

**To our Shareholders:**

**September 30, 2014**

The third quarter of 2014 continues the trend of growing commercial loan balances. At the end of the quarter commercial loan totals reached \$98.6 million which is a 21% increase over the same period in 2013. Total assets stand at \$121.3 million which is a slight decrease from the year-ago period. Loan portfolio quality continues to strengthen as the economy slowly improves. Bank owned properties decreased significantly which, accompanied by commercial loan growth, provides a positive effect on core earnings.

Net income for the quarter was negatively impacted by reorganization costs in our mortgage business line leading to a loss for the company of \$91,893. Net income for the year remains positive at \$150,189 and the addition of new lending officers and our entry into promising new markets leads us to anticipate a positive impact on fourth quarter earnings.

We opened a new loan production office in Grants Pass during the quarter and have plans to add several new producers in Idaho in the fourth quarter of this year. Interest rates remain low and home purchase activity is slowly increasing.

Our capital remains strong as our Tier 1 capital ratio is 11.93% 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**

**Grants Pass**

**Medford**

**Wilsonville**

**Vancouver, WA**



# QUARTERLY REPORT

September 30, 2014



BALANCE SHEET (Unaudited)

	September 30, 2014	September 30, 2013	Percent Change
<b>ASSETS</b>			
Cash & Due From Banks	\$ 9,444,848	\$ 15,324,249	
Investments	2,834,001	2,845,511	
Real Estate Loans	92,065,098	77,659,794	
Commercial Loans	6,138,632	4,644,182	
Installment Loans	243,405	426,607	
Agriculture Loans	1,705,709	114,155	
Unrealized Loan Fees	(156,221)	(145,598)	
Loan Loss Reserve	(1,415,225)	(1,461,737)	
	<u>98,581,398</u>	<u>81,237,403</u>	21.35%
Loans Available For Sale	4,488,621	13,469,417	
Premises & Equipment, Net	2,813,805	3,028,478	
Other Real Estate Owned	498,684	3,170,975	
Other Assets	2,633,474	2,760,827	
<b>TOTAL ASSETS</b>	<u>\$ 121,294,831</u>	<u>\$ 121,836,860</u>	-0.44%
<b>LIABILITIES</b>			
Demand Deposits	\$ 15,882,191	\$ 14,242,103	
NOW Accounts	5,712,343	5,047,830	
Savings Accounts	3,330,176	2,114,357	
Money Market Accounts	38,215,348	38,613,433	
Time Deposits	40,944,047	42,436,589	
	<u>104,084,105</u>	<u>102,454,312</u>	1.59%
Borrowings	1,662,950	-	
Other Liabilities	1,068,059	1,678,626	
<b>TOTAL LIABILITIES</b>	<u>106,815,114</u>	<u>104,132,938</u>	2.58%
<b>STOCKHOLDERS' EQUITY</b>	14,479,717	17,703,922	-18.21%
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 121,294,831</u>	<u>\$ 121,836,860</u>	-0.44%

INCOME STATEMENT (Unaudited)

	Year-To-Date September 30, 2014	Three Months Ending September 30, 2014	Three Months Ending September 30, 2013	Percent Change
<b>INTEREST INCOME</b>				
Investment Income	\$ 19,141	\$ 6,131	\$ 6,599	
Commercial Loans	248,899	97,210	62,624	
Agriculture Loans	27,749	15,007	1,564	
Installment Loans	10,348	2,450	7,524	
Real Estate Loans	3,673,804	1,250,557	1,213,417	
Other Interest Income	18,611	7,246	9,161	
<b>TOTAL INTEREST INCOME</b>	<u>3,998,552</u>	<u>1,378,601</u>	<u>1,300,889</u>	5.97%
<b>INTEREST EXPENSE</b>				
Demand Deposit Accounts	5,533	-32,287	1,173	
Money Market & Savings Accounts	57,029	-130,111	21,417	
Certificate of Deposit Accounts	297,143	265,981	112,988	
Individual Retirement Accounts	46,446	46,446	17,817	
Borrowings	58,682	17,991	0	
<b>TOTAL INTEREST EXPENSE</b>	<u>464,833</u>	<u>164,374</u>	<u>153,395</u>	7.16%
<b>NET INTEREST INCOME</b>	<u>3,533,719</u>	<u>1,214,227</u>	<u>1,147,494</u>	5.82%
Less: Provision for Loan Losses	-	-	-	
<b>NET INTEREST INCOME AFTER PROVISION</b>	<u>3,533,719</u>	<u>1,214,227</u>	<u>1,147,494</u>	5.82%
<b>NON-INTEREST INCOME</b>				
Service Charges	44,862	15,151	11,422	
Servicing Fees	605	201	569	
Broker Loan Fees	211,209	29,381	138,746	
Mortgage Banking Revenue	4,023,872	1,070,446	2,753,871	
Other Income	454,684	112,458	134,451	
<b>TOTAL NON-INTEREST INCOME</b>	<u>4,735,232</u>	<u>1,227,637</u>	<u>3,039,059</u>	-59.60%
<b>NON-INTEREST EXPENSE</b>				
Salaries and Employee Benefits	5,334,291	1,704,149	2,822,220	
Occupancy	846,676	262,965	272,613	
Furniture and Fixtures	378,294	135,942	177,817	
Advertising and Promotions	172,216	52,404	97,953	
Misc Expense	1,294,636	408,761	826,344	
<b>TOTAL NON-INTEREST EXPENSE</b>	<u>8,026,113</u>	<u>2,564,221</u>	<u>4,196,947</u>	-38.90%
<b>Income (loss) before Provision for Income Taxes</b>	242,838	-122,357	-10,394	
Provision for Income Taxes	92,649	-30,464	-19,412	
<b>NET INCOME</b>	<u>\$ 150,189</u>	<u>\$ (91,893)</u>	<u>\$ 9,018</u>	