

To our Shareholders:

June 30, 2016

Our very strong start this year accelerated into the second quarter. Net income for the quarter was a record \$1,050,136 which is on pace for an annualized return on assets of 2.04% and a return on equity of 19.67%. Earnings per share for the quarter reached 97 cents. The Board of Directors authorized a 30 cent per share dividend paid on July 11th.

Deposit growth continued at a brisk pace in the second quarter. Total deposits have increased to \$146.1 million which is an increase of 14% year over year leading to total assets of \$172.7 million. The slowly improving economy along with a highly competitive marketplace has led to modest commercial loan growth of \$2.1 million.

Turmoil in overseas capital markets has led to very low mortgage interest rates in recent months. Pent-up demand for homes from the millennial generation as they enter the market has spurred robust home purchase volume. Our mortgage business achieved \$122.9 million in new loan volume which is a record quarter for any quarter. The bank generated 582 residential mortgage loans in the second quarter of 2016 which is also a record. At present, a lack of affordable homes for sale remains a challenge in some areas.

Our capital position increased during the quarter to a Tier 1 capital ratio of 10.70%. 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

Tualatin, OR

Grants Pass, OR

Medford, OR

Portland, OR

Wilsonville, OR

Vancouver, WA

Coeur d'Alene, ID

Meridian, ID

Priest River, ID



QUARTERLY REPORT

JUNE 30, 2016



BALANCE SHEET (Unaudited)

	June 30, 2016	June 30, 2015	Percent Change
ASSETS			
Cash & Due From Banks	\$ 16,852,789	\$ 6,368,283	
Investments	57,777	617,367	
Real Estate Loans	101,994,471	100,335,672	
Commercial Loans	5,952,531	5,518,476	
Installment Loans	131,916	127,135	
Agriculture Loans	2,665,861	2,646,494	
Unrealized Loan Fees	(176,068)	(164,829)	
	<u>110,568,711</u>	<u>108,462,948</u>	1.94%
Loans Available For Sale	37,244,871	38,946,932	
Loan Loss Reserve	(1,434,833)	(1,423,750)	
Premises & Equipment, Net	2,653,560	2,783,949	
Other Real Estate Owned	1,588,066	339,379	
Other Assets	5,204,070	4,604,419	
TOTAL ASSETS	<u>\$ 172,735,011</u>	<u>\$ 160,699,527</u>	7.49%
LIABILITIES			
Demand Deposits	\$ 26,646,014	\$ 20,349,540	
NOW Accounts	10,314,677	6,421,668	
Savings Accounts	4,353,032	2,915,965	
Money Market Accounts	36,662,848	34,460,107	
Time Deposits	<u>68,120,173</u>	<u>63,840,313</u>	
Total Deposits	146,096,744	127,987,593	14.15%
Borrowings	5,399,385	15,555,447	
Other Liabilities	<u>3,229,599</u>	<u>1,681,770</u>	
TOTAL LIABILITIES	<u>154,725,728</u>	<u>145,224,810</u>	6.54%
STOCKHOLDERS' EQUITY	18,009,283	15,474,717	16.38%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 172,735,011</u>	<u>\$ 160,699,527</u>	7.49%

INCOME STATEMENT (Unaudited)

	Year-To-Date June 30, 2016	Three Months Ending June 30, 2016	Three Months Ending June 30, 2015	Percent Change
INTEREST INCOME				
Investment Income	\$ 1,674	\$ 756	\$ 5,014	
Commercial Loans	174,767	94,191	81,731	
Agriculture Loans	46,890	24,668	32,837	
Installment Loans	3,988	1,892	2,150	
Real Estate Loans	3,343,313	1,743,751	1,668,383	
Other Interest Income	28,320	15,082	3,085	
TOTAL INTEREST INCOME	<u>3,598,952</u>	<u>1,880,340</u>	<u>1,793,200</u>	4.86%
INTEREST EXPENSE				
Demand Deposit Accounts	5,879	2,924	1,551	
Money Market & Savings Accounts	33,702	17,484	17,919	
Certificate of Deposit Accounts	361,715	188,566	159,830	
Individual Retirement Accounts	16,298	8,104	10,865	
Borrowings	<u>32,704</u>	<u>16,204</u>	<u>25,959</u>	
TOTAL INTEREST EXPENSE	<u>450,298</u>	<u>233,282</u>	<u>216,124</u>	7.94%
NET INTEREST INCOME	<u>3,148,654</u>	<u>1,647,058</u>	<u>1,577,076</u>	4.44%
Less: Provision for Loan Losses	-	-	-	
NET INTEREST INCOME AFTER PROVISION	<u>3,148,654</u>	<u>1,647,058</u>	<u>1,577,076</u>	4.44%
NON-INTEREST INCOME				
Service Charges	18,149	9,501	9,325	
Servicing Fees	605	297	513	
Broker Loan Fees	155,491	80,940	59,945	
Mortgage Banking Revenue	9,270,815	5,288,991	3,417,471	
Other Income	<u>207,217</u>	<u>105,918</u>	<u>166,398</u>	
TOTAL NON-INTEREST INCOME	<u>9,652,277</u>	<u>5,485,647</u>	<u>3,653,652</u>	50.14%
NON-INTEREST EXPENSE				
Salaries and Employee Benefits	7,498,033	4,168,495	3,275,329	
Occupancy	597,792	311,108	284,097	
Furniture and Fixtures	353,446	188,174	152,850	
Advertising and Promotions	185,776	109,748	95,529	
Misc Expense	<u>1,443,334</u>	<u>708,825</u>	<u>665,277</u>	
TOTAL NON-INTEREST EXPENSE	<u>10,078,381</u>	<u>5,486,350</u>	<u>4,473,082</u>	22.65%
Income (loss) before Provision for Income Taxes	<u>2,722,550</u>	<u>1,646,355</u>	<u>757,646</u>	
Provision for Income Taxes	1,005,326	596,219	313,449	
NET INCOME	<u>\$ 1,717,224</u>	<u>\$ 1,050,136</u>	<u>\$ 444,197</u>	136.41%