

To our Shareholders:

March 31, 2014

The first quarter of 2014 followed a trend that developed in the latter part of last year with improving commercial loan originations but significantly slower mortgage volume. The cold weather challenges in our area had a marked impact on home sales and the general level of interest rates has caused the refinance market to shrink considerably.

Company net income for the quarter was \$59,701 which is down from last year impacted largely by challenges facing the mortgage business. We have downsized operations in light of lower sales and are seeing profitable early results. As we move into spring we expect the mortgage business to begin its seasonal positive swing and this was reflected in the most recent month. Continued firming of home prices and a slowly improving job picture are two ingredients supporting the market .

Commercial loan growth continued with quarter-end loan totals of \$88.0 million which is a 14% increase over the same period last year. Our recent hire of a Portland-based commercial loan officer brings us access to the largest market in the state and opportunities for asset growth there.

Our capital remains strong as our Tier 1 capital ratio totals 12.42% as of the end of the current quarter. Thank you for your referrals and continued support.

Neil D. Grossnicklaus
President and
Chief Executive Officer

Salem Headquarters Office

101 High Street NE
Salem, OR 97301
503-485-2222

Albany Branch

1970 SE 14th Avenue
Albany, OR 97322
541-926-6555

Keizer Branch

5140 River Road N
Keizer, OR 97303
503-393-0757

Silverton Branch

701A McClaine Street
Silverton, OR 97381
503-873-3449

Home Loan Centers

Bend

Eugene

Lake Oswego

Medford

Newberg

Wilsonville

Vancouver, WA



QUARTERLY REPORT

March 31, 2014



BALANCE SHEET (Unaudited)

	March 31, 2014	March 31, 2013	Percent Change
ASSETS			
Cash & Due From Banks	\$ 9,714,036	\$ 9,007,087	
Investments	2,842,149	2,869,672	
Real Estate Loans	82,050,734	74,851,891	
Commercial Loans	5,499,845	3,630,699	
Installment Loans	108,583	471,595	
Agriculture Loans	356,862	42,009	
Unrealized Loan Fees	(136,734)	(135,452)	
Loans Available For Sale	8,404,988	19,357,249	
Loan Loss Reserve	(1,461,737)	(1,453,008)	
Premises & Equipment, Net	2,938,338	3,073,269	
Other Real Estate Owned	2,563,075	4,497,323	
Other Assets	2,612,333	2,798,523	
TOTAL ASSETS	\$ 115,492,472	\$ 119,010,857	-2.96%
LIABILITIES			
Demand Deposits	\$ 14,631,460	\$ 10,983,699	
NOW Accounts	5,372,351	4,613,974	
Savings Accounts	2,256,336	2,135,299	
Money Market Accounts	37,212,304	35,413,906	
Time Deposits	39,009,568	46,958,567	
Borrowings	1,661,405	-	
Other Liabilities	1,002,362	1,507,884	
TOTAL LIABILITIES	101,145,786	101,613,329	-0.46%
STOCKHOLDERS' EQUITY	14,346,686	17,397,528	-17.54%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 115,492,472	\$ 119,010,857	-2.96%

INCOME STATEMENT (Unaudited)

	Three Months Ending March 31, 2014	Three Months Ending March 31, 2013	Percent Change
INTEREST INCOME			
Investment Income	\$ 6,606	\$ 6,931	
Commercial Loans	76,348	57,329	
Agriculture Loans	3,997	1,013	
Installment Loans	6,363	7,683	
Real Estate Loans	1,189,939	1,249,806	
Other Interest Income	6,852	7,180	
TOTAL INTEREST INCOME	1,290,105	1,329,942	-3.00%
INTEREST EXPENSE			
Demand Deposit Accounts	1,272	1,224	
Money Market & Savings Accounts	19,205	20,759	
Certificate of Deposit Accounts	93,990	125,739	
Individual Retirement Accounts	15,679	17,473	
Borrowings	22,700	489	
TOTAL INTEREST EXPENSE	152,846	165,684	-7.75%
NET INTEREST INCOME	1,137,259	1,164,258	-2.32%
Less: Provision for Loan Losses	-	-	
NET INTEREST INCOME AFTER PROVISION	1,137,259	1,164,258	-2.32%
NON-INTEREST INCOME			
Service Charges	13,218	9,307	
Servicing Fees	201	936	
Broker Loan Fees	90,886	74,061	
Mortgage Banking Revenue	1,395,261	3,144,185	
Other Income	88,095	137,144	
TOTAL NON-INTEREST INCOME	1,587,661	3,365,633	-52.83%
NON-INTEREST EXPENSE			
Salaries and Employee Benefits	1,751,883	2,914,342	
Occupancy	277,002	269,417	
Furniture and Fixtures	122,980	170,897	
Advertising and Promotions	70,465	133,885	
Misc Expense	415,889	667,939	
TOTAL NON-INTEREST EXPENSE	2,638,219	4,156,480	-36.53%
Income (loss) before Provision for Income Taxes	86,701	373,411	
Provision for Income Taxes	27,000	150,000	
NET INCOME	\$ 59,701	\$ 223,411	-73.28%