

To our Shareholders:

June 30, 2014

The second quarter of 2014 continues the trend of a significant improvement in commercial loan totals. At the end of the quarter commercial balances stood at \$95.9 million which is a 25.7% increase over the same period in 2013. Net income for the quarter was \$182,381 which is down from a year ago, but up from the first quarter of this year. Total assets increased to \$120.6 million on new deposit growth.

Our mortgage business line continues to be challenged by the structural changes occurring in the housing industry which is displaying increasing home prices but low inventory from which interested homebuyers can choose. We have hired a new mortgage management team who are adding seasoned loan originators to focus on the purchase business as the market continues to adjust. We anticipate stronger results later in the year as new loan officers bring in additional loan production.

Loan quality in the portfolio continues to strengthen as the economy slowly improves. Bank owned properties are decreasing and this will help reduce carrying costs as we move forward.

Our capital remains strong as our Tier 1 capital ratio is 12.06% 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

Wilsonville

Vancouver, WA



QUARTERLY REPORT

June 30, 2014



BALANCE SHEET (Unaudited)

	June 30, 2014	June 30, 2013	Percent Change
ASSETS			
Cash & Due From Banks	\$ 10,738,135	\$ 11,911,641	
Investments	1,813,919	2,867,996	
Real Estate Loans	88,403,426	71,814,042	
Commercial Loans	6,212,087	3,984,900	
Installment Loans	130,685	432,380	
Agriculture Loans	1,120,573	38,065	
Unrealized Loan Fees	(151,792)	(120,223)	
Loans Available For Sale	5,633,788	18,506,904	
Loan Loss Reserve	(1,407,954)	(1,453,948)	
Premises & Equipment, Net	2,860,988	3,052,672	
Other Real Estate Owned	1,711,284	4,020,486	
Other Assets	3,505,627	2,667,557	
TOTAL ASSETS	\$ 120,570,766	\$ 117,722,472	2.42%
LIABILITIES			
Demand Deposits	\$ 16,307,347	\$ 12,685,108	
NOW Accounts	5,614,449	4,468,978	
Savings Accounts	2,419,267	2,080,987	
Money Market Accounts	36,925,093	36,197,300	
Time Deposits	41,955,825	43,610,682	
Borrowings	1,661,405	-	
Other Liabilities	1,144,549	965,736	
TOTAL LIABILITIES	106,027,935	100,008,791	6.02%
STOCKHOLDERS' EQUITY	14,542,831	17,713,681	-17.90%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 120,570,766	\$ 117,722,472	2.42%

INCOME STATEMENT (Unaudited)

	Year-To-Date June 30, 2014	Three Months Ending June 30, 2014	Three Months Ending June 30, 2013	Percent Change
INTEREST INCOME				
Investment Income	\$ 13,010	\$ 6,404	\$ 6,991	
Commercial Loans	151,689	75,341	54,240	
Agriculture Loans	12,742	8,745	764	
Installment Loans	7,898	1,535	8,123	
Real Estate Loans	2,423,247	1,233,308	1,199,267	
Other Interest Income	11,365	4,513	7,408	
TOTAL INTEREST INCOME	2,619,951	1,329,846	1,276,793	4.16%
INTEREST EXPENSE				
Demand Deposit Accounts	3,646	2,374	1,631	
Money Market & Savings Accounts	37,820	18,615	20,690	
Certificate of Deposit Accounts	187,140	93,150	118,845	
Individual Retirement Accounts	31,162	15,483	17,730	
Borrowings	40,691	17,991	0	
TOTAL INTEREST EXPENSE	300,459	147,613	158,896	-7.10%
NET INTEREST INCOME	2,319,492	1,182,233	1,117,897	5.76%
Less: Provision for Loan Losses	-	-	-	
NET INTEREST INCOME AFTER PROVISION	2,319,492	1,182,233	1,117,897	5.76%
NON-INTEREST INCOME				
Service Charges	29,711	16,493	9,179	
Servicing Fees	404	203	949	
Broker Loan Fees	181,828	90,942	240,390	
Mortgage Banking Revenue	2,953,426	1,558,165	3,844,783	
Other Income	342,226	254,131	152,638	
TOTAL NON-INTEREST INCOME	3,507,595	1,919,934	4,247,939	-54.80%
NON-INTEREST EXPENSE				
Salaries and Employee Benefits	3,630,142	1,878,259	3,519,818	
Occupancy	583,711	306,709	280,387	
Furniture and Fixtures	242,352	119,372	202,833	
Advertising and Promotions	119,812	49,347	100,526	
Misc Expense	885,875	469,986	712,941	
TOTAL NON-INTEREST EXPENSE	5,461,892	2,823,673	4,816,505	-41.38%
Income (loss) before Provision for Income Taxes	365,195	278,494	549,331	
Provision for Income Taxes	123,113	96,113	241,000	
NET INCOME	\$ 242,082	\$ 182,381	\$ 308,331	-40.85%