



Report of Independent Auditors  
and Financial Statements for

**CenterPointe Community Bank**

December 31, 2011 and 2010

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

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Note: These financial statements have not been reviewed, or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders  
CenterPointe Community Bank

We have audited the accompanying balance sheets of CenterPointe Community Bank as of December 31, 2011 and 2010, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of CenterPointe Community Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CenterPointe Community Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CenterPointe Community Bank as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Portland, Oregon  
February 27, 2012

**CENTERPOINTE COMMUNITY BANK**  
**BALANCE SHEETS**

	December 31,	
	2011	2010
<b>ASSETS</b>		
Cash and due from banks	\$ 1,989,437	\$ 2,642,316
Interest-bearing deposits with other banks	73,532	400
Federal funds sold	410,000	5,530,000
	<u>2,472,969</u>	<u>8,172,716</u>
Cash and cash equivalents	2,472,969	8,172,716
Time certificates of deposit with other banks	2,477,000	2,494,000
Investment securities available-for-sale, at fair value	15,254,596	5,488,382
Federal Home Loan Bank stock, at cost	45,000	45,000
Loans receivable, net of unearned income and allowance for loan losses	56,293,068	52,636,049
Premises and equipment, net of accumulated depreciation and amortization	1,188,103	1,359,964
Accrued interest receivable	322,970	256,947
Cash surrender value of bank-owned life insurance	1,048,097	-
Deferred tax assets, net	762,674	280,890
Other assets	314,074	346,081
	<u>\$ 80,178,551</u>	<u>\$ 71,080,029</u>
<b>LIABILITIES</b>		
Noninterest-bearing demand deposits	\$ 26,755,590	\$ 16,714,071
NOW and money market accounts	30,907,846	26,505,431
Savings accounts	2,679,030	5,198,655
Time certificates of deposit	7,696,371	15,390,137
	<u>68,038,837</u>	<u>63,808,294</u>
Total deposits	68,038,837	63,808,294
Federal funds purchased	4,000,000	-
Accrued interest payable and other liabilities	133,722	617,950
	<u>72,172,559</u>	<u>64,426,244</u>
Total liabilities	72,172,559	64,426,244
<b>COMMITMENTS AND CONTINGENCIES (Notes 15 and 16)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, no par value; 12,000,000 shares authorized; 1,153,500 and 1,139,464 shares issued and outstanding as of December 31, 2011 and 2010, respectively	11,279,306	11,158,966
Accumulated deficit	(3,332,938)	(4,535,708)
Accumulated other comprehensive income, net of taxes	59,624	30,527
	<u>8,005,992</u>	<u>6,653,785</u>
Total shareholders' equity	8,005,992	6,653,785
	<u>\$ 80,178,551</u>	<u>\$ 71,080,029</u>
Total liabilities and shareholders' equity	\$ 80,178,551	\$ 71,080,029

# CENTERPOINTE COMMUNITY BANK

## STATEMENTS OF INCOME

	Years Ended December 31,	
	2011	2010
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 4,001,599	\$ 3,571,435
Interest on investment securities available-for-sale	208,744	205,717
Interest on federal funds sold, and interest-bearing deposits and time deposits with other banks	39,547	47,419
Total interest income	4,249,890	3,824,571
<b>INTEREST EXPENSE</b>		
Interest on interest-bearing deposits	325,056	589,638
Interest on federal funds purchased	764	196
Total interest expense	325,820	589,834
Net interest income before provision for loan losses	3,924,070	3,234,737
<b>PROVISION FOR LOAN LOSSES</b>		
Net interest income after provision for loan losses	140,000	163,000
Net interest income after provision for loan losses	3,784,070	3,071,737
<b>NONINTEREST INCOME</b>		
Service charges and fees	96,850	83,619
Change in cash surrender value of bank-owned life insurance	13,770	-
Gains on sales of investment securities, net	-	82,673
Total noninterest income	110,620	166,292
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	1,739,026	1,496,438
Data processing	363,663	356,580
Occupancy expense	279,449	237,891
Depreciation	200,721	291,729
Professional fees	132,819	109,483
Regulatory assessment	92,567	127,282
Advertising and promotional expenses	63,646	72,321
Other noninterest expenses	320,029	254,904
Total noninterest expense	3,191,920	2,946,628
Income before income tax benefit	702,770	291,401
<b>INCOME TAX BENEFIT</b>		
Income before income tax benefit	(500,000)	(300,000)
<b>NET INCOME</b>		
Income before income tax benefit	\$ 1,202,770	\$ 591,401
<b>EARNINGS PER SHARE OF COMMON STOCK</b>		
Basic	\$ 1.05	\$ 0.52
Diluted	\$ 1.05	\$ 0.52
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD</b>		
Basic	1,145,720	1,126,507
Diluted	1,149,704	1,126,507

**CENTERPOINTE COMMUNITY BANK**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31,	
	2011	2010
Net income	\$ 1,202,770	\$ 591,401
Other comprehensive income:		
Unrealized holding gains on investment securities available-for-sale, net of taxes of \$18,215 and \$19,110	29,097	107,959
Reclassification adjustment for realized gains on securities included in net income, net of taxes of \$33,069 in 2010	-	(49,604)
Total other comprehensive income, net of tax	29,097	58,355
COMPREHENSIVE INCOME	<u>\$ 1,231,867</u>	<u>\$ 649,756</u>

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
BALANCE, December 31, 2009	1,085,685	\$ 10,637,747	\$ (5,127,109)	\$ (27,828)	\$ 5,482,810
Restricted stock awards vesting	2,900	-	-	-	-
Stock-based compensation expense	-	34,340	-	-	34,340
Stock issued pursuant to private placement, net of offering costs	50,879	486,879	-	-	486,879
Other comprehensive income, net of tax	-	-	-	58,355	58,355
Net income	-	-	591,401	-	591,401
BALANCE, December 31, 2010	1,139,464	11,158,966	(4,535,708)	30,527	6,653,785
Restricted stock awards vesting	14,036	-	-	-	-
Stock-based compensation expense	-	120,340	-	-	120,340
Other comprehensive income, net of tax	-	-	-	29,097	29,097
Net income	-	-	1,202,770	-	1,202,770
BALANCE, December 31, 2011	<u>1,153,500</u>	<u>\$ 11,279,306</u>	<u>\$ (3,332,938)</u>	<u>\$ 59,624</u>	<u>\$ 8,005,992</u>

# CENTERPOINTE COMMUNITY BANK

## STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,202,770	\$ 591,401
Adjustments to reconcile net income to net cash		
Depreciation and amortization	200,721	291,729
Provision for loan losses	140,000	163,000
Net accretion of discounts and premiums on investment securities available-for-sale	122,375	79,798
Gains on sale of investment securities available-for-sale, net	-	(82,673)
Stock-based compensation	120,340	34,340
Deferred taxes	-	117,176
Change in deferred tax asset valuation allowance	(500,000)	(417,176)
Change in cash surrender value of bank-owned life insurance policy	(13,770)	-
(Decrease) increase in cash due to changes in certain assets and liabilities		
Accrued interest receivable and other assets	(34,015)	101,660
Accrued interest payable and other liabilities	15,772	(73,997)
	1,254,193	805,258
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities available-for-sale	(17,417,205)	(3,772,324)
Proceeds from maturity of investment securities available-for-sale	7,075,928	2,551,624
Proceeds from sales of investment securities available-for-sale	-	1,572,290
Maturities of certificates of deposit with other banks	2,494,000	3,444,000
Purchase of certificates of deposit with other banks	(2,477,000)	(5,938,000)
Net originations of loans receivable	(3,797,019)	(13,058,051)
Purchase of premises and equipment	(28,860)	(46,262)
Purchase of bank-owned life insurance policy	(1,034,327)	-
	(15,184,483)	(15,246,723)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in deposits	4,230,543	9,001,967
Net change in federal funds purchased	4,000,000	-
Proceeds from private placement common stock offering, net of direct offering costs	-	486,879
	8,230,543	9,488,846
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(5,699,747)	(4,952,619)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	8,172,716	13,125,335
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 2,472,969	\$ 8,172,716

**CENTERPOINTE COMMUNITY BANK**  
**STATEMENTS OF CASH FLOWS**

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	Years Ended December 31,	
	2011	2010
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid in cash	\$ 350,832	\$ 592,055
Income taxes paid in cash	\$ 4,052	\$ -
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Unrealized gain on investment securities available-for-sale, net of taxes	\$ 29,097	\$ 58,355
Purchase of available-for-sale security not yet settled at year-end	\$ -	\$ 500,000

# CENTERPOINTE COMMUNITY BANK

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1 – Organization and Summary of Significant Accounting Policies**

**Organization** – On February 18, 2007, CenterPointe Community Bank (the Bank) was incorporated and received State of Oregon, Department of Consumer and Business Services (State), approval to commence the sale of common stock in the Bank. On this same date, the Bank also received regulatory approval from the Federal Deposit Insurance Corporation (FDIC) and the State to provide banking services in the State of Oregon.

The Bank opened for business on September 4, 2007, with an office in Hood River, Oregon and opened its second branch in The Dalles, Oregon in July 2008. The Bank provides banking services to small businesses, professionals, farmers, and consumers primarily in the Columbia River Gorge of Oregon and Washington. As a state-chartered institution, the Bank is subject to regulation by the State and the FDIC.

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

**Cash and cash equivalents** – For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from banks, interest-bearing deposits with correspondent financial institutions with original maturities of 90 days or less, and federal funds sold. Federal funds sold represent excess cash funds that are generally invested on a daily basis. At times, balances may exceed the FDIC insured limit. Management believes that risk with respect to these balances is minimal due to the credit quality of correspondent institutions. The Bank has not experienced any losses in such accounts. At December 31, 2011, the Bank was required to maintain a minimum reserve with Pacific Coast Bankers' Bank in the amount of \$245,000 and was not required to maintain reserves with the Federal Reserve Bank or any other financial institution.

**Investment securities** – The Bank is required to specifically identify its investment securities as “held-to-maturity,” “available-for-sale,” or “trading accounts.” Management has designated all investment securities held at December 31, 2011 and 2010, as “available-for-sale.”

Securities are classified as available-for-sale if the Bank intends to hold those debt securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors such as: (1) changes in market interest rates and related changes in the prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms.

## CENTERPOINTE COMMUNITY BANK

### NOTES TO FINANCIAL STATEMENTS

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

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as other comprehensive income and carried as accumulated comprehensive income or loss within shareholders' equity until realized. Fair values for these investment securities are based on quoted market prices. Realized gains and losses are determined using the specific-identification method and included in earnings. Premiums and discounts arising from the purchase of investment securities are recognized in interest income using the effective interest method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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

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

**Federal Home Loan Bank stock** – The Bank holds an investment in Federal Home Loan Bank of Seattle (FHLB) stock as a restricted equity security carried at par value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. Stock redemptions are made at the discretion of the FHLB. The Seattle FHLB has reported a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the FHFA), its primary regulator. As a result, the Seattle FHLB has stopped paying a dividend and cannot repurchase or redeem outstanding common stock until it meets a minimum retained earnings requirement.

# CENTERPOINTE COMMUNITY BANK

## NOTES TO FINANCIAL STATEMENTS

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

Stock in the Seattle FHLB is classified as restricted stock and is evaluated for impairment at each reporting date. The determination of whether the investment is impaired is based on the Bank's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. The Bank has concluded that the FHLB stock investment is not impaired as of December 31, 2011.

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

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

A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan's observable market price or the underlying collateral securing the loan. Collateral may be real estate or business assets including equipment. The value of collateral is determined based on independent appraisals. Accrual of interest is discontinued on impaired loans when management believes, after considering economic and business conditions, collection efforts and collateral position, that the borrower's financial condition is such that collection of interest is doubtful. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received and the collection of principal in full is assured.

## CENTERPOINTE COMMUNITY BANK

### NOTES TO FINANCIAL STATEMENTS

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

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

**Premises and equipment** – Furniture, equipment, leasehold improvements, and computer software and hardware are recorded at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the expected useful lives of the assets, ranging from 5 to 15 years. Amortization of leasehold improvements is computed using the straight-line method over the related lease term or life of the assets, whichever is shorter. The costs of maintenance and repairs are expensed as they are incurred, while major expenditures for renewals and betterments are capitalized. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gains or losses are included in income.

**Cash surrender value of bank-owned life insurance** – The Bank holds a life insurance contract with a split-dollar agreement on the chief executive officer as an employment benefit while employed. The contract does not include a post-retirement benefit. The cash surrender value of the contract reflects the Bank's investment in the recorded asset, net of surrender charges. Unrealized holding gains and losses related to the contract are included in earnings as gains or losses.

**Advertising and promotional expenses** – The Bank expenses advertising and promotional costs as they are incurred.

**Earnings per share of common stock** – Basic earnings per share of common stock is computed by dividing net income available to common stockholders, which consists of net income less dividends declared and required interest payments on preferred stock, by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed similar to basic earnings per share of common stock except that the denominator is increased to include the number of additional common shares that would have been outstanding if such dilutive potential common shares had been issued. All outstanding common stock options were excluded from the diluted earnings per share calculation at December 31, 2011 and 2010, because their impact on the calculation would have been antidilutive.

**Stock-based compensation** – The Bank applies fair value recognition provisions in accounting for stock-based compensation. Under this accounting standard, share-based awards that do not require future service are expensed immediately. Share-based employee awards that require future service are amortized over the requisite service period, net of forfeitures of such awards. The Bank recognizes stock-based compensation expense on a straight-line basis. The fair value of restricted stock is measured based on the market price of the Bank's stock on the date of grant.

# CENTERPOINTE COMMUNITY BANK

## NOTES TO FINANCIAL STATEMENTS

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

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option-pricing model, which is based on several key assumptions. Expected volatility is based on the historical volatility of the price of the Bank's stock for a period consistent with the expected life of the options and considers historical stock volatility within the banking industry, since the Bank has not been in existence long enough to generate its own volatility factors. The Bank uses historical data to estimate option exercise and employee termination rates within the valuation model. The expected term of options represents the period of time that stock options are expected to be outstanding and is estimated based on historical exercise and forfeiture activity. There are no assumptions for the payment of dividends due to the Bank's historical practice of not declaring dividends. The risk-free rate of return for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date.

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

The Bank recognizes a tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Bank recognizes interest and penalties related to income tax matters in income tax expense. The Bank does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. There were no interest and penalties accrued for the year ended December 31, 2011 or 2010. The Bank files U.S. federal and Oregon state income tax returns, which are subject to examination by the taxing authorities for years 2007 and later.

**Off-balance sheet financial instruments** – The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

## CENTERPOINTE COMMUNITY BANK

### NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

*Impaired loans* – Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

*Other real estate owned* – Other real estate owned is measured and recorded at the lower of cost basis or fair value. The fair value of each asset is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral.

**Reclassification** – Certain reclassifications have been made to the 2010 financial statements to conform to current year presentations. There has been no change to the prior year's net income or income per share as a result of the reclassifications.

# CENTERPOINTE COMMUNITY BANK

## NOTES TO FINANCIAL STATEMENTS

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

**Subsequent events** – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Bank recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Bank’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Bank has evaluated subsequent events through February 27, 2012, which is the date the financial statements became available for issuance.

### Note 2 – Investment Securities

The amortized cost and estimated fair values of investment securities at December 31, 2011 and 2010, are summarized as follows:

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Agency-backed collateralized mortgage obligations	\$ 11,469,974	\$ 72,490	\$ (35,795)	\$ 11,506,669
Agency-backed structured notes	3,386,862	59,801	(788)	3,445,875
Corporate debt obligations	300,811	1,241	-	302,052
	<u>\$ 15,157,647</u>	<u>\$ 133,532</u>	<u>\$ (36,583)</u>	<u>\$ 15,254,596</u>
	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Agency-backed collateralized mortgage obligations	\$ 2,091,551	\$ 10,528	\$ (27,837)	\$ 2,074,242
Agency-backed structured notes	3,043,938	66,564	(2,590)	3,107,912
Corporate debt obligations	303,257	2,971	-	306,228
	<u>\$ 5,438,746</u>	<u>\$ 80,063</u>	<u>\$ (30,427)</u>	<u>\$ 5,488,382</u>

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 2 – Investment Securities (continued)**

As described in the following tables, at December 31, 2011, the Bank had ten investment securities in an unrealized loss position and at December 31, 2010, the Bank had five investment securities in an unrealized loss position. The Bank evaluated the unrealized losses and determined that the declines in value at December 31, 2011 and 2010 were temporary and related to the change in market interest rates since the date of purchase.

	2011					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency-backed collateralized mortgage obligations	\$ 4,709,007	\$ (35,795)	\$ -	\$ -	\$ 4,709,007	\$ (35,795)
Agency-backed structured notes	1,003,741	(788)	-	-	1,003,741	(788)
	<u>\$ 5,712,748</u>	<u>\$ (36,583)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,712,748</u>	<u>\$ (36,583)</u>

	2010					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency-backed collateralized mortgage obligations	\$ 678,731	\$ (27,837)	\$ -	\$ -	\$ 678,731	\$ (27,837)
Agency-backed structured notes	996,838	(2,590)	-	-	996,838	(2,590)
	<u>\$ 1,675,569</u>	<u>\$ (30,427)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,675,569</u>	<u>\$ (30,427)</u>

The amortized cost and estimated fair value of investment securities at December 31, 2011 by contractual maturity are shown below. Actual settlements may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 7,146,707	\$ 7,157,995
Due after one year through five years	7,062,738	7,145,343
Due after five years through ten years	927,456	930,698
Due ten years and beyond	<u>20,746</u>	<u>20,560</u>
	<u>\$ 15,157,647</u>	<u>\$ 15,254,596</u>

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Investment Securities (continued)**

As of December 31, 2011, the Bank had no investment securities pledged to secure public or other deposits, as required by law or for any other purpose. There were no realized gains or losses on sales of securities for the year ended December 31, 2011 and \$150,180 in realized gains on sales of securities and \$67,507 in realized losses on sales of securities for the year ended December 31, 2010.

**Note 3 – Loans**

The composition of loan balances is summarized as follows:

	<u>2011</u>	<u>2010</u>
Commercial real estate loans	\$ 30,408,765	\$ 25,465,986
Agriculture loans	11,789,222	10,660,902
Commercial loans	7,710,690	7,719,777
Residential real estate loans	5,648,138	5,835,245
Construction loans	1,727,698	3,831,747
Consumer loans	180,058	188,426
Overdrafts	<u>1,893</u>	<u>1,524</u>
 Total loans	 57,466,464	 53,703,607
Less allowance for loan losses	(727,807)	(636,130)
Less unearned income	<u>(445,589)</u>	<u>(431,428)</u>
 Loans receivable, net of unearned income and allowance for loan losses	 <u>\$ 56,293,068</u>	 <u>\$ 52,636,049</u>

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4 – Allowance for Loan Losses**

The following table displays the activity in the allowance for loan losses by significant segments of the loan portfolio during the years ended December 31, 2011 and 2010:

	Balance, Beginning of Year	Charge-offs	Recoveries	Provision (Benefit) for Loan Losses	Balance, End of Year
December 31, 2011					
Commercial real estate	\$ 295,931	\$ -	\$ -	\$ 85,760	\$ 381,691
Agriculture	136,397	-	-	(27,092)	109,305
Commercial	81,846	(47,078)	-	89,818	124,586
Residential real estate	66,689	-	-	15,126	81,815
Construction	46,222	-	-	(21,263)	24,959
Consumer and overdrafts	1,540	(1,900)	655	5,156	5,451
Unallocated	7,505	-	-	(7,505)	-
Total	<u>\$ 636,130</u>	<u>\$ (48,978)</u>	<u>\$ 655</u>	<u>\$ 140,000</u>	<u>\$ 727,807</u>

	Balance, Beginning of Year	Charge-offs	Recoveries	Provision (Benefit) for Loan Losses	Balance, End of Year
December 31, 2010					
Commercial real estate	\$ 137,320	\$ -	\$ -	\$ 158,611	\$ 295,931
Agriculture	76,439	-	-	59,958	136,397
Commercial	68,379	-	-	13,467	81,846
Residential real estate	33,957	-	-	32,732	66,689
Construction	99,051	-	-	(52,829)	46,222
Consumer and overdrafts	8,112	(1,171)	446	(5,847)	1,540
Unallocated	50,597	-	-	(43,092)	7,505
Total	<u>\$ 473,855</u>	<u>\$ (1,171)</u>	<u>\$ 446</u>	<u>\$ 163,000</u>	<u>\$ 636,130</u>

At December 31, 2011 and 2010, all loans were collectively evaluated for impairment; no loans required individual evaluation for impairment.

**Credit quality indicators** – The Bank’s risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories can be generally described by the following groupings:

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

## CENTERPOINTE COMMUNITY BANK

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 4 – Allowance for Loan Losses (continued)**

*Watch* – Loans are graded as *Watch* when for various reasons close monitoring is required. This may include loans that have performed satisfactorily, but because of recent events, deteriorating trends, or signs of developing problems require close monitoring. The situation, if not monitored, could develop into potential weaknesses that result in the loan being adversely risk rated.

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

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

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

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

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4 – Allowance for Loan Losses (continued)**

The following tables show credit quality indicators of the loan portfolio as of December 31:

	December 31, 2011				
	Pass	Watch	Special Mention	Substandard	Total
Commercial real estate	\$ 29,561,229	\$ 723,280	\$ 124,256	\$ -	\$ 30,408,765
Agriculture	9,038,353	1,901,969	848,900	-	11,789,222
Commercial	7,053,280	397,937	-	259,473	7,710,690
Residential real estate	5,387,930	205,748	-	54,460	5,648,138
Construction	1,727,698	-	-	-	1,727,698
Consumer and overdrafts	173,410	-	-	8,541	181,951
Total	<u>\$ 52,941,900</u>	<u>\$ 3,228,934</u>	<u>\$ 973,156</u>	<u>\$ 322,474</u>	<u>\$ 57,466,464</u>

	December 31, 2010				
	Pass	Watch	Special Mention	Substandard	Total
Commercial real estate	\$ 25,465,986	\$ -	\$ -	\$ -	\$ 25,465,986
Agriculture	6,835,532	2,988,011	-	837,359	10,660,902
Commercial	7,187,372	356,837	-	175,568	7,719,777
Residential real estate	5,835,245	-	-	-	5,835,245
Construction	3,831,747	-	-	-	3,831,747
Consumer and overdrafts	189,950	-	-	-	189,950
Total	<u>\$ 49,345,832</u>	<u>\$ 3,344,848</u>	<u>\$ -</u>	<u>\$ 1,012,927</u>	<u>\$ 53,703,607</u>

As of December 31, 2011, a loan totaling \$47,864 within the Watch risk category was subject to a 90% government agency guarantee. As of December 31, 2010, loans totaling \$1,138,723 within the Watch and \$145,610 within the Substandard risk categories were subject to 90% government agency guarantees.

At December 31, 2011 and 2010, the Bank had no loans with payments past due greater than 29 days. Additionally, there were no loans on non-accrual status, loans considered impaired by management, or any loans modified and considered to be troubled debt restructurings as of December 31, 2011 and 2010, or for the periods then ended.

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 – Premises and Equipment**

The classifications of premises and equipment at December 31, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 1,392,126	\$ 1,428,731
Furniture, fixtures, and equipment	436,657	425,832
Computer software	-	102,403
Computer hardware	<u>277,590</u>	<u>264,953</u>
	2,106,373	2,221,919
Less accumulated depreciation and amortization	<u>(918,270)</u>	<u>(861,955)</u>
Premises and equipment, net of accumulated depreciation and amortization	<u><u>\$ 1,188,103</u></u>	<u><u>\$ 1,359,964</u></u>

Depreciation and amortization expense was \$200,721 and \$291,729 for the years ended December 31, 2011 and 2010, respectively.

**Note 6 – Time Certificates of Deposit**

Time certificates of deposit of \$100,000 and over aggregated \$5,394,600 and \$11,170,296 at December 31, 2011 and 2010, respectively. Contractual maturities for all time certificates at December 31, 2011 are as follows:

Years ending December 31, 2012	\$ 5,694,297
2013	1,171,351
2014	260,470
2015	401,899
2016	<u>168,354</u>
	<u><u>\$ 7,696,371</u></u>

**Note 7 – Lines of Credit and Other Borrowings**

The Bank, as a member of the Federal Home Loan Bank (FHLB) of Seattle, has entered into a credit arrangement with the FHLB under which authorized borrowings are collateralized by the Bank's FHLB stock as well as loans or other instruments which may be pledged. The Bank also participates in the Cash Management Advance (CMA) program with the FHLB.

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 – Lines of Credit and Other Borrowings (continued)**

At December 31, 2011 and 2010, the Bank did not have any outstanding notes payable with the FHLB or any outstanding borrowings under the CMA program.

Maximum borrowings available from the FHLB for notes payable, lines of credit, and the CMA program totaled \$12.4 million at December 31, 2011. Available borrowings are subject to eligible collateral being pledged and are reduced by outstanding letters of credit. The Bank did not have any securities pledged as collateral with the FHLB at December 31, 2011.

The Bank also has federal funds line of credit agreements with two financial institutions. Maximum aggregate borrowings available under these lines totaled \$4.0 million as of December 31, 2011 and December 31, 2010. The federal funds lines support short-term liquidity and the frequency of its use may be limited by the lending institutions. There were \$4.0 million in borrowings under these line of credit agreements at December 31, 2011. These borrowings are considered overnight borrowings, maturing on January 3, 2012, with an interest rate of approximately 1.05%. There were no borrowings at December 31, 2010.

**Note 8 – Income Taxes**

At December 31, 2011 and 2010, the Bank had federal and state net operating loss carryforwards of approximately \$3,595,000 and \$4,371,000, respectively, and unamortized pre-opening expenses, capitalized for tax purposes, of approximately \$493,000 and \$539,000, respectively, available to offset future taxable income. Unless utilized in earlier tax years, the carryforwards will expire beginning in 2027. The pre-opening expenses are being amortized and deducted for tax purposes over a 180-month period and will be fully amortized in 2011.

Components of the income tax benefit are as follows:

	<u>2011</u>	<u>2010</u>
Current tax expense		
Federal	\$ -	\$ -
State	-	-
	<u>-</u>	<u>-</u>
Deferred tax expense		
Federal	225,083	93,567
State	56,792	23,609
	<u>281,875</u>	<u>117,176</u>
Change in valuation allowance	<u>(781,875)</u>	<u>(417,176)</u>
Income tax benefit	<u>\$ (500,000)</u>	<u>\$ (300,000)</u>

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 8 – Income Taxes (continued)**

Deferred income taxes represent the tax effect of differences in timing between financial statement income and taxable income. The asset and liability components of the net deferred tax asset at December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Deferred tax assets		
Unamortized pre-opening expenses	\$ 192,360	\$ 211,461
Net operating loss carryforward	1,402,526	1,721,770
Allowance for loan losses	267,260	218,484
Other	<u>74,767</u>	<u>20,113</u>
	<u>1,936,913</u>	<u>2,171,828</u>
Deferred tax liabilities		
Accumulated depreciation	(162,092)	(167,872)
Prepaid expenses	(41,359)	(35,241)
Loan origination costs	(38,270)	(32,753)
Unrealized gain on investment securities available-for-sale	(37,325)	(19,110)
Accrual to cash adjustment	<u>(86,124)</u>	<u>(45,018)</u>
	<u>(365,170)</u>	<u>(299,994)</u>
Valuation allowance	<u>(809,069)</u>	<u>(1,590,944)</u>
Net deferred tax asset	<u>\$ 762,674</u>	<u>\$ 280,890</u>

A valuation allowance has been established at December 31, 2011 and 2010, since it is uncertain if the Bank will be able to utilize all of the existing deferred tax assets as an offset to future tax liabilities. A \$500,000 tax benefit was recognized during 2011 and a \$417,176 tax benefit was recognized in 2010 related to the partial reversal of the previously established valuation allowance for deferred tax assets anticipated to be realized in the near-term. Management believes, based upon the Bank's historical performance and future projections, it is more likely than not a portion of its deferred tax asset will be realized in the normal course of operations.

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 8 – Income Taxes (continued)**

The following summarizes the differences between the benefit for income taxes for financial statement purposes and the federal statutory rate of 34% for the years ended December 31, 2011 and 2010:

	2011		2010	
Federal tax, at statutory rates	\$ 239,809	34.0%	\$ 100,109	34.0%
State income taxes, net of federal effect	35,379	5.0%	15,352	5.2%
Change in valuation allowance	(781,875)	(110.9)%	(417,176)	(141.7)%
Other	6,687	0.9%	1,715	0.6%
	Federal tax, at effective rate		Federal tax, at effective rate	
	\$ (500,000)	(70.9)%	\$ (300,000)	(101.9)%

**Note 9 – Earnings per Common Share**

The following is a computation of basic and diluted earnings per common share for the years ended December 31, 2011 and 2010:

	2011	2010
Numerators		
Net earnings available to common shareholders	\$ 1,202,770	\$ 591,401
Denominators		
Weighted average number of common shares outstanding – basic	1,145,720	1,126,507
Effects of potentially dilutive common shares	3,984	-
Weighted average number of common shares outstanding – diluted	1,149,704	1,126,507
Earnings per common share		
Basic	\$ 1.05	\$ 0.52
Diluted	\$ 1.05	\$ 0.52

For the years ended December 31, 2011 and 2010, weighted average outstanding stock options totaling 83,427 shares were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive.

## **CENTERPOINTE COMMUNITY BANK**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 10 – Common Stock and Warrants**

**Founders' warrants** – Individuals, who placed capital at risk to fund the Bank's organizational expenses prior to the initial offering of common stock, received one common stock warrant for each \$10.00 invested. The Bank issued to these individuals 70,500 warrants, each of which was exercisable for one share of common stock at a price of \$10.00 per share. The warrants expired unexercised on September 4, 2011.

**Warrants issued to placement agent** – As compensation for services rendered in connection with the initial offering of common stock, the Bank issued a warrant to its Placement Agent. The warrant allowed the Placement Agent to purchase up to 6,830 shares of common stock at \$10.00 per share. The warrants expired unexercised on September 4, 2011.

**Private placement offering of common stock** – During 2009, the Bank initiated a Confidential Private Placement Offering (Offering), selling 50,879 shares of common stock to directors and officers at a price of \$10.00 per share. The Offering closed on March 15, 2010. Proceeds to the Bank, net of direct offering costs of \$21,911, totaled \$486,879 and were used to fund continuing operations and anticipated growth.

#### **Note 11 – Share Based Awards**

The Bank has established the CenterPointe Community Bank Stock Option and Equity Compensation Plan (the Plan), which allows for the issuance of up to 240,000 shares of common stock awards in the form of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, or restricted stock units (collectively referred to as "awards") to selected employees and directors. Of the 240,000 shares available for issuance, 60,000 may be issued to directors. If any shares of stock subject to an award under the Plan are forfeited or cancelled, such shares are returned to the pool of shares available for future issuance under the Plan. At December 31, 2011, there were 108,042 shares available to be granted as awards under the Plans, of which 35,440 are available to be granted to directors.

Incentive stock options outstanding at December 31, 2011 totaled 83,427, with a weighted average exercise price of \$10.00 per share, an average remaining contractual life of 7.08 years and no aggregate intrinsic value. At December 31, 2011, total options exercisable were 41,714 at a weighted average exercise price of \$10.00 per share.

The Bank recognized \$22,740 in compensation expense related to stock options during 2011 and 2010. As of December 31, 2011, there was \$22,705 of unrecognized compensation cost related to non-vested stock options that will be recognized over 1.1 years.

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 11 – Share Based Awards (continued)**

The following table summarizes restricted stock unit activity under the Plan:

	Number of Shares	Aggregate Fair Value	Weighted Average Fair Value Per Share
Restricted stock units unvested at beginning of period	19,252	\$ 77,008	\$ 4.00
Units granted	26,379	94,964	3.60
Units vested	<u>(14,036)</u>	54,643	3.89
Restricted stock units unvested at end of period	<u>31,595</u>	117,329	3.71

The Bank recognized \$97,600 and \$11,600 in compensation expense restated to restricted stock units, during 2011 and 2010, respectively. As of December 31, 2011, there was \$74,356 of unrecognized compensation costs related to non-vested restricted stock unit that will be recognized over a period of two years.

Subsequent to year-end, the Bank awarded 21,155 shares of restricted stock to officers of the Bank. The restricted shares vest over a period of two years and have an aggregate fair value of \$84,620.

**Note 12 – Employee Benefit Plan**

The Bank has a salary deferral and profit sharing plan (the Employee Benefit Plan) under the provisions of Section 401(k) of the Internal Revenue Code whereby eligible employees may defer a portion of their gross wages. Employees eligible to participate in the Employee Benefit Plan must have completed 90 days of service and be over 18 years of age. Employees may contribute up to the maximum provided by IRS statutes. The Bank makes discretionary contributions to the Employee Benefit Plan and its contributions vest over a period of five years. The Bank's contributions to the Employee Benefit Plan for the years ended December 31, 2011 and 2010, totaled \$21,291 and \$18,835, respectively.

## CENTERPOINTE COMMUNITY BANK

### NOTES TO FINANCIAL STATEMENTS

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#### Note 13 – Transactions with Related Parties

Certain directors, executive officers, principal stockholders and companies in which they have an interest, are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. Loans and commitments to loan included in such transactions have been made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collection or present any other unfavorable features. Loans granted to directors, executive officers, principal stockholders and companies with which they are associated were as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 1,269,764	\$ 745,516
Additions	1,344,131	1,938,891
Repayments	<u>(1,510,518)</u>	<u>(1,414,643)</u>
Balance, end of year	<u>\$ 1,103,377</u>	<u>\$ 1,269,764</u>

Related-party deposits held by the Bank at December 31, 2011 and 2010 were \$12,057,874 and \$10,358,302, respectively.

#### Note 14 – Concentrations of Credit Risk

The majority of the Bank's loans and commitments to lend have been granted to customers in the Bank's market area, the majority of which are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Bank's loan policies do not allow the extension of credit to any single borrower or group of related borrowers in excess of \$1,000,000 without approval from the Board of Directors.

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 15 – Financial Instruments with Off-Balance Sheet Risk**

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

The Bank's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit written, is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained is based on management's credit evaluation of the counterparty. Collateral held varies, but may include cash, accounts receivable, inventory, equipment, residential real estate, crops, and income-producing commercial properties.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support 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. The Bank may hold cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

Following are the Bank's written lending commitments at December 31 2011, and 2010:

	<u>2011</u>	<u>2010</u>
Commitments to extend credit	\$ 8,080,267	\$ 8,345,906
Standby letters of credit	-	500,000
	<u>\$ 8,080,267</u>	<u>\$ 8,845,906</u>

## CENTERPOINTE COMMUNITY BANK

### NOTES TO FINANCIAL STATEMENTS

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#### Note 16 – Commitments and Contingencies

**Operating lease commitments** – The Bank leases office space for use in its banking operations and as its corporate headquarters. This lease is a ten-year, noncancellable-operating lease expiring December 2016, with options to extend for two additional five-year terms. The Bank also has leased space for its second branch facility. This lease is a ten-year, noncancellable-operating lease expiring September 2018, with options to extend for two additional five-year terms. The following is a schedule of estimated future minimum rental payments at December 31, 2011:

Years ending December 31, 2012	\$	168,102
2013		172,891
2014		177,860
2015		183,015
2016		175,610
Thereafter		<u>43,758</u>
	\$	<u>921,236</u>

Rental expense under all operating leases was \$190,222, for the year ended December 31, 2011 and \$166,261 for the year ended December 31, 2010.

**Legal contingencies** – The Bank may become a defendant in certain claims and legal actions arising in the ordinary course of business. There can be no assurance that the ultimate outcome will not differ materially from the Bank’s assessment of each matter. There can also be no assurance that all matters that may be brought against the Bank are known at any point in time. In the opinion of management, after consultation with legal counsel, there are no matters presently known to the Bank that are expected to have a material adverse effect on the Bank’s financial condition or results of operations.

#### Note 17 – Regulatory Matters

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

**CENTERPOINTE COMMUNITY BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 17 – Regulatory Matters (continued)**

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined by regulation) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2011, that the Bank meets all regulatory requirements to which it is subject.

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

	Actual		For Capital Adequacy Purposes		To Be Considered Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
December 31, 2011						
Total capital (to risk-weighted assets)	\$ 8,180	12.95%	\$ 5,052	≥8%	\$ 6,315	≥10%
Tier 1 capital (to risk-weighted assets)	\$ 7,446	11.79%	\$ 2,526	≥4%	\$ 3,789	≥6%
Tier 1 capital (to average assets)	\$ 7,446	8.71%	\$ 3,420	≥4%	\$ 4,275	≥5%
December 31, 2010						
Total capital (to risk-weighted assets)	\$ 6,984	11.59%	\$ 4,820	≥8%	\$ 6,025	≥10%
Tier 1 capital (to risk-weighted assets)	\$ 6,342	10.53%	\$ 2,410	≥4%	\$ 3,615	≥6%
Tier 1 capital (to average assets)	\$ 6,342	8.75%	\$ 2,900	≥4%	\$ 3,625	≥5%

# CENTERPOINTE COMMUNITY BANK

## NOTES TO FINANCIAL STATEMENTS

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### Note 18 – Fair Values of Financial Instruments

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

	Fair Value Measurements at Report Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Recurring items at December 31, 2011</u>				
Available-for-sale investment securities				
Agency-backed collateralized mortgage obligations	\$ 11,506,669	\$ -	\$ 11,506,669	\$ -
Agency-backed structured notes	3,445,875	-	3,445,875	-
Corporate debt obligations	302,052	-	302,052	-
Total	\$ 15,254,596	\$ -	\$ 15,254,596	\$ -
<u>Recurring items at December 31, 2010</u>				
Available-for-sale investment securities				
Agency-backed collateralized mortgage obligations	\$ 2,074,242	\$ -	\$ 2,074,242	\$ -
Agency-backed structured notes	3,107,912	-	3,107,912	-
Corporate debt obligations	306,228	-	306,228	-
Total	\$ 5,488,382	\$ -	\$ 5,488,382	\$ -