

To our Shareholders:

June 30, 2018

I am pleased to report that company profitability continued to grow during the second quarter. Quarterly after tax net income reached \$2,333,249 which is an increase of \$909,142, or 64%, from the second quarter in 2017. These record earnings are the result of continued commercial loan growth, increased mortgage originations, and a reduction in federal tax rate.

Earnings per share for the quarter were \$1.07 compared to \$1.01 for the same quarter in 2017. Annualized return on assets improved to 3.34% from 3.07% in the year-ago quarter and return on equity grew to 30.15% up from 28.17% in 2017.

The Board of Directors approved a 2-for-1 stock split effective May 1, 2018. We hope to accomplish several goals with the stock split including a lowering of the share price, encouraging more transactions, and enhancing shareholder value. The Board of Directors also declared a \$0.10 per share cash dividend to be paid July 20, 2018. The dividend amount was adjusted to reflect the stock split with the increase in number of shares outstanding.

Total assets have reached \$224 million and our capital position continues to remain strong with a Tier 1 capital ratio of 11.38%. Please contact me at (503) 485-2222 if you have any questions. Thank you for your continued support.

Neil D. Grossnicklaus
President and Chief Executive Officer

Salem Headquarters Office

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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, OR

Eugene, OR

Grants Pass, OR

Medford, OR

Portland, OR

Tualatin, OR

West Linn, OR

Newport, WA

Spokane, WA

Vancouver, WA

Coeur d'Alene, ID

Meridian, ID



QUARTERLY REPORT

JUNE 30, 2018



BALANCE SHEET (Unaudited)

| | June 30, 2018 | June 30, 2017 | Percent Change |
|---|-----------------------|-----------------------|----------------|
| ASSETS | | | |
| Cash & Due From Banks | \$ 35,472,733 | \$ 16,949,869 | |
| Investments | - | - | |
| Real Estate Loans | 128,428,107 | 121,525,738 | |
| Commercial Loans | 8,829,744 | 6,564,065 | |
| Installment Loans | 379,130 | 397,507 | |
| Agriculture Loans | 3,748,692 | 2,853,816 | |
| Unrealized Loan Fees | (139,137) | (125,677) | |
| | <u>141,246,536</u> | <u>131,215,449</u> | 7.64% |
| Loans Available For Sale | 37,557,008 | 36,698,460 | |
| Loan Loss Reserve | (1,471,458) | (1,445,063) | |
| Premises & Equipment, Net | 2,721,677 | 2,607,604 | |
| Other Real Estate Owned | 1,174,228 | 1,461,960 | |
| Other Assets | 7,858,869 | 6,172,874 | |
| TOTAL ASSETS | <u>\$ 224,559,593</u> | <u>\$ 193,661,153</u> | 15.95% |
| LIABILITIES | | | |
| Demand Deposits | \$ 32,878,975 | \$ 28,872,468 | |
| NOW Accounts | 16,004,621 | 12,718,803 | |
| Savings Accounts | 6,124,191 | 4,993,541 | |
| Money Market Accounts | 37,688,226 | 42,985,173 | |
| Time Deposits | 100,502,958 | 60,926,013 | |
| Total Deposits | <u>193,198,971</u> | <u>150,495,998</u> | 28.37% |
| Borrowings | 1,090,503 | 18,748,265 | |
| Other Liabilities | 4,723,215 | 3,601,776 | |
| TOTAL LIABILITIES | <u>199,012,689</u> | <u>172,846,039</u> | 15.14% |
| STOCKHOLDERS' EQUITY | 25,546,904 | 20,815,114 | 22.73% |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 224,559,593</u> | <u>\$ 193,661,153</u> | 15.95% |

INCOME STATEMENT (Unaudited)

| | Year-To-Date June 30, 2018 | Three Months Ending June 30, 2018 | Three Months Ending June 30, 2017 | Percent Change |
|--|-------------------------------|--------------------------------------|--------------------------------------|-------------------|
| INTEREST INCOME | | | | |
| Interest on Due From Banks | \$ 275,111 | \$ 158,011 | \$ 26,804 | |
| Real Estate Loans | 4,162,638 | 2,236,007 | 1,826,431 | |
| Commercial Loans | 243,316 | 129,789 | 90,868 | |
| Installment Loans | 9,259 | 4,317 | 5,596 | |
| Agriculture Loans | 87,550 | 45,822 | 23,326 | |
| Other Interest Income | 2,946 | 1,042 | 447 | |
| TOTAL INTEREST INCOME | <u>4,780,820</u> | <u>2,574,988</u> | <u>1,973,472</u> | 30.48% |
| INTEREST EXPENSE | | | | |
| Demand Deposit Accounts | 9,883 | 5,290 | 4,561 | |
| Money Market & Savings Accounts | 42,671 | 22,137 | 21,553 | |
| Certificate of Deposit Accounts | 664,297 | 357,104 | 161,393 | |
| Individual Retirement Accounts | 10,674 | 5,292 | 5,219 | |
| Borrowings | 25,204 | 12,600 | 24,144 | |
| TOTAL INTEREST EXPENSE | <u>752,729</u> | <u>402,423</u> | <u>216,870</u> | 85.56% |
| NET INTEREST INCOME | <u>4,028,091</u> | <u>2,172,565</u> | <u>1,756,602</u> | 23.68% |
| Less: Provision for Loan Losses | - | - | - | |
| NET INTEREST INCOME AFTER PROVISION | <u>4,028,091</u> | <u>2,172,565</u> | <u>1,756,602</u> | 23.68% |
| NON-INTEREST INCOME | | | | |
| Service Charges | 28,642 | 14,464 | 12,250 | |
| Servicing Fees | 1,086 | 529 | 287 | |
| Broker Loan Fees | 70,510 | 11,858 | 56,016 | |
| Mortgage Banking Revenue | 16,856,945 | 9,550,469 | 7,572,845 | |
| Other Income | 109,304 | 68,298 | 92,834 | |
| TOTAL NON-INTEREST INCOME | <u>17,066,487</u> | <u>9,645,618</u> | <u>7,734,232</u> | 24.71% |
| NON-INTEREST EXPENSE | | | | |
| Salaries and Employee Benefits | 11,947,557 | 6,434,294 | 5,440,841 | |
| Occupancy | 739,146 | 385,281 | 381,934 | |
| Furniture and Fixtures | 493,917 | 268,997 | 247,046 | |
| Advertising and Promotions | 812,226 | 434,735 | 287,920 | |
| Misc Expense | 2,322,011 | 1,159,987 | 856,796 | |
| TOTAL NON-INTEREST EXPENSE | <u>16,314,857</u> | <u>8,683,294</u> | <u>7,214,537</u> | 20.36% |
| Income (loss) before Provision for Income Taxes | <u>4,779,721</u> | <u>3,134,889</u> | <u>2,276,297</u> | |
| Provision for Income Taxes | 1,224,471 | 801,640 | 852,190 | |
| NET INCOME | <u>\$ 3,555,250</u> | <u>\$ 2,333,249</u> | <u>\$ 1,424,107</u> | 63.84% |