

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6057(b) and 6058(a) of the Internal Revenue Code (the Code). ► Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089 2016 This Form is Open to Public Inspection
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Part I	Annual Report Identification Information For calendar plan year 2016 or fiscal plan year beginning <u>01/01/2016</u> and ending <u>12/31/2016</u>
A	This return/report is for: <input type="checkbox"/> a multiemployer plan <input type="checkbox"/> a multiple-employer plan (Filers checking this box must attach a list of participating employer information in accordance with the form instructions.) <input checked="" type="checkbox"/> a single-employer plan <input type="checkbox"/> a DFE (specify) _____
B	This return/report is: <input type="checkbox"/> the first return/report <input type="checkbox"/> the final return/report <input type="checkbox"/> an amended return/report <input type="checkbox"/> a short plan year return/report (less than 12 months)
C	If the plan is a collectively-bargained plan, check here. <input type="checkbox"/>
D	Check box if filing under: <input type="checkbox"/> Form 5558 <input type="checkbox"/> automatic extension <input type="checkbox"/> the DFVC program <input type="checkbox"/> special extension (enter description)

Part II	Basic Plan Information —enter all requested information		
1a	Name of plan <u>SKAGIT BANK EMPLOYEES RETIREMENT PLAN</u>	1b	Three-digit plan number (PN) ► <u>002</u>
		1c	Effective date of plan <u>09/01/1986</u>
2a	Plan sponsor's name (employer, if for a single-employer plan) Mailing address (include room, apt., suite no. and street, or P.O. Box) City or town, state or province, country, and ZIP or foreign postal code (if foreign, see instructions) <u>SKAGIT BANCORP, INC.</u> <u>P.O. BOX 285</u> <u>BURLINGTON, WA 98233</u>		2b Employer Identification Number (EIN) <u>91-0681718</u> 2c Plan Sponsor's telephone number <u>360-755-0411</u> 2d Business code (see instructions) <u>522110</u>
	<u>301 E. FAIRHAVEN</u> <u>BURLINGTON, WA 98233</u>		

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	<u>07/12/2017</u>	<u>CARLA TUCKER</u>
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE
Preparer's name (including firm name, if applicable) and address (include room or suite number)			Preparer's telephone number

For Paperwork Reduction Act Notice, see the Instructions for Form 5500.

3a Plan administrator's name and address <input type="checkbox"/> Same as Plan Sponsor SKAGIT BANCORP, INC. P.O. BOX 285 BURLINGTON, WA 98233	3b Administrator's EIN 91-0681718 3c Administrator's telephone number 360-755-0411
4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name	4b EIN 4c PN
5 Total number of participants at the beginning of the plan year	5 225
6 Number of participants as of the end of the plan year unless otherwise stated (welfare plans complete only lines 6a(1) , 6a(2) , 6b , 6c , and 6d). a(1) Total number of active participants at the beginning of the plan year..... a(2) Total number of active participants at the end of the plan year b Retired or separated participants receiving benefits..... c Other retired or separated participants entitled to future benefits d Subtotal. Add lines 6a(2) , 6b , and 6c e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits. f Total. Add lines 6d and 6e g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item) h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested	6a(1) 175 6a(2) 179 6b 7 6c 52 6d 238 6e 0 6f 238 6g 230 6h 12
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item).....	7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 2E 2F 2G 2J 2K 2T 3D b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:	

9a Plan funding arrangement (check all that apply) (1) <input type="checkbox"/> Insurance (2) <input type="checkbox"/> Code section 412(e)(3) insurance contracts (3) <input checked="" type="checkbox"/> Trust (4) <input type="checkbox"/> General assets of the sponsor	9b Plan benefit arrangement (check all that apply) (1) <input type="checkbox"/> Insurance (2) <input type="checkbox"/> Code section 412(e)(3) insurance contracts (3) <input checked="" type="checkbox"/> Trust (4) <input type="checkbox"/> General assets of the sponsor
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)	
a Pension Schedules (1) <input checked="" type="checkbox"/> R (Retirement Plan Information) (2) <input type="checkbox"/> MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) <input type="checkbox"/> SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary	b General Schedules (1) <input checked="" type="checkbox"/> H (Financial Information) (2) <input type="checkbox"/> I (Financial Information – Small Plan) (3) <input type="checkbox"/> <u>0</u> A (Insurance Information) (4) <input checked="" type="checkbox"/> C (Service Provider Information) (5) <input type="checkbox"/> D (DFE/Participating Plan Information) (6) <input type="checkbox"/> G (Financial Transaction Schedules)

Part III Form M-1 Compliance Information (to be completed by welfare benefit plans)

11a If the plan provides welfare benefits, was the plan subject to the Form M-1 filing requirements during the plan year? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

If "Yes" is checked, complete lines 11b and 11c.

11b Is the plan currently in compliance with the Form M-1 filing requirements? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

11c Enter the Receipt Confirmation Code for the 2016 Form M-1 annual report. If the plan was not required to file the 2016 Form M-1 annual report, enter the Receipt Confirmation Code for the most recent Form M-1 that was required to be filed under the Form M-1 filing requirements. (Failure to enter a valid Receipt Confirmation Code will subject the Form 5500 filing to rejection as incomplete.)

Receipt Confirmation Code _____

SCHEDULE C (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Service Provider Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ► File as an attachment to Form 5500.	OMB No. 1210-0110
		2016
		This Form is Open to Public Inspection.

For calendar plan year 2016 or fiscal plan year beginning **01/01/2016** and ending **12/31/2016**

A Name of plan SKAGIT BANK EMPLOYEES RETIREMENT PLAN	B Three-digit plan number (PN) ►	002
C Plan sponsor's name as shown on line 2a of Form 5500 SKAGIT BANCORP, INC.	D Employer Identification Number (EIN) 91-0681718	

Part I	Service Provider Information (see instructions)
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You must complete this Part, in accordance with the instructions, to report the information required for **each person** who received, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of monetary value) in connection with services rendered to the plan or the person's position with the plan during the plan year. If a person received **only** eligible indirect compensation for which the plan received the required disclosures, you are required to answer line 1 but are not required to include that person when completing the remainder of this Part.

1 Information on Persons Receiving Only Eligible Indirect Compensation

a Check "Yes" or "No" to indicate whether you are excluding a person from the remainder of this Part because they received only eligible indirect compensation for which the plan received the required disclosures (see instructions for definitions and conditions)..... ☒ Yes ☐ No

b If you answered line 1a "Yes," enter the name and EIN or address of each person providing the required disclosures for the service providers who received only eligible indirect compensation. Complete as many entries as needed (see instructions).

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation	
MATRIX TRUST COMPANY	2800 NORTH CENTRAL AVENUE, STE 900 PHOENIX, AZ 85004
75-3182674	

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation	
NORTHWEST PLAN SERVICES, INC.	5446 CALIFORNIA AVENUE SW, STE 200 SEATTLE, WA 98136
91-2090931	

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation	
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2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

NORTHWEST PLAN SERVICES, INC

5446 CALIFORNIA AVENUE SW
SUITE 200
SEATTLE, WA 98136

91-2090931

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
13 15 16 37 38 50 63 65 70	NONE	23002	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	0	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

MATRIX TRUST COMPANY

2800 NORTH CENTRAL AVENUE
SUITE 900
PHOENIX, AZ 85004

75-3182674

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
19 50 62	NONE	6683	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	0	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

Part I Service Provider Information (continued)

3. If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received \$1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	

Part II Service Providers Who Fail or Refuse to Provide Information

4 Provide, to the extent possible, the following information for each service provider who failed or refused to provide the information necessary to complete this Schedule.

(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide

Part III Termination Information on Accountants and Enrolled Actuaries (see instructions)
(complete as many entries as needed)

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

SCHEDULE H (Form 5500) <small>Internal Revenue Service</small> <small>Department of Labor</small> <small>Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	<small>OMB No. 1210-0110</small> 2016 This Form is Open to Public Inspection
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For calendar plan year 2016 or fiscal plan year beginning 01/01/2016 and ending 12/31/2016		
A Name of plan SKAGIT BANK EMPLOYEES RETIREMENT PLAN	B Three-digit plan number (PN) ►	002
C Plan sponsor's name as shown on line 2a of Form 5500 SKAGIT BANCORP, INC.	D Employer Identification Number (EIN) 91-0681718	

Part I	Asset and Liability Statement
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1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. **Round off amounts to the nearest dollar.** MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.

Assets		(a) Beginning of Year	(b) End of Year
a Total noninterest-bearing cash	1a		
b Receivables (less allowance for doubtful accounts):			
(1) Employer contributions.....	1b(1)	427014	472460
(2) Participant contributions	1b(2)		
(3) Other.....	1b(3)		
c General investments:			
(1) Interest-bearing cash (include money market accounts & certificates of deposit).....	1c(1)	609919	1323493
(2) U.S. Government securities	1c(2)		
(3) Corporate debt instruments (other than employer securities):			
(A) Preferred	1c(3)(A)		
(B) All other.....	1c(3)(B)		
(4) Corporate stocks (other than employer securities):			
(A) Preferred	1c(4)(A)		
(B) Common.....	1c(4)(B)		
(5) Partnership/joint venture interests	1c(5)		
(6) Real estate (other than employer real property).....	1c(6)		
(7) Loans (other than to participants)	1c(7)		
(8) Participant loans.....	1c(8)	254317	169595
(9) Value of interest in common/collective trusts	1c(9)		
(10) Value of interest in pooled separate accounts	1c(10)		
(11) Value of interest in master trust investment accounts	1c(11)		
(12) Value of interest in 103-12 investment entities.....	1c(12)		
(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)	13880286	14634709
(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
(15) Other.....	1c(15)		

1d Employer-related investments:		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)	729000	736120
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	15900536	17336377
Liabilities			
g Benefit claims payable	1g		
h Operating payables	1h	2134	0
i Acquisition indebtedness	1i		
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through 1j)	1k	2134	0
Net Assets			
l Net assets (subtract line 1k from line 1f)	1l	15898402	17336377

Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income		(a) Amount	(b) Total
a Contributions:			
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	472460	
(B) Participants	2a(1)(B)	639974	
(C) Others (including rollovers)	2a(1)(C)	384009	
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A), (B), (C), and line 2a(2)	2a(3)		1496443
b Earnings on investments:			
(1) Interest:			
(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)	5392	
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)	9267	
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		14659
(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)	46046	
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)	402508	
(D) Total dividends. Add lines 2b(2)(A), (B), and (C)	2b(2)(D)		448554
(3) Rents	2b(3)		
(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0
(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		0

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds).....	2b(10)		761046
c Other income.....	2c		
d Total income. Add all income amounts in column (b) and enter total.....	2d		2720702

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	1252247	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3).....	2e(4)		1252247
f Corrective distributions (see instructions)	2f		795
g Certain deemed distributions of participant loans (see instructions)	2g		
h Interest expense.....	2h		
i Administrative expenses: (1) Professional fees.....	2i(1)		
(2) Contract administrator fees.....	2i(2)	23002	
(3) Investment advisory and management fees.....	2i(3)		
(4) Other	2i(4)	6683	
(5) Total administrative expenses. Add lines 2i(1) through (4).....	2i(5)		29685
j Total expenses. Add all expense amounts in column (b) and enter total	2j		1282727

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		1437975
l Transfers of assets:			
(1) To this plan.....	2l(1)		
(2) From this plan.....	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☒ Unqualified (2) ☐ Qualified (3) ☐ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)? ☐ Yes ☒ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: **VSH, PLLC**

(2) EIN: **45-4122247**

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.).....

b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.)

	Yes	No	Amount
4a		X	
4b		X	

		Yes	No	Amount
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)	4c		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.)	4d		X	
e Was this plan covered by a fidelity bond?	4e	X		4000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?	4f		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?	4g		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?	4h		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.)	4i	X		
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.)	4j		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?	4k		X	
l Has the plan failed to provide any benefit when due under the plan?	4l		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.)	4m		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.	4n			
o Defined Benefit Plan or Money Purchase Pension Plan Only: Were any distributions made during the plan year to an employee who attained age 62 and had not separated from service?	4o			

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?
If "Yes," enter the amount of any plan assets that reverted to the employer this year. ☐ Yes ☒ No **Amount:**

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	5b(2) EIN(s)	5b(3) PN(s)

5c If the plan is a defined benefit plan, is it covered under the PBGC insurance program (See ERISA section 4021.)? ☐ Yes ☐ No ☐ Not determined
If "Yes" is checked, enter the My PAA confirmation number from the PBGC premium filing for this plan year (See instructions.)

Part V Trust Information

6a Name of trust	6b Trust's EIN
6c Name of trustee or custodian	6d Trustee's or custodian's telephone number

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110 2016 This Form is Open to Public Inspection.
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For calendar plan year 2016 or fiscal plan year beginning 01/01/2016 and ending 12/31/2016

A Name of plan <u>SKAGIT BANK EMPLOYEES RETIREMENT PLAN</u>	B Three-digit plan number (PN) ▶ <u>002</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>SKAGIT BANCORP, INC.</u>	D Employer Identification Number (EIN) <u>91-0681718</u>

Part I	Distributions
---------------	----------------------

All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions	1	<u>0</u>
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): <u>75-3182674</u> <u>91-1345021</u>		
Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.		
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year	3	

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part.)
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4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
If the plan is a defined benefit plan, go to line 8.			
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6 a Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived)	6a		
b Enter the amount contributed by the employer to the plan for this plan year	6b		
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount)	6c		
If you completed line 6c, skip lines 8 and 9.			
7 Will the minimum funding amount reported on line 6c be met by the funding deadline?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A

Part III	Amendments
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9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box.....	<input type="checkbox"/> Increase	<input type="checkbox"/> Decrease	<input type="checkbox"/> Both	<input type="checkbox"/> No
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Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
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10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
11 a Does the ESOP hold any preferred stock?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)	<input type="checkbox"/> Yes	<input type="checkbox"/> No
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?	<input type="checkbox"/> Yes	<input type="checkbox"/> No

For Paperwork Reduction Act Notice, see the Instructions for Form 5500.

Schedule R (Form 5500) 2016
v. 160205

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

14	Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:		
	a The current year	14a	
	b The plan year immediately preceding the current plan year	14b	
	c The second preceding plan year	14c	
15	Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:		
	a The corresponding number for the plan year immediately preceding the current plan year	15a	
	b The corresponding number for the second preceding plan year	15b	
16	Information with respect to any employers who withdrew from the plan during the preceding plan year:		
	a Enter the number of employers who withdrew during the preceding plan year	16a	
	b If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	
17	If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. <input type="checkbox"/>		

Part VI	Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans
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18	If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment	<input type="checkbox"/>
19	If the total number of participants is 1,000 or more, complete lines (a) through (c)	
	a Enter the percentage of plan assets held as: Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%	
	b Provide the average duration of the combined investment-grade and high-yield debt: <input type="checkbox"/> 0-3 years <input type="checkbox"/> 3-6 years <input type="checkbox"/> 6-9 years <input type="checkbox"/> 9-12 years <input type="checkbox"/> 12-15 years <input type="checkbox"/> 15-18 years <input type="checkbox"/> 18-21 years <input type="checkbox"/> 21 years or more	
	c What duration measure was used to calculate line 19(b)? <input type="checkbox"/> Effective duration <input type="checkbox"/> Macaulay duration <input type="checkbox"/> Modified duration <input type="checkbox"/> Other (specify): _____	

Part VII	IRS Compliance Questions
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20a Is the plan a 401(k) plan? If "No," skip b	<input type="checkbox"/> Yes <input type="checkbox"/> No
20b How did the plan satisfy the nondiscrimination requirements for employee deferrals under section 401(k)(3) for the plan year? Check all that apply:	<input type="checkbox"/> Design-based safe harbor <input type="checkbox"/> "Prior year" ADP test <input type="checkbox"/> "Current year" ADP test <input type="checkbox"/> N/A
21a What testing method was used to satisfy the coverage requirements under section 410(b) for the plan year? Check all that apply:	<input type="checkbox"/> Ratio percentage test <input type="checkbox"/> Average benefit test <input type="checkbox"/> N/A
21b Did the plan satisfy the coverage and nondiscrimination requirements of sections 410(b) and 401(a)(4) for the plan year by combining this plan with any other plan under the permissive aggregation rules?	<input type="checkbox"/> Yes <input type="checkbox"/> No
22a If the plan is a master and prototype plan (M&P) or volume submitter plan that received a favorable IRS opinion letter or advisory letter, enter the date of the letter ____/____/____ and the serial number _____.	
22b If the plan is an individually-designed plan that received a favorable determination letter from the IRS, enter the date of the most recent determination letter ____/____/____.	

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN

**Financial Statements
And Independent Auditors' Report
With Supplemental Information**

December 31, 2016 and 2015

Skagit Bank Employees' Retirement Plan

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INDEPENDENT AUDITORS' REPORT

To the Trustees
Skagit Bank Employees' Retirement Plan

We have audited the accompanying financial statements of Skagit Bank Employees' Retirement Plan (the Plan), which comprise the statements of net assets available for benefits as of December 31, 2016 and 2015, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Skagit Bank Employees' Retirement Plan as of December 31, 2016 and 2015, and the changes in net assets available for benefits for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 11 – 12, together referred to as "supplemental information", are presented for the purpose of additional analysis and are not a required part of the financial statements, but are supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

VSH PLLC

Bellingham, Washington
June 27, 2017

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Investments, at fair value		
Cash (money market fund)	\$ 1,323,493	\$ 609,919
Participant-directed registered investment companies (mutual funds)	14,634,709	13,880,286
Shares of Skagit Bancorp, Inc. common stock	<u>736,120</u>	<u>729,000</u>
Total investments, at fair value	<u>16,694,322</u>	<u>15,219,205</u>
Receivables		
Employer contributions	472,460	427,014
Notes receivable from participants	<u>169,595</u>	<u>254,317</u>
Total receivables	<u>642,055</u>	<u>681,331</u>
TOTAL ASSETS	17,336,377	15,900,536
LIABILITY		
Accrued administrative expenses	<u>-</u>	<u>2,134</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u><u>\$ 17,336,377</u></u>	<u><u>\$ 15,898,402</u></u>

See independent auditors' report and accompanying notes to the financial statements

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ADDITIONS TO NET ASSETS ATTRIBUTED TO -		
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	\$ 761,046	\$ (845,303)
Interest and dividends	453,946	641,797
Total investment income (loss)	<u>1,214,992</u>	<u>(203,506)</u>
Less investment expenses	<u>(6,683)</u>	<u>(8,593)</u>
Net investment income (loss)	1,208,309	(212,099)
 Interest income on notes receivable from participants	 <u>9,267</u>	 <u>12,048</u>
 Contributions		
Participants	639,974	596,026
Employer	472,460	427,013
Rollovers	384,009	576,026
Total contributions	<u>1,496,443</u>	<u>1,599,065</u>
 TOTAL ADDITIONS	 <u>2,714,019</u>	 <u>1,399,014</u>
 DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO -		
Benefits paid to participants and beneficiaries	1,253,042	836,486
Administrative expenses	<u>23,002</u>	<u>26,030</u>
Total deductions	<u>1,276,044</u>	<u>862,516</u>
 NET INCREASE	 1,437,975	 536,498
 NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	 <u>15,898,402</u>	 <u>15,361,904</u>
 NET ASSETS AVAILABLE FOR BENEFITS, end of year	 <u><u>\$ 17,336,377</u></u>	 <u><u>\$ 15,898,402</u></u>

See independent auditors' report and accompanying notes to the financial statements

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1. PLAN DESCRIPTION

The following description of the Skagit Bank Employees' Retirement Plan (the Plan) provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

General - The Plan is a defined contribution plan, adopted August 13, 1986, and restated January 1, 2002, and again on November 1, 2009, to provide retirement benefits to the employees of Skagit Bancorp, Inc. (the Bank). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The purpose of the Plan is to enable employees to save for retirement.

Eligibility - All employees age nineteen or older who have completed three months of service are eligible to participate in the employee salary deferral portion of the Plan, except for summer help, temporary part-time help, and employees represented by a collective bargaining agreement. Eligible employees may enter the employee salary deferral portion of the Plan on the first day of any month that coincides with, or follows, the date on which they satisfy the eligibility requirements.

All employees, except summer help, temporary part-time help, and employees represented by a collective bargaining agreement, age nineteen or older who have completed six months of service, are eligible to join the employer matching and profit-sharing portions of the Plan. Eligible participants enter the employer matching and profit-sharing portions of the Plan on the first entry date (January 1, April 1, July 1, or October 1) which coincides with, or follows, the date on which they satisfy the eligibility requirements. For employer matching and profit-sharing contributions, an eligible participant must be employed on December 31 and have completed 1,000 hours of service during the plan year to receive such employer contributions. However, participants who terminate prior to December 31 because of retirement, disability, or death are eligible for all employer contributions.

Contributions - Participants may elect to contribute a portion of their eligible compensation into the Plan on a tax-deferred basis. The participant's contribution may not exceed limits established by the Internal Revenue Service. Contributions withheld from participants are deposited by the Bank into the Plan as soon as practicable. Effective July 1, 2012, the Plan was amended to allow Roth 401(k) deferrals.

The Bank matches 100% of each participant's elected contributions up to 4% of their annual, total eligible compensation. At the discretion of the Bank's board of directors, additional annual profit-sharing contributions may be made to the Plan and are allocated to eligible participants based upon annual participant eligible earnings. For the years ended December 31, 2016 and 2015, the additional annual profit-sharing contribution was 2% of participants' annual, total eligible compensation.

Participant accounts - Separate accounts are maintained for each participant's contributions and allocated share of plan income, expenses, employer contributions and forfeitures. Plan income and expenses are allocated based upon eligible participants' account balances. Employer contributions are allocated to eligible participants based upon annual participant eligible earnings. Profit-sharing forfeitures of terminated employees' nonvested accounts are used first to pay plan administrative expenses and then to reduce employer matching contributions.

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1. PLAN DESCRIPTION, (continued)

Forfeited accounts - Nonvested portions of a participant's forfeited account arising from employer matching and profit-sharing contributions are used first to pay plan administrative expenses and then to reduce employer matching contributions. In 2016 and 2015, \$2,288 and \$13,852, respectively, of unallocated, forfeited, nonvested, nonparticipant-directed amounts were used to pay plan administrative expenses and then were used to reduce employer matching contributions by \$6,843 and \$15,248, respectively. There was no balance of unallocated, forfeited, nonvested, nonparticipant-directed amounts at December 31, 2016 and 2015.

Vesting - Participants are immediately 100% vested in their salary deferral contributions plus actual earnings thereon. Vesting in the remainder of their accounts is based upon years of service. An employee must complete 1,000 hours during a vesting computation period in order to receive credit for one year of service. Employer matching and profit-sharing contributions vest as follows:

<u>Years of Vesting Service</u>	<u>Vesting Percentage</u>
Less than 2	0 %
2	20 %
3	40 %
4	60 %
5	80 %
6 or more	100 %

Full vesting is also attained regardless of years of service if the participant (a) reaches normal retirement age or early retirement age, if allowed, (b) is terminated due to disability or death, or (c) if the Plan is fully or partially terminated.

Investment options - The plan trustees establish the investment options. A participant may direct contributions to any of the available investment options other than Skagit Bancorp, Inc. common stock, which is no longer an investment option. Participants may change their investment options at any time. The Plan offered eighteen investment options at December 31, 2016 and 2015.

Payment of benefits - Upon termination of service due to retirement, disability, or death, a participant or beneficiary(ies) may elect to receive their vested account balance in a lump-sum payment or ratable monthly, quarterly, or annual installment payments over a fixed period not to exceed the life expectancy of the participant and/or the participant's beneficiary(ies). For termination of service due to other reasons, a participant shall receive their vested account balance in a lump-sum payment.

Administration - The Plan is administered by the plan trustees appointed by the board of directors of the Bank as provided under the terms of the Plan. Mike Janicki and Dan Peth are the plan trustees. The Plan has signed an Administrative Services Agreement with Northwest Plan Services, Inc. to assist in the performance of administrative duties. Certain plan investments are held by Broadridge Matrix Trust. Payroll is processed by ADP.

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1. PLAN DESCRIPTION, (continued)

Administrative and investment expenses - Certain administrative functions and duties are performed by employees of the plan sponsor (the Bank) at no cost to the Plan. Plan administrative expenses are partially paid by the Plan and the plan sponsor. Such costs include accounting, auditing, legal, and other plan administrative expenses. Plan administrative and investment expenses paid by the Plan in 2016 and 2015 totaled \$29,685 and \$34,623, respectively. Plan administrative expenses paid by the Bank totaled \$48,795 and \$48,806 in 2016 and 2015, respectively, and these administrative expenses will not be reimbursed by the Plan.

Participant loans (notes receivable from participants) are made at the discretion of the plan trustees. Loan transactions are treated as a transfer to (from) the participant's investment fund (from) to the participant's loan fund. Participants may borrow from their investment fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan terms range from 1 - 5 years for loans of any reasonable purpose and from 1 - 30 years for loans to purchase a home. Participants may only have two outstanding loans at one time. The loans are secured by the participant's account and bear interest at various rates ranging from 4.25% to 5.25%. Principal and interest are paid ratably through semi-monthly payroll deductions, with payments ranging from \$22 to \$463. A loan is in default if any scheduled payment remains unpaid beyond the last day of the calendar quarter following the calendar quarter in which the participant missed the scheduled payment.

Plan termination - Although it has not expressed any intent to do so, the Bank has the right to discontinue its contributions at any time and terminate the Plan, subject to the provisions of ERISA, by giving written notice to the plan trustees. In the event of plan termination, participants will become 100% vested in all of their accounts. Any unallocated assets of the Plan shall be allocated to participant accounts and distributed in such a manner as the Bank may determine.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash (money market fund) - The Plan maintains its cash in a money market fund that exceeds federal insured limits during the year. The Plan has not experienced any losses in this account, and the trustees do not believe it is exposed to any significant credit risk.

Basis of accounting - The financial statements of the Plan are prepared on the accrual-basis method of accounting.

Use of estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Investment valuation and income recognition - The Plan's investments are reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest and dividend income is recorded on the accrual-basis method of accounting, with dividends recorded on the ex-dividend date.

See independent auditors' report

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Notes receivable from participants - Loans to participants are reported at their unpaid principal balances plus any accrued but unpaid interest. Delinquent participant loans, if any, are reclassified as distributions (benefit payments) based on the terms of the plan agreement.

Benefit payments - The Plan recognizes benefit payments in the period they are actually paid.

Reclassifications - Certain prior year amounts have been reclassified to conform to current year presentation.

Subsequent events - The Plan has evaluated subsequent events through June 27, 2017, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure in these financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 Measurement) and the lowest priority to unobservable inputs (Level 3 Measurement). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 3. FAIR VALUE MEASUREMENTS, (continued)

Following is a description of the valuation methodologies used for investment assets measured at fair value:

Cash (money market fund) - Stated at cost plus accrued interest, which approximates fair value

Registered investment companies (mutual funds) - Valued at the net asset value (NAV) of shares held by the Plan at year-end

Skagit Bancorp, Inc. common stock - Valued at estimated market price based upon recent purchases and sales of such stock with unrelated third parties

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth, by level within the fair value hierarchy, the Plan's investment assets at fair value:

As of December 31, 2016			
	Level 1	Level 2	Total
Cash (money market fund)	\$ 1,323,493	\$ -	\$ 1,323,493
Registered investment companies	14,634,709	-	14,634,709
Shares of Skagit Bancorp, Inc. common stock (party-in-interest)	-	736,120*	736,120
	<u>\$ 15,958,202</u>	<u>\$ 736,120</u>	<u>\$ 16,694,322</u>
As of December 31, 2015			
	Level 1	Level 2	Total
Cash (money market fund)	\$ 609,919	\$ -	\$ 609,919
Registered investment companies	13,880,286	-	13,880,286
Shares of Skagit Bancorp, Inc. common stock (party-in-interest)	-	729,000 *	729,000
	<u>\$ 14,490,205</u>	<u>\$ 729,000</u>	<u>\$ 15,219,205</u>

* Nonparticipant-directed

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 4. FEDERAL INCOME TAX STATUS

The Internal Revenue Service has determined and informed the plan sponsor by a letter dated November 8, 2002, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving that determination letter, the plan administrator believes that the Plan is designed, and is currently being operated, in compliance with the applicable requirements of the IRC, and therefore, believes that the Plan is qualified and the related trust is tax-exempt.

NOTE 5. RISK AND UNCERTAINTIES

The Plan invests in various registered investment companies (mutual funds) and Skagit Bancorp, Inc. common stock. Registered investment companies (mutual funds) and Skagit Bancorp, Inc. common stock are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain registered investment companies (mutual funds) and Skagit Bancorp, Inc. common stock, it is at least reasonably possible that changes in the fair values of registered investment companies (mutual funds) and Skagit Bancorp, Inc. common stock will occur in the near-term, and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

NOTE 6. RELATED PARTY TRANSACTIONS AND PARTY-IN-INTEREST TRANSACTIONS

Certain participants hold Skagit Bancorp, Inc. common stock as an investment within the Plan. Skagit Bancorp, Inc. common stock is no longer an investment option that is offered to participants. The value of Skagit Bancorp, Inc. common stock held within the Plan increased \$7,120 and decreased \$17,700 in 2016 and 2015, respectively. Skagit Bancorp, Inc. is the plan sponsor and, therefore, these transactions qualify as party-in-interest transactions.

As described in Note 1, the Plan has a number of service providers who are also parties-in-interest under ERISA.

SUPPLEMENTAL INFORMATION

SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
EIN: 91-0681718 PLAN NO. 002
SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR) - FORM 5500
December 31, 2016

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment, Including Maturity Date and Rate of Interest	(d) Cost**	(e) Current Value
	Vanguard Value Index Admiral Fund	Registered Investment Company	**	\$ 2,190,126
	Baird Aggregate Bond Institutional	Registered Investment Company	**	1,919,514
	Vanguard 500 Index Admiral Fund	Registered Investment Company	**	1,837,649
	Vanguard Mid Cap Index Admiral Fund	Registered Investment Company	**	1,515,274
	Vanguard Prime Money Market Fund	Money Market Fund	**	1,323,493
	Vanguard Growth Index Admiral	Registered Investment Company	**	1,152,543
	Vanguard Short Term Bond Index Admiral Fund	Registered Investment Company	**	1,082,823
*	Skagit Bancorp, Inc. Common Stock	Common Stock	\$ 267,300	736,120
	Vanguard Small Cap Growth Index Adm Fund	Registered Investment Company	**	682,284
	Harbor International Institutional Fund	Registered Investment Company	**	674,651
	DFA US Small Cap Value I Fund	Registered Investment Company	**	671,955
	American Funds Euro Pacific Growth R5 Fund	Registered Investment Company	**	598,620
	Loomis Sayles Bond Institutional	Registered Investment Company	**	573,572
	Vanguard Inflation Protection Securities Adm Fund	Registered Investment Company	**	564,189
	Virtus Real Estate Securities A Fund	Registered Investment Company	**	561,927
	PIMCO Commodity Real Return Strategy Institutional	Registered Investment Company	**	390,915
	Parametric Emerging Markets Institutional Fund	Registered Investment Company	**	162,380
	Vanguard Small Cap Index Admiral Fund	Registered Investment Company	**	56,286
*	Participant loans	Semi-monthly payments of \$22 - \$463, including interest at 4.25% to 4.5%; maturing through February 2045	0	169,595
			***	<u>\$ 16,863,917</u>

* Denotes a party-in-interest

** Cost information is omitted under the ERISA regulations as these investments are participant-directed.

*** This schedule of assets does not include \$472,460 of employer contributions receivable at December 31, 2016.

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SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
EIN: 91-0681718 PLAN NO. 002
SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR) - FORM 5500
December 31, 2015

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment, Including Maturity Date and Rate of Interest	(d) Cost**	(e) Current Value
	Vanguard Value Index Admiral Fund	Registered Investment Company	**	\$ 2,111,132
	PIMCO Total Return Institutional Fund	Registered Investment Company	**	1,907,331
	Vanguard 500 Index Admiral Fund	Registered Investment Company	**	1,679,858
	Vanguard Mid Cap Index Admiral Fund	Registered Investment Company	**	1,439,152
	Mainstay Large Cap Growth I Fund	Registered Investment Company	**	1,121,006
	Vanguard Short Term Bond Index Admiral Fund	Registered Investment Company	**	904,145
*	Skagit Bancorp, Inc. Common Stock	Common Stock	\$ 267,300	729,000
	Harbor International Institutional Fund	Registered Investment Company	**	697,117
	Vanguard Small Cap Growth Index Adm Fund	Registered Investment Company	**	627,313
	Vanguard Prime Money Market Fund	Money Market Fund	**	609,919
	American Funds Euro Pacific Growth R5 Fund	Registered Investment Company	**	598,935
	DFA US Small Cap Value I Fund	Registered Investment Company	**	571,323
	Virtus Real Estate Securities A Fund	Registered Investment Company	**	568,058
	Vanguard Inflation Protection Securities Adm Fund	Registered Investment Company	**	563,756
	Loomis Sayles Bond Institutional	Registered Investment Company	**	530,164
	PIMCO Commodity Real Return Strategy Institutional	Registered Investment Company	**	338,020
	Parametric Emerging Markets Institutional Fund	Registered Investment Company	**	165,387
	Vanguard Small Cap Index Admiral Fund	Registered Investment Company	**	57,589
*	Participant loans	Semi-monthly payments of \$22 - \$463, including interest at 4.25% to 5.25%; maturing through June 2033	0	<u>254,317</u>
			***	<u><u>\$ 15,473,522</u></u>

* Denotes a party-in-interest

** Cost information is omitted under the ERISA regulations as these investments are participant-directed.

*** This schedule of assets does not include \$427,014 of employer contributions receivable at December 31, 2015.

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SKAGIT BANK EMPLOYEES' RETIREMENT PLAN
EIN: 91-0681718 PLAN NO. 002
SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR) - FORM 5500
December 31, 2016

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment, Including Maturity Date and Rate of Interest	(d) Cost**	(e) Current Value
	Vanguard Value Index Admiral Fund	Registered Investment Company	**	\$ 2,190,126
	Baird Aggregate Bond Institutional	Registered Investment Company	**	1,919,514
	Vanguard 500 Index Admiral Fund	Registered Investment Company	**	1,837,649
	Vanguard Mid Cap Index Admiral Fund	Registered Investment Company	**	1,515,274
	Vanguard Prime Money Market Fund	Money Market Fund	**	1,323,493
	Vanguard Growth Index Admiral	Registered Investment Company	**	1,152,543
	Vanguard Short Term Bond Index Admiral Fund	Registered Investment Company	**	1,082,823
*	Skagit Bancorp, Inc. Common Stock	Common Stock	\$ 267,300	736,120
	Vanguard Small Cap Growth Index Adm Fund	Registered Investment Company	**	682,284
	Harbor International Institutional Fund	Registered Investment Company	**	674,651
	DFA US Small Cap Value I Fund	Registered Investment Company	**	671,955
	American Funds Euro Pacific Growth R5 Fund	Registered Investment Company	**	598,620
	Loomis Sayles Bond Institutional	Registered Investment Company	**	573,572
	Vanguard Inflation Protection Securities Adm Fund	Registered Investment Company	**	564,189
	Virtus Real Estate Securities A Fund	Registered Investment Company	**	561,927
	PIMCO Commodity Real Return Strategy Institutional	Registered Investment Company	**	390,915
	Parametric Emerging Markets Institutional Fund	Registered Investment Company	**	162,380
	Vanguard Small Cap Index Admiral Fund	Registered Investment Company	**	56,286
*	Participant loans	Semi-monthly payments of \$22 - \$463, including interest at 4.25% to 4.5%; maturing through February 2045	0	169,595
			***	<u>\$ 16,863,917</u>

* Denotes a party-in-interest

** Cost information is omitted under the ERISA regulations as these investments are participant-directed.

*** This schedule of assets does not include \$472,460 of employer contributions receivable at December 31, 2016.

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