Report of Independent Auditors
and Consolidated Financial Statements With
Supplementary Schedules for

Oregon Bancorp, Inc.
and Subsidiaries

December 31, 2012 and 2011

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Oregon Bancorp, Inc. and Subsidiaries

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Oregon Bancorp, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon Bancorp, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheet as of December 31, 2012, and consolidating statement of income for the year ended December 31, 2012, included on pages 39 and 40 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Moss Adams LLP

Everett, Washington
February 28, 2013

ASSETS

	December 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 7,739,129	$ 9,781,233
Investment securities available-for-sale	1,392,955	1,514,567
Loans held-for-sale	29,652,708	20,191,987
Loans, net of allowance for loan losses and unearned loan fees	74,954,652	77,217,189
Federal Home Loan Bank stock, at cost	569,600	535,900
Other real estate owned, net	4,691,805	5,740,796
Premises and equipment, net	3,093,451	3,074,326
Cash surrender value of life insurance, net	1,502,476	1,434,665
Accrued interest receivable	347,270	387,783
Deferred tax asset	1,100,500	1,019,492
Prepaid expenses	205,732	516,985
Other assets	455,277	174,385
Total assets	$ 125,705,555	$ 121,589,308

LIABILITIES AND SHAREHOLDERS' EQUITY

	2012	2011
LIABILITIES		
Noninterest-bearing demand deposits	$ 12,422,296	$ 10,699,334
Interest-bearing demand deposits and money market accounts	41,649,208	38,305,764
Time certificates of deposit	48,627,586	53,104,114
Total deposits	102,699,090	102,109,212
Borrowings	4,000,000	2,000,000
Accounts payable and accrued expenses	1,723,375	1,441,480
Accrued interest payable	60,698	74,296
Total liabilities	108,483,163	105,624,988
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 2,000,000 shares authorized; 3,216 Series A and 161 Series B shares issued and outstanding as of December 31, 2012 and 2011	3,334,743	3,302,543
Common stock, no par value; 10,000,000 shares authorized; 935,101 shares issued and 904,768 outstanding as of December 31, 2012; 920,443 shares issued and 900,718 outstanding as of December 31, 2011	10,336,315	10,336,315
Additional paid-in capital	531,695	423,060
Retained earnings	3,001,618	1,916,480
Accumulated other comprehensive income (loss)	18,021	(14,078)
Total shareholders' equity	17,222,392	15,964,320
Total liabilities and shareholders' equity	$ 125,705,555	$ 121,589,308

OREGON BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2012	2011
INTEREST INCOME		
Interest and fees on loans	$ 5,507,042	$ 5,753,604
Interest on due from banks	35,731	48,205
Interest on investment securities	20,494	37,249
Total interest income	5,563,267	5,839,058
INTEREST EXPENSE		
Demand deposits	7,575	10,885
Savings and money market	154,160	219,004
Time certificates of deposit	664,908	847,491
Borrowings	649	1,547
Total interest expense	827,292	1,078,927
Net interest income before provision for loan losses	4,735,975	4,760,131
PROVISION FOR LOAN LOSSES	-	145,000
Net interest income after provision for loan losses	4,735,975	4,615,131
NONINTEREST INCOME		
Mortgage banking revenue	10,881,128	4,263,238
Brokered loan fees	194,294	265,660
Service charge income	50,098	48,333
Increase in cash surrender value of life insurance	67,811	65,825
Other income	1,294,762	1,212,253
Total noninterest income	12,488,093	5,855,309
NONINTEREST EXPENSE		
Salaries	7,930,445	4,789,927
Employee benefits	2,169,937	1,273,458
Occupancy expenses	982,336	717,457
Write-down and losses on other real estate owned, net	444,569	205,906
Regulatory assessment	182,226	226,878
Depreciation and amortization expense	211,160	205,479
Other operating expenses	3,274,171	1,853,394
Total noninterest expense	15,194,844	9,272,499
INCOME BEFORE PROVISION FOR INCOME TAXES	2,029,224	1,197,941
Provision for income taxes	736,596	479,438
NET INCOME	1,292,628	718,503
Deemed dividend on preferred stock	32,200	32,200
Preferred stock cash dividends	175,290	175,290
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 1,085,138	$ 511,013
EARNINGS PER SHARE OF COMMON STOCK		
Basic	$ 1.20	$ 0.57
Diluted	$ 1.19	$ 0.57
Weighted-average number of common shares outstanding		
Basic	902,743	900,718
Diluted	914,588	902,052

See accompanying notes.

	Years Ended December 31, 2012	Years Ended December 31, 2011
NET INCOME	$ 1,292,628	$ 718,503
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities		
Unrealized holding gain (loss), net of taxes (benefit) of $20,009 and ($3,110), respectively	32,099	(4,989)
COMPREHENSIVE INCOME	$ 1,324,727	$ 713,514

See accompanying notes.

OREGON BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional		Accumulated Other	Total
	Number of Shares	Stated Amount	Number of Shares	Stated Amount	Paid-In Capital	Retained Earnings	Comprehensive Income (Loss)	Shareholders' Equity
BALANCE, December 31, 2010	3,377	$ 3,270,343	900,718	$ 10,336,315	$ 384,715	$ 1,405,467	$ (9,089)	$ 15,387,751
Deemed dividend on preferred stock	-	32,200	-	-	-	(32,200)	-	-
Preferred stock cash dividends	-	-	-	-	-	(175,290)	-	(175,290)
Stock-based compensation	-	-	-	-	38,345	-	-	38,345
Net income	-	-	-	-	-	718,503	-	718,503
Other comprehensive loss, net of tax	-	-	-	-	-	-	(4,989)	(4,989)
BALANCE, December 31, 2011	3,377	3,302,543	900,718	10,336,315	423,060	1,916,480	(14,078)	15,964,320
Deemed dividend on preferred stock	-	32,200	-	-	-	(32,200)	-	-
Preferred stock cash dividends	-	-	-	-	-	(175,290)	-	(175,290)
Stock-based compensation	-	-	-	-	108,635	-	-	108,635
Vesting of restricted stock	-	-	4,050	-	-	-	-	-
Net income	-	-	-	-	-	1,292,628	-	1,292,628
Other comprehensive income, net of tax	-	-	-	-	-	-	32,099	32,099
BALANCE, December 31, 2012	3,377	$ 3,334,743	904,768	$ 10,336,315	$ 531,695	$ 3,001,618	$ 18,021	$ 17,222,392

See accompanying notes.

	Years Ended December 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,292,628	$ 718,503
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	-	145,000
Depreciation and amortization	211,160	205,479
Accretion on investment securities	16,463	24,510
Deferred tax benefits	(101,017)	(208,498)
Origination of loans held-for-sale	(275,291,717)	(138,608,275)
Proceeds from loans held-for-sale	276,712,124	131,879,239
Gain on sale of loans	(10,881,128)	(4,191,962)
Loss on sale of premises and equipment	2,369	6,693
Loss (gain) on sale of other real estate owned	197,173	(266,179)
Write-down of other real estate owned	247,396	472,085
Stock-based compensation	108,635	38,345
Increase (decrease) in cash due to changes in certain assets and liabilities		
Accrued interest receivable	40,513	12,584
Prepaid expenses	311,253	207,060
Cash surrender value of life insurance	(67,811)	(65,825)
Other assets	(280,892)	(134,530)
Accounts payable and accrued expenses	281,895	473,307
Accrued interest payable	(13,598)	(67,304)
Net cash from operating activities	(7,214,554)	(9,359,768)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of securities available-for-sale	157,257	1,380,189
Loan originations, net of principal collections	939,147	4,621,797
Purchase of premises and equipment	(239,654)	(78,610)
Proceeds from sale of premises and equipment	7,000	-
Purchase of FHLB stock	(33,700)	(39,800)
Proceeds from sale of other real estate owned	1,927,812	1,403,907
Net cash from investing activities	2,757,862	7,287,483
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	589,878	(25,405,351)
Proceeds from borrowings	2,000,000	2,000,000
Dividends paid on preferred stock	(175,290)	(175,290)
Net cash from financing activities	2,414,588	(23,580,641)
Net decrease in cash and due from banks	(2,042,104)	(25,652,926)
CASH AND DUE FROM BANKS, beginning of year	9,781,233	35,434,159
CASH AND DUE FROM BANKS, end of year	$ 7,739,129	$ 9,781,233
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for		
Income taxes	$ 966,000	$ 627,000
Interest	$ 840,890	$ 1,146,231
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS		
Deemed dividend on preferred stock	$ 32,200	$ 32,200
Unrealized gain (loss) on available-for-sale	$ 52,108	$ (8,099)
Transfer of loans to other real estate owned	$ 1,323,390	$ 2,250,658

See accompanying notes.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization and nature of operations - In October 2000, Willamette Valley Bank (the Bank) received regulatory approval to become a state-chartered institution authorized to provide banking services in the state of Oregon; and in 2008, Oregon Bancorp, Inc. (the Company or Bancorp), an Oregon corporation, was formed for the purpose of becoming a holding company for the Bank. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the supervision and examination by the Federal Reserve Board. In 2010, the Bancorp formed a single-member LLC, OR Resolutions, LLC, for the purpose of holding notes and/or deeds of trusts for properties acquired through the foreclosure process of the Bank.

The Bank, operating from its headquarters in Salem, Oregon, provides banking services to businesses and individuals located primarily in the markets from which the Bank operates its four full-service branches in Salem, Albany, Keizer, and Silverton, Oregon. In addition to the full-service branches, the Bank has various locations throughout Oregon and Washington that function as residential mortgage loan production offices. The Bank is subject to regulations of certain federal and state agencies and from time to time undergoes periodic examinations by those regulatory authorities.

All significant intercompany accounts and transactions between Oregon Bancorp, Inc. and its subsidiaries have been eliminated in preparation of the consolidated financial statements.

Significant concentrations of credit risk - Note 2 discusses the types of securities that the Bank invests in. Most of the Bank's business activity is with customers located within the Mid-Willamette Valley. The Bank originates commercial, real estate, construction, residential mortgage, and consumer loans. Generally, loans are secured by accounts receivable, inventory, deposit accounts, personal property, or real estate. Rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers' ability to meet the stated repayment terms. Approximately 94% of the Bank's loan portfolio is secured by real estate (Note 3). The Company does not have any significant concentrations to any one customer.

Use of estimates - The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and reporting practices applicable to the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and revenues and expenses for the reporting periods. Actual results could differ significantly from those estimates. The most significant accounting estimates made by management involve the calculation of the allowance for loan losses, valuation of other real estate owned, and deferred tax assets. Management believes the assumptions used in arriving at these estimates are appropriate.

Subsequent events - In preparing these consolidated financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 28, 2013, the date the consolidated financial statements were issued.

Cash and due from banks - For purposes of reporting cash flows, cash and due from banks include cash, due from banks, and federal funds sold, all with maturities of three months or less. The Bank, at times, may have cash deposits at other financial institutions in excess of FDIC-insured limits.

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

Investment securities - Investment securities are classified into one of three categories: (1) held-to-maturity, (2) available-for-sale, or (3) trading. The Bank had no held-to-maturity or trading securities at December 31, 2012 and 2011. Investment securities are categorized as held-to-maturity when the Bank has the positive intent and ability to hold those securities to maturity. Securities that are held-to-maturity are stated at amortized cost.

Investment securities categorized as available-for-sale are generally held for investment purposes (to maturity), although unanticipated future events may result in the sale of some securities. Available-for-sale securities are carried at estimated fair value, with unrealized holding gains or losses reported in accumulated other comprehensive income (loss).

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Management reviews investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions; fair value in relationship to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether management intends to sell a security or if it is likely that the Bank will be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. For debt securities, if management intends to sell the security or it is likely that the Bank will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If management does not intend to sell the security and it is not likely that the Bank will be required to sell the security, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, i.e., the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (loss). Impairment losses related to all other factors are presented as separate categories within other comprehensive income (loss).

Loans held-for-sale - Beginning in November 2011, the Bank adopted ASC 825-10-25, *Fair Value Option*, related to the fair value option to all mortgage loans held-for-sale. Concurrent with the adoption of ASC 825-10-25, the Bank applies ASC 820-10, *Fair Value Measurements and Disclosures*. Fair value is determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Origination fees and costs are recognized in earnings at the time of origination. Mortgage loans held-for-sale are sold with the mortgage service rights released by the Bank. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. All sales are made without recourse.

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

Through November 2011, loans originated and intended for sale in the secondary market were carried at the lower of individual loan cost or fair value. Net unrealized losses, if any, were recorded as a valuation allowance and charged to earnings. Gains and losses on sales of loans were recognized at settlement dates and were determined by the difference between sales proceeds and the carrying value of the loans.

Accounting for derivatives - The Bank is engaged in the production of loans for sale to buyers and investors in the secondary mortgage market. These loan production activities expose the Bank to risk that a loan's market value may decline between the date the Bank enters into an interest rate lock commitment (IRLC) with a borrower to fund a loan, or with a buyer to purchase a loan, and the loan's ultimate sale into the secondary market. The Bank reduces its exposure to this risk by entering into contracts to sell loans to buyers at specified prices, entering into futures contracts designed to hedge against the economic risk of market value declines. The Bank accounts for these items as freestanding derivatives.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. The Bank considers its hedges to be fair value hedges. As such, derivatives are recognized at their estimated fair values in the accompanying consolidated balance sheets with changes in fair values of derivatives recognized currently in earnings. The Bank considers its commitments to extend secondary market qualifying loans (the pipeline) with interest rate lock commitments to be derivatives, as well as its firm commitments to deliver loans, its futures contracts, and its positions taken in put options, all of which are recognized at their estimated fair values.

Loans - Loans are stated at the amount of unpaid principal, adjusted for unearned income, the allowance for loan losses, and any unamortized deferred fees or costs on originated loans and premiums or discounts on purchased loans.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probably that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collection of the scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance, homogeneous loans or leases are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accounting policy for the allowance for loan losses.

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

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; level of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Federal Home Loan Bank (FHLB) stock - At December 31, 2012 and 2011, the Bank held FHLB of Seattle stock with a par value of $569,600 and $535,900, respectively. As a member of the FHLB system, the Bank is required to maintain a minimum investment level in FHLB stock based on specific percentages of the Bank’s outstanding mortgages, total assets, or FHLB advances. This security is reported at par value, which represents the Bank’s cost.

In November 2009, the FHLB of Seattle reported it was classified as “undercapitalized” under the Finance Agency’s Prompt Corrective Action Rule by the Federal Housing Finance Agency (the FHFA), its primary regulator. In 2012, the Seattle FHLB reported it was now considered “adequately capitalized” by the FHFA; however, the Seattle FHLB is unable to redeem stock or pay a dividend without Finance Agency approval under the terms of the October 2010 Consent Order.

Stock in the FHLB of Seattle is classified as restricted stock and is evaluated for impairment at each reporting date. The determination of whether the investment is impaired is based on the Bank’s assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. The Bank has concluded that the FHLB stock investment is not impaired as of December 31, 2012.

Transfer of financial assets - Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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

Other real estate owned - Property and assets acquired through foreclosure or deed in lieu of foreclosure are stated at the lower of the loan balance on the property at the date of transfer or the fair value of the assets received, less estimated costs to sell. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Costs relating to the development and improvement of property are capitalized and holding costs are charged to expense as incurred.

Premises and equipment - Premises and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Impairment of long-lived assets - The assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists, the asset is reduced with an offsetting charge to expense.

Bank owned life insurance - The Company has purchased life insurance policies on certain key executives. 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.

Advertising - Advertising costs, which are principally included in operating expenses, are expensed as incurred. Advertising expense was $383,002 and $100,140 for the years ended December 31, 2012 and 2011, respectively.

Earnings per share of common stock - Basic earnings per share of common stock are computed by dividing net income available to common shareholders, which consists of net income less dividends declared and required interest payments on preferred stock, by the weighted-average number of common shares outstanding during the period. Diluted earnings per share of common stock are computed similar to basic earnings per share of common stock using the treasury stock method, where the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. There were 36,968 and 38,453 shares considered antidilutive at December 31, 2012 and 2011, that were excluded from the calculation of earnings per common share.

Stock-based compensation - The Company grants stock options and restricted stock. For the recognition of stock-based compensation, the Company measures and recognizes as compensation expense the grant-date fair market value for all share-based awards. That portion of the grant-date fair value that is ultimately expected to vest is recognized as expense over the requisite service period, typically the vesting period, using the graded attribution method. The Company uses the Black-Scholes option-pricing model to value stock-based awards. The Black-Scholes model requires the use of assumptions regarding the risk-free interest rate, the expected dividend yield, the expected life of the options, and the expected volatility of the stock price.

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

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

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income tax matters in income tax expense. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. There were no interest and penalties accrued for the year ended December 31, 2012 or 2011. The Company files consolidated U.S. federal and Oregon income tax returns, which are subject to examination by the taxing authorities for years 2009 and later.

Comprehensive income (loss) - Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income includes unrealized gains and losses on securities available-for-sale which are recognized as a separate component of equity.

Fair value of financial instruments - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Segment reporting - The Company operates in one segment and makes management decisions based on consolidated results. The Company's operations are solely in the financial services industry and include providing to its customers traditional banking and other financial services.

Off-balance-sheet financial instruments - In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. These financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

The allowance for off-balance-sheet credit losses related to unfunded loan commitments is increased through charges to noninterest expense and is decreased by charge-offs or transfers to the allowance for loan losses at the time that the related loan is funded. Management periodically evaluates the adequacy of this allowance based on the Bank's off-balance-sheet credit loss experience, known and inherent risks in the portfolio, adverse situations that may increase the likelihood of loss, and current economic conditions. The reserve for unfunded loan commitments is not material to the consolidated financial statements.

Reclassifications - Certain reclassifications have been made to the prior-year consolidated financial statements to conform with current-year presentations. These reclassifications did not affect previously reported net income or shareholders' equity.

Note 2 - Investment Securities

The amortized cost and estimated fair values of available-for-sale investment securities at December 31 are summarized as follows:

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Agency-backed, mortgage-backed GNMA	$ 363,700	$ 27,142	$ -	$ 390,842
Corporate bonds	1,000,000	2,113	-	1,002,113
	$ 1,363,700	$ 29,255	$ -	$ 1,392,955
December 31, 2011				
Agency-backed, mortgage-backed GNMA	$ 537,420	$ 26,682	$ -	$ 564,102
Corporate bonds	1,000,000	-	(49,535)	950,465
	$ 1,537,420	$ 26,682	$ (49,535)	$ 1,514,567

There were no securities in a loss position as of December 31, 2012. There were two securities with unrealized losses for less than 12 months at December 31, 2011.

The amortized cost and estimated fair value of investment securities available-for-sale at December 31, 2012, by contractual maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 1,130,469	$ 1,142,096
Due after five years through ten years	233,231	250,859
	$ 1,363,700	$ 1,392,955

Note 3 - Loans

As of December 31, the loan portfolio consisted of the following:

	2012	2011
Residential	$ 16,718,526	$ 18,099,895
Commercial real estate		
Farmland	1,533,101	1,590,643
Multifamily	6,136,307	2,381,563
Nonresidential (owner occupied)	17,505,022	20,034,892
Nonresidential (non-owner occupied)	23,986,685	24,129,551
Total commercial real estate	49,161,115	48,136,649
Construction		
Residential 1-4 family	438,928	216,535
Land development	5,196,979	7,562,163
Other	619,139	744,500
Total construction	6,255,046	8,523,198
Commercial	3,920,226	3,847,071
Consumer	473,586	451,510
Total loans	76,528,499	79,058,323
Less allowance for loan losses	(1,453,009)	(1,738,611)
Less unearned loan fees	(120,838)	(102,523)
Loans, net of allowance for loan losses and losses and unearned loan fees	$ 74,954,652	$ 77,217,189

All of the Bank's loans and loan commitments are geographically concentrated in its service areas within Oregon.

At December 31, 2012 and 2011, loans of $29,560,287 and $26,242,388, respectively, were pledged to support Federal Home Loan Bank borrowings, and loans as of December 31, 2012 and 2011, of $19,765,938 and $20,899,161, respectively, were pledged at Federal Reserve Bank of San Francisco for additional borrowing capacity.

Note 4 - Allowance for Loan Losses

The Bank maintains an allowance for loan and lease losses (ALLL) to absorb losses inherent in the loan portfolio. The size of the ALLL is determined through quarterly assessments of the probable estimated losses in the loan portfolio. The methodology for making such assessments and determining the adequacy of the ALLL includes a general valuation allowance and a classified loan loss reserve on specific relationships.

The general valuation allowance is systematically calculated quarterly using quantitative and qualitative information about specific loan classes. The minimum required level in which an entity develops a systematic methodology to determine its allowance for loan and lease losses is at the segment level. However, the Bank's systematic methodology in determining its allowance for loan and lease losses is prepared at the class level, which is more detailed than the segment level. The quantitative information uses historical losses from specific loan classes and incorporates the loan's risk rating migration from origination to the point of loss. A loan's risk rating is primarily determined based upon the borrower's ability to fulfill its debt obligation from a cash flow perspective. In the event there is financial deterioration of the borrower, the borrower's other sources of income or repayment are also considered, including recent appraisal values for collateral-dependent loans. The qualitative information takes into account general economic and business conditions affecting the marketplace, seasoning of the loan portfolio, duration of the business cycle, etc. to ensure the methodologies reflect the current economic environment and other factors; using historical loss information exclusively may not give an accurate estimate of inherent losses within the Bank's loan portfolio.

The specific valuation allowance is a reserve for each loan determined to be impaired and the value of the impaired loan is less than its recorded investment. The Bank measures the impairment based on the discounted expected future cash flows, observable market price, or the fair value of the collateral if the loan is collateral-dependent or if foreclosure is probable. The specific reserve for each loan is equal to the difference between the recorded investment in the loan and its determined impairment value.

The ALLL is increased by provisions for loan and lease losses (provision) charged to expense, and is reduced by loans charged off, net of recoveries. Although the Company's management believes the best information available is used to determine the ALLL, changes in market conditions could result in adjustments to the ALLL, affecting net income, if circumstances differ from the assumptions used in determining the ALLL.

Adjustments to the percentages of the ALLL allocated to loan categories are made based on trends with respect to delinquencies and problem loans within each pool of loans. The Company reviews the ALLL quantitative and qualitative methodology on a quarterly basis and makes adjustments when appropriate. The Company strives to maintain a conservative approach to credit quality and will continue to prudently add to the ALLL as necessary in order to maintain adequate reserves. The Company carefully monitors the loan portfolio and continues to emphasize the importance of credit quality while continuously strengthening loan monitoring systems and controls.

Note 4 - Allowance for Loan Losses (continued)

An analysis of the change in the allowance for loan losses follows:

December 31, 2012	Residential	Commercial Real Estate	Construction	Commercial	Consumer	Total
Allowance						
Balance, beginning of the period	$ 540,523	$ 840,000	$ 195,000	$ 158,200	$ 4,888	$ 1,738,611
Charge-offs	(290,342)	-	-	-	-	(290,342)
Recoveries	403	4,337	-	-	-	4,740
Provision for loan losses	-	-	-	-	-	-
Balance, end of the period	$ 250,584	$ 844,337	$ 195,000	$ 158,200	$ 4,888	$ 1,453,009
Ending balance individually evaluated for impairment	$ 32,000	$ -	$ -	$ -	$ -	$ 32,000
Ending balance collectively evaluated for impairment	$ 218,584	$ 844,337	$ 195,000	$ 158,200	$ 4,888	$ 1,421,009
Loans						
Ending balance	$ 16,718,526	$ 49,161,115	$ 6,255,046	$ 3,920,226	$ 473,586	$ 76,528,499
Ending balance individually evaluated for impairment	$ 1,025,879	$ 1,503,720	$ 122,424	$ 128,380	$ -	$ 2,780,403
Ending balance collectively evaluated for impairment	$ 15,692,647	$ 47,657,395	$ 6,132,622	$ 3,791,846	$ 473,586	$ 73,748,096
December 31, 2011						
Allowance						
Balance, beginning of the period	$ 346,000	$ 890,000	$ 174,000	$ 146,000	$ 3,000	$ 1,559,000
Charge-offs	(32,477)	-	-	-	(13,112)	(45,589)
Recoveries	-	-	-	80,200	-	80,200
Provision for loan losses	227,000	(50,000)	21,000	(68,000)	15,000	145,000
Balance, end of the period	$ 540,523	$ 840,000	$ 195,000	$ 158,200	$ 4,888	$ 1,738,611
Ending balance individually evaluated for impairment	$ 61,518	$ -	$ -	$ -	$ -	$ 61,518
Ending balance collectively evaluated for impairment	$ 479,005	$ 840,000	$ 195,000	$ 158,200	$ 4,888	$ 1,677,093
Loans						
Ending balance	$ 18,099,895	$ 48,136,649	$ 8,523,198	$ 3,847,071	$ 451,510	$ 79,058,323
Ending balance individually evaluated for impairment	$ 2,576,288	$ 2,148,412	$ 199,761	$ 176,532	$ -	$ 5,100,993
Ending balance collectively evaluated for impairment	$ 15,523,607	$ 45,988,237	$ 8,323,437	$ 3,670,539	$ 451,510	$ 73,957,330

Note 4 - Allowance for Loan Losses (continued)

When the Bank classifies problem assets as either substandard or doubtful, pursuant to federal regulations, it may establish a specific allowance in an amount it deems prudent and approved by management to address the risk specifically or it may allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but, unlike specific allowances, have not been specifically allocated to the particular problem assets. When an insured institution classifies problem assets as a loss, pursuant to federal regulations, it is required to charge off such assets in the period in which they are deemed uncollectible. The determination as to the classification of assets and the amount of valuation allowances is subject to review by the FDIC, which can require the establishment of additional loss allowances.

Loan grades are used by the Bank to identify and track potential problem loans that do not rise to the levels described for substandard, doubtful, or loss. The grades for special mention are assigned to loans that have been criticized based upon known characteristics such as periodic payment delinquency or stale financial information from the borrower and/or guarantors. Loans identified as criticized (special mention) or classified (substandard, doubtful, or loss) are subject to problem loan reporting every three months. There were no loans classified as special mention, doubtful, or loss at December 31, 2012 and 2011.

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

	Residential		Commercial Real Estate		Construction	
	2012	2011	2012	2011	2012	2011
Grade						
Pass	$ 12,017,028	$ 14,058,326	$ 46,613,038	$ 45,099,792	$ 5,927,979	$ 8,157,705
Substandard	4,701,498	4,041,569	2,548,077	3,036,857	327,067	365,493
Total	$ 16,718,526	$ 18,099,895	$ 49,161,115	$ 48,136,649	$ 6,255,046	$ 8,523,198

	Commercial		Consumer		Total Loans	
	2012	2011	2012	2011	2012	2011
Grade						
Pass	$ 3,688,465	$ 3,552,976	$ 448,758	$ 451,510	$ 68,695,268	$ 71,320,309
Substandard	231,761	294,095	24,828	-	7,833,231	7,738,014
Total	$ 3,920,226	$ 3,847,071	$ 473,586	$ 451,510	$ 76,528,499	$ 79,058,323

Pass - Credit exposure in this category ranges between the highest credit quality to average credit quality. Primary repayment sources generate satisfactory debt service coverage under normal conditions. Cash flow from recurring sources is expected to continue to produce adequate debt service capacity.

Special mention - A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Note 4 - Allowance for Loan Losses (continued)

Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of debt. Loans in this category are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful - Any asset classified doubtful has 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 value, highly questionable and improbable.

Loss - Assets classified loss are considered uncollectible and of such minimal value that the continuance as bankable assets are not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value but that it is not practical or desirable to defer writing off this basically worthless asset even though a partial recovery may occur in the future.

The following table shows the age analysis of past due loans as of December 31:

December 31, 2012	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing	Recorded Investment on Nonaccrual Status
Residential	$ -	$ -	$ -	$ -	$ 16,718,526	$ 16,718,526	$ -	$ 361,494
Commercial real estate	760,072	-	87,121	847,193	48,313,922	49,161,115	-	606,928
Construction	-	-	-	-	6,255,046	6,255,046	-	-
Commercial	-	-	231,760	231,760	3,688,466	3,920,226	128,378	-
Consumer	-	-	-	-	473,586	473,586	-	-
	$ 760,072	$ -	$ 318,881	$ 1,078,953	$ 75,449,546	$ 76,528,499	$ 128,378	$ 968,422
December 31, 2011								
Residential	$ 164,585	$ -	$ -	$ 164,585	$ 17,935,310	$ 18,099,895	$ -	$ 1,078,819
Commercial real estate	-	-	1,266,510	1,266,510	46,870,139	48,136,649	-	2,148,412
Construction	-	-	-	-	8,523,198	8,523,198	-	-
Commercial	232,333	-	176,532	408,865	3,438,206	3,847,071	176,532	-
Consumer	-	-	-	-	451,510	451,510	-	-
	$ 396,918	$ -	$ 1,443,042	$ 1,839,960	$ 77,218,363	$ 79,058,323	$ 176,532	$ 3,227,231

The amount of interest income forgone as a result of these loans being placed on nonaccrual status totaled $146,607 and $101,146 for the years ended December 31, 2012 and 2011, respectively.

Note 4 - Allowance for Loan Losses (continued)

The following table shows impaired loans for the years ended December 31:

December 31, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Annual Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Residential	$ 474,235	$ 537,143	$ -	$ 508,385	$ 4,842
Construction	122,424	122,424	-	125,933	9,466
Commercial real estate	1,503,721	1,564,562	-	1,575,188	33,448
Commercial	128,380	128,380	-	152,909	11,721
Consumer	-	-	-	-	-
With allowance recorded					
Residential	$ 551,643	$ 551,643	$ 32,000	$ 560,631	$ 31,226
Total					
Residential	$ 1,025,878	$ 1,088,786	$ 32,000	$ 1,069,016	$ 36,068
Construction	122,424	122,424	-	125,933	9,466
Commercial real estate	1,503,721	1,564,562	-	1,575,188	33,448
Commercial	128,380	128,380	-	152,909	11,721
Consumer	-	-	-	-	-
December 31, 2011					
With no related allowance recorded					
Residential	$ 1,078,819	$ 1,125,154	$ -	$ 1,158,810	$ 16,184
Construction	199,761	199,761	-	234,345	6,866
Commercial real estate	2,148,412	2,179,854	-	2,113,131	63,417
Commercial	176,532	176,532	-	208,356	15,580
Consumer	-	-	-	781	-
With allowance recorded					
Residential	$ 1,497,469	$ 1,497,469	$ 61,518	$ 374,367	$ 12,508
Total					
Residential	$ 2,576,288	$ 2,622,623	$ 61,518	$ 1,533,177	$ 28,692
Construction	199,761	199,761	-	234,345	6,866
Commercial real estate	2,148,412	2,179,854	-	2,113,131	63,417
Commercial	176,532	176,532	-	208,356	15,580
Consumer	-	-	-	781	-

Loans classified as troubled debt restructurings totaled $2,000,807 and $3,537,412 at December 31, 2012 and 2011, respectively. A troubled debt restructuring (TDR) is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Company is granting the borrower a concession of some kind. The Bank has granted a variety of concessions to borrowers in the form of loan modifications. The modifications granted can generally be described in the following categories:

Rate modification - A modification in which the interest rate is changed.

Term modification - A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Note 4 - Allowance for Loan Losses (continued)

Payment modification - A modification in which the dollar amount of the payment is changed. Interest-only modifications in which a loan is converted to interest-only payments for a period of time are included in this category.

Combination modification - Any other type of modification, including the use of multiple categories above.

Upon identifying those receivables as troubled debt restructurings, the Bank identified them as impaired for purposes of determining the allowance for loan losses. This requires the loans to be evaluated individually for impairment, generally based on the expected cash flows under the new terms discounted at the loans' original effective interest rates. For troubled debt restructured loans that subsequently default, the method of determining impairment is generally the fair value of the collateral less estimated selling costs.

There were no new troubled debt restructured loans during the year ended December 31, 2012.

The following tables present newly restructured loans by class that occurred during the year ended December 31, 2011, by type of concession granted:

December 31, 2011	Number of Contracts	Rate Modification	Term Modification	Payment Modification	Combination Modification	Total Modifications
Pre-modification outstanding recorded investment						
Residential	16	$ 693,356	$ 280,553	$ -	$ 1,513,682	$ 2,487,591
Construction	1	-	-	-	251,711	251,711
Commercial real estate	2	-	-	-	917,224	917,224
	19	$ 693,356	$ 280,553	$ -	$ 2,682,617	$ 3,656,526
Post-modification outstanding recorded investment						
Residential	16	$ 693,356	$ 280,553	$ -	$ 1,513,682	$ 2,487,591
Construction	1	-	-	-	201,711	201,711
Commercial real estate	2	-	-	-	917,224	917,224
	19	$ 693,356	$ 280,553	$ -	$ 2,632,617	$ 3,606,526

Subsequent to a loan being classified as a TDR, a borrower may become unwilling or unable to abide by the terms of the modified agreement. In such cases of default, the Bank takes appropriate action to secure additional payments including the use of foreclosure proceedings. The following table presents loans modified as troubled debt restructurings that subsequently defaulted:

	Number of Contracts	Recorded Investment
Residential	7	$ 1,323,390

The Company had no commitments to extend additional credit to borrowers owing receivables whose terms have been modified in troubled debt restructurings.

Note 5 - Derivatives

The Bank is engaged principally in providing first mortgage permanent financing for residential property. Residential home mortgages are originated for sale into the secondary market and are hedged against interest rate fluctuations with forward sales commitments, futures, and option contracts from the time of an interest rate lock loan commitment until the loans are sold (typically 30 to 90 days).

The following is a summary of the interest rate lock loan commitments and open forward commitments at December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate lock loan commitments	$ 14,242,113	$ 371,280	$ 4,185,766	$ 106,796
Forward sales of mortgage-backed securities commitments	13,239,821	10,652	6,500,000	35,520

The notional amount of the derivatives does not represent amounts exchanged by the parties and, thus, are not a measure of the Company's exposure through its use of derivatives. The amounts exchanged are determined by reference to the notional amounts and the other terms of the individual derivatives.

The derivatives expose the Company to credit risk in the event of nonperformance by counterparties to such agreements. The risk consists primarily of the termination value of the agreements where the Company is in a favorable position. The Company controls credit risk associated with its derivative instruments through management review and approval of counterparties.

The following table summarizes the types of derivatives, separately by assets and liabilities, their locations on the consolidated balance sheets, and the fair values of such derivatives as of December 31, 2012, and December 31, 2011:

		Asset Derivatives		Liability Derivatives	
		December 31,		December 31,	
Derivatives	Balance Sheet Location	2012	2011	2012	2011
Interest rate lock loan commitments	Other assets	$ 371,280	$ 106,796	$ -	$ -
Forward sales of mortgage-backed securities commitments	Accounts payable and accrued expenses	-	-	10,652	35,520

The following table summarizes the types of derivatives, their locations within the consolidated statements of income, and the gains (losses) recorded in 2012 and 2011:

		December 31,	
Derivatives	Income Statement Location	2012	2011
Interest rate lock loan commitments	Mortgage banking revenue	$ 264,484	$ 106,796
Forward sales of mortgage-backed securities commitments	Mortgage banking revenue	(522,499)	(35,520)

Note 6 - Premises and Equipment

Depreciation and amortization expense amounted to $211,160 and $205,479 for the years ended December 31, 2012 and 2011, respectively.

	2012	2011
Land	$ 975,881	$ 975,881
Furniture and equipment	1,322,299	1,176,605
Buildings	1,035,937	1,035,937
Leasehold improvements	959,270	908,342
Software	36,500	42,105
	4,329,887	4,138,870
Less accumulated depreciation and amortization	(1,236,436)	(1,064,544)
Premises and equipment, net of accumulated depreciation	$ 3,093,451	$ 3,074,326

Note 7 - Other Real Estate Owned

Other real estate owned (OREO) includes property acquired by the Bank through foreclosure and is carried at the lower of the estimated fair value, less costs to sell, or the principal balance of the foreclosed loans.

The following table presents other real estate owned and other repossessed assets as of December 31:

	2012	2011
Beginning balance	$ 5,740,796	$ 5,099,951
Loans transferred to other real estate owned	1,323,390	2,250,658
Sales proceeds	(1,927,812)	(1,403,907)
Gain (loss) on sale of other real estate owned	(197,173)	266,179
Write-downs	(247,396)	(472,085)
Ending balance	$ 4,691,805	$ 5,740,796

Note 8 - Time Certificates of Deposit

Time certificates of deposit of $100,000 or more aggregated to $14,115,384 and $14,141,441 at December 31, 2012 and 2011, respectively.

The scheduled contractual maturities of certificates of deposit at December 31, 2012, are as follows:

2013	$ 26,379,208
2014	7,902,278
2015	8,108,909
2016	3,245,797
2017	2,991,394
	$ 48,627,586

Time deposits included brokered deposits of $10,986,722 and $11,753,661 at December 31, 2012 and 2011, respectively.

Note 9 - Borrowings

Federal Home Loan Bank advances - The Bank, as a member of the Federal Home Loan Bank (FHLB) of Seattle, has entered into a credit arrangement with the FHLB under which authorized borrowings are collateralized by the Bank's loans (Note 3). The Bank had a cash management advance (CMA) to the FHLB of Seattle in the amount of $4,000,000 at December 31, 2012, with a maturity of December 31, 2013. Maximum borrowings available from the FHLB for notes payable, lines of credit, and the CMA program totaled $19,287,855 at December 31, 2012. Available borrowings and their respective terms are subject to eligible collateral being pledged and are reduced by outstanding letters of credit. At December 31, 2012, there were no outstanding letters of credit at the FHLB.

Correspondent bank lines of credit - The Bank has federal funds line-of-credit agreements with Pacific Coast Banker's Bank and Zions Bank. As of December 31, 2012 and 2011, there were no outstanding balances owed for these agreements. The maximum borrowings available under the Pacific Coast Banker's Bank agreement was $4,000,000 and $3,750,000, as of December 31, 2012 and 2011, respectively. This line-of credit-agreement expires on June 30, 2013, and had a floating interest rate of 1.0893% as of December 31, 2012, with a blanket pledge of all assets as collateral. The Zions Bank line of credit was opened in October 2012. The maximum borrowings available under this agreement was $4,000,000 as of December 31, 2012, with no expiration date and is unsecured as of December 31, 2012.

Federal Reserve borrowings - The Bank has established a line of credit under the discount window program. As of December 31, 2012 and 2011, there were no outstanding borrowings under this program and the available borrowing limit was $12,077,131 and $12,087,014, respectively. The Bank has pledged certain loans to collateralize these borrowings (Note 3).

Note 10 - Income Taxes

The provision for income taxes consisted of the following:

	2012	2011
Income tax expense (benefit)		
Current		
Federal	$ 710,615	$ 551,022
State	126,998	136,914
Deferred		
Federal	(92,834)	(185,724)
State	(8,183)	(22,774)
	$ 736,596	$ 479,438

The provision for current income taxes is different from that computed by applying the statutory rates as follows:

	2012	2011
Federal tax at statutory rates	$ 689,936	$ 407,300
State income taxes, net of federal effect	93,367	58,024
Increase in cash surrender value	(26,458)	(25,813)
Permanent difference	22,447	9,669
Other	(42,696)	30,258
	$ 736,596	$ 479,438

The components of the net deferred tax asset at December 31 are as follows:

	2012	2011
Assets		
Allowance for loan losses	$ 477,825	$ 546,020
Other real estate owned	587,502	602,269
Deferred compensation	194,734	143,206
Unrealized loss on securities	-	8,775
Other	146,673	18,183
Total deferred tax assets	1,406,734	1,318,453
Liabilities		
Depreciation	(251,420)	(226,404)
Prepaid expenses	(43,580)	(41,667)
Unrealized gain on securities	(11,234)	-
Other	-	(30,890)
Total deferred tax liabilities	(306,234)	(298,961)
Net deferred tax assets	$ 1,100,500	$ 1,019,492

Note 11 - Retirement Plan

The Bank has established a 401(k) plan to which employees can elect to defer a portion of their pay, up to a maximum of 15 percent. At management's discretion, the Bank can make a matching contribution. For the years ended December 31, 2012 and 2011, the Bank contributed $108,835 and $50,350, respectively.

Note 12 - Commitments and Contingencies

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the consolidated 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 letters of credit written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the notional amounts of the Bank's financial instruments with off-balance-sheet risk at December 31 is as follows:

	2012	2011
Commitments to extend credit	$ 3,536,670	$ 4,259,210
Standby letters of credit	175,177	190,177
	$ 3,711,847	$ 4,449,387

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

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

Note 13 - Preferred Stock Issuance

Preferred stock issuance - On April 24, 2009, the Company issued two series of preferred stock as part of the United States Department of the Treasury's Capital Purchase Program for gross proceeds of $3,216,000. The Company issued 3,216 shares of Series A preferred stock, and warrants for 161 shares of Series B preferred stock with an exercise price of $.01 per share, which were immediately exercised. The allocation of the fair value of the warrants was recorded as a discount to the Series A preferred stock, and is being recognized as a "deemed dividend" over a period of five years. At the end of five years, the combined value of both series of preferred stock will be $3,377,000, the redemption price of the preferred stock, plus any unpaid dividends. Should the Company redeem the preferred stock prior to the fifth anniversary, the redemption price remains $3,377,000, plus any unpaid dividends.

The preferred stock carries no voting rights and may be redeemed in whole or in part, at any time and from time to time, at the option of the Company. All redemptions shall be subject to the approval of the FDIC, and all Series A preferred stock must be redeemed prior to redeeming Series B preferred stock. If the Company has not redeemed all preferred stock by the tenth anniversary of the issuance, all common stock dividends and repurchases of common stock will be prohibited until all preferred stock has been redeemed or transferred to a third party.

Dividends are cumulative and are paid on a quarterly basis. Series A dividends are at the rate of 5.00% per annum until the fifth anniversary, when the rate increases to 9.00%. Series B dividends are paid at 9.00% per annum.

Note 14 - Stock Incentive Plan

During 2011, the Bank formed a new stock incentive plan, the 2011 Stock Incentive Plan (the Plan), approved by the board of directors and ratified by the shareholders, authorizing the grant of up to 125,000 shares of common stock. The Plan replaced the 2001 Stock Incentive Plan, which expired ten years after issuance. The Plan allows for granting of both incentive and nonqualified stock options, and restricted stock. For all options, the option price, number of shares granted, and duration for the stock options are determined and approved by the board of directors. However, the exercise price for stock options will be 100% of fair market value as of the date on which the option is granted. If the optionee is a significant shareholder, the exercise price will be 110% of fair market value as of the date on which the option is granted. The maximum life for stock options granted is ten years from the date of grant or five years if the optionee is a significant shareholder. Restricted stock is granted with the same terms and restrictions as options. There are 90,617 options and restricted stock shares available for grant at December 31, 2012.

Note 14 - Stock Incentive Plan (continued)

The risk-free rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is based on management's estimate of future cash dividends at the time of grant. Cash dividends are not paid on unexercised options. The Company attempts to use historical data to estimate option exercise and employee termination behavior in order to estimate an expected life for each option grant. The expected life falls between the end of the vesting period or requisite service period and the contractual term for each award. Expected volatility is estimated to approximate historical volatility determined using the weekly closing stock price for the Company's common stock.

The following schedule reflects the weighted-average assumptions included in this model as it relates to the valuation of options granted for the year ended December 31, 2011. There were no new options granted for the year ended December 31, 2012.

	2011
Expected dividends	0.00%
Expected term (years)	5
Expected volatility	37.18%
Risk-free rate	1.93%

The following table summarizes stock options outstanding under this plan:

	Nonstatutory Options	Weighted-Average Exercise Price	Average Remaining Contractual Life (in years)
Options outstanding, December 31, 2011	39,453	$ 12.97	4.30
Options granted	-	-	
Options exercised	-	-	
Options forfeited	-	-	
Options outstanding, December 31, 2012	39,453	$ 12.97	3.30
Options exercisable, December 31, 2012	37,153	$ 13.32	3.06

The weighted-average grant-date fair value of options granted was $2.49 for the year ended December 31, 2011. As of December 31, 2012, there was $5,119 of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a period of approximately three years. There were no tax benefits realized in 2012 and 2011.

Note 14 - Stock Incentive Plan (continued)

Restricted stock grants - The fair value of restricted stock grants is determined based on the last trade price on the grant date. The Company granted restricted stock during 2012 and the shares are issued; however, they are subject to service requirements before restrictions are lifted. The restricted stock grants are participating securities, but there have been no dividends in 2012 or 2011. A summary of restricted stock activity is presented below:

	Restricted Stock	Weighted-Average Grant-Date Fair Value
Restricted stock at December 31, 2011	19,725	$ 8.50
Stock granted	15,108	7.82
Stock vested	(4,050)	8.50
Stock forfeited	(450)	8.50
Restricted stock at December 31, 2012	30,333	$ 8.16

As of December 31, 2012, there was $167,990 of unrecognized compensation expense related to nonvested restricted stock options, which is expected to be recognized over a period of approximately five years.

Note 15 - Operating Lease

The Bank is obligated under noncancelable operating leases with initial or remaining terms in excess of one year on various facilities. These leases expire from 2013 through 2022, require periodic adjustments to the minimum rental payments based on published price indexes, and contain various extension options, which may be exercised by management.

The following is a schedule of estimated future minimum rental payments based upon price indexes currently in effect at December 31:

2013	$ 473,982
2014	200,631
2015	136,412
2016	149,089
2017	94,289
	$ 1,054,403

Rental expense under all operating leases was $747,771 and $519,660 for 2012 and 2011, respectively.

Note 16 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the 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 to average assets (as defined). Management believes, as of December 31, 2012, the Bank and Bancorp met all capital adequacy requirements to which they are subject.

At December 31, 2012, according to the most recent notifications from its regulatory agencies, the Bank and Bancorp were categorized as well-capitalized under the applicable regulatory framework. There are no conditions or events that management believes may have changed the Bank's category. To be categorized as well-capitalized, the Bank and Bancorp must maintain minimum total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage capital ratios. The following table presents selected regulatory capital information for the Bank and Bancorp.

The Bank and Bancorp's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual Capital		Capital Adequacy Purpose		To Be Well Capitalized Under Prompt Corrective Action Provision	
As of December 31, 2012	Amount in Thousands	Ratio	Amount in Thousands	Ratio	Amount in Thousands	Ratio
Total capital to risk-weighted assets						
Oregon Bancorp, Inc.	$ 18,446	18.69%	$ 7,897	≥8%	N/A	N/A
Willamette Valley Bank	$ 18,277	18.53%	$ 7,891	≥8%	$ 9,864	≥10%
Tier 1 capital to risk-weighted assets						
Oregon Bancorp, Inc.	$ 17,209	17.43%	$ 3,949	≥4%	N/A	N/A
Willamette Valley Bank	$ 17,041	17.28%	$ 3,946	≥4%	$ 5,919	≥6%
Tier 1 capital to average assets						
Oregon Bancorp, Inc.	$ 17,209	14.19%	$ 4,851	≥4%	N/A	N/A
Willamette Valley Bank	$ 17,041	14.06%	$ 4,848	≥4%	$ 6,060	≥5%
As of December 31, 2011						
Total capital to risk-weighted assets						
Oregon Bancorp, Inc.	$ 17,190	17.62%	$ 7,805	≥8%	N/A	N/A
Willamette Valley Bank	$ 17,127	17.57%	$ 7,800	≥8%	$ 9,750	≥10%
Tier 1 capital to risk-weighted assets						
Oregon Bancorp, Inc.	$ 15,964	16.36%	$ 3,902	≥4%	N/A	N/A
Willamette Valley Bank	$ 15,901	16.31%	$ 3,900	≥4%	$ 5,850	≥6%
Tier 1 capital to average assets						
Oregon Bancorp, Inc.	$ 15,964	13.49%	$ 4,733	≥4%	N/A	N/A
Willamette Valley Bank	$ 15,901	13.44%	$ 4,733	≥4%	$ 5,196	≥5%

Note 17 - Fair Value of Financial Instruments

Fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants in the Bank's principal market. The Bank has established and documented its process for determining the fair values of its assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Bank's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities and credit spreads, or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

These two types of inputs create the following fair value hierarchy:

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

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

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

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

Qualitative disclosures of valuation techniques

Assets and liabilities measured at fair value on a recurring basis - Assets and liabilities are considered to be fair valued on a recurring basis if fair value is measured regularly (i.e., daily, weekly, monthly, or quarterly) and are as follows:

Available-for-sale investment securities - Where quoted prices are available in an active market, securities are classified as Level 1. Level 1 instruments include highly liquid government bonds, securities issued by the U.S. Treasury, and exchange-traded equity securities. If quoted prices are not available, management determines fair value using pricing models, quoted prices of similar securities, or discounted cash flows. Such instruments are classified as Level 2. In certain cases where there is limited activity in the market for a particular instrument, assumptions must be made to determine its fair value. Such instruments are classified as Level 3.

Note 17 - Fair Value of Financial Instruments (continued)

Loans held-for-sale - Loans held-for-sale are valued at the market value as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Loans that are committed with firm investor pricing are classified as Level 1. In the absence of a commitment, the best source of fair value is a current estimated market price as reflected in the Company's hedge reporting model that is provided by a reputable third party. In assessing the value of the uncommitted loans, it must be noted that open forward commitments or obligations to sell loans are a component of the loan value at any given date. These are typically classified as Level 2.

Interest rate lock commitments - The Bank considers its commitments to extend secondary market qualifying loans (the pipeline) with interest rate lock commitments to be derivatives. These derivatives are recognized at their estimated fair values as reflected in the Company's hedge reporting model that is provided by a reputable third party based on market prices for similar assets. These are typically classified as Level 2.

Forward sale commitments - The Bank considers its futures contracts and its positions taken in put options to be derivatives, which are recognized at their estimated fair value as reflected in the Company's hedge reporting model that is provided by a reputable third party based on market prices for similar assets. These are typically classified as Level 2.

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

	Fair Value Measurements			
	Fair Value 12/31/2012	Level 1	Level 2	Level 3
Recurring items				
Agency-backed, mortgage-backed GNMA	$ 390,842	$ -	$ 390,842	$ -
Corporate bonds	1,002,113	-	1,002,113	-
Loans held-for-sale	29,652,708	26,780,837	2,871,871	-
Interest rate lock commitments	371,280	-	371,280	-
Forward sale commitments	10,652	-	10,652	-
Total assets and liabilities measured at fair value	$ 31,427,595	$ 26,780,837	$ 4,646,758	$ -

	Fair Value Measurements			
	Fair Value 12/31/2011	Level 1	Level 2	Level 3
Recurring items				
Agency-backed, mortgage-backed GNMA	$ 564,102	$ -	$ 564,102	$ -
Corporate bonds	950,465	-	950,465	-
Loans held-for-sale	20,191,987	17,119,269	3,072,718	-
Interest rate lock commitments	106,796	-	106,796	-
Forward sale commitments	35,520	-	35,520	-
Total assets and liabilities measured at fair value	$ 21,848,870	$ 17,119,269	$ 4,729,601	$ -

Note 17 - Fair Value of Financial Instruments (continued)

Assets measured at fair value on a nonrecurring basis - Assets are considered to be fair valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheets. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value. Assets measured on a nonrecurring basis are as follows:

Impaired loans - A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan's observable market price or the underlying collateral securing the loan. Collateral may be real estate or business assets including equipment. The value of collateral is determined based on independent appraisals, and is typically categorized as a Level 3 in the hierarchy.

Other real estate owned - Other real estate owned assets are measured and recorded at the lower of cost basis or fair value on a nonrecurring basis. The other real estate owned assets are collateral-dependent and, accordingly, are measured based on the fair value of such collateral. The fair value of each asset's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring fair value measurement that is categorized as a Level 3 measurement.

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

	Fair Value Measurements				Total Period Losses Included in Earnings
	Fair Value 12/31/2012	Level 1	Level 2	Level 3	
Nonrecurring items					
Impaired loans, net of specific reserves	$ 2,748,403	$ -	$ -	$ 2,748,403	$ 285,602
Other real estate owned	4,691,805	-	-	4,691,805	444,569
Total assets measured at fair value	$ 7,440,208	$ -	$ -	$ 7,440,208	$ 730,171

	Fair Value Measurements				Total Period (Gains) Losses Included in Earnings
	Fair Value 12/31/2011	Level 1	Level 2	Level 3	
Nonrecurring items					
Impaired loans, net of specific reserves	$ 5,039,475	$ -	$ -	$ 5,039,475	$ (34,611)
Other real estate owned	5,740,796	-	-	5,740,796	205,906
Total assets measured at fair value	$ 10,780,271	$ -	$ -	$ 10,780,271	$ 171,295

Note 17 - Fair Value of Financial Instruments (continued)

The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the year ending December 31, 2012, along with the valuation techniques used, are shown in the following table:

	Fair Value at December 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted-Average) [1]
Impaired loans, net of specific reserve	$ 2,748,403	Market comparable	Adjustment to appraisal value	6%
OREO	4,691,805	Market comparable	Adjustment to appraisal value	6%-7%

[1] Discount to appraised value, typically selling costs.

The following table discloses the estimated fair value and the related carrying value of the Bank's financial assets and liabilities at December 31:

	Carrying Value	Fair Value at December 31, 2012			
		Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 7,739,129	$ 7,739,129	$ 7,739,129	$ -	$ -
Investment securities available-for-sale	1,392,955	1,392,955	1,392,955	-	-
Loans held-for-sale	29,652,708	29,652,708	26,780,837	2,871,871	-
Interest rate lock commitments	371,280	371,280	-	371,280	-
Accrued interest receivable	347,270	347,270	347,270	-	-
Federal Home Loan Bank stock	569,600	569,600	569,600	-	-
Loans, net of allowance for loan losses	74,954,652	75,229,062	-	75,229,062	-
Financial liabilities					
Noninterest-bearing demand deposits	12,422,296	12,422,296	12,422,296	-	-
Interest-bearing demand and money market accounts	41,649,208	41,649,208	-	41,649,208	-
Time deposits	48,627,586	49,323,069	-	49,323,069	-
Lines of credit and other borrowings	4,000,000	4,000,000	4,000,000	-	-
Forward commitments	10,652	10,652	-	10,652	-
Accrued interest payable	60,698	60,698	60,698	-	-

	Carrying Value	Fair Value at December 31, 2011			
		Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 9,781,233	$ 9,781,233	$ 9,781,233	$ -	$ -
Investment securities available-for-sale	1,514,567	1,514,567	1,514,567	-	-
Loans held-for-sale	20,191,987	20,191,987	17,119,269	3,072,718	-
Interest rate lock commitments	106,796	106,796	-	106,796	-
Accrued interest receivable	387,783	387,783	387,783	-	-
Federal Home Loan Bank stock	535,900	535,900	535,900	-	-
Loans, net of allowance for loan losses	77,217,189	78,351,302	-	78,351,302	-
Financial liabilities					
Noninterest-bearing demand deposits	10,699,334	10,699,334	10,699,334	-	-
Interest-bearing demand and money market accounts	38,305,764	37,077,997	-	37,077,997	-
Time deposits	53,104,114	53,747,201	-	53,747,201	-
Lines of credit and other borrowings	2,000,000	2,000,000	2,000,000	-	-
Forward commitments	35,520	35,520	-	35,520	-
Accrued interest payable	74,296	74,296	74,296	-	-

Note 17 - Fair Value of Financial Instruments (continued)

Cash and due from banks - For these financial instruments, the carrying value as presented is a reasonable estimate of fair value.

Federal Home Loan Bank stock, at cost - The FHLB stock is carried at par value ($100/share) and does not have a readily determinable fair value.

Loans, net - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using a discounted cash flow analysis or underlying collateral values, where applicable.

Noninterest-bearing demand deposits and interest-bearing demand and money market accounts - The fair values disclosed for noninterest-bearing demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate money market accounts approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings - Rates currently available to the Bank for Federal Home Loan Bank borrowings with similar terms and remaining maturities are used to estimate the fair value of these borrowings.

Interest rate lock commitments - The Bank considers its commitments to extend secondary market qualifying loans (the pipeline) with interest rate lock commitments to be derivatives. These derivatives are recognized at their estimated fair values as reflected in the Banks's hedge reporting model that is provided by a reputable third party based on market prices for similar assets.

Off-balance-sheet instruments - The Bank's off-balance-sheet instruments include unfunded commitments to extend credit and standby letters of credit. The fair value of these instruments is not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Although estimates of fair value are based on management's judgment of the most appropriate factors, there can be no assurance that were the Bank to have disposed of such items at December 31, 2012 and 2011, the estimated fair values would necessarily have been achieved at that date. Since market values may differ depending on various circumstances, the estimated fair values at December 31, 2012 and 2011, should not necessarily be considered to apply at subsequent dates.

Note 17 - Fair Value of Financial Instruments (continued)

The Bank normally intends to hold the majority of its financial instruments until maturity; it does not expect to realize many of the estimated amounts disclosed. In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as furniture and equipment. Also, nonfinancial instruments typically not recognized in the consolidated financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

Note 18 - Related-Party Transactions

In the ordinary course of business, the Bank has granted loans to certain directors and executive officers and the companies with which they are associated. In the Bank's opinion, all loans and loan commitments to such parties are made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons.

An analysis of activity with respect to loans to directors, executive officers, and principal shareholders of the Bank is as follows:

	2012	2011
Balance, beginning of year	$ 1,586,912	$ 2,463,122
Additional	42,700	213,153
Repayments	(40,119)	(1,089,363)
Transfer	(1,396,821)	-
Balance, end of year	$ 192,672	$ 1,586,912

At December 31, 2012 and 2011, deposits held for related parties were $6,449,665 and $4,873,006, respectively.

Note 19 - Other Income and Noninterest Expenses

Other operating expenses included in noninterest expense included the following for the years ended December 31:

	2012	2011
Software licensing fees	$ 383,415	$ 189,643
Advertising	383,002	100,140
Investor fees	271,345	-
Credit reports	199,511	89,757
Data processing	197,351	152,897
Telephone	186,887	148,066
Legal	90,600	172,226
Other expenses	1,562,060	1,000,665
	$ 3,274,171	$ 1,853,394

Other income included in noninterest income included the following for the years ended December 31:

	2012	2011
Processing fees	$ 205,374	$ 148,330
Other income	1,089,388	1,063,923
	$ 1,294,762	$ 1,212,253

Note 20 - Subsequent Event

Subsequent to December 31, 2012, the Company announced a ten percent stock dividend to shareholders of record on January 25, 2013.

SUPPLEMENTARY SCHEDULES

ASSETS

	Willamette Valley Bank	Oregon Bancorp, Inc.	Eliminations	Consolidated Total
ASSETS				
Cash and due from banks	$ 7,739,129	$ 11,492	$ (11,492)	$ 7,739,129
Investment securities available-for-sale	1,392,955	-	-	1,392,955
Loans held-for-sale	29,652,708	-	-	29,652,708
Loans, net of allowance for loan losses and unearned loan fees	74,954,652	-	-	74,954,652
Premises and equipment, net	3,093,451	-	-	3,093,451
Accrued interest receivable	347,270	-	-	347,270
Federal Home Loan Bank stock, at cost	569,600	-	-	569,600
Other real estate owned, net	4,691,805	-	-	4,691,805
Cash surrender value of life insurance, net	1,502,476	-	-	1,502,476
Deferred tax asset	943,202	157,298	-	1,100,500
Prepaid expenses	205,732	-	-	205,732
Other assets	460,090	-	(4,813)	455,277
Investment in subsidiary	-	15,737,944	(15,737,944)	-
Total assets	$ 125,553,070	$ 15,906,734	$ (15,754,249)	$ 125,705,555

LIABILITIES AND SHAREHOLDERS' EQUITY

	Willamette Valley Bank	Oregon Bancorp, Inc.	Eliminations	Consolidated Total
LIABILITIES				
Noninterest-bearing demand deposits	$ 12,433,788	$ -	$ (11,492)	$ 12,422,296
Interest-bearing demand deposits and money market accounts	41,649,208	-	-	41,649,208
Time certificates of deposit	48,627,586	-	-	48,627,586
Total deposits	102,710,582	-	(11,492)	102,699,090
Borrowings	4,000,000	-	-	4,000,000
Accounts payable and accrued expenses	1,723,375	4,813	(4,813)	1,723,375
Accrued interest payable	60,698	-	-	60,698
Total liabilities	108,494,655	4,813	(16,305)	108,483,163
COMMITMENTS AND CONTINGENCIES (Note 12)				
SHAREHOLDERS' EQUITY				
Preferred stock, no par value; 2,000,000 shares authorized; 3,216 Series A and 161 Series B shares issued and outstanding as of December 31, 2012 and 2011	-	3,334,743	-	3,334,743
Common stock, no par value; 10,000,000 shares authorized; 935,101 shares issued and 904,768 outstanding as of December 31, 2012; 920,443 shares issued and 900,718 outstanding as of December 31, 2011	10,354,585	10,336,315	(10,354,585)	10,336,315
Additional paid-in capital	3,359,336	531,695	(3,359,336)	531,695
Retained earnings	3,326,473	1,699,168	(2,024,023)	3,001,618
Accumulated other comprehensive loss	18,021	-	-	18,021
Total shareholders' equity	17,058,415	15,901,921	(15,737,944)	17,222,392
Total liabilities and shareholders' equity	$ 125,553,070	$ 15,906,734	$ (15,754,249)	$ 125,705,555

OREGON BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2012

	Willamette Valley Bank	Oregon Bancorp, Inc.	Eliminations	Consolidated Total
INTEREST INCOME				
Interest and fees on loans	$ 5,507,042	$ -	$ -	$ 5,507,042
Interest on due from banks	35,731	-	-	35,731
Interest on investment securities	20,494	-	-	20,494
Total interest income	5,563,267	-	-	5,563,267
INTEREST EXPENSE				
Demand deposits	7,575	-	-	7,575
Savings and money market	154,160	-	-	154,160
Time certificates of deposit	664,908	-	-	664,908
Borrowings	649	-	-	649
Total interest expense	827,292	-	-	827,292
Net interest income before provision for loan losses	4,735,975	-	-	4,735,975
PROVISION FOR LOAN LOSSES	-	-	-	-
Net interest income after provision for loan losses	4,735,975	-	-	4,735,975
NONINTEREST INCOME				
Mortgage banking revenue	10,881,128	-	-	10,881,128
Brokered loan fees	194,294	-	-	194,294
Service charge income	50,098	-	-	50,098
Increase in cash surrender value of life insurance	67,811	-		67,811
Other income	1,302,024	-	(7,262)	1,294,762
Total noninterest income	12,495,355	-	(7,262)	12,488,093
NONINTEREST EXPENSE				
Salaries	7,930,445	-	-	7,930,445
Employee benefits	2,169,937	-	-	2,169,937
Occupancy expenses	982,336	-	-	982,336
Write-down on other real estate owned, net	444,569	-	-	444,569
Regulatory assessment	182,226	-	-	182,226
Depreciation and amortization expense	211,160	-	-	211,160
Other operating expenses	3,154,187	127,246	(7,262)	3,274,171
Total noninterest expense	15,074,860	127,246	(7,262)	15,194,844
Income (loss) before provision for income taxes (benefit)	2,156,470	(127,246)	-	2,029,224
Provision for income taxes (benefit)	836,006	(99,410)	-	736,596
NET INCOME (LOSS)	$ 1,320,464	$ (27,836)	$ -	$ 1,292,628