National Capital Bank

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2015 Annual Report

The National Capital Bank of Washington

Highlights 2015

Year ended December 31 *Dollars in thousands, except per share data*	2015	2014	% Change
ANNUAL RESULTS			
Net Income	$6,587	-$7,106	192.70%
Net Income (Loss) per Common Share*	22.90	-24.70	192.70%
Common Dividends Paid per Share	1.50	6.00	-75.00%
PERFORMANCE RATIOS BASED ON NET INCOME			
Return on Average Assets	1.54%	-1.64%	193.93%
Return on Average Common Shareholders' Equity	19.42%	-18.10%	207.30%
Net Interest Margin[1]	2.72%	2.83%	-3.89%
Cost Efficiency Ratio	74.04%	65.41%	13.19%
(As reported to The Comptroller of Currency)			
SELECTED AVERAGE BALANCES			
Total Assets	$428,101	$433,748	-1.30%
Total Earning Assets	411,201	420,423	-2.19%
Total Gross Loans	228,641	247,201	-7.51%
Total Deposits	379,122	375,339	1.01%
Non Interest	106,551	99,229	7.38%
Interest	272,571	276,110	-1.28%
Total Repurchase Agreements	12,938	18,200	-28.91%
Total Stockholders Equity	33,916	39,258	-13.61%
SELECTED YEAR-END BALANCES			
Total Assets	$411,914	$427,383	-3.62%
Total Earning Assets	395,362	413,426	-4.37%
Total Gross Loans	216,005	239,093	-9.66%
Allowance for Loan Losses	4,854	8,036	-39.60%
Total Deposits	364,310	381,973	-4.62%
Non Interest	108,378	99,667	8.74%
Interest	255,932	282,306	-9.34%
Total Repurchase Agreements	8,473	12,901	-34.32%
Total Shareholders' Equity	37,914	31,590	20.02%
Total Shares of Common Stock	287,652	287,652	0.00%
CAPITAL RATIOS			
Average Shareholders' Equity to Average Assets at Year-end	7.92%	9.05%	-12.47%
Shareholders' Equity to Assets at Year-end	9.20%	7.39%	24.53%
Common Stock, Per Share:			
Book Value	$131.80	$109.82	20.02%
Market Price	155.00	298.00	-47.99%
*Average Shares Outstanding	287,652	287,652	0.00%

1. Total revenue is comprised of net interest income presented on a fully-taxable equivalent (FTE) basis and income. The net interest margin and efficiency ratios are presented on an FTE basis. The FTE basis adjusts for the tax-favored status of income from certain loans comparability of net income and enhances comparability of net interest income arising from taxable and tax-exempt sources.

To Our Shareholders

2015 was a year of transition for your Bank: Transition to management which better suits our growth and plans for the future.

The Board of Directors of The National Capital Bank elected Thomas A. Barnes as Interim President and Chief Executive Officer effective January 4, 2016. Mr. Barnes is former President and CEO of the Cooperative Bank in Roslindale, Massachusetts and prior Deputy Director for Examinations, Supervision, and Consumer Protection at the Office of Thrift Supervision.

Many things have changed in the banking industry since the financial crisis of 2008. As you know, this crisis led to the failure of a large number of banks in the United States. The Federal Deposit Insurance Corporation (FDIC) closed 465 troubled banks from 2008 to 2012. In contrast, in the five years prior to 2008, only 10 banks failed. As a result, prudent bankers are revamping policies and hiring additional staff to concentrate on the ongoing reassessment and management of "internal risk."

This has particularly been true here at National Capital Bank. On August 25, 2015, the Bank entered into a Formal Agreement with the Office of the Comptroller of the Currency ("OCC") to

We are keenly aware of the confidence our customers and investors place in us. Our leadership team and professional staff will continue to earn this trust by its unwavering commitment to service, compliance, and responsible lending.

address and improve banking practices relating to credit administration, internal controls, and management and Board oversight. Articles of the Formal Agreement require the Bank to establish a Compliance Committee, prepare a new Strategic Plan, ensure competent management, develop and adopt a new Capital Plan, develop a new Loan Portfolio Management program, provide for a new Internal Loan Review program, adopt a new Criticized Asset plan, improve its Allowance for Loan Loss program, and to adopt a new Audit program. The Board and management of the Bank have committed to full compliance with the Formal Agreement. The Bank believes, at this moment in time, that it is in substantial compliance with the Formal Agreement, which will be reviewed by the OCC during 2016.

Management's Discussion & Analysis of Operating Results

Restatement of 2014 Financials

As previously reported on July 28, 2015, the Bank issued notice of Non-reliance on Audited Financial Statements for 2014. Credit quality issues were identified in early 2015 that required the Bank to restate its financial statements for 2014.

Three unsecured commercial lines of credit totaling $7.2 million were downgraded from pass quality to loss and were charged-off as of December 31, 2014. Collection efforts by the Bank during 2015 resulted in the recovery of $3.8 million of the charged-off balances.

Two additional unsecured commercial lines of credit totaling $6.5 million were downgraded from pass quality to substandard and were placed on non-accrual status as of December 31, 2014. Collection efforts by the Bank during 2015 resulted in the pay-off of one of the loans in the amount of $1.6 million. The second loan, in the amount of $4.9 million, was partially collateralized by residential real estate, the bank received $427,000 in principal curtailments and has a specific reserve in the Allowance for Loan Losses of $1.8 million as of December 31, 2015.

Due to the increased amount of substandard and charged-off loans, the Bank increased the amount of its Allowance for Loan Losses from $2.0 million, as originally reported, to $8.0 million, restated as of December 31, 2014. The related Provision for Loan Losses charged to earnings increased from $3.9 million, as originally reported, to $13.2 million, as restated, to increase and replenish the $7.2 million of additional charge-offs and to bring the Allowance for Loan Losses to an adequate level. The combination of collection efforts and loan recoveries during 2015 brought the required Allowance for Loan Losses down to $4.9 million at December 31, 2015.

Net income after taxes was originally reported as $714,000 for the year ended December 31, 2014. Due to the above changes in the Provision for Loan Losses and the Allowance for Loan Losses, the restated net after taxes became a $7.1 million loss. During 2015, loan recoveries and improvements in credit quality resulted in a reverse Provision for Loan Loss in the amount of $7.3 million and the reporting of net income after taxes of $6.6 million for the year ended December 31, 2015.

BALANCE SHEET

At December 31, 2015, total assets of the Bank were $411.9 million, down from $427.4 million the year before. The primary reason for the decrease was the $23.1 million reduction in loans due to planned runoff of $5.5 million of unsecured commercial lines of credit along with unplanned runoff of $15.4 million of residential mortgages. During 2015, the Bank hired a new Chief Lending Officer to improve the credit quality of the Bank and to rebuild the commercial lending team for future growth. Investment securities increased from $157.0 million at December 31, 2014 to $171.7 million at December 31, 2015 with the changes in loan balances and management of excess liquidity. Total deposits decreased from $382.0 million to $364.3 million, year over year, primarily due to efforts to reduce deposit concentrations with one large commercial relationship.

CAPITAL

Total stockholders' equity was originally reported at $39.4 million at December 31, 2014 and was subsequently reduced to $31.6 as a result of the effects of the Bank's credit quality issues. At December 31, 2015, total stockholder's equity had improved to $37.9 million. Dividends to stockholders were placed on hold after the first quarter of 2015 while the Bank rebuilds its capital to levels to support future growth and profitability. At December 31, 2015, the Bank's Tier 1 leverage ratio was 9.27%. While this ratio was formerly required by regulatory standards to be above 5% for consideration as "well capitalized", Basel III will require a new minimum of 8.5% by the end of 2018.

OUTLOOK

Improving our income, preserving capital, mitigating risk, and protecting your investment are central to our ongoing business strategy. All of the above must and will be done while keeping our commitment to quality customer care and faithful support for our communities.

For more than 125 years, the National Capital Bank of Washington has embraced the highest standards of service and accountability. Yet, we continue to improve. The changes we have made, and will continue to make, guarantee our commitment to these standards and insure a prosperous future.

EXPECTATIONS FOR 2016

2016 will remain a transition year for the Bank in terms of building both commercial and mortgage lending teams as well as improving upon internal controls and compliance. The Bank expects to have a permanent President/CEO in place by the end of the second quarter. We plan to intentionally limit growth of the balance sheet while increasing loans by selling off portions of the investment portfolio rather than fund new loans with additional deposits. These actions will allow the Bank to preserve and further rebuild its capital and to provide for future core earnings.

Income Statement

For the year ended December 31, 2015, the Bank reported net income of $6.6 million compared to a restated net loss of $7.1 million for the year ended December 31, 2014. The pretax reversal of provision for loan losses in the amount of $7.3 million supplemented $3.4 million of pretax core earnings from the regular operation of the Bank.

Officers

Thomas A. Barnes
Interim President & Chief Executive Officer

R. Andrew Didden, Jr.
Senior Vice President

Jeffrey L. Karafa
Senior Vice President

Debra A. Keats
Senior Vice President

Joseph Marchese
Senior Vice President

David M. Glaser
Vice President

Ryan W. McKinley
Vice President

Rafael Rodriguez
Vice President

James H. Thompson, III
Vice President

Elizabeth D. Venegas
Vice President

Amy M. Woodward
Vice President

Keith Arnold
Assistant Vice President

Juan J. Elias
Assistant Vice President

Fatima P. Fonseca
Assistant Vice President

Sharon T. Peters
Assistant Vice President

Matthew J. Schindler
Assistant Vice President

Scott Schoenborn
Assistant Vice President

Robin P. Anderson
Banking Officer

Kirk C. Birdsong
Banking Officer

Carmella G. Elliott
Banking Officer

Daniel Solomonraj
Banking Officer

Sherri Waid
Banking Officer

COMSTOCK AND REILLY, LLP
General Counsel

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1-888-NCB-WASH

Member: Federal Reserve System and Federal Deposit Insurance Corporation
This statement has not been reviewed, or confirmed for accuracy or relevance by the Office of the Comptroller of the Currency.

Board of Directors

Robert F. Comstock
Attorney at Law
Chairman of the Board

Thomas A. Barnes
Interim President &
Chief Executive Officer

R. Andrew Didden, Jr.
Senior Vice President
National Capital Financial Group

Donald A. Didden
Executive Vice President (retired)

James M. Didden
Senior Relationship Manager
& Marketing Advisor

Kathryn H. Didden
Investor

Robert B. Donohoe
Chief Executive Officer
The Donohoe Companies, Inc.

William J. Durkin, Jr.
Attorney at Law

George T. Pedas
Attorney at Law

William T. Pedas
Vice President
Circle Management

Dennis T. Scurletis
Managing Member
S D Capital Partners LLC

STEGMAN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS SINCE 1915

To the Board of Directors and Stockholders
The National Capital Bank of Washington
Washington, DC

We have audited the accompanying financial statements of The National Capital Bank of Washington (the "Bank"), which comprise the balance sheet as of December 31, 2015, and the related statement of income (loss), comprehensive income (loss), changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the

Independent Auditors' Report

purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

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

OTHER MATTER

The financial statements of the Bank, as of and for the year ended December 31, 2014, before they were restated for the matter discussed in Note 2 to the financial statements, were audited by other auditors whose report dated February 18, 2015 expressed an unmodified opinion on those statements.

Stegman & Company

Baltimore, Maryland

February 25, 2016

The National Capital Bank of Washington
Balance Sheets
December 31, 2015 and 2014

Assets	**2015**	2014 (restated)
Cash and due from banks	**$ 4,709,543**	$ 5,082,337
Interest-bearing deposits	**7,657,951**	14,035,000
Total cash and cash equivalents	**12,367,494**	19,117,337
Investment securities:		
Available-for-sale, at fair value	**171,253,237**	156,590,090
Restricted stock, at cost	**445,750**	436,150
Total investment securities	**171,698,987**	157,026,240
Loans receivable, net of allowance for loan losses of $4,854,100 (2015) and $8,036,077 (2014)	**211,151,008**	231,056,848
Bank premises and equipment, net	**2,319,643**	2,375,184
Bank-owned life insurance	**8,490,657**	8,273,047
Deferred income taxes	**3,417,131**	7,329,898
Accrued interest and other assets	**2,469,350**	2,204,640
Total Assets	**$ 411,914,270**	$ 427,383,194
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	**$ 108,378,016**	$ 99,666,794
Interest-bearing	**255,932,199**	282,306,601
Total deposits	**364,310,215**	381,973,395
Securities sold under agreements to repurchase	**8,472,628**	12,900,602
Accrued interest and other liabilities	**1,217,725**	919,477
Total Liabilities	**374,000,568**	395,793,474
Commitments and contingent liabilities	**-**	-
Stockholders' Equity:		
Common stock, $1.25 par value per share - 400,000 shares authorized, 287,652 issued and outstanding at December 31, 2015 and 2014	**359,565**	359,565
Additional paid-in capital	**1,438,260**	1,438,260
Retained earnings	**37,891,326**	31,735,936
Accumulated other comprehensive loss	**(1,775,449)**	(1,944,041)
Total Stockholders' Equity	**37,913,702**	31,589,720
Total Liabilities and Stockholders' Equity	**$ 411,914,270**	$ 427,383,194

See Notes to Financial Statements.

Financial Report

The National Capital Bank of Washington
Statements of Income (Loss)
Years Ended December 31, 2015 and 2014

	2015	2014 (restated)
Interest Income:		
Loans, including fees	$ 9,392,138	$ 10,352,765
Investment securities	2,252,689	2,102,265
Interest-bearing deposits	63,977	77,636
Total interest income	11,708,804	12,532,666
Interest Expense:		
Deposits	502,651	597,223
Securities sold under agreements to repurchase and short-term borrowings	12,940	18,202
Total interest expense	515,591	615,425
Net Interest Income	11,193,213	11,917,241
(Recovery) Provision for Loan Losses	(7,278,768)	17,086,104
Net Interest Income after (Recovery) Provision for Loan Losses	18,471,981	(5,168,863)
Noninterest Income:		
Service charges on deposit accounts	379,805	337,157
Other service charges and fees	89,723	79,728
Rental income	1,370,184	1,377,547
Asset management fees	782,378	715,405
Net gain on sale of investment securities	104,452	252,345
Bank-owned life insurance income	217,610	273,077
Other income	297,386	320,055
Total noninterest income	3,241,538	3,355,314
Noninterest Expense:		
Salaries and employee benefits expense	5,936,986	6,144,011
Occupancy expense	1,058,857	902,882
Equipment expense	219,293	208,949
Professional fees	1,532,887	952,808
FDIC assessments	472,000	342,000
Data processing expense	684,039	532,358
Insurance expense	95,133	75,462
Other expense	1,043,521	1,307,328
Total noninterest expense	11,042,716	10,465,798
Income (Loss) Before Income Taxes (Benefit)	10,670,803	(12,279,347)
Provision (Benefit) for Income Taxes	4,083,937	(5,173,823)
Net Income (Loss)	$ 6,586,866	$ (7,105,524)
Basic and Diluted Earnings (Loss) Per Share of Common Stock	$ 22.90	$ (24.70)
Average Shares Outstanding	287,652	287,652
Dividends	$ 1.50	$ 6.00

See Notes to Financial Statements.

The National Capital Bank of Washington
Statements of Comprehensive Income (Loss)
Years Ended December 31, 2015 and 2014

	2015	2014 (restated)
Net Income (Loss)	**$ 6,586,866**	$ (7,105,524)
Other comprehensive income (loss):		
Unrealized gains on securities available for sale, net of tax of $157,938 and $1,721,294, respectively	**231,263**	2,520,436
Reclassification adjustment, net of tax of ($41,781) and ($102,402), respectively	**(62,671)**	(149,943)
Total other comprehensive income	**168,592**	2,370,493
Total Comprehensive Income (Loss)	**$ 6,755,458**	$ (4,735,031)

See Notes to Financial Statements.

The National Capital Bank of Washington
Statements of Changes in Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balances, January 1, 2014	287,652	$ 359,565	$ 1,438,260	$ 40,567,372	$ (4,314,534)	$ 38,050,663
Net loss				(7,105,524)		(7,105,524)
Other comprehensive income, net of tax					2,370,493	2,370,493
Cash dividends declared ($6.00 per share)				(1,725,912)		(1,725,912)
Balances, December 31, 2014 (restated)	**287,652**	**359,565**	**1,438,260**	**$ 31,735,936**	**$ (1,944,041)**	**$ 31,589,720**
Net income				**6,586,866**		**6,586,866**
Other comprehensive income, net of tax					**168,592**	**168,592**
Cash dividends declared ($1.50 per share)				**(431,476)**		**(431,476)**
Balances, December 31, 2015	**287,652**	**$ 359,565**	**$ 1,438,260**	**$ 37,891,326**	**$ (1,775,449)**	**$ 37,913,702**

See Notes to Financial Statements.

The National Capital Bank of Washington
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014 (restated)
Cash Flows From Operating Activities:		
Net income (loss)	$ 6,586,866	$ (7,105,524)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	315,476	289,571
(Recovery) Provision for loan losses	(7,278,768)	17,086,104
Accretion and amortization on investments, net	93,007	132,213
Deferred income tax (benefit)	3,794,615	(5,442,006)
Realized loss on disposal of fixed assets	54,694	700
Realized gain on sales/calls of available-for-sale securities	(104,452)	(252,345)
Net change in:		
Cash surrender value of BOLI	(217,610)	(273,047)
Accrued interest and other assets	(264,709)	(757,392)
Accrued interest and other liabilities	298,248	577,115
Net cash provided by operating activities	3,277,367	4,255,389
Cash Flows From Investing Activities:		
Loan (originations) and principal payments, net	27,184,611	(2,680,843)
Activity in available-for-sale securities:		
Purchases	(76,802,341)	(59,716,576)
Sales, maturities, paydowns, and calls	62,437,382	25,694,566
Net change in restricted stock	(9,600)	(382,200)
Purchase of bank-owned life insurance	-	(8,000,000)
Purchase of premises and equipment	(314,632)	(190,708)
Net cash provided by (used in) investing activities	12,495,420	(45,275,761)
Cash Flows From Financing Activities:		
(Decrease) increase in interest accounts, demand deposits and savings accounts	(18,568,319)	10,779,943
Increase (decrease) in time deposits	905,139	(5,218,637)
(Decrease) Increase in repurchase agreements	(4,427,974)	3,199,965
Dividends paid	(431,476)	(1,725,912)
Net cash (used in) provided by financing activities	(22,522,630)	7,035,359
Decrease in Cash and Cash Equivalents	(6,749,843)	(33,985,013)
Cash and Cash Equivalents, Beginning of Year	19,117,337	53,102,350
Cash and Cash Equivalents, End of Year	$ 12,367,494	$ 19,117,337
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 517,691	$ 623,464
Taxes	$ -	$ 850,039

See Notes to Financial Statements.

The National Capital Bank of Washington
Notes to Financial Statements

Note 1. Nature of Banking Activities and Significant Accounting Policies

Nature of Operations: The National Capital Bank of Washington (the "Bank") operates under a national bank charter and provides full banking services principally to customers in the Washington, D.C. metropolitan area. As a national bank, the Bank is subject to regulations of the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC"). The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and other-than-temporary impairment of securities.

Investment Securities: Debt and equity securities are segregated into the following three categories: trading, held-to-maturity, and available-for-sale. Trading securities are purchased and held principally for the purpose of reselling them within a short period of time. Unrealized gains and losses on trading securities are included in earnings. As of December 31, 2015 and 2014, the Bank did not hold any trading or held-to-maturity securities.

Securities classified as held-to-maturity are accounted for at amortized cost and require the Bank to have both the positive intent and ability to hold these securities to maturity. Securities not classified as either trading or held-to-maturity are considered to be available-for-sale and are carried at fair value. Unrealized gains and losses on available-for-sale securities are reported, net of taxes, in accumulated other comprehensive income until realized. Realized gains or losses on the sale of securities are reported in earnings and are determined using the adjusted cost of the specific security sold. Interest income is accrued on the investment's face value. Purchase premium and discounts are recognized in interest income using the interest method over the term of the securities.

Investment securities are impaired when fair value is less than cost. An impairment is considered "other than temporary" if any of the following conditions are met: the Bank intends to sell the security, it is more likely than not that the Bank will be required to sell the security before the recovery of its amortized cost basis, or the Bank does not expect to recover the security's entire amortized cost basis (even if the Bank does not intend to sell). The Bank does not have any securities impairment that is considered "other than temporary" at December 31, 2015 and 2014.

Due to the nature and restrictions placed on the Bank's investment in common stock of the Federal Reserve Bank, these securities are classified as restricted stock and carried at cost.

Loans: Loans are reported at their recorded investment, which is the principal amount outstanding, as adjusted for net deferred fees or cost of loan originations. The balance of the allowance for loan losses is netted against the recorded investment in loans on the balance sheet. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the yield on the related loans using the interest method. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on all classes of loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal in accordance with the loan's contractual terms, or when a loan becomes contractually past due by ninety days or more with respect to principal or interest. All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest. Loans are considered past due when the borrower is not current with their payments in accordance with the contractual terms of their loan agreement.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Allowance For Loan Losses: An allowance for loan losses is maintained at a level deemed appropriate by management to provide for known and inherent risks that are probable within the loan portfolio. The allowance is based upon management's continuing assessment of various factors affecting the collectibility of loans, including current economic conditions, past credit experience, the value of the underlying collateral, and such other factors as in management's judgment deserve current recognition in estimating probable credit losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans deemed uncollectible are charged off and deducted from the allowance, while subsequent recoveries are credited to the allowance. For collateral dependent loans delinquent after 180 days, the Bank obtains a new valuation. Any outstanding balance greater than the new valuation, less estimated selling costs will be charged off. Commercial, installment, and credit card loans delinquent after 120 days will be charged off unless there is fraudulent activity or bankruptcy proceedings where loans will be charged off sooner.

The allowance consists of specific, general and unallocated components. For 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-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect 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.

Management has an established internally developed methodology to determine the adequacy of the allowance for loan losses that assesses the risks inherent in the loan portfolio. For purposes of determining the allowance for loan losses, management has segmented certain loans in the portfolio by product type. The loan portfolio is segmented based on risk characteristics into the following segments: real estate, commercial, installment and credit cards. Particular characteristics associated with each segment are detailed below:

- Real Estate: Loans secured by commercial real estate carry risks associated with the success of the business and ability to generate a positive cash flow sufficient to service debts and changes in the value of the collateral. Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Commercial: These loans not secured by real estate carry risks associated with the successful operation of a business and the repayment of these loans depends on the profitability and cash flows of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise. In addition, these loans may be unsecured.
- Installment: These loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles, which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. These loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy.
- Credit cards: These loans are unsecured and carry risk associated with the continued creditworthiness of the borrower. These loans are immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy.

As the first step in determining the general component of the allowance for loan losses, management uses the average five year charge-off history for each segment of the portfolio. The historical loss percentage calculated is applied to the quarter end balance of each portfolio segment. The historical component is further adjusted by management's evaluation of various conditions per segment including the economy, concentrations of credit risk, trends in portfolio growth, changes in lending practice, changes in experience and depth of lending staff, changes in value and severity of past due loans and adversely classified loans, changes in collateral value of real estate loans and the effects of external factors including competition, legal and regulatory risks.

The National Capital Bank of Washington
Notes to Financial Statements

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Allowance For Loan Losses (Continued): To determine the specific reserve component of the allowance for loan losses, management evaluates all impaired loans to determine the amount of anticipated loss. The Bank evaluates all segments of loans for impairment except for installment loans and credit card loans. Accordingly, the Bank does not separately identify installment loans and credit card loans for impairment disclosures, unless such loans are the subject of a restructuring agreement. A loan is considered impaired when management determines that it is probable that the Bank will be unable to collect all amounts due according to the original contractual terms of the loan agreement. Impaired loans are carried at the estimated present value of total expected future cash flows, discounted at the loan's effective rate, or the fair value of the collateral, if the loan is collateral-dependent, or if less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount).

There were no material changes in the Bank's allowance for loan loss methodology during 2015 or 2014.

Troubled Debt Restructurings: In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

Premises and Equipment: Land is carried at cost. Property 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 between 3 and 31 years.

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of premises and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in noninterest income and noninterest expenses, respectively.

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. As of and during the years ended December 31, 2015 and 2014, the Bank did not have any foreclosed assets.

Bank-Owned Life Insurance: The Bank has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Earnings Per Share Of Common Stock: The Bank has a simple capital structure, with no potential common stock outstanding, such as stock options or warrants. Earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the year.

Income Taxes: Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on the currently enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period adjusted for the change during the period in deferred tax assets and liabilities.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Income Taxes (Continued): When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income. As of December 31, 2015 and 2014, there was no liability recorded for unrecognized tax benefits.

Advertising Costs: Advertising costs are expensed as incurred. Advertising costs were $73,871 and $177,887 for the years ended December 31, 2015 and 2014, respectively.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Cash and Cash Equivalents: For purposes of the statement of cash flows, cash equivalents are highly liquid investments with original maturities of three months or less and include cash and due from banks and federal funds sold. Included in cash and due from banks on the balance sheets were restricted funds on required deposit with the Federal Reserve Bank totaling $8,986,000 and $8,802,000 at December 31, 2015 and 2014, respectively.

In addition, the Bank maintains cash balances in other correspondent banks that may exceed federally insured limits. The Bank has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

Interest-Bearing Deposits in Banks: Interest-bearing deposits in banks mature within one year and are carried at cost.

Rental Income: Rental income is recognized when earned in accordance with the terms of the respective leases on a straight-line basis for the period of occupancy using the average monthly rental. Accordingly, rental income is recognized over the terms of the respective leases.

Comprehensive Income (Loss): Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported in a separate Statement of Comprehensive Income (Loss). Such items, along with net income, are components of comprehensive income (loss). All the Bank's other comprehensive income (loss) relates to unrealized gains and losses on available-for-sale securities for the years ended December 31, 2015 and 2014.

Reclassifications: Certain 2014 balances have been reclassified to conform to the 2015 financial statement presentation. These reclassifications were immaterial.

The National Capital Bank of Washington
Notes to Financial Statements

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued):

In August 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". The amendments in this ASU apply to creditors that hold government-guaranteed mortgage loans and are intended to eliminate the diversity in practice related to the classification of these guaranteed loans upon foreclosure. The new guidance stipulates that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if (1) the loan has a government guarantee that is not separable from the loan prior to foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a 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 is fixed. Upon foreclosure, the other receivable should be measured on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Entities may adopt the amendments on a prospective basis or modified retrospective basis as of the beginning of the annual period of adoption; however, the entity must apply the same method of transition as elected under ASU 2014-04. The ASU became effective for the Bank on January 1, 2015 and did not have a material impact on the Bank's financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items". The amendments in this ASU eliminate from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Bank does not expect the adoption of ASU 2015-01 to have a material impact on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

The National Capital Bank of Washington
Notes to Financial Statements

Note 2. Restatement of Financial Statements

Subsequent to the issuance of the Bank's audited financial statements for the year ended December 31 2014, the Bank's regulators discovered several loans with deteriorated credit quality and mandated that $7,173,579 in commercial unsecured loans be charged-off and that additional unsecured commercial loans totaling $6,504,881 be adversely classified and specific reserves of $1,552,111 be established. These issues resulted in significant changes to the Bank's allowance for loan losses as well as other deficiencies that are described more fully in the following table. Management is in agreement with the regulatory mandates.

Accordingly, the December 31, 2014 financial statements have been restated to account for these changes. The effect on the financial statements is as follows:

	2014		
	As Originally Reported	**Change**	**As Restated**
Balance Sheet			
Assets			
Loans receivable	$ 246,266,176	$ (7,173,251)	$ 239,092,925
Allowance for Loan Loss	(2,049,961)	(5,986,116)	(8,036,077)
Net Loans	244,216,215	(13,159,367)	231,056,848
Deferred tax assets	2,192,739	5,137,159	7,329,898
Tax receivable	379,501	202,216	581,717
Total Assets	435,203,186	(7,819,992)	427,383,194
Liabilities and Stockholders' Equity			
Retained earnings	39,555,928	(7,819,992)	31,735,936
Total Stockholders' Equity	39,409,712	(7,819,992)	31,589,720
Statement of Income (Loss)			
Provision for Loan Losses	3,926,737	13,159,367	17,086,104
Net Interest Income after Provision for Loan Losses	7,990,504	(13,159,367)	(5,168,863)
Income Before Income Taxes (Benefit)	880,020	(13,159,367)	(12,279,347)
Provision (Benefit) for Income Taxes	165,552	(5,339,375)	(5,173,823)
Net Income (Loss)	$ 714,468	$ (7,819,992)	$ (7,105,524)
Earnings (Loss) Per Share	$ 2.48	$ (27.18)	$ (24.70)

The National Capital Bank of Washington
Notes to Financial Statements

Note 3. Investment Securities

Investment securities are summarized as follows at December 31:

	2015			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale:				
Debt securities:				
U.S. Treasury & agency obligations	**$ 129,179,951**	**$ 41,906**	**$ (2,160,033)**	**$ 127,061,824**
Residential Mortgage-backed securities	**37,357,776**	**10,270**	**(208,499)**	**37,159,547**
	166,537,727	**52,176**	**(2,368,532)**	**164,221,371**
Equity securities:				
Mutual funds	**7,700,462**	**-**	**(668,596)**	**7,031,866**
Total securities available-for-sale	**$ 174,238,189**	**$ 52,176**	**$ (3,037,128)**	**$ 171,253,237**
Restricted stock, at cost	**$ 445,750**	**$ -**	**$ -**	**$ 445,750**

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Debt securities:				
U.S. Treasury & agency obligations	$ 151,136,031	$ 29,104	$ (2,759,604)	$ 148,405,531
Residential Mortgage-backed securities	1,025,292	3,124	-	1,028,416
	152,161,323	32,228	(2,759,604)	149,433,947
Equity securities:				
Mutual funds	7,700,000	-	(543,857)	7,156,143
Total securities available-for-sale	$ 159,861,323	$ 32,228	$ (3,303,461)	$ 156,590,090
Restricted stock, at cost	$ 436,150	$ -	$ -	$ 436,150

Note 3. Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position follows at December 31:

	2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Treasury & agency obligations	**$ 60,024,395**	**$ (589,636)**	**$ 43,931,708**	**$ (1,570,397)**	**$ 103,956,103**	**$ (2,160,033)**
Mortgage-backed securities	**29,211,956**	**(208,499)**	**-**	**-**	**29,211,956**	**(208,499)**
Equity securities:						
Mutual funds	**-**	**-**	**7,031,866**	**(668,596)**	**7,031,866**	**(668,596)**
	$ 89,236,351	**$ (798,135)**	**$ 50,963,574**	**$ (2,238,993)**	**$ 140,199,925**	**$ (3,037,128)**

	2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Treasury & agency obligations	$ 40,237,502	$ (308,284)	$ 93,017,180	$ (2,451,320)	$ 133,254,682	$ (2,759,604)
Equity securities:						
Mutual funds	7,156,143	-	-	(543,857)	7,156,143	(543,857)
	$ 47,393,645	$ (308,284)	$ 93,017,180	$ (2,995,177)	$ 140,410,825	$ (3,303,461)

At December 31, 2015, fifty-five securities with a fair value of $110,987,969 had gross unrealized losses of $3,037,128. At December 31, 2014, fifty-three securities with a fair value of $140,410,825 had gross unrealized losses of $3,303,461. As of December 31, 2015 and 2014, the Bank's unrealized losses in debt securities are related to interest rate fluctuations. Since the Bank does not intend to sell any of the investments before recovery of its amortized cost basis and has the ability and intent to hold these investments to maturity, the Bank does not consider these investments to be other-than-temporarily impaired. Based on the Bank's evaluation and ability and intent to hold equity securities for a reasonable period of time sufficient for a forecasted recovery of fair value, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2015 and 2014. The Mutual funds consist of Treasury Inflation-Protected Securities.

The amortized cost and estimated fair value of debt securities at December 31, 2015, by contractual maturity are shown in the table that follows. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following summary.

The National Capital Bank of Washington
Notes to Financial Statements

Note 3. Investment Securities (Continued)

	Available-for-Sale	
	Amortized Cost	**Fair Value**
Due less than one year	$ 4,000,000	$ 3,991,820
Due after one year through five years	83,502,591	82,732,029
Due after five years through ten years	34,452,835	33,604,020
Due after ten years	7,224,525	6,733,955
Mortgage-backed securities	37,357,776	37,159,547
	$ 166,537,727	$ 164,221,371

Investment securities with an amortized cost of $20,923,070 and $39,390,184 and fair market value of $20,719,446 and $38,409,624, were pledged to secure repurchase agreements and for other purposes as required or permitted by law at December 31, 2015 and 2014, respectively.

For the years ended December 31, 2015 and 2014, proceeds from sales of securities available-for-sale amounted to $16,514,824 and $15,953,352, respectively; gross realized gains were $104,452 and $252,345, respectively; and gross realized losses were $0 for both years. The tax expense applicable to these net realized gains and losses were ($41,781) and ($102,402), respectively.

Note 4. Loans Receivable

Loans receivable consisted of the following at December 31:

	2015	2014 (restated)
Real estate loans:		
Residential real estate	$ 148,036,553	$ 162,569,898
Commercial real estate	32,928,544	34,806,278
Commercial	32,152,677	37,647,746
Installment	1,702,397	2,860,209
Credit cards	714,430	731,452
	215,534,601	238,615,583
Net deferred loan costs	470,507	477,342
Allowance for loan losses	(4,854,100)	(8,036,077)
Total	$ 211,151,008	$ 231,056,848

The Bank is principally engaged in banking in the Washington, D.C. metropolitan area. The Bank primarily grants commercial and residential loans, the majority of which are secured by real estate. Although the Bank has a diversified portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economy of the Washington, D.C. metropolitan area.

The National Capital Bank of Washington
Notes to Financial Statements

Note 4. Loans Receivable (Continued)

A summary of transactions in the allowance for loan losses is as follows for the years ended December 31, 2015 and 2014 (restated):

Allowance for Loan Losses:	**Real Estate**	**Commercial**	**Installment**	**Credit Cards**	**Total**
Balance, January 1, 2015	**$ 847,974**	**$ 7,166,370**	**$ 6,373**	**$ 15,360**	**$ 8,036,077**
Loans charged off	**-**	**(93,887)**	**-**	**(5,755)**	**(99,642)**
Recoveries	**-**	**4,196,433**	**-**	**-**	**4,196,433**
Net loans charged off	**-**	**4,102,546**	**-**	**(5,755)**	**4,096,791**
(Recovery) Provision for loan losses	**(182,611)**	**(7,094,690)**	**136**	**(1,603)**	**(7,278,768)**
Balance, December 31, 2015	**$ 665,363**	**$ 4,174,226**	**$ 6,509**	**$ 8,002**	**$ 4,854,100**
Ending balance: individually evaluated for impairment	**$ -**	**$ 1,773,335**	**$ -**	**$ -**	**$ 1,773,335**
Ending balance: collectively evaluated for impairment	**$ 665,363**	**$ 2,400,891**	**$ 6,509**	**$ 8,002**	**$ 3,080,765**
Loans Receivable:					
Balance, December 31, 2015	**$ 180,965,097**	**$ 32,152,677**	**$ 1,702,397**	**$ 714,430**	**$ 215,534,601**
Ending balance: individually evaluated for impairment	**$ -**	**$ 4,568,297**	**$ -**	**$ -**	**$ 4,568,297**
Ending balance: collectively evaluated for impairment	**$ 180,965,097**	**$ 27,584,380**	**$ 1,702,397**	**$ 714,430**	**$ 210,966,304**

Allowance for Loan Losses:	Real Estate	Commercial	Installment	Credit Cards	Total
Balance, January 1, 2014	$ 602,075	$ 1,232,077	$ 3,032	$ 25,376	$ 1,862,560
Loans charged off	-	(10,909,572)	-	(3,898)	(10,913,470)
Recoveries	-	883	-	-	883
Net loans charged off	-	(10,908,689)	-	(3,898)	(10,912,587)
Provision for loan losses	245,899	16,842,982	3,341	(6,118)	17,086,104
Balance, December 31, 2014	$ 847,974	$ 7,166,370	$ 6,373	$ 15,360	$ 8,036,077
Ending balance: individually evaluated for impairment	$ -	$ 1,552,111	$ -	$ -	$ 1,552,111
Ending balance: collectively evaluated for impairment	$ 847,974	$ 5,614,259	$ 6,373	$ 15,360	$ 6,483,966
Loans Receivable:					
Balance, December 31, 2014	$ 197,376,176	$ 37,647,746	$ 2,860,209	$ 731,452	$ 238,615,583
Ending balance: individually evaluated for impairment	$ 1,190,124	$ 7,958,067	$ -	$ -	$ 9,148,191
Ending balance: collectively evaluated for impairment	$ 196,186,052	$ 29,689,679	$ 2,860,209	$ 731,452	$ 229,467,392

The National Capital Bank of Washington
Notes to Financial Statements

Note 4. Loans Receivable (Continued)

Management evaluates the credit quality of all loans, except credit cards, based on an internal grading system that estimates the capability of the borrower to repay the contractual terms of their loan agreement as scheduled or at all. The Bank's internal risk grading is based on experiences with similarly graded loans. Management analyzes risk grades on an ongoing basis. In addition, risk grades are validated by an independent loan review performed on a quarterly basis.

The Bank's internally assigned grades are as follows:

- Pass – Loans are supported by adequate financial statements, adequately secured by collateral and borrower demonstrates the ability to repay from normal business operations.
- Watch – Loans paying as agreed with generally acceptable asset quality, however, the borrower's performance has not met expectations. Balance sheet and/or income statement has shown deterioration to the point that the borrower could not sustain any further setbacks. Credit is expected to be strengthened through improved performance and/or additional collateral within a reasonable period of time.
- Special Mention – Loans that have potential weaknesses that deserve management's close attention. If not addressed, these potential weaknesses may result in deterioration of the repayment prospects for the loan. This category also includes loans that are currently performing but have experienced problems in the past.
- Substandard – Loans meeting any of the following conditions: (1) Loans where problems have arisen with the current net worth and/or paying capacity of the borrower, or the collateral pledged, if any, to cause the Bank to further protect its position; (2) Loans having a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; (3) Loans having the distinct possibility that the Bank will sustain some loss if the deficiencies are not satisfactorily corrected.
- Doubtful – Loans classified doubtful have all the weaknesses inherent in one 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 therefore improbable.
- Loss – Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though full or partial recovery may be affected in the future.

The Bank's credit card portfolio is evaluated based on payment activity. Any of these loans over 30 days past due are considered non-performing.

The following table represents the credit quality of loan by class:

December 31, 2015	Pass	Watch and Special Mention	Substandard	Doubtful	Loss
Real estate loans:					
Residential real estate	$ 144,952,939	$ 1,336,855	$ 1,746,759	$ -	$ -
Commercial real estate	32,876,436	-	52,108	-	-
Commercial	21,328,833	2,854,514	7,969,330	-	-
Installment	1,678,314	24,083	-	-	-
Total	$ 200,836,522	$ 4,215,452	$ 9,768,197	$ -	$ -

	Performing	Non-Performing
Credit cards	$ 711,636	$ 2,794

Note 4. Loans Receivable (Continued)

December 31, 2014 (restated)	Pass	Watch and Special Mention	Substandard	Doubtful	Loss
Real estate loans:					
Residential real estate	$ 162,078,331	$ 491,567	$ -	$ -	$ -
Commercial real estate	28,763,144	5,130,378	912,756	-	-
Commercial	25,081,177	1,944,523	10,622,046	-	-
Installment	2,860,209	-	-	-	-
Total	$ 218,782,861	$ 7,566,468	$ 11,534,802	$ -	$ -

	Performing	Non-Performing
Credit cards	$ 730,478	$ 974

Past due loans based on contractual payment status, including loans on nonaccrual status, presented by class before unearned fees were as follows as of December 31, 2015 and 2014:

December 31, 2015	**30 - 59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Recorded Investments > 90 Days Accruing**	**Non-Accrual Loans**
Real estate loans:						
Residential real estate	$ -	$ 47,003	$ 356,579	$ 403,582	$ -	$ -
Commercial real estate	-	-	-	-	-	-
Commercial	8,560	-	250,962	259,522	-	4,568,297
Credit cards	1,404	1,390	-	2,794		-
Total	$ 9,964	$ 48,393	$ 607,541	$ 665,898	$ -	$ 4,568,297

December 31, 2014	**30 - 59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Recorded Investments > 90 Days Accruing**	**Non-Accrual Loans**
Real estate loans:						
Residential real estate	$ -	$ 364,684	$ -	$ 364,684	$ -	$ -
Commercial real estate	-	-	912,756	912,756	-	912,756
Commercial	30,844	34,149	263,062	328,055	-	263,062
Credit cards	866	108	-	974	-	-
Total	$ 31,710	$ 398,941	$ 1,175,818	$ 1,606,469	$ -	$ 1,175,818

The National Capital Bank of Washington
Notes to Financial Statements

Note 4. Loans Receivable (Continued)

The following table presents the Bank's impaired loan balances by portfolio class at December 31:

	2015				
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
Commercial	**$ 2,794,962**	**$ 4,568,297**	**$ 1,773,335**	**$ 3,218,887**	**$ -**

	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real estate loans:					
Residential real estate	$ 277,368	$ 277,368	$ -	$ 280,087	$ 10,633
Commercial real estate	912,756	912,756	-	456,378	-
Commercial	6,767,943	7,090,430	1,552,111	5,685,266	302,504
	$ 7,958,067	$ 8,280,554	$ 1,552,111	$ 6,421,731	$ 313,137

The following table shows the detail of loans by class modified as troubled debt restructurings (TDRs) during the year ended December 31, 2015 and 2014.

	Loans Modified as a TDR During the Year Ended December 31, 2015		
	Number of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial	**2**	**$ 3,642,812**	**$ 3,642,812**

	Loans Modified as a TDR During the Year Ended December 31, 2014		
	Number of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial	**1**	**$ 277,368**	**$ 277,368**

The two loans classified as TDRs in 2015 were concurrently placed on non-accrual. There were no TDRs that defaulted during the year ended December 31, 2014 that were modified within 12 months prior to default. For purposes of this disclosure, a troubled debt restructuring payment default occurs when, within twelve months of the original modification, either the troubled debt restructuring is placed on non-accrual status or a charge-off has occurred. TDRs are individually evaluated for impairment and included in the impaired loan tables.

The National Capital Bank of Washington
Notes to Financial Statements

Note 5. Premises and Equipment

Premises and equipment are comprised of the following at December 31:

	2015	2014
Land and buildings	$ 5,298,281	$ 5,243,567
Furniture and equipment	2,096,276	1,989,305
	7,394,557	7,232,872
Accumulated depreciation	(5,074,914)	(4,857,688)
Premises and equipment, net	$ 2,319,643	$ 2,375,184
Depreciation expense	$ 315,476	$ 289,571

Note 6. Deposits

Deposits as of December 31, are summarized as follows:

	2015		2014	
	Balance	Weighted Average Interest Rate %	Balance	Weighted Average Interest Rate %
Non-interest-bearing	$ 108,378,016	-	$ 99,666,794	-
Interest-bearing:				
Interest checking	80,868,473	0.05	77,040,277	0.05
Money market accounts	98,404,258	0.15	129,260,571	0.15
Savings accounts	19,766,278	0.10	20,017,701	0.10
Certificates of deposit:				
Less than $100,000	15,819,160	0.47	28,945,394	0.56
$100,000 or more	41,074,030	0.44	27,042,658	0.46
Total interest-bearing	255,932,199		282,306,601	
Total deposits	$ 364,310,215		$ 381,973,395	

At December 31, 2015, the balance of certificates of deposit that exceed the FDIC insurance limit of $250,000 was $29,531,293.

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

2016	$ 50,978,125
2017	3,570,498
2018	2,344,567
	$ 56,893,190

Note 7. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase of $8,472,628 and $12,900,602 at December 31, 2015 and 2014 mature within one to ninety days from the transaction date and are secured by U.S. Government securities with a fair value of $20,719,446 and $23,509,510 at December 31, 2015 and 2014, respectively. The weighted average interest rate on these agreements was .10 percent at December 31, 2015 and 2014. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

The National Capital Bank of Washington
Notes to Financial Statements

Note 8. Borrowings

During 2015, the Bank had $18,000,000 in available borrowings with other financial institutions. The interest rate on this agreement is equal to the prevailing federal funds rate. During 2015 and 2014, the Bank did not have an outstanding balance for any period of time. The Bank also has access to the Federal Reserve Bank of Richmond's discount window.

Note 9. Defined Contribution Plan

The Bank has a defined contribution plan that covers substantially all of the Bank's full-time employees. Participants can contribute up to 15%, or the maximum amount allowable by law, of their annual compensation and receive a dollar for dollar matching employer contribution of up to 4% of their annual compensation. Related expenses were $90,854 and $105,395 for the years ended December 31, 2015 and 2014, respectively.

Note 10. Stockholder's Equity

Restriction on dividends: The amount of dividends that the Bank can pay without approval from the Office of the Comptroller of the Currency is limited to its retained net income for the current year plus its retained net income for the preceding two years. At December 31, 2015, the Bank did not have the necessary retained earnings available for the payment of dividends without approval from the Office of the Comptroller of the Currency. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Note 11. Regulatory Matters

The Bank 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

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

As of December 31, 2015, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Common Equity Tier 1, Total Risk-based, Tier 1 Risk-based, and Tier 1 Leverage ratios as set forth in the table that follows. There are no conditions or events since that notification that management believes have changed the Bank's category.

The National Capital Bank of Washington
Notes to Financial Statements

Note 11. Regulatory Matters (Continued)

The Bank's required and actual capital amounts and ratios are set forth in the following tables as of December 31, 2015 and 2014 (restated):

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Active Provisions**	
	Amount		**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2015:						
Common Equity Tier 1 [to Risk Weighted Assets]	**$ 38,763,000**	**20.13%**	**$ 8,656,400**	**≥4.5%**	**$ 12,516,600**	**≥6.5%**
Total Capital [to Risk Weighted Assets]	**41,201,000**	**21.39%**	**$ 15,409,000**	**≥8%**	**$ 19,262,000**	**≥10%**
Tier 1 Capital [to Risk Weighted Assets]	**38,763,000**	**20.13%**	**11,554,000**	**≥6%**	**15,405,000**	**≥8%**
Tier 1 Capital [to Average Assets]	**38,763,000**	**9.27%**	**16,726,000**	**≥4%**	**21,729,000**	**≥5%**

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Active Provisions	
	Amount		Amount	Ratio	Amount	Ratio
As of December 31, 2014:						
Common Equity Tier 1 [to Risk Weighted Assets]	n/a	n/a	n/a	n/a	n/a	n/a
Total Capital [to Risk Weighted Assets]	$ 31,910,000	14.37%	$ 17,765,000	≥8%	$ 22,206,000	≥10%
Tier 1 Capital [to Risk Weighted Assets]	33,206,000	13.15%	10,101,000	≥4%	14,320,000	≥6%
Tier 1 Capital [to Average Assets]	33,206,000	6.78%	19,591,000	≥4%	24,488,000	≥5%

In August 2015, the Bank entered into a formal written agreement (the "agreement") with the Office of the Comptroller of the Currency of the United States of America (the "OCC") that requires the Bank to improve management, Board oversight, audit, and risk management practices. The Bank's Board of Directors is required to implement a detailed strategic plan, ensure competent management, develop a comprehensive capital plan, improve loan portfolio management, enhance internal loan review, assess the adequacy of all audit firms, and correct any violation of law, rule or regulation cited by the OCC. The agreement also requires the bank's Board of Directors to take immediate action to reduce criticized assets, improve credit underwriting and administration practices, establish appropriate loan portfolio management information systems, and development a program for ensuring the accuracy of the allowance for loan losses methodology. The Bank's Board has established a committee that meets regularly to monitor compliance with the agreement. Management and the Board of Directors of the Bank plan to submit all information, policies and reporting to the OCC in accordance with the terms of the agreement.

The National Capital Bank of Washington
Notes to Financial Statements

Note 12. Income Taxes

The Bank files income tax returns in the U.S. federal jurisdiction and the District of Columbia. With few exceptions, the Bank is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2012.

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

	2015	2014 (restated)
Current income tax expense:		
Federal income tax	$ 288,322	$ 267,183
Local income tax	1,000	1,000
Total current income tax expense	289,322	268,183
Deferred income tax expense (benefit)	3,794,615	(5,442,006)
Total income tax expense (benefit)	$ 4,083,937	$ (5,173,823)

A reconciliation of the statutory income tax to the income tax expense included in the financial statements is as follows for the years ended December 31:

	2015	2014 (restated)
Income (loss) before income tax	$ 10,670,803	$ (12,279,347)
Federal tax rate	34%	34%
Tax expense (benefit) at statutory rate	3,628,073	(4,174,978)
Differences resulting from:		
District of Columbia franchise tax, net of federal tax effect	581,729	(922,639)
Nondeductible expenditures	8,444	9,944
Tax exempt income	(74,220)	(93,074)
Other	(60,089)	6,924
Provision (benefit) for income taxes	$ 4,083,937	$ (5,173,823)
Effective tax rate	38.27%	42.13%

The tax effects of items comprising the Bank's net deferred tax assets (liabilities) at December 31 are as follows:

	2015	2014 (restated)
Accumulated depreciation	$ (156,433)	$ (213,579)
Deferred loan costs	(191,001)	(193,724)
Allowance for loan losses	1,969,988	6,040,421
Nonaccrual interest	148,715	105,323
Deferred compensation	332,473	213,845
District of Columbia Net operating loss	103,887	49,958
Unrealized Loss on available-for-sale securities	1,209,502	1,327,654
Net deferred tax asset	$ 3,417,131	$ 7,329,898

Note 13. Fair Value Measurements

The Bank follows authoritative accounting guidance to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The guidance clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The guidance provides key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

Note 13. Fair Value Measurements (Continued)

Authoritative accounting guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Bank to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available-for-sale: Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

The following table presents the balances of assets measured at fair value on a recurring basis as of December 31, 2015 and 2014:

		Fair Value Measurements at December 31, 2015 Using		
Description	**Fair Value as of December 31, 2015**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Assets:				
Available for sale securities:				
U.S treasury & agency obligations	**$ 127,061,824**	**$ -**	**$ 127,061,824**	**$ -**
Mortgage-backed securities	**37,159,547**	**-**	**37,159,547**	**-**
Mutual funds	**7,031,866**	**7,031,866**	**-**	**-**
Total available for sale securities	**$ 171,253,237**	**$ 7,031,866**	**$ 164,221,371**	**$ -**

		Fair Value Measurements at December 31, 2014 Using		
Description	Fair Value as of December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Available for sale securities:				
U.S treasury & agency obligations	$ 148,405,531	$ -	$ 148,405,531	$ -
Mortgage-backed securities	1,028,416	-	1,028,416	-
Mutual funds	7,156,143	7,156,143	-	-
Total available for sale securities	$ 156,590,090	$ 7,156,143	$ 149,433,947	$ -

The National Capital Bank of Washington
Notes to Financial Statements

Note 13. Fair Value Measurements (Continued)

Certain financial and nonfinancial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain financial and nonfinancial assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Bank's collateral is real estate. If the value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Statements of Income.

Other Real Estate Owned (OREO): OREO fair value measurements are the same as impaired loans which are described above. The Bank had no OREO at December 31, 2015 and 2014.

The following table presents the balances of assets measured at fair value on a nonrecurring basis as of December 31, 2015 and 2014 (restated):

		Fair Value Measurements at December 31, 2015 Using		
Description	**Fair Value as of December 31, 2015**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Assets:				
Impaired loans	**$ 4,568,297**	**$ -**	**$ -**	**$ 4,568,297**

		Fair Value Measurements at December 31, 2014 Using		
Description	Fair Value as of December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 7,958,067	$ -	$ -	$ 7,958,067

Note 13. Fair Value Measurements (Continued)

Authoritative accounting guidance requires disclosures of the estimated fair values of financial instruments, which is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The assumptions used by management are more fully detailed on the following page. It should be noted that different assumptions could significantly affect these estimates and the net realizable values could be materially different from the estimates presented below.

The fair value estimates presented are based on pertinent information available as of December 31, 2015 and 2014. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Bank could realize in a current market transaction. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Bank had determined the fair value of its financial instruments using the following assumptions:

Cash and Cash Equivalents, Accrued Interest Receivable and Payable – The fair value of cash and cash equivalents and accrued interest receivable and payable was estimated to equal the carrying value due to the short-term nature of these financial instruments.

Investment Securities – The fair value of securities was estimated based on quoted market prices, dealer quotes, and prices obtained from independent pricing services. The carrying value of restricted stock approximates fair value based on the redemption provisions of the respective entity.

Loans – The fair value of loans receivable was estimated by discounting estimated future cash flows using current rates on loans with similar credit risks and terms.

Bank-Owned Life Insurance – Bank owned life insurance represents insurance policies on officers of the Bank. The cash value of these policies are estimates using information provided by insurance carriers. These policies are carried at their cash surrender value, which approximates the fair value.

Deposits – The fair value of demand and savings deposits was estimated to equal the carrying value due to the short-term nature of the financial instruments. The fair value of time deposits was estimated by discounting estimated future cash flows using current rates on time deposits with similar maturities.

Short-Term Borrowings – The carrying amounts of borrowing under repurchase agreements, and other short-term borrowings maturing within ninety days, approximate their fair values.

Off-Balance-Sheet-Instruments – The estimated fair value of fee income on letters of credit at December 31, 2015 and 2014 was insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 2015 and 2014.

The National Capital Bank of Washington
Notes to Financial Statements

Note 13. Fair Value Measurements (Continued)

		Fair Value Measurements at December 31, 2015 Using			
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Financial Assets:					
Cash and cash equivalents	**$ 12,367,494**	**$ 12,367,494**	**$ -**	**$ -**	**$ 12,367,494**
Investment securities	**171,698,987**	**7,031,866**	**164,667,121**	**-**	**171,698,987**
Loans, net	**211,151,008**	**-**	**208,236,671**	**4,568,297**	**212,804,968**
Bank-owned life insurance	**8,490,657**	**-**	**8,490,657**	**-**	**8,490,657**
Accrued interest receivable	**1,087,037**	**-**	**1,087,037**	**-**	**1,087,037**
Financial Liabilities:					
Deposits	**364,310,215**	**-**	**364,395,737**	**-**	**364,395,737**
Securities sold under agreement to repurchase	**8,472,628**		**8,472,628**	**-**	**8,472,628**
Accrued interest payable	**14,110**	**-**	**14,110**	**-**	**14,110**

		Fair Value Measurements at December 31, 2014 (restated) Using			
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Financial Assets:					
Cash and cash equivalents	$ 19,117,337	$ 19,117,337	$ -	$ -	$ 19,117,337
Investment securities	157,026,240	7,156,143	149,870,097	-	157,026,240
Loans, net	231,056,848	-	219,492,700	7,958,067	227,450,767
Bank-owned life insurance	8,273,047	-	8,273,047	-	8,273,047
Accrued interest receivable	940,203	-	940,203	-	940,203
Financial Liabilities:					
Deposits	381,973,395	-	382,027,334	-	382,027,334
Securities sold under agreement to repurchase	12,900,602		12,900,602	-	12,900,602
Accrued interest payable	16,211	-	16,211	-	16,211

Note 14. Financial Instruments With Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit, commitments under credit card arrangements, and commercial and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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

The contract amounts of these financial instruments at December 31 are as follows:

	2015	2014
Commitments to extend credit – credit cards	**$ 2,886,000**	$ 2,887,000
Commitments to extend credit – other loans	**41,840,000**	58,573,000
Commercial and standby letters of credit	**1,943,000**	2,297,000
	$ 46,669,000	$ 63,757,000

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include inventory, real estate, equipment, securities, cash, and income-producing commercial properties. Credit card commitments are unsecured.

Standby letters of credit 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 public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting these commitments. In the event the customer does not perform in accordance with the terms of the agreement with the third-party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At December 31, 2015 and 2014, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

Note 15. Commitments and Contingencies

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying financial statements. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial condition of the Bank.

The National Capital Bank of Washington
Notes to Financial Statements

Note 16. Related Party Transactions

In the normal course of banking business, loans are made to executive officers and directors. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and did not involve more than normal risks of collectibility or present other unfavorable features. At December 31, 2015 and 2014, these loans totaled $223,000 and $4,646,000, respectively.

The Bank held deposits of $12,448,000 and $41,446,000 from officers and directors at December 31, 2015 and 2014.

In 2014, the Bank entered into an agreement with a management service company that is owned by one of the directors. The management service company is paid an amount equal to the greater of (i) two and one-half percent (2.5%) of rent collected on behalf of the Bank or (ii) three thousand dollars ($3,000) per month. The fees paid to the management service company for the year ended December 31, 2015 were $38,600.

Note 17. Concentrations of Credit

All of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Note 18. Subsequent Events

The Bank evaluated subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through February 25, 2016, the date financial statements were available to be issued. Based on the evaluation, the Bank did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the audited financial statements.

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