income before income taxes	**20,939**	**20,188**
Income Taxes	4,175	4,392
Net Income	**$16,764**	**$15,796**
Change in the fair value of securities available for sale, net of tax	(492)	3,162
Comprehensive Income	**$16,272**	**$18,958**
Earnings per share – Basic	$4.12	$3.90
Earnings per share – Diluted	$4.10	$3.88

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2015 and 2014 *(Dollars in Thousands, Except Share Information)*

	Shares of Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2013	**4,044,259**	**420**	**$122,721**	**$2,776**	**$125,917**
Net income	--	--	15,796	--	15,796
Other comprehensive income, net of tax:					
Change in fair value of securities available for sale	--	--	--	3,162	3,162
Disqualifying Disposition Tax Benefit		12	--		12
Cash dividends paid ($0.79 per share)	--	--	(3,198)	--	(3,198)
Stock based compensation expense	--	72	--	--	72
Options exercised	12,145	308	--	--	308
Restricted Stock Grant	200	--	--	--	--
Balance, December 31, 2014	**4,056,604**	**$812**	**$135,319**	**$5,938**	**$142,069**
Net income	--	--	16,764	--	16,764
Other comprehensive income, net of tax:					
Change in fair value of securities available for sale	--	--	--	(492)	(492)
Disqualifying Disposition Tax Benefit	--	3	--	--	3
Cash dividends paid ($0.90 per share)	--	--	(3,658)	--	(3,658)
Stock based compensation expense	--	106	--	--	106
Options exercised	20,225	551	--	--	551
Restricted Stock Grant	2,350	--	--	--	--
Balance, December 31, 2015	**4,079,179**	**$1,472**	**$148,425**	**$5,446**	**$155,343**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2014 and 2013 *(Dollars in Thousands)*

	2015	2014
Cash Flows from Operating Activities		
Net income	$16,764	$15,796
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,676	1,738
Provision for credit losses	1,200	1,850
Investment amortization – net	8,058	8,342
Deferred income tax	(279)	(822)
Increase in Federal income tax payable	225	278
Stock based compensation expense	106	72
Tax benefits from share-based payment arrangements	(3)	(12)
(Decrease) increase in deferred compensation	(223)	476
Originations of loans held for sale	60,038	40,347
Proceeds from sales of loans held for sale	(59,143)	(39,622)
Net gain on sale of securities, loans, property and equipment	(1,488)	(1,033)
Loss on sale and impairment of foreclosed real estate	616	(9)
Increase in surrender value of Bank Owned Life Insurance	(461)	(493)
Change in:		
Accrued interest receivable	80	164
Accrued interest payable	(123)	(171)
Other - net	838	52
Net cash provided by operating activities	**27,881**	**26,953**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Sales	37,528	46,196
Maturities, prepayments, and calls	76,348	86,428
Purchases	(59,368)	(145,681)
Activity in securities held to maturity:		
Maturities, prepayments, and calls	19	503
Proceeds from redemption of FHLB stock	1,158	116
Loans and leases originated in excess of principal collected	(95,064)	(45,331)
Investment in Low Income Housing Fund	(163)	(869)
Additions to premises and equipment	(3,186)	(1,232)
Proceeds from sale of office property and equipment	34	25
Proceeds from sale of other real estate owned	1,332	729
Net cash used in investing activities	**(41,362)**	**(59,116)**
Cash Flows from Financing Activities		
Net increase in deposits	44,510	$21,409
Net (decrease) increase in short-term borrowings	(565)	3,427
Repayments of long-term borrowings	(250)	(235)
Tax benefits from share-based payment arrangements	3	12
Cash dividends paid	(3,658)	(3,198)
Exercise of stock options	551	308
Net cash provided by financing activities	**40,591**	**21,723**
Net change in cash and due from banks	**27,110**	**(10,440)**
Cash and Due from Banks		
Beginning of year	54,205	64,645
End of year	**81,315**	**$54,205**

See notes to consolidated financial statements

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation

Cashmere Valley Bank (the Company) was established in 1932. The consolidated financial statements of the Company include the accounts of the Company and the Bank's wholly owned subsidiary, Mitchell, Reed and Schmitten, Inc. (MRS), an insurance agency. All significant intercompany transactions and balances have been eliminated.

Nature of Operations

The Company is a Washington State chartered bank established in 1932 and operates ten branches in North Central Washington. The Company's lending and other banking activities are carried out in and around Chelan, Douglas, Kittitas, and Yakima counties and to a lesser degree, other areas of Western Washington. The Company provides loan and deposit services to customers, who are predominately small and middle-market businesses and middle income individuals. MRS is based in Wenatchee, Washington and brokers personal and commercial lines of insurance, including property and casualty insurance, to a customer base similar to the Bank's.

Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and practices within the banking industry. GAAP defines a public company as one whose securities trade in a public market, including in over-the-counter markets. As the Company's stock trades in certain over-the-counter markets, certain disclosures are required to meet public company requirements. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the consolidated balance sheet, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate primarily to the determination of the allowance for credit losses and valuations of securities, goodwill, and servicing assets. Certain prior year amounts have been reclassified to conform to 2015 presentation, with no change to total shareholders' equity or net income reported.

Cash Equivalents and Cash Flows

The Company considers federal funds sold, cash and amounts due from banks, and interest-bearing deposits at other financial institutions to be Cash and Cash Equivalents, and are reported as such on the consolidated balance sheets and statement of cash flows. Cash flows from loans, deposits, and short-term borrowings are reported net. Additional cash flow information was as follows (dollars in thousands):

	2015	**2014**
Cash paid for interest	$5,527	$6,311
Cash paid for income taxes	4,127	5,076
Significant non-cash transactions:		
Foreclosed real estate acquired in settlement of loans	$--	$(1,798)
Fair value adjustment of securities available for sale, net of tax	492	3,162
Securities purchased, not settled	1,222	--

Stock Based Compensation

The Company has a stock based compensation plan which is described more fully in Note 13. Under the plan, certain key employees have been granted restricted stock and options to purchase common stock. The Company recognized stock-based compensation expense totaling $105,616 and $69,000 in 2015 and 2014 respectively.

Securities Available for Sale

Securities available for sale consist of debt securities that the Company intends to hold for an indefinite period, but not necessarily to maturity. Such securities may be sold to implement the Company's asset/liability management strategies and in response to changes in interest rates and similar factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled "accumulated other comprehensive income." Realized gains and losses on securities available for sale, determined using the specific identification method, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity.

The Company evaluates the portfolio for impairment each quarter. In estimating other-than-temporary losses, the Company considers the following factors: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospect of the issuer; (3) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; (4) whether it is more likely than not that the Company will be required to sell the securities before recovery; and (5) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. If a loss is deemed to be other-than-temporary, the Company then calculates a credit loss charge against earnings by subtracting the estimated present value of estimated future cash flows on the security from its amortized cost. The other-than-temporary impairment less the credit loss charge against earnings is a component of other comprehensive income.

Securities Held to Maturity

Debt securities which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income over the period to maturity.

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based on the sum of the two following calculations (calculated at least annually as of the preceding December 31):

- The Membership Stock Purchase Requirement: Based on a percentage of assets as shown in table below:

	Current Requirement	Minimum Investment	Maximum Investment
Percent of Total Assets	0.12%	0.10%	0.25%
Membership Stock Cap	$10 million	$10 million	$30 million
Membership Stock Floor	$10,000	$10,000	$30,000

- The Activity Based Stock Purchase Requirement: based on a percentage of the book value held and records of the transactions shown in the table below:

Transaction	Current Requirement	Minimum Requirement	Maximum Requirement
Outstanding Advances	4.00%	3.00%	5.00%
Outstanding Acquired Member Assets	4.00%	3.00%	5.00%
Standby Letters of Credit	0.00%	0.00%	0.175%
Advance Commitments	0.00%	0.00%	0.35%
Acquired Member Asset Commitments	0.00%	0.00%	0.60%

The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by the FHLB at the $100 per share par value.

The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Management has determined there is no impairment on its FHLB stock as of December 31, 2015.

Loans and Leases

Loans and leases receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off, are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method. Interest on loans is accrued daily based on the principal amount outstanding.

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, less unearned income. Interest income from direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment.

Generally, the accrual of interest on loans and leases is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or when they are past due 90 days as to either principal or interest, unless they are well secured and in the process of collection. Past due status is based on contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed against current income. If management determines that the ultimate collectability of principal is in doubt, cash receipts on nonaccrual loans are applied to reduce the principal balance on a cash-basis method until the loans qualify for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Trouble Debt Restructured Loans

Trouble debt restructured loans ("TDR") are loans on which, due to deterioration in the borrower's financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven. A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing financial difficulty and; 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. Modified terms are dependent upon the financial position and needs of the individual borrower, as the Company does not employ modification programs for temporary or trial periods. The most common types of modifications include interest rate adjustments, covenant modifications, forbearance and/or other concessions.

TDRs are classified as impaired loans and generally are TDRs for the remaining life of the loan. Impaired and TDR classification may be removed if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring.

Impaired Loans

In accordance with FASB ASC 310 *Receivables*, a loan or lease is considered impaired when it is probable that a creditor will be unable to collect all amounts (principal and interest) due according to the contractual terms of the loan agreement. Smaller balance homogenous loans, such as residential mortgage loans and consumer loans, are collectively evaluated for potential loss. When a loan or lease has been identified as being impaired, the amount of the impairment is measured by using discounted cash flows, except when, as a practical expedient, the current fair value of the collateral, reduced by costs to sell, is used. When the measurement of the impaired loan or lease is less than the recorded investment in the loan or lease (including accrued interest), impairment is recognized by creating or adjusting an allocation of the allowance for credit losses.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level sufficient to provide for probable credit losses based on evaluating known and inherent risks in the loan and lease portfolio. The allowance is provided based upon management's continuing analysis of the pertinent factors underlying the quality of the loan and lease portfolio. These factors include changes in the size and composition of the loan and lease portfolio, delinquency levels, actual loan loss experience, current economic conditions, and detailed analysis of individual loans for which full collectability may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general, and unallocated components. For such loans that are classified as impaired, a specific allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover the risk of loss due to general economic uncertainties that could affect the loan portfolio and management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriateness of the allowance for credit losses is estimated based upon these factors and trends identified by management at the time consolidated financial statements are prepared.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. The existence of some or all of the following criteria will generally confirm that a loss has been incurred: the loan is significantly delinquent and the borrower has not demonstrated the ability or intent to bring the loan current; the Company has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; the estimated fair value of the loan collateral is significantly below the current loan balance, and there is little or no near-term prospect for improvement.

A provision for credit losses is charged against income and added to the allowance for credit losses based on regular assessments of the loan and lease portfolio. The allowance for credit losses is allocated to certain loan and lease categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan and lease portfolio. While management has allocated the allowance for credit losses to various loan and lease portfolio segments, the allowance is general in nature and is available for the loan and lease portfolio in its entirety.

The ultimate recovery of all loans and leases is susceptible to future market factors beyond the Company's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets, which range from 35 to 40 years for buildings and 3 to 15 years for furniture, fixtures, and equipment. These assets are reviewed for impairment under FASB ASC 360 *Property, Plant, and Equipment* when events indicate that the carrying amount may not be recoverable. Gains or losses on dispositions are reflected in earnings.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at the fair value of the properties, less estimated costs of disposal, which becomes the new cost basis. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for credit losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by their current fair values. Any subsequent reductions in carrying values and revenue and expense from the operations of properties are recognized in the consolidated statement of income.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of loans. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, balance outstanding, loan type, age and remaining term, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Mortgage Banking Activities

Mortgage loans originated and intended for sale in the secondary market are reported as loans held for sale and are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income.

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 Company; (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Deferred tax assets and liabilities result from differences between the consolidated financial statement carrying amounts and the tax basis of assets and liabilities, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. The deferred tax provision represents the difference between the net deferred tax asset/liability at the beginning and end of the year. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The determination of the realization of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence. The calculation of the Company's tax provision for federal income taxes is complex and requires the use of estimates and significant judgments in arriving at the amount of tax benefits to be recognized in the financial statements for a given tax position. It is possible that the tax benefits realized upon the ultimate resolution of a tax position may result in tax benefits that are significantly different from those estimated. The Company had no unrecognized tax benefits which would require an adjustment to the January 1, 2015 beginning balance of retained earnings and had no unrecognized tax benefits at December 31, 2015 or 2014.

Bank-owned Life Insurance (BOLI)

Bank-owned life insurance policies are recorded at their cash surrender value or the amount that can be realized upon surrender of the policy. Income from BOLI is recognized when it is earned.

Goodwill

Goodwill represents costs in excess of net assets acquired and is evaluated at least annually for impairment, in accordance with FASB ASC 350 *Intangibles - Goodwill and Other*. The Company tested goodwill for impairment as of September 2015, noting no impairment of recorded goodwill. No events have occurred since September 2015 that would require re-evaluation.

Intangible Assets

Intangible assets include non-competition and licensing agreements, and customer contracts and lists. The non-competition and licensing agreements are being amortized by the straight-line method over four to five years, while the customer contracts and lists are being amortized by the straight-line method over three to four years. Amortization expense recognized on these intangibles was $6,000 and $16,632 in 2015 and 2014. Unamortized intangible assets totaled $9,500 and $15,500 at December 31, 2015 and 2014, respectively. In 2015 and 2014, no circumstances existed that would indicate these assets were potentially impaired. If such circumstances had existed, the assets would have been tested for impairment in accordance with FASB ASC 350, *Intangibles – Goodwill and Other*.

Estimated amortization for future years ending December 31 is as follows (dollars in thousands):

2016	$6
2017	4
	$10

Insurance Revenue

Insurance revenue consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance commission income is recognized as of the effective date of the insurance policy, net of adjustments, including policy cancellations. Such adjustments are recorded when the amount can be reasonably estimated, which is generally in the period in which they occur. Contingent performance-based commissions from insurance companies are recognized when received and no contingencies remain.

Derivative Financial Instruments

The Company enters into interest rate swaps to convert fixed-rate long-term loans to floating rate loans. Management individually evaluates and converts fixed-rate loans to floating-rate loans depending on the size, maturity, and planned amortization of each loan. The interest-rate swap instruments are recognized as derivatives on the balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of fair value of a recognized asset or liability ("fair value" hedge). Changes in the fair value of a derivative that is highly effective, and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the balance sheet and statement of cash flows. The Company 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. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when; (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item; (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.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet at its fair value with changes in its fair value recognized in current period earnings, and the hedged asset or liability will no longer be adjusted for changes in fair value.

For the years ended December 31, 2015 and 2014, the fair value of the hedged investments of $606,000 and $856,000 respectively, are recorded in securities available for sale and the related swap liability is recorded in other liabilities at $649,000 and 899,000, respectively. In 2011, the Company pledged a $2 million certificate of deposit due from the counterparty of the hedging instruments as collateral for the swap liability. The notional amounts of the interest rate swaps were $7,264,901 and $7,671,636 at December 31, 2015 and 2014, respectively. The Company recognized no loss in 2015 and a net loss of $20,000 in 2014, respectively (reported as other expense in the statement of income), which represented the ineffective portion of all fair value hedges. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted.

Fair Value

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower of cost or market basis, impaired loans, foreclosed real estate, mortgage servicing rights, goodwill and long-lived assets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value estimates are based on quoted market prices, if available. If quoted market prices are not available, fair value estimates are based on quoted market prices of similar assets or liabilities or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, and risk and other assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. Fair value amounts also do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

In support of these representations, FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

> Level 1 inputs are observable inputs, based upon the quoted prices for identical instruments in active markets that are accessible as of the measurement date, and are to be used whenever available.
>
> Level 2 inputs are other types of observable inputs, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; or other inputs that are observable or can be derived from or supported by observable market data. Level 2 inputs are to be used whenever Level 1 inputs are not available.
>
> Level 3 inputs are significantly unobservable and are supported by little or no market activity. These Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. Level 3 inputs are to only be used when Level 1 and Level 2 inputs are unavailable.

When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets or liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities.

Recent Accounting Pronouncements

Accounting Standards Update No. 2014-01 "Accounting for Investments in Qualified Affordable Housing Projects" ("ASU 2014-01"): ASU 2014-01 provides an election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense or benefit.

ASU 2014-01 is effective for fiscal years beginning after December 15, 2014, and did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Update No. 2014-14. "Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure" ("ASU 2014-14"): ASU 2014-14 clarifies accounting and reporting for foreclosed mortgage loans when the loan is subject to a government guarantee. The provisions require that a mortgage loan be derecognized and that a separate other receivable recognized upon foreclosure if 1) the loan has a government guarantee that is not separable from the loan before foreclosure; 2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make claim on the guarantee, and the creditor has the ability to recover under that claim; and 3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU 2014-14 is effective for annual period and interim periods within those annual periods, beginning after December 15, 2014. Adoption of ASU 2014-14 did not have a material impact on our consolidated financial statements.

Accounting Standards Update No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure" ("ASU 2014-04"). ASU 2014-04 clarifies that when an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either 1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or 2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through similar legal agreement. The provisions of ASU 2014-04 are effective for annual and interim reporting periods beginning on or after December 15, 2014. The adoption of ASU 2014-04 did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"): ASU 2014-09 establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016 with three transition methods available - full retrospective, retrospective and cumulative effect approach. Adoption of ASU 2014-09 is not expected to have a material effect on our consolidated financial statements.

Accounting Standards Update No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" ("ASU 2014-11"): ASU 2014-11 changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and similar transactions. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would be accounted for as secured borrowings. The ASU also requires new and expanded disclosures. This ASU is effective for the first interim or annual period beginning after December 15, 2014. The adoption of ASU No. 2014-11 did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Update No. 2015-03, "Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"): ASU 2015-03 simplifies the presentation of debt issuance costs and requires that the debt issuance costs related to a recognized debt liability be presented in the balance sheet as direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by the amendments in this update. ASU 2015-03 is effective for annual and interim reporting periods beginning after December 15, 2015. Adoption of ASU 2015-03 is not expected to have a material impact on our consolidated financial statements.

Accounting Standards Update No. 2016-01, "Financial Instruments- Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 simplifies the impairment assessment of equity investments, clarifies reporting disclosure requirements for financial instruments measured at amortized cost, and requires the exit price notion be disclosed when measuring fair value of financial instruments. ASU 2016-01 details the required separate presentation in other comprehensive income for the change in fair value of a liability related to change in instrument specific credit risk and details the required separate presentation of financial assets and liabilities by measurement category, and clarifies the need for a valuation allowance on deferred tax assets related to available-for-sale securities. ASU 2016-01 is effective for annual and interim reporting periods beginning after December 15, 2017. Adoption of ASU 2016-01 is not expected to have a material impact on our consolidated financial statements.

Accounting Standards Update No. 2016-02, "Leases" ("ASU 2016-02"): ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

Note 2 - Restricted Assets

Federal Reserve Board regulations require that the Company maintain certain minimum reserve balances on hand or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The required minimum reserve balances at December 31, 2015 and 2014 were $1,365,000 and $1,214,000, respectively. Due to sufficient balances maintained on premises, no balances were required to be on deposit with the Federal Reserve Bank for the years ended December 31, 2015 and 2014.

Note 3 - Securities

Securities have been classified according to management's intent. The amortized cost of securities and their approximate fair value are as follows (dollars in thousands):

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Money market funds	$21	$--	$--	$21
State and municipal securities	152,866	7,523	(133)	160,256
U.S. Government agencies	6,791	120	(1)	6,910
Collateralized mortgage obligations	190,154	2,011	(932)	191,233
Mortgaged-backed securities	55,743	856	(459)	56,140
Total	$405,575	$10,510	$(1,525)	$414,560
December 31, 2014				
Money market funds	$21	$--	$--	$21
State and municipal securities	132,827	7,649	(260)	140,216
U.S. Government agencies	8,564	113	(9)	8,668
Collateralized mortgage obligations	241,212	3,496	(1,066)	243,642
Mortgaged-backed securities	85,304	1,310	(1,241)	85,373
Total	$467,928	$12,568	$(2,576)	$477,920

Securities Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
State and municipal securities	$46	$--	$--	$46
Mortgaged-backed securities	1,023	--	(3)	1,020
Total	$1,069	$--	$(3)	$1,066
December 31, 2014				
State and municipal securities	$48	$--	$--	$48
Mortgaged-backed securities	1,041	4	--	1,045
Total	$1,089	$4	$--	$1,093

On a regular basis, the Company evaluates these securities for other-than-temporary impairment ("OTTI"). During 2015 and 2014 there was no OTTI recorded in earnings.

The following shows the unrealized gross losses and fair value of securities in the available for sale portfolio at December 31, 2015 and 2014, by length of time that individual securities in each category have been in a continuous loss position (dollars in thousands):

	Less Than 12 Months		**More Than 12 Months**		**Total**	
	Unrealized Gross Loss	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**	**Unrealized Gross Loss**	**Fair Value**
December 31, 2015						
U.S. Government agency securities , including mortgage backed securities	$(135)	$27,875	$(325)	$19,810	$(460)	$47,685
State and municipal securities	(96)	10,202	(37)	2,763	(133)	12,965
Collateralized mortgage obligations	(674)	72,611	(258)	18,305	(932)	90,916
Total	**$(905)**	**$110,688**	**$(620)**	**$40,878**	**$(1,525)**	**$151,566**
December 31, 2014						
U.S. Government agency securities , including mortgage backed securities	$(520)	$26,675	$(730)	$36,133	$(1,250)	$62,808
State and municipal securities	(35)	6,119	(225)	6,021	(260)	12,140
Collateralized mortgage obligations	(527)	68,279	(538)	43,727	(1,066)	112,006
Total	**$(1,082)**	**$101,073**	**$(1,493)**	**$85,881**	**$(2,576)**	**$186,954**

The contractual maturities of securities held to maturity and available for sale at December 31, 2015, are shown below (dollars in thousands):

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$--	$--	$1,354	$1,385
Due from one year to five years	--	--	68,056	70,701
Due from five years to ten years	--	--	144,417	147,831
Due after ten years	45	45	136,006	138,503
Mortgage backed securities	1,024	1,021	55,743	56,140
Total	**$1,069**	**$1,066**	**$405,576**	**$414,560**

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Securities carried at approximately $184.4 million and $177.1 million at December 31, 2015 and 2014, respectively, were pledged to secure public deposits, repurchase agreements, demand notes issued to U.S. Treasury, and other purposes required or permitted by law.

Sales of securities available for sale were as follows (dollars in thousands):

	2015	2014
Proceeds from sales	$37,528	$46,196
Gross realized gains included in earnings	401	1,394
Gross realized losses included in earnings	(189)	(590)

No held to maturity securities were sold in 2015 or 2014.

Note 4 - Loans and Leases

Loans and leases at December 31 consist of the following (dollars in thousands):

	2015	2014
Commercial and agricultural	$67,079	$56,191
Real estate:		
Residential 1-4 family	138,907	135,127
Commercial	289,494	273,817
Construction	76,339	73,694
Farmland	10,828	6,948
Municipal	98,124	65,086
Consumer	16,414	17,573
Dealer contracts	141,951	117,101
Leases	1,009	651
Credit card	6,072	6,234
Plus deferred loan costs, less deferred loan fees	1,330	1,388
Total loans and leases	$847,547	$753,810

In the ordinary course of business, the Company has transactions with directors, principal officers, their immediate families, and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with outside parties. Total loans outstanding at December 31, 2015 and 2014 to key officers and directors were $23,867,000 and $22,402,000, respectively. During 2015 and 2014 loan advances totaled $5,373,000 and $7,887,000, respectively and principal payments totaled $3,908,000 and $3,097,000, respectively.

The following tables detail activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2015 and 2014 (dollars in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

		Real Estate					
	Commercial		Commercial,		Consumer		
	and	Residential	Construction,		and		
2015	**Agricultural**	**1-4 Family**	**and Farmland**	**Municipal**	**Other**	**Unallocated**	**Total**
Beginning Balance	$1,185	$1,392	$6,407	$63	$2,013	$1,031	$12,091
Provision for loan losses	(2)	(359)	1,421	38	568	(466)	1,200
Charge-offs	(280)	(73)	(569)	--	(405)	--	(1,327)
Recoveries	124	234	26	--	241	--	625
Net Charge-offs	(156)	161	(543)	--	(164)	--	(702)
Ending balance	$1,027	$1,194	$7,285	$101	$2,417	$565	$12,589
Period-end amount allocated to:							
Loans individually evaluated for impairment	$4	$182	$142	$--	$7	$--	$335
Loans collectively evaluated for impairment	1,023	1,012	7,143	101	2,410	565	12,254
Ending balance	$1,027	$1,194	$7,285	$101	$2,417	$565	$12,589

		Real Estate					
	Commercial		Commercial,				
	and	Residential	Construction,		Consumer		
2014	**Agricultural**	**1-4 Family**	**and Farmland**	**Municipal**	**and Other**	**Unallocated**	**Total**
Beginning balance	$1,179	$1,267	$5,896	$74	$1,932	$885	$11,233
Provision for loan losses	203	201	938	(11)	373	146	1,850
Charge-offs	(378)	(83)	(557)	--	(463)	--	(1,481)
Recoveries	181	7	130	--	171	--	489
Net Charge-offs	(197)	(76)	(427)	--	(292)	--	(992)
Ending balance	$1,185	$1,392	$6,407	$63	$2,013	$1,031	$12,091
Period-end amount allocated to:							
Loans individually evaluated for impairment	$33	$158	$1,044	$--	$2	$--	$1,237
Loans collectively evaluated for impairment	1,152	1,234	5,363	63	2,011	1,031	10,854
Ending balance	$1,185	$1,392	$6,407	$63	$2,013	$1,031	$12,091

The Company had a previously recorded $315,000 reserve for possible losses on unfunded commitments as of December 31, 2014. An over accrual of $20,000 reserve was reversed in 2015, for a total reserve for possible losses on unfunded commitments of $295,000 as of December 31, 2015. The Company's recorded investment in loans as of December 31, 2015 and 2014 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows (dollars in thousands):

	Commercial and Agricultural	Real Estate Residential 1-4 Family	Real Estate Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total
2015						
Loans individually evaluated for impairment	$1,428	$3,063	$4,125	$--	$210	$8,826
Loans collectively evaluated for impairment	65,651	135,844	372,536	98,124	166,566	838,721
Ending balance	$67,079	$138,907	$376,661	$98,124	$166,776	$847,547
2014						
Loans individually evaluated for impairment	$114	$1,365	$6,227	$--	$226	$7,932
Loans collectively evaluated for impairment	56,077	133,762	348,232	65,086	142,721	745,878
Ending balance	$56,191	$135,127	$354,459	$65,086	$142,947	$753,810

Non-Accrual Loans:

	2015	2014
Commercial and Agricultural	$59	$225
Residential 1-4 family real estate	297	86
Commercial, construction, and farmland real estate	176	172
Municipal	--	--
Consumer and other	112	152
Total	$644	$635

A summary of loans by age, segregated by class of loans, as of December 31, 2015 and 2014 was as follows (dollars in thousands):

2015	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Commercial and Agricultural	$299	$34	$333	$66,746	$67,079	$--
Residential 1-4 family real estate	934	297	1,231	137,676	138,907	--
Commercial, construction, and farmland real estate	409	42	451	376,210	376,661	--
Municipal	--	--	--	98,124	98,124	--
Consumer and other	622	6	628	166,148	166,776	--
Total	$2,264	$379	$2,643	$844,904	$847,547	$--
2014						
Commercial and Agricultural	$245	$167	$412	$55,779	$56,191	$--
Residential 1-4 family real estate	542	23	565	134,562	135,127	--
Commercial, construction, and farmland real estate	528	--	528	353,931	354,459	--
Municipal	--	--	--	65,086	65,086	--
Consumer and other	1,073	73	1,146	141,801	142,947	6
Total	$2,388	$263	$2,651	$751,159	$753,810	$6

The following table provides information with respect to impaired loans as of the years ended December 31, 2015 and 2014 (dollars in thousands):

2015	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and agricultural	$1,428	$1,363	$65	$1,428	$4	$1,238
Residential 1-4 family real estate	3,070	2,420	643	3,063	182	2,740
Commercial, construction, and farmland real estate	4,146	1,268	2,857	4,125	142	5,138
Municipal	--	--	--	--	--	--
Consumer and other	210	4	206	210	7	217
Total	$8,854	$5,055	$3,771	$8,826	$335	$9,333
2014						
Commercial and agricultural	$114	$--	$114	$114	$33	$153
Residential 1-4 family real estate	1,365	467	898	1,365	158	1,492
Commercial, construction, and farmland real estate	6,243	1,603	4,624	6,227	1,044	5,662
Municipal	--	--	--	--	--	--
Consumer and other	226	6	220	226	2	231
Total	$7,948	$2,076	$5,856	$7,932	$1,237	$7,538

At December 31, 2015, there were no commitments to lend additional funds to borrowers whose loans have been impaired. Loans over 90 days past due still accruing interest totaled $0 and $6,000 at December 31, 2015 and 2014, respectively.

Interest income recognized on a cash basis on impaired loans was $514,000 and $544,000 in 2015 and 2014, respectively.

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

Pass – asset is considered of sufficient quality to preclude a Special Mention or an adverse rating. Pass assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral.

Special Mention – asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company’s credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – asset is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have well-defined weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – asset has the weaknesses of those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Credit quality indicators for the Company’s loan portfolio as of December 31, 2015 and 2014 grouped according to internally assigned risk ratings and payment activity (dollars in thousands):

		Real Estate				
	Commercial and Agricultural	Residential 1-4 Family	Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total
2015						
Pass	$64,358	$130,937	$352,066	$98,124	$163,950	$809,435
Watch	689	739	2,518	--	1,434	5,380
Substandard	2,032	7,231	22,077	--	1,392	32,732
Doubtful	--	--	--	--	--	--
Total	$67,079	$138,907	$376,661	$98,124	$166,776	$847,547
Restructured	$1,488	$2,715	$4,023	$--	$261	$8,487
Non-accrual	59	297	176	--	112	644
Nonperforming	1,547	3,012	4,199	--	373	9,131
Performing	65,532	135,895	372,462	98,124	166,403	838,416
Total	$67,079	$138,907	$376,661	$98,124	$166,776	$847,547

		Real Estate				
	Commercial and Agricultural	Residential 1-4 Family	Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total
2014						
Pass	$54,331	$128,422	$335,887	$65,086	$140,798	$724,524
Watch	960	1,773	3,760	--	1,919	8,412
Substandard	900	4,932	14,812	--	194	20,838
Doubtful	--	--	--	--	36	36
Total	$56,191	$135,127	$354,459	$65,086	$142,947	$753,810
Restructured	$105	$1,279	$3,611	$--	$226	$5,221
Non-accrual	225	86	172	--	152	635
Nonperforming	330	1,365	3,783	--	378	5,856
Performing	55,861	133,762	350,676	65,086	142,569	747,954
Total	$56,191	$135,127	$354,459	$65,086	$142,947	$753,810

The following table presents by class troubled debt restructurings (TDRs) recorded during the years ended December 31, 2015 and 2014 (dollars in thousands, except number of contracts):

2015	Number of Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial and Agricultural	4	$1,440	$1,440
Residential 1-4 family real estate	6	1,984	1,990
Commercial, construction, and farmland real estate	6	2,402	2,407
Municipal	--	--	--
Consumer and other	--	--	--
Total*	16	$5,826	$5,837

*Amounts exclude specific loan loss reserves

2014	Number of Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial and Agricultural	--	$--	$--
Residential 1-4 family real estate	4	244	277
Commercial, construction, and farmland real estate	--	--	--
Municipal	--	--	--
Consumer and other	--	--	--
Total*	4	$244	$277

*Amounts exclude specific loan loss reserves

The majority of TDRs are determined to be impaired prior to being restructured. As such, they are individually evaluated for impairment, unless they are considered homogeneous loans in which case they are collectively evaluated for impairment. As of December 31, 2015, Cashmere Valley Bank had $153,000 in specific reserves on TDRs which were restructured during the year ended December 31, 2015. No loans were removed from TDR status during the year ended December 31, 2015. The primary type of concession granted in all TDRs during the year ended December 31, 2015 was maturity extensions. There were no TDRs that were restructured and subsequently defaulted during the years ended December 31, 2015 and 2014.

Note 5 - Premises and Equipment

Components of premises and equipment at December 31 are as follows (dollars in thousands):

	2015	2014
Land	$3,725	$3,300
Buildings and improvements	14,835	13,430
Furniture	4,476	4,136
Equipment	2,340	2,114
Assets in process	146	427
Total cost	25,522	23,407
Less accumulated depreciation	(12,129)	(11,973)
Total premises and equipment	$13,393	$11,434

Assets in process at December 31, 2015, consisted primarily of amounts related to new technology equipment.

Depreciation expense was $1,084,000 and $1,214,000 in 2015 and 2014, respectively.

Note 6 – Mortgage Servicing Rights

Mortgage servicing rights (MSR) are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSR by risk stratification. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent reversals.

Mortgage loans serviced for others are not included on the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $392,737,000 and $391,788,000 at December 31, 2015 and 2014, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $1,962,000 and $1,861,000 at December 31, 2015 and 2014, respectively. The weighted average amortization period of the Company’s servicing rights was 6.4 years and 6.2 years in 2015 and 2014.

The following summarizes the activity in mortgage servicing rights for the years ended December 31 (dollars in thousands):

	2015	2014
Balance, beginning of year	$1,816	$1,986
Originations	306	134
Amortization	(354)	(304)
Adjustment to valuation	--	--
Balance, end of year	$1,768	$1,816

The estimated fair value of the Company's mortgage servicing rights portfolio was $3,709,000 and $3,597,000 at December 31, 2015 and 2014, respectively. Fair value of mortgage servicing rights is based on market prices for comparable mortgage servicing contracts when available. In periods of market inactivity, as has been the case since 2009, fair value is determined using a discounted cash flow analysis, utilizing observable market data with unobservable adjustments. The analysis takes into consideration existing conditions in the secondary servicing markets, such as prices from recently executed servicing transactions and market discount rates. The adjustments made to observable data include adjustments for delinquency and loss rates, as well as prepayment speeds and assumptions.

Note 7 - Deposits

The composition of deposits is as follows (dollars in thousands):

	Deposits		Interest Expense	
	2015	2014	2015	2014
Demand deposits, non-interest-bearing	$181,853	$158,802	$--	$--
NOW accounts	222,796	205,766	200	201
Money market and savings accounts	559,678	523,455	1,226	1,547
Time certificates $250,000 and over	35,629	36,531	423	563
Other time certificates	203,860	234,752	2,541	3,620
Total	$1,203,816	$1,159,306	$4,390	$5,931

Certificates of deposit at December 31, 2015, are scheduled to mature as follows (dollars in thousands):

	Under $250,000	Over $250,000
0 to 90 days	$26,601	$2,768
91 to 365 days	64,457	5,534
1 year to 3 years	90,369	22,002
Over 3 years	22,433	5,325
Total	$203,860	$35,629

Total deposits at December 31, 2015 and 2014 by key officers and directors were $5,761,176 and $1,994,395, respectively.

Cashier check deposits of $4,000,000 and $4,200,000 are included in total demand deposits for 2015 and 2014, respectively.

Total demand deposit overdrafts that have been reclassified to loans were $146,000 and $126,000 at December 31, 2015 and 2014, respectively.

The Company is a State of Washington Public Depository. All such public depositaries are required to be members of Washington State's Public Deposit Protection Commission (PDPC). As such, when there is a loss of public funds at a member institution, those funds are in most instances insured to some extent by the federal government. To the degree a public deposit is not insured by the federal government, the PDPC will assess a claim first against the institution responsible for the loss and then against the pool of collateral held by other PDPC member institutions. Each institution is then responsible to pay its portion of the cost in proportion to the share of public funds held by that institution. The Company held $29,508,000 and $31,619,000 of public deposits as of December 31, 2015 and 2014, respectively.

Note 8 - Short-Term Borrowings

Securities sold under agreements to repurchase and line of credit advances from the Federal Home Loan Bank Des Moines (FHLB) represent short-term borrowings. Securities sold under agreements to repurchase are secured by specific securities which, in all cases, the Bank maintains control. The securities underlying agreements to repurchase entered into by the Bank are for the same securities originally sold, with a one-day maturity.

The following is a summary of such short-term borrowings for the years ended December 31 (dollars in thousands):

	2015	2014
Average balance during the year	$11,915	$11,219
Average interest rate during the year	0.27%	0.21%
Maximum month-end balance during the year	$15,614	$12,766
Balance at December 31:		
Securities under agreements to repurchase	$12,201	$12,766
Weighted-average interest rate at year-end	0.25%	0.30%
Carrying Value of Underlying Securities	$29,220	$25,633
Market Value of Underlying Securities	$29,220	$25,633

Note 9 - Long-Term Borrowings

Long-term borrowings at December 31, 2015 and 2014 represent amounts due to the FHLB totaling $2,671,000 and $2,921,000, respectively, and bear interest rates ranging from 5.42% to 6.23%. All funds borrowed from the FHLB are secured by a blanket pledge of 15% of the Company's assets. The schedule of maturities for the long-term FHLB borrowings for future years ending December 31 is as follows (dollars in thousands):

2016	$267
2017	285
2018	304
2019	324
2020	346
Thereafter	1,145
	$2,671

Note 10 - Income Taxes

Income taxes are comprised of the following for the years ended December 31 (dollars in thousands):

	2015	2014
Current	$4,427	$5,140
Deferred (income) expense	(279)	(822)
State income taxes	27	74
Total income taxes	$4,175	$4,392

The following is a reconciliation of the statutory income tax rate to the effective income tax rate for the years ended December 31 (dollars in thousands):

	2015		2014	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	$7,328	35.0%	$7,066	35.0%
Increase resulting from:				
State income tax	27	0.1%	74	0.4%
Decrease resulting from:				
Tax-exempt income	(2,300)	(11.0%)	(2,176)	(10.8%)
Other	(880)	(4.2%)	(572)	(2.8%)
Total income tax expense	$4,175	20.0%	$4,392	21.8%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31 are as follows (dollars in thousands):

	2015	2014
Deferred Tax Assets		
Allowance for credit losses	$4,406	$4,232
Deferred compensation	647	695
Other	833	691
Total deferred tax assets	5,886	5,618
Deferred Tax Liabilities		
Accumulated depreciation	$1,954	$1,901
Deferred income	769	801
Unrealized gain on securities available for sale	2,933	3,198
Mortgage servicing rights	616	633
FHLB dividends	388	403
Total deferred tax liabilities	6,660	6,936
Net deferred tax liabilities	$(774)	$(1,318)

Note 11 - Commitments and Contingencies

Credit

The Company is 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 standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated balance sheets.

The Company'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 amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the Company's commitments at December 31 is as follows (dollars in thousands):

	2015	**2014**
Commitments to extend credit:		
Credit card lines	$40,280	$38,251
Commercial real estate, construction and development	17,226	19,781
Other	90,849	87,651
Total commitments to extend credit	$148,355	$145,683
Standby letters of credit	$215	$421

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that between approximately 10-25% of loan commitments are drawn upon by customers. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Associated with the unfunded commitment, the Company has established a loss reserve in the amount of $295,000 and $315,000 as of December 31, 2015 and 2014, respectively.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. When the Company deems collateral necessary to secure the commitment, the collateral is required and varies as specified above.

Legal

Because of the nature of its activities, the Company is subject to various pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

Borrowing Facilities

The Company has agreements with commercial banks for lines of credit totaling $44,000,000, none of which was used at December 31, 2015, and a credit line with the Federal Home Loan Bank of Seattle totaling 35% of assets which approximates $483,582,000 of which $2,671,000 was utilized at December 31, 2015. The Company entered into a Blanket Pledge Agreement with the Federal Home Loan Bank to secure this credit line (see Note 8).

Investments

The Company entered into a subscription agreement to purchase four units at $500,000 per unit for an interest in Homestead Equity Fund A-Washington Limited Partnership; an Oregon limited partnership (HEFA-WA) for which funding has been completed. HEFA-WA has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments which are located in Washington State. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323 *Investments – Equity Method and Joint Ventures*, and a pass-through loss of $120,000 and $170,000 was recorded during 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company's partnership equity was $180,000 and $275,000, respectively, and is included in other assets.

The Company entered into a subscription agreement to purchase one unit at $1,000,000 for an interest in Homestead Western Communities Fund (HWCF). HWCF has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments which are located in the state of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,"* and a pass-through loss of $76,000 and $52,000 was recorded during 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company's partnership equity was $183,000 and $250,000 respectively.

The Company entered into a subscription agreement to purchase five units at $1,000,000 per unit for an interest in Homestead Equity Fund X (HEF-X). HEF-X has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments primarily located in the state of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures"* and a pass-through loss of $274,000 and $354,000 was recorded during 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company's partnership equity was $4,259,000 and $4,224,000 respectively.

The Company's remaining contractual contribution for Homestead Equity Fund X (HEF-X) of $192,000 is expected to be paid as follows (dollars in thousands):

2016	$20
2017	20
2018	20
2019	21
Thereafter	111
	$192

Employment Agreements

The Company has entered into employment contracts with certain key employees, which provide for contingent payments subject to future events. These agreements are discussed in Note 13

Note 12 - Significant Concentrations of Credit Risk

Most of the Company's business activity is with customers located in the state of Washington. Investments in state and municipal securities involve government entities primarily within the state. At December 31, 2015, 9.39% of total loans outstanding were for construction related projects. Of those, 2.35% of total loans outstanding were residential developed lot loans to consumers.

Loans are generally limited, by state banking regulations, to 20% of the Company's capital to any one borrower, excluding accumulated other comprehensive income. Standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of practice, generally does not extend credit to any single borrower or group of related borrowers in excess of $15,500,000. At December 31, 2015, no single borrower or group of related borrowers exceeded $15,500,000.

Note 13 - Employee Compensation Plans

Stock Option Plan

The Company has a stock option plan under which certain key employees have been granted options to purchase shares of common stock. Under the plan, the Company may grant options of its common stock to certain key employees, of which 324,531 were available for grant at December 31, 2015. Options have an exercise price equal to the fair market value of the stock as of the date of grant. All options granted since 1994 are 40% vested on the date of grant, with 20% vesting on each of the three subsequent anniversaries of the grant date and have a maximum contractual term of ten years. The Black-Scholes model requires the use of assumptions noted in the following table. The dividend yield is based on the Company's actual and expected dividends paid to shareholders. The Company uses historical data to estimate the option exercise and forfeitures to estimate the expected life, which represents the period of time the options are expected to be outstanding. Expected stock price volatility is based on the Company's historical stock price, adjusted for dividends. The risk-free interest rate is based on the U.S. Treasury yield curve rate in effect at grant date with average equivalent term.

The fair value of each option grant is estimated on the date of grant based on the Black-Scholes option pricing model and using the following weighted average assumptions:

	2015	2014
Dividend yield	--	2.24%
Expected life	--	7 years
Risk-free interest rate	--	2.21%
Expected volatility	--	30.57%

There were no stock options granted in 2015. The weighted average fair value of options granted at grant date 2014 was $9.37.

The Black-Scholes models used by the Company to calculate option values, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ from the Company's stock option awards. These models require highly subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

A summary of the status of the Company's stock option plan as of December 31 2015, and changes during the years ending on those dates, is presented below:

2015	Shares	Weighted Average Exercise Price	Weighted Average Fair Value At Grant	Intrinsic Value (Dollars in Thousands)
Outstanding at beginning of year	98,291	$28.87	$5.52	$627
Granted	--	--	--	--
Exercised	(20,225)	27.26	4.46	226
Forfeited	(13,250)	34.88	9.00	46
Expired	(3,726)	21.88	3.78	62
Outstanding at end of year	61,090	$28.60	$5.26	$592
Vested and expected to vest	60,308	$28.60	$5.25	$592
Options exercisable at year-end	60,490	$28.54	$1.16	$598

The following information summarizes information about stock options outstanding and exercisable at December 31, 2015:

Options	Outstanding		Options	Exercisable		
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
$ 15.00 – 17.49	1,800	5.05	$16.00	1,800	5.05	$16.00
$ 17.50 – 26.49	14,000	5.85	$22.34	14,000	5.85	$22.34
$ 26.50 – 31.49	17,890	2.15	$27.50	17,890	2.15	$27.50
$ 31.50 – 35.00	27,400	3.88	$33.34	26,800	3.78	$33.32
	61,090	3.86	$28.60	60,490	3.81	$28.54

The total intrinsic value of the options exercised during 2015 and 2014 was $225,626 and $102,081, respectively. Weighted average remaining contractual life of options vested and expected to vest is 4.22 years. Total proceeds from options exercised in 2015 and 2014 were $551,418 and $308,420 respectively. As a result of disqualifying dispositions of options exercised, the Company recorded a tax benefit of $2,545 and $11,728 in 2015 and 2014, respectively.

At December 31, 2015, unrecognized compensation expense related to unvested options totaled $5,621 and is expected to be recognized over a weighted average period of eighteen months. During 2015, 3,100 options vested which had a weighted average fair value at grant date of $4.39 and during 2014 11,163 options vested with a fair value grant of $6.16.

Restricted Stock Plan

The Company granted 2,350 and 200 shares of restricted stock in 2015 and 2014 respectively. The restricted stock has a weighted-average grant date fair value of $36.50 and $34.25 per share for 2015 and 2014, respectively. All the restricted stock vests between 2014 and 2018. Restricted stock is generally scheduled to vest over a 3 year period, with the unearned compensation related to restricted stock amortized to expense on a straight-line basis. Unrecognized compensation cost related to non-vested restricted stock totaled $45,979 and $5,613, respectively. Total expense recognized by the Company for restricted stock for the year ended December 31, 2015 and 2014 was $52,121 and $1,238, respectively.

Profit-Sharing Plans

The Company has a 401(k) employee benefit plan for those employees who meet eligibility requirements set forth in the plan. Eligible employees may contribute up to 100% of their compensation, subject to certain IRS limits. The Company provides a discretionary match of 100% of the first 4% contributed by participants. Additionally, matching contributions may be made by the Company pursuant to a prescribed formula based on the Company's achievement of certain performance goals. The Company contributed $392,000 and $368,000 in 2015 and 2014, respectively.

Incentive compensation is awarded to certain employees based on the financial performance of the Company. Cash bonuses were awarded pursuant to a formula targeted on the Company achieving certain performance goals for the years ended in 2014 and 2013, with the amounts awarded in 2015 and 2014. Amounts awarded under the plan for 2015 and 2014 were $392,586 and $493,482, respectively.

Deferred Compensation Plan

The Company entered into deferred compensation arrangements with key employees. The agreements provide for employee and Company matching contributions equal to the amount that would have been contributed under the Company's 401(k) plan, had the employees not been otherwise excluded from the plan. At December 31, 2015 and 2014, the Company had a recorded liability in the amount of $1,848,000 and $1,562,000, respectively. The Company contributed $96,000 and $81,000 in 2015 and 2014, respectively, of which $96,000 and $81,000, respectively, represented plan earnings in accordance with the deferred compensation agreements.

The Company entered into employment contracts with certain key employees, which provide for deferred compensation subject to future events. At December 31, 2015 no accruals were recognized for these agreements, and at December 31, 2014 $424,000 had been accrued for these agreements. Compensation expense of $20,000 and $50,000 was recorded in salaries and employee benefits expense related to these contracts in 2015 and 2014, respectively.

Insurance

The Company provides certain health care, disability, and life insurance benefits for current employees. The cost of health care benefits for employees is recognized as expense when paid. Life insurance benefits for employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of providing such benefits by expensing the monthly insurance premiums. For 2015 and 2014, the cost of providing health care, disability, and life insurance benefits was $1,375,000 and $1,223,000, respectively.

Note 14 - Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the 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 Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Company's capital classification is 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 Company maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

In July 2013, the Board of Governors of the Federal Reserve System and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III"). Under the final rules, which became effective for the Bank on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements increased for both the quantity and the quality of capital held by the Bank. The rules include a new Common Equity Tier 1 capital to risk-weighted assets ratio ("CET1" ratio) of 4.5% and a capital conservation buffer of 2.5% above the regulatory minimum risk-based capital requirements, which when fully phased-in, effectively results in a minimum CET1 ratio of 7.0%. Basel III also (i) raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital to risk-weighted assets ratio of 8.5% when fully phased-in), (ii) effectively results in a minimum total capital to risk-weighted assets ratio of 10.5% (with the capital conservation buffer fully phased-in), and (iii) requires a minimum leverage ratio of 4.0%. Basel III also makes changes to risk weights for certain assets and off-balance-sheet exposures.

As of December 31, 2015, the most recent notification from the Company's regulator categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's actual capital amounts and ratios are also presented in the following table (dollars in thousands). Management believes as of December 31, 2015, that the Company meets all capital requirements to which it is subject.

	Actual		Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2015						
Tier 1 capital (to average assets)						
Company	$143,073	10.69%	$53,547	4.00%	$66,934	5.00%
Tier 1 Common Equity						
Company	143,073	16.02	40,180	4.50	58,038	6.50
Tier 1 capital (to risk-weighted assets)						
Company	143,073	16.02	53,574	6.00	71,432	8.00
Total capital (to risk-weighted assets)						
Company	154,255	17.28	71,432	8.00	89,290	10.00
December 31, 2014						
Tier 1 capital (to average assets)						
Company	$129,295	9.95%	$51,980	4.00%	$64,975	5.00%
Tier 1 capital (to risk-weighted assets)						
Company	129,295	16.07	32,182	4.00	48,273	6.00
Total capital (to risk-weighted assets)						
Company	139,380	17.32	64,364	8.00	80,455	10.00

Restrictions on Retained Earnings

The Company is restricted from paying dividends in an amount that would decrease regulatory capital below the minimum amounts shown above.

Note 15 - Fair Value

The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities on and off the balanced sheet, for which it is practicable to estimate fair value. These fair value estimates are made at December 31, 2015 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price an asset could be sold at or the price a liability could be settled for. However, given there is no active market or observable market transactions for many of the Company's financial instruments, the Company has made estimates of many of these fair values which are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values.

Fair Value of Financial Instruments

The carrying amounts and estimated fair value of the Company's financial instruments as of December 31, 2015 and December 31, 2014 are as follows (dollars in thousands):

		2015		2014	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and cash equivalents	1	$81,315	$81,315	$54,205	$54,205
Securities available for sale	2	414,560	414,560	477,920	477,920
Securities held to maturity	2	1,069	1,066	1,089	1,092
FHLB and PCBB stock	2	1,937	1,937	3,095	3,094
Loans Held for Sale	2	540	539	103	109
Loans and leases, net	3	834,958	841,980	741,719	751,666
Mortgage servicing rights	3	1,768	3,709	1,816	3,597
Accrued interest receivable	2	4,394	4,394	4,474	4,474
Bank Owned Life Insurance	2	13,627	13,627	13,166	13,166
Financial Liabilities					
Deposits	3	$1,203,816	$1,048,073	$1,159,306	$1,018,180
Borrowings	3	14,872	15,317	15,687	16,230
Interest Rate Swaps	3	649	649	899	899
Accrued interest payable	2	407	407	530	530

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may either be favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits, and by investing in securities with terms that mitigate the Company's overall interest rate risk.

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

Cash and Due from Banks, Fed Funds Sold and Interest Bearing Deposits at Other Financial Institutions

Cash and Due from Banks, Fed Funds Sold, and Interest Bearing Deposits at Other Financial Institutions are valued at their carrying amounts, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

Securities Available for Sale and Held to Maturity

Securities totaling $415,629,000 are reported at fair value utilizing Level 2 inputs. The fair values are based on quoted market prices of similar instruments and dealer quotes or determined utilizing a present-value income model that utilized observable market-based inputs, as described in Footnote 1. The fair values were obtained from an independent pricing service and internally validated. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus, prepayment speeds, credit information, and the bond's terms and conditions, among other things.

Federal Home Loan Bank and Pacific Coast Banker's Bancshares Stock

The carrying value of Federal Home Loan Bank and Pacific Coast Banker's Bancshares stock approximates fair value because the shares can only be redeemed by the FHLB and PCBB, respectively, at par value.

Loans Held for Sale

The fair value of loans held for sale is based on observable current market prices. If quoted market prices are not available, fair value is based on quoted market prices of similar instruments.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is estimated using a discounted cash flow model to arrive at the net present value of expected earnings from the servicing of the loans. Model inputs include prepayment speeds, market interest rates, contractual interest rates on the loans being serviced, the amount of other fee income generated, and other factors. The fair value of mortgage servicing rights is impacted by any changes in these inputs.

Bank Owned Life Insurance

The carrying amount approximates the estimated fair value of these instruments. Fair values of insurance policies owned are based on the insurance contracts' cash surrender values.

Loans and Leases

Fair values of variable rate loans and leases that reprice frequently and have no significant change in credit risk are based on the carrying values. Fair value of fixed rate loans and leases is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair value of impaired loans and leases is estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities

The fair value of deposits with no stated maturity date is included at the amount payable on demand. The fair value of fixed rate certificates of deposit is estimated using a discounted cash flow calculated based on interest rates currently being offered on similar certificates.

Short-Term Borrowings

The carrying amounts of demand notes issued to U.S. Treasury and repurchase agreements approximate their fair value due to the relatively short period to maturity of the instruments.

Long-Term Borrowings

The fair value of the Company's long-term borrowings is estimated using discounted cash flow analyses based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate their fair value due to the short settlement period of the assets and liabilities.

Interest Rate Swap Derivatives

The fair values of interest rate swap derivatives are estimated by an independent third party using a discounted cash flow method based on current incremental rates for similar types of arrangements. For purposes of potential valuation adjustments to its derivative positions, the company evaluates the credit risk of its counterparties as well as that of the company. Accordingly, the company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures, and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by considering the amounts of collateral securing the position. The Company reviews its counterparty exposure on a regular basis, and when necessary, appropriate business actions would be taken to adjust the exposures. The Company also uses this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any significant losses due to a counterparty's inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

Off-Balance Sheet Instruments

The fair value of commitments to extend credit and standby letters of credit was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the customers. Since the majority of the Company's off-balance sheet instruments consist of non-fee producing, variable-rate commitments, the Company has determined they do not have a distinguishable fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about the Company's assets measured at fair value on a recurring basis as of December 31, 2015 and 2014, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (dollars in thousands):

		Fair Measurements Using		
December 31, 2015	**Assets/(Liabilities) Total**	**Level 1**	**Level 2**	**Level 3**
State and municipal securities	$160,256	$--	$160,256	$--
U.S Government agencies	6,910	--	6,910	--
Collateralized mortgage obligations	191,233	--	191,233	--
Mortgage-backed securities	56,140	--	56,140	--
Money market mutual funds	21	--	21	--
Securities Available for Sale	$414,560	$--	$414,560	$--
Interest Rate Swap Derivatives	(649)	--	(649)	--
December 31, 2014				
State and municipal securities	$140,216	$--	$140,216	$--
U.S Government agencies	8,668	--	8,668	--
Collateralized mortgage obligations	243,642	--	243,642	--
Mortgage-backed securities	85,373	--	85,373	--
Money market mutual funds	21	--	21	--
Securities Available for Sale	$477,920	$--	$477,920	$--
Interest Rate Swap Derivatives	(899)	--	(899)	--

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Impaired Loans: In accordance with GAAP, loans are measured for impairment using one of three methods: an observable market price (if available), the present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the loan's collateral (if collateral dependent). Estimated fair value of the loan's collateral is determined by appraisals or independent valuations which are then adjusted for the estimated costs related to liquidation of the collateral. Management's ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. A significant portion of the Bank's impaired loans are measured using the estimated fair market value of the collateral less the estimated costs to sell. The Company has categorized all its loans impaired during the calendar year utilizing fair value metrics as level 3. Loans that were impaired during the calendar year based on the present value of expected future cash flows discounted at the loans' effective interest rates are not included in the table below as the loans' effective interest rates are not based on current market values.

OREO: The Company's OREO is measured at estimated fair value less estimated costs to sell. Fair value is generally determined based on third-party appraisals of fair value in an orderly sale. Historically, appraisals have considered comparable sales of like assets in reaching a conclusion as to fair value. Since many recent real estate sales could be termed "distressed sales", and since preponderance have been short-sale or foreclosure related, this has directly impacted appraisal valuation estimates. Estimated costs to sell OREO are based on standard market factors. The valuation of OREO is subject to significant external and internal judgment. Management periodically reviews OREO to determine whether the property continues to be carried at the lower of its recorded book value or estimated fair value, net of estimated costs to sell. The Company has categorized its OREO as level 3.

The table below presents the Company's other real estate owned ("OREO"). At December 31, 2015 and 2014, there were no loans measured at fair value on a nonrecurring basis where the measurement occurred during the respective year. Amounts are aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in thousands):

		Fair Value Measurement Using			
December 31, 2015	**Total**	**Level 1**	**Level 2**	**Level 3**	**Losses During The Year**
Other Real Estate Owned	$343	$--	$--	$343	$616
December 31, 2014					
Other Real Estate Owned	$1,666	$--	$--	$1,666	$10

Certain impaired loans are reported at the fair value of the underlying collateral less costs to sell if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data and Level 3 inputs based on customized discounting criteria. During 2015 and 2014, there were no impaired loans re-measured and reported at fair value through either a specific valuation allowance or charge-off that existed at December 31, 2015 and 2014. For additional information on how the Company determines the allowance for credit losses, see Note 1 – *Summary of Significant Accounting Policies*. There were no loans measured for impairment in 2014 using current market values.

Qualitative factors in Level 3:

The following table presents additional qualitative information about assets and liabilities measured at fair value on a non-recurring basis and for which the company has utilized Level 3 inputs to determine fair value, as of December 31, 2015:

	Valuation Technique	**Unobservable Input**
OREO	Income, market and comparable sales	External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors; selling and commission costs ranging from 7% to 11%

Note 16 - Comprehensive Income

Net unrealized gains and losses include, net of tax, $492,000 unrealized losses and $3,162,000 of unrealized gains arising during 2015 and 2014, respectively (dollars in thousands):

	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
Year Ended December 31, 2015			
Unrealized holding losses arising during the year	$(545)	$191	$(354)
Reclassification adjustment for gains realized in net income	(212)	74	(138)
Net unrealized losses	$(757)	$265	$(492)
Year Ended December 31, 2014			
Unrealized holding gains arising during the year	$5,669	$(1,984)	$3,685
Reclassification adjustment for gains realized in net income	(804)	281	(523)
Net unrealized gains	$4,865	$(1,703)	$3,162

Note 17 – Shareholders Equity and Earnings per Common Share

Earnings per Common Share

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share (dollars in thousands, except share and per share amounts):

	2015	2014
Distributed earnings allocated to common stock	$3,657	$3,198
Undistributed earnings allocated to common stock	13,107	12,598
Net earnings allocated to common stock	$16,764	$15,796
Weighted-average shares outstanding - Basic	4,068,483	4,048,655
Dilutive effect of securities outstanding	17,518	17,544
Weighted-average shares outstanding - Diluted	4,086,001	4,066,199
Earnings Per Share – Basic	$4.12	$3.90
Earnings Per Share – Diluted	$4.10	$3.88
"Out of the money" stock options	--	--

Stock Repurchase Plans

From time to time, the Company's board of directors has authorized stock repurchase plans. In general, stock repurchase plans allow the Company to proactively manage its capital position and return excess capital to shareholders. Shares purchased under such plans also provide the Company with shares of common stock necessary to satisfy obligations related to stock compensation awards. Under the most recent plan, there were not any shares repurchased in 2015 or 2014.

The Company has five operating segments:

The Retail Banking segment provides traditional banking loan and deposit services to individuals and businesses through ten locations in Chelan, Douglas, Kittitas, and Yakima Counties of North Central Washington.

The Mortgage Banking segment originates, sells, and services residential mortgages.

The Treasury and Community Banking segment offers loan and deposit products to Northwest municipalities, as well as to businesses outside the Company's Retail Banking markets. The segment also purchases whole loans and loan participations and manages treasury operations.

The Dealer and Equipment Finance segment provides lease and loan products to commercial businesses. The segment also provides consumer retail financing for automobiles on an indirect basis through various new and used dealerships.

Additionally, in the following tables, the other and eliminations column represents the parent company and corporate administrative expenses, and intercompany eliminations of revenue and expenses.

The segments' primary source of revenue is from net interest income, which is primarily the difference between interest earning on loans, net of funds transfer pricing ("FTP"), and interest paid on deposits, net of FTP. Accordingly, segment results are reported using net interest income, net of FTP. FTP is an internal measurement framework designed to assess the financial impact of a financial institution's sources and uses of funds. It is the mechanism by which an earnings credit is given for deposits raised, and an earnings charge is made for funded loans. FTP is calculated by applying a transfer rate to pooled, or aggregated, loan and deposit volumes.

Operating segment results are based on internal management reporting process. Unlike financial reporting, which benefits from the comprehensive structure provided by GAAP, an internal management reporting process is highly subjective, as there is no comprehensive, authoritative guidance for management reporting. The Company's management reporting process measures the performance of the operating segments based on its internal operating structure, which is subject to change from time to time, and is not necessarily comparable with similar information for other financial services companies.

The following table presents certain financial information regarding the Company's segments and provides a reconciliation to the Company's consolidated totals as of and for the years ended December 31, 2015 and 2014 (dollars in thousands):

	As of and for the Year Ended December 31, 2015					
	Retail Banking	Mortgage Banking	Treasury and Community Banking	Dealer and Equipment Finance	Other and Eliminations	Total
Net Interest Income	$24,692	$3,717	$4,815	$5,125	$(80)	$38,269
Provision for Loan Losses	455	4	--	243	498	1,200
Non-interest Income	6,582	1,540	395	350	701	9,568
Non-interest Expense	15,086	864	510	1,570	7,668	25,698
Income before taxes	$15,733	$4,389	$4,700	$3,662	$(7,545)	$20,939
Total Assets	$453,055	$80,115	$574,343	$180,913	$93,237	$1,381,663

	As of and for the Year Ended December 31, 2014					
	Retail Banking	Mortgage Banking	Treasury and Community Banking	Dealer and Equipment Finance	Other and Eliminations	Total
Net Interest Income	$28,187	$3,341	$855	$4,554	$(34)	$36,903
Provision for Loan Losses	622	113	--	385	730	1,850
Non-interest Income	6,553	1,378	1,453	362	524	9,223
Non-interest Expense	14,733	1,043	985	1,381	6,993	24,088
Income before taxes	$19,385	$3,563	$1,323	$3,150	$(7,233)	$20,188
Total Assets	$446,074	$68,632	$591,315	$148,340	$70,243	$1,324,604

Note 19 – Subsequent Events

The Company performed an evaluation of subsequent events through March 25, 2016, the date these financial statements were available to be issued.

On January 19, 2016, the Company’s Board of Directors approved a dividend of $0.48 per share, payable on February 8, 2016, to shareholders of record as of January 29, 2016.

Directors and Officers

Board of Directors
Brian Nelson, Chairman
Lyman Boyd, Vice Chairman
Judy Conner, CPA
Bill Dronen
Greg Oakes
John Doyle
Keith Wiggins

Administrative Officers
Greg Oakes, President & CEO
Jenny Cravens, CPA, Exec. Vice President & CFO
Connie Fritz, Exec. Vice President & CROO
Steve Vradenburg, Exec. Vice President & CLO
Sue Ozburn, Exec. Vice President & CIO

Mitchell, Reed & Schmitten Insurance Board of Directors
Greg Oakes, Chairman
Lori Reed
Lyman Boyd
Jim Gibbons
Laura Mounter
Brent Schmitten

Finance
Aaron Strong, CPA, Vice President & Controller
Cheryl Ward, Supervisor

Internal Audit
Kortney Todd, CPA, Director of Internal Audit
Dennis Combs, Examiner

Credit Administration
Ann Rankin, Credit Operations Supervisor

Compliance
Deidra Anderson, AVP & Compliance Officer

Retail Operations and Personnel
Annie Horey, AVP & Human Resource Director
Jeff Burton, Retail Operations Officer

Financial Services Group
Art Hansen, Senior Vice President

Contract Purchasing and Equipment Leasing
Chuck Moser, AVP & Loan Officer
Chris Ewer, AVP & Equipment Leasing Manager

Electronic Banking and Card Services
Sharon Low, AVP & Manager
Nicole Ivarsen, Card Service Plan Manager

Municipal Banking
Ron Olsen, Senior Vice President & Manager
James Tinker, AVP & Loan Officer

Statewide Banking
Alex Cruz, Vice President

Cashmere Branch
Alex Cruz, Vice President & Manager
Jana Flores, Retail Operations Officer

Maple Street Branch
Steve Lee, Senior Vice President & Manager
Christy Tomlinson, AVP & Retail Operations Officer
Mike Kintner, Vice President & Commercial Lender

Leavenworth Branch
Darrin Rylaarsdam, Senior Vice President & Manager
Shawna Alexander, AVP & Retail Operations Officer
Gary Waunch, Loan Officer

East Wenatchee Branch
Chris Schmidt, Vice President & Manager
Ann Harris, AVP & Retail Operations Officer

Chelan Street Branch
Jenny Pulver, AVP & Manager

Easy Street Branch
Claudia De Robles, Vice President & Manager
Elizabeth Mejia, Retail Operations Officer

Ellensburg Branch
Pam Wilson, Vice President & Manager
Michael Moore, Retail Operations Officer

Cle Elum Branch
Dale Loveland, Senior Vice President & Manager
Caren Reed, Retail Operations Officer

Lake Chelan Branch
Russ Jones, Vice President & Manager
Jan Fryer, Retail Operations Officer

Yakima Branch
Taylor Stormo, Vice President & Manager
Tom Mance, Vice President & Loan Officer
Brittanie Vaughn, Retail Operations Officer

Cashmere Valley Mortgage
Shirley Reyes, Vice President & Manager
Kyle Lewis, AVP & Assistant Manager

Mitchell Reed & Schmitten Insurance
Brent Schmitten, President & COO

Cashmere Valley Wealth Management
Timothy Meyers, Division Director

Directory

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509-782-1501

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509-548-5231

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Valley Contract Servicing
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509-664-5452

Card Services
124 E. Penny Road, Suite 106, Wenatchee
Credit Cards 509-664-5455
ATM/Debit Cards 509-664-5453

Dealer Financing
124 E. Penny Road, Suite 201, Wenatchee
509-664-3820

Equipment Finance Solutions
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Cashmere Valley Bank

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MORTGAGE

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Mitchell, Reed
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