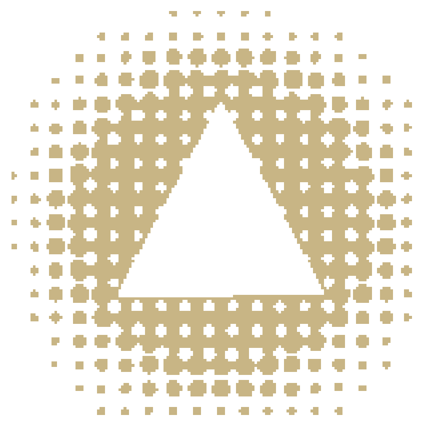
CONTENTS

SUMMITBANK



SUMMITBANK

March 25, 2013

To our Shareholders:

2012 was a very encouraging year for Summit Bank. The Bank was able to achieve important objectives that increased strength, stability and potential for the future. The Bank is also pleased to report notable loan demand in the fourth quarter that has put us on solid footing to begin 2013. Earnings growth, however, compared to 2011 fell short of our expectations, primarily due to the impact of discounting a non-performing real estate loan made prior to the significant drop in real estate values. 2012 results also reflected investments the Bank made in strategic product growth and strengthening and deepening our team.

Net income for 2012 was $631 thousand or 63 cents per fully diluted share, compared to $617 thousand or 62 cents per fully diluted share for 2011. Total net loans as of December 31, 2012, were $96.9 million, representing a 6.7 percent increase over the fiscal year end 2011 total of $90.9 million. Deposit growth was robust with total deposits of $116.7 million at year end 2012, compared to $101.7 million at year end 2011, an increase of 14.7 percent. The Bank's strong liquidity and capital positions continued to improve during the fiscal year as Summit added $6.2 million to its holdings of cash and marketable securities, totaling $32 million at year end, and increased capital by $718 thousand.

As mentioned, problem loans continued to decline during the year. Loans that are 90 days past due or in non-accrual status plus foreclosed real estate, as a percentage of total assets, dropped to 1.5 percent as of December 31, 2012, compared to 2.4 percent one year ago and 3.3 percent two years ago.

While the equity markets are still not showing favor to community bank stocks, your Bank is growing, getting stronger, and continues to serve an excellent and diversified client base of businesses and professionals here in our community. We are proud to be the only community bank in Eugene-Springfield working with just local clients. Local deposits stay here and help businesses grow here.

We appreciate your continued interest in the affairs of your bank, and look forward to seeing you at the annual meeting.

Sincerely,

R. Paul Weinhold	Ann Marie Mehlum	Craig A. Wanichek
Board Chair	Chief Executive Officer	President

ISLER CPA
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

An Independently Owned Member McGLADREY ALLIANCE | McGladrey

Independent Auditors' Report

To the Board of Directors
Summit Bank:

Report on the Financial Statements
We have audited the financial statements of Summit Bank (the "Bank") which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Isler CPA, LLC

March 12, 2013

The Federal Deposit Insurance Corporation has not reviewed the financial and related data in this statement for accuracy or relevance.

1976 Garden Ave., Eugene, OR 97403,
541-342-5161 www.islercpa.com

BALANCE SHEETS

	December 31 2012	December 31 2011
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 11,080,568	$ 4,500,467
Interest-bearing deposits with other banks	5,970,529	2,976,557
Federal funds sold	3,925,000	-
Total cash and cash equivalents	20,976,097	7,477,024
Investment securities available-for-sale	10,803,026	18,057,784
Loans, less allowance for loan losses	96,948,463	90,873,876
Interest receivable	360,428	397,261
Equity investments	266,700	264,300
Property, net of accumulated depreciation	2,876,596	2,933,915
Deferred income taxes	420,971	592,092
Foreclosed real estate	152,500	455,806
Cash surrender value of bank owned life insurance	1,848,049	1,795,084
Other assets	268,440	380,489
	113,945,173	115,750,607
Total assets	$ 134,921,270	$ 123,227,631
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 40,832,017	$ 29,785,482
Savings and interest-bearing demand	69,731,212	63,136,725
Time, $100,000 and over, maturing 2012-2015	4,962,435	7,172,021
Other time, maturing 2012-2015	1,215,378	1,629,845
Total deposits	116,741,042	101,724,073
Interest payable	65,086	79,600
Other liabilities	4,374,053	4,497,722
Repurchase agreements	1,276,910	4,096,074
Term borrowings	224,952	1,308,629
Total liabilities	122,682,043	111,706,098
Stockholders' equity:		
Common stock, no par value; 10,000,000 shares authorized, 998,612 shares outstanding in 2012 and 2011	10,243,566	10,211,504
Retained earnings	1,935,455	1,303,969
Accumulated other comprehensive income	60,206	6,060
Total stockholders' equity	12,239,227	11,521,533
Total liabilities and stockholders' equity	$ 134,921,270	$ 123,227,631

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF INCOME

	Year Ended December 31	
	2012	2011
Interest income:		
Interest and fees on loans	$ 4,519,453	$ 4,461,988
Interest on investment securities	223,989	339,422
Interest on federal funds sold and deposits with other banks	35,772	39,099
	4,779,214	4,840,509
Interest expense:	262,869	522,869
Net interest income	4,516,345	4,317,640
Provision for loan losses:	165,494	188,648
Net interest income after provision for loan losses	4,350,851	4,128,992
Noninterest income:		
Real estate lease income	200,954	221,610
Service charges on deposit accounts	96,497	67,404
Bank card and interchange fees	87,716	67,613
Loan servicing fees	64,377	66,345
Bank owned life insurance income	52,965	54,503
Gain on sale of loans and securities	16,579	39,667
Loss on sale of foreclosed real estate	(64,495)	(17,980)
Other	54,564	58,391
	509,157	557,553
Noninterest expense:		
Salaries and employee benefits	2,458,078	2,242,888
Occupancy and equipment expense	307,783	329,090
Data processing	301,845	250,068
Foreclosed real estate expenses	17,509	37,045
Other	746,380	827,044
	3,831,596	3,686,135
Income before income taxes	1,028,412	1,000,410
Income tax provision	396,926	383,152
Net income	$ 631,486	$ 617,258
Earnings per share:		
Basic	$ .63	$ .62
Diluted	$ .63	$ .62

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31	
	2012	2011
Net income	$ 631,486	$ 617,258
Other comprehensive income (loss):		
Change in unrealized gains on investment securities available for sale	$ 88,781	$ (181,354)
Tax effect of the change in unrealized gains on investment securities available for sale	$ (34,635)	$ 71,091
Comprehensive income	$ 685,632	$ 506,995

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2012 and December 31, 2011

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	**Amount**	**Earnings**	**Income**	**Total**
Balance, January 1, 2011	998,612	$ 10,191,621	$ 686,711	$ 116,323	$ 10,994,655
Net income			617,258		617,258
Other comprehensive income:					
Decrease in unrealized gains on investment securities				(181,354)	
Deferred income taxes				71,091	
				(110,263)	(110,263)
Comprehensive income					506,995
Share-based compensation		19,883			19,883
Balance, December 31, 2011	998,612	10,211,504	1,303,969	6,060	11,521,533
Net income			**631,486**		**631,486**
Other comprehensive income:					
Increase in unrealized gains on investment securities				**88,781**	
Deferred income taxes				**(34,635)**	
				54,146	**54,146**
Comprehensive income					**685,632**
Share-based compensation		**32,062**			**32,062**
Balance, December 31, 2012	**998,612**	**$ 10,243,566**	**$ 1,935,455**	**$ 60,206**	**$ 12,239,227**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2012	2011
Cash flows from operating activities:		
Net income	$ 631,486	$ 617,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	171,623	169,403
Share based compensation	32,062	19,883
Amortization of investment premiums, net	257,297	248,251
Provision for loan losses	165,494	188,648
Gain on sale of loans	(9,690)	(39,667)
Loss on sale of foreclosed real estate	64,495	17,980
Write downs of foreclosed real estate	20,500	20,024
Deferred income taxes	171,121	30,273
Change in:		
Interest receivable and other assets	148,882	151,274
Deferred loan fees	14,203	20,397
Interest payable and other liabilities	(138,183)	1,718,605
Net cash provided by operating activities	1,529,290	3,162,329
Cash flows from investing activities:		
Purchase of investment securities	(3,124,135)	(19,457,155)
Sales of investment securities	1,146,391	-
Principal payments and maturities of investment securities	7,303,223	12,669,434
Net proceeds from sale of loans	1,922,875	1,168,048
Purchase of loans	(3,532,231)	(1,680,764)
Proceeds from sale of foreclosed real estate	630,488	187,022
Loans originated, net of principal collected	(3,376,652)	(2,041,104)
Purchase of fixed assets	(114,304)	(74,325)
Net cash provided by (used in) investing activities	855,655	(9,228,844)
Cash flows from financing activities:		
Net increase in deposits	15,016,969	4,919,977
Increase (decrease) in repurchase agreements	(2,819,164)	(989,398)
Payments on term borrowings	(1,083,677)	(505,213)
Net cash provided by financing activities	11,114,128	3,425,366
Net increase (decrease) in cash and cash equivalents	13,499,073	(2,641,149)
Cash and cash equivalents, beginning of year	7,477,024	10,118,173
Cash and cash equivalents, end of year	$ 20,976,097	$ 7,477,024
Supplemental information:		
Cash paid during the year for interest	$ 277,383	$ 545,274
Cash paid during the year for income taxes	310,518	267,076
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	54,146	(110,263)
Transfer of loans to foreclosed real estate	112,000	-

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. **Summary of Significant Accounting Policies:**

   General – The Bank provides commercial banking, financing, real estate lending and other services primarily in Lane County, Oregon. The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

   Financial Statement Presentation – The preparation of the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures, and actual results could differ from those estimates. The most significant estimates are the allowance for loan losses and fair value estimates. The Bank has evaluated subsequent events through March 12, 2013, the date the financial statements were available for distribution. Certain prior year amounts have been reclassified to conform to the current year presentation.

   Cash and Cash Equivalents – For purposes of reporting cash flows, cash and cash equivalents are cash and due from banks. Such amounts include both interest-bearing and non interest-bearing deposits with other banks, principally short-term time deposits, and federal funds sold on an overnight basis and may exceed amounts insured by the FDIC.

   Investment Securities – The Bank classifies all investment securities as available-for-sale. Securities available-for-sale are held for indefinite periods of time and may be sold in response to changes in market interest rates, shifts in the maturity mix or concentration of bank assets or liabilities or to alleviate liquidity demands. Securities designated as available-for-sale are carried at estimated fair value. Unrealized gains and losses are excluded from earnings and are included in other comprehensive income in stockholders' equity, net of applicable deferred taxes.

   Interest income on debt securities is included in income using the effective interest method. Gains and losses realized on sales of securities are recognized using the specific identification method. Investment income includes accretion and amortization of discounts and premiums resulting from securities purchased at other than par value. Both are calculated using a "constant yield" methodology either to maturity for non-callable securities, or to "worst call date" for callable securities. Premiums and discounts on mortgage backed securities are amortized/accreted based upon current and expected future rates of prepayments on the securities.

   The Bank evaluates its securities classified as available for sale for other-than-temporary impairments (OTTI) in accordance with ASC Topic 320. Accordingly, the Bank assesses whether it intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Bank would separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component would be recognized in earnings and would be the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows would be due to factors that are not credit related and, therefore, would not be required to be recognized as losses in the income statement, but would be recognized in other comprehensive income. Management believes that all unrealized losses on investment securities at December 31, 2012, and December 31, 2011, are temporary.

   Loans and Income Recognition – Loans are stated at the amount of unpaid principal, reduced by deferred loan origination fees and an allowance for loan losses. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the interest is doubtful. In accordance with GAAP, payments received on nonaccrual loans are applied to the principal balance and no interest income is recognized. Interest income is subsequently recognized only to the extent cash payments are received satisfying all delinquent principal and interest amounts, and the prospects for future payments in accordance with the loan agreement appear relatively certain. A nonaccrual loan may be restored to accrual status when none of its principal and interest is due and unpaid and the Bank expects full repayment of the remaining contractual principal and interest, or when it otherwise becomes well secured and in the process of collection. Loan origination fees, net of associated direct costs, if significant, are amortized by the interest or straight-line method over the contractual life of the loan.

Allowance for Loan Losses – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged off against the allowance when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management considers adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectibility of loans and prior loss experience. The evaluations take into consideration factors including, but not limited to; changes in the concentrations, trends and current nature of the loan portfolio, historical loss experience for the Bank and its peers, overall portfolio quality, results from internal and external loan reviews, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

A loan is considered impaired when management believes that it is probable that all amounts will not be collected according to the contractual terms. An impaired loan is valued using the estimated fair value of the loan's collateral or related government guaranty, the present value of expected cash flows discounted at the loan's effective interest rate, or the observable market price of the loan. These estimates are necessarily subjective and may be adjusted as more current information becomes available. Any adjustment could be significant. Loans deemed impaired are specifically allocated for in the allowance for loan losses.

The Bank classifies loss reserves for unfunded loan commitments in other liabilities.

Federal and state bank regulatory agencies, as an integral part of their examination process, periodically review the Bank's reserve for loan losses. Such agencies may require the Bank to recognize additions to the reserve in the future based on their judgment of the information available to them at the time of their examinations.

Equity Investments – Equity investments consist of the following:

	2012	2011
Federal Home Loan Bank stock	**$ 76,700**	$ 74,300
Pacific Coast Bankers' Bancshares stock	**190,000**	190,000
	$ 266,700	$ 264,300

The investment in Federal Home Loan Bank ("FHLB") stock is carried at par, which approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets or FHLB advances. At December 31, 2012, the Bank's minimum required investment was $76,700. Stock redemptions may be requested at par value and are made at the discretion of the FHLB.

The Bank also holds an investment in its primary correspondent bank, Pacific Coast Bankers' Bancshares. This investment is carried at cost, which approximates fair value.

Property – Property is stated at cost, net of accumulated depreciation. Additions, betterments and replacements of major units are capitalized. Expenditures for normal maintenance, repairs and replacements of minor units are charged to expense as incurred. Gains or losses realized from sales or retirements are reflected in current operations. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

Foreclosed Assets – Assets acquired through, or in lieu of, foreclosure are held-for-sale. Foreclosed assets are initially recorded at fair value at the date of foreclosure based on current appraisals and management's estimate of value, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

Bank-owned Life Insurance (BOLI) The Bank is beneficiary of BOLI on certain Bank officers. The BOLI is recorded at fair value, which is based on the cash surrender value (net of surrender charges) of the insurance contracts. Changes in the cash surrender value are included in noninterest income.

Advertising – Advertising costs are charged to expense during the period in which they are incurred. Advertising expenses were $45,548 and $26,105 for the years ended December 31, 2012 and 2011, respectively.

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are calculated on differences between financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recognized if, based on the available evidence, it is determined it is more likely than not some portion or all of the deferred tax assets will not be realized.

Uncertain tax positions are accounted for in accordance with ASC 740 which prescribes recognition and measurement standards for uncertain income tax positions. The Standard provides guidance on recognition, derecognition, interest, penalties and disclosure. There is no material impact of potential tax uncertainties on Bank's financial condition or results of operations at December 31, 2012.

Derivative Instruments – The Bank uses derivative financial instruments (interest rate swaps) to limit exposure to changes in interest rates related to specific loan assets. Derivatives entered into by the Bank are designated as fair value hedges with perfect effectiveness between changes in the value of the interest rate swap and the hedged instrument (loan asset). All derivatives and related hedged loans are recognized in the balance sheet at their fair value. Changes in the fair value of a derivative that is highly effective, along with the loss or gain on the hedged loan asset that is attributable to the hedged risk, are recorded in current-period earnings. The Bank formally documents all relationships between hedging instruments and hedged assets, as well as its risk-management objective and strategy for undertaking various hedged transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The Bank would discontinue hedge accounting when: (a) it is determined that a derivative is no longer effective in offsetting changes in the fair value of the associated hedged loan asset; (b) the derivative expires or is sold, terminated, or exercised; or (c) management determines that designation of the derivative as a hedge instrument is no longer appropriate. The hedged loan asset would no longer be adjusted for changes in fair value and the derivative would be carried at its fair value in the balance sheet, with changes in its fair value recognized in current-period earnings.

Stockholders' Equity and Earnings Per Share – Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share include the effect of common stock equivalents that would arise from the exercise of stock options discussed in Note 11.

Share-Based Compensation – Financial accounting standards require companies to measure and recognize compensation expense for all share-based payments at the grant date based on the fair value of the award, as defined in the ASC 718, and include such costs as an expense over the requisite service (vesting) period. The Bank adopted ASC 718 using the modified prospective application, whereby the provisions of the statement have been applied prospectively only from the date of adoption for new (issued subsequent to December 31, 2005) and unvested stock option awards for which the requisite service is rendered after the date of adoption. Thus, the Bank recognizes as expense the fair value of stock options issued prior to January 1, 2006, but vesting after January 1, 2006, over the remaining vesting period.

SBA/USDA Loans Sales and Servicing—The Bank, on a limited basis, sells or transfers loans, including the government guaranteed portion of the loans (with loan servicing retained) for proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Bank records an asset representing the right to service loans for others when it sells a loan and retains the servicing rights included in other assets. The carrying value of loans is allocated between the loan and the servicing rights, based on their relative fair values. The fair value of servicing rights is estimated by discounting estimated future cash flows from servicing using discount rates that approximate current market rates and using estimated prepayment rates. The servicing rights are carried at the lower of cost or market and are amortized in proportion to, and over the period of the estimated net servicing income, assuming prepayments.

For purposes of evaluating and measuring impairment, servicing rights are based on a discounted cash flow methodology, current prepayment speeds and market discount rates. Impairment is measured as the amount by which the carrying value of servicing rights for a loan asset exceeds its fair value. The carrying value of the servicing rights at December 31, 2012, and December 31, 2011, were $81,608 and $93,328, respectively. No impairment charges were recorded for the years ended December 31, 2012, or December 31, 2011, related to the servicing assets.

Fair Value – The Bank applies the hierarchy and framework for measuring fair value, and expanded disclosure about fair value measurements and the reliability of valuation inputs as provided in ASC 820. When determining the fair value, the Bank considers the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or through market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market such as Bank-developed future cash flow estimates, and are considered the least reliable. Valuations for all of the Bank's financial instruments fall within Levels 2 and 3.

Recently Issued Accounting Pronouncements Adopted in 2012 – In April 2011 FASB issued Accounting Standard Update No. ASU 2011-02*, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This ASU set forth guidance to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment and for disclosure of troubled debt restructurings.

In June 2011 FASB issued Accounting Standard Update No. ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* This ASU requires all non owner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements.

There was no material impact on the Bank's results of operations or financial condition upon adoption of the new standards.

Recently Issued Accounting Pronouncements Effective in 2013 and 2014 – In December 2011 FASB issued Accounting Standard Update No. ASU 2011-11*, Receivables (Topic 310): Disclosures about Offsetting Assets and Liabilities*, in January 2013 FASB issued a clarification for *Disclosures about Offsetting Assets and Liabilities ASU No. 2013-01.* These ASUs set forth the guidance applicable to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. This update is effective for the Bank for the year ended December 31, 2013.

In October 2012 FASB issued Accounting Standard Update No. ASU 2012-04, *Technical Corrections and Improvements.* This ASU clarifies the Codification or corrects unintended applications of guidance that are not expected to have a significant effect on current accounting practice or create a significant administrative cost. This update is effective for the Bank for the year ended December 31, 2014.

In February 2013 FASB issued Accounting Standard Update No. ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The objective of this ASU is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this ASU seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. This update is effective for the Bank for the year ended December 31, 2014.

In February 2013 FASB issued Accounting Standard Update No. ASU 2013-03, *Clarifying the Scope and Applicability of a Particular Disclosure to Non-public Entities.* The main objective of this ASU is to clarify the scope and applicability of a particular disclosure to non-public entities that resulted from the issuance of Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. Contrary to the stated intent of ASU 2011-04 to exempt all non-public entities for a particular disclosure, that ASU'S amendments to Topic 825 suggested that non-public entities that have total assets of $100 million, or more or that have one or more derivative instruments, would not qualify for the intended exemption. This update is effective for the Bank for the year ended December 31, 2013.

The Bank is currently evaluating the impact that the amendments effective in 2013 will have on its future financial statements.

2. Interest-bearing Deposits with Other Banks:

Interest-bearing deposits with other banks at December 31, 2012, consist of demand account balances at the Federal Home Loan Bank of Seattle and time deposits at commercial banks, all FDIC insured.

3. Investment Securities Available for Sale:

The amortized cost and estimated fair values of available-for-sale investment securities at December 31 are as follows:

	December 31, 2012					
	Available-for-Sale				Securities in Continuous Unrealized Loss Position for Less Than 12 Months	Securities in Continuous Unrealized Loss Position for 12 Months or Longer
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value		
Obligations of U.S. Government sponsored agencies	$ 400,000	$ 12,210	$ -	412,210	$ -	-
Corporate securities	1,374,816	7,863	(28,940)	1,353,739	353,582	475,220
Mortgage-backed securities	8,929,419	108,951	(1,293)	9,037,077	902,129	-
	$ 10,704,235	$ 129,024	$ (30,233)	$ 10,803,026	$ 1,255,711	$ 475,220

	December 31, 2011					
	Available-for-Sale				Securities in Continuous Unrealized Loss Position for Less Than 12 Months	Securities in Continuous Unrealized Loss Position for 12 Months or Longer
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value		
Obligations of U.S. Government sponsored agencies	$ 1,402,423	$ 27,529	$ -	1,429,952	$ -	-
Corporate securities	2,393,842	2,119	(102,052)	2,293,909	1,564,197	226,738
Mortgage-backed securities	14,251,509	125,385	(42,971)	14,333,923	9,048,520	-
	$ 18,047,774	$ 155,033	$ (145,023)	$ 18,057,784	$ 10,612,717	$ 226,738

The corporate securities in a loss position include two securities with a total fair value of $475,220 at December 31, 2012, that had been in an unrealized loss position for more than 12 months. Management considered several factors including the minimal severity of the impairment, current market quotes for similar securities, and the stability of the issuers and concluded that neither of the securities was other-than-temporarily impaired.

The amortized cost and estimated fair value of investment securities at December 31, 2012, are shown below by maturity or projected average life depending on the type of security. Obligations of U.S. government sponsored agencies and corporations are shown by contractual maturity. Mortgage backed securities are disclosed by projected average life.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,547,091	1,573,262
Due after one year through five years	8,518,617	8,605,252
Due after five years through ten years	500,000	475,220
Due after ten years	138,527	149,293
	$ 10,704,235	$ 10,803,026

Investment securities with a total amortized cost of $1,139,502 were sold during 2012. The specific identification method was used to determine the cost of the securities sold. The sales resulted in a net pre-tax gain of $6,889 which is included in earnings. There were no sales of investment securities in 2011.

At December 31, 2012, investment securities with estimated fair value of $8,973,430 and amortized cost of $8,873,662 were pledged for Federal Home Loan Bank borrowing, repurchase agreements and other purposes. At December 31, 2011, investment securities with estimated fair value of $7,309,390 and amortized cost of $7,452,967 were pledged for Federal Home Loan Bank borrowing, repurchase agreements and other purposes.

4. Loans:

Major classifications of loans at December 31 are as follows:

	2012	2011
Real estate loans	$ 74,887,770	$ 72,199,955
Commercial loans	22,050,015	17,442,907
Consumer loans	1,748,778	2,938,632
	98,686,563	92,581,494
Deferred loan origination fees	(246,467)	(232,264)
	98,440,096	92,349,230
Allowance for loan losses	(1,491,633)	(1,475,353)
Loans, net	$ 96,948,463	$ 90,873,876

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of such serviced loans were $25,899,393 and $27,347,678 at December 31, 2012, and December 31, 2011, respectively.

The loan portfolio at December 31, 2012, and December 31, 2011, includes $21,840,021 and $28,482,084, respectively, of loans which have rates of interest that change more often than annually, exclusive of fixed rate loans that total $17,304,943 that are effectively converted to variable rate loans via interest rate swaps. The December 31, 2012, amount includes $8,277,895 of loans with interest rates at their contractual floors.

The following is an analysis of impaired loans as of December 31, 2012:

	Impaired Loans with Allowance			Impaired Loans without Allowance		Total Impaired Loans	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
Commercial loans:							
Nonaccrual	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other	71,933	69,155	44,619	-	-	71,933	69,155
Real estate loans:							
Nonaccrual	-	-	-	1,785,500	2,408,540	1,785,500	2,408,540
Consumer loans:							
Nonaccrual	-	-	-	-	8,997	-	8,997
Totals	$ 71,933	$ 69,155	$ 44,619	$ 1,785,500	$ 2,417,537	$ 1,857,433	$ 2,486,692

Recorded investment[1] in financing receivables as of December 31, 2012, and December 31, 2011, was:

	2012	2011
Individually evaluated for impairment	$ 6,853,764	$ 7,014,439
Collectively evaluated for impairment	91,897,905	85,649,388
Totals	$ 98,751,669	$ 92,663,827

[1] Recorded investment includes unpaid principal balance, net of charge-offs, unamortized deferred loan fees and costs, and accrued interest.

The average recorded investment in impaired loans was $2,397,210 in 2012 and $3,995,112 in 2011. Interest income which would have been realized on nonaccrual loans had they remained accruing was approximately $114,189 and $151,229 in 2012 and 2011, respectively. There were two commercial loans with total principal of $301,052 that were contractually past due between 30 and 89 days as to interest or principal payments that were still accruing interest at December 31, 2012. There were no loans contractually past due that were still accruing interest at December 31, 2011.

The Bank reports certain loans as troubled debt restructurings (TDRs) when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include extending the maturity date(s) or providing a lower interest rate than would normally be available for a transaction of similar risk. A TDR loan is considered to be impaired and is individually evaluated for impairment. Loans reported as TDRs totalled $4,075,705 and $3,649,503 (exclusive of loans in nonaccrual status) at December 31, 2012, and December 31, 2011, respectively.

The following table presents, by major loan classification, information with respect to the Bank's loans that were modified and recorded as TDRs during 2012 and 2011:

	2012		2011	
	Number of loans	TDR outstanding recorded investment	Number of loans	TDR outstanding recorded investment
Commercial loans:	1	$ 81,904	-	$ -
Real estate loans:	-	-	1	312,498
Consumer loans:	1	43,623	-	-
Totals	2	$ 125,527	1	$ 312,498

The following table presents, by major loan classification, the post modification recorded investment for TDRs restructured during 2012:

12 Months ended December 31, 2012	Rate Reduction	Term Extension	Rate Reduction and Term Extension	Total
Commercial loans:	$ -	$ 81,904	$ -	$ 81,904
Real estate loans:	-	-	-	-
Consumer loans:	-	43,623	-	43,623
	$ -	$ 125,527	$ -	$ 125,527

There were no TDRs which incurred a payment default within 12 months of the restructure date during 2012 and 2011. There were no commitments to lend additional funds to borrowers whose loans have been modified and recorded as TDRs at December 31, 2012. Determination of the allowance for credit losses for TDR loans does not differ materially from the process for other loans in the Bank's portfolio.

5. Allowance for loan losses:

The 2012 changes in the allowance for loan losses are as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Real Estate							
Acquisition, Development & Construction	$ 434,952	$ (261,083)	$ -	$ 115,668	$ 289,537	$ -	$ 289,537
Commercial	219,968	-	5,047	(26,400)	198,615	60,405	138,210
Multifamily	130,536	-	-	43,016	173,552	-	173,552
Owner Occupied	210,595	-	-	3,604	214,199	-	214,199
Commercial and Industrial	392,315	-	120,779	(21,907)	491,187	44,619	446,568
Consumer							
Secured	68,389	(15,248)	6,276	49,137	108,554	-	108,554
Unsecured	18,597	-	-	(2,608)	15,989	-	15,989
Total	$ 1,475,352	$ (276,331)	$ 132,103	$ 160,509	$ 1,491,633	$ 105,024	$ 1,386,609

The 2011 changes in the allowance for loan losses are summarized as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Specific Reserve	General Allocation
Real Estate							
Acquisition, Development & Construction	$ 362,909	$ -	$ -	$ 72,043	$ 434,952	$ -	$ 434,952
Commercial	257,976	-	4,206	(42,214)	219,968	-	219,968
Multifamily	195,998	-	-	(65,462)	130,536	-	130,536
Owner Occupied	241,694	(156,879)	-	125,780	210,595	-	210,595
Commercial and Industrial	317,425	(36,379)	102,822	8,447	392,315	107,512	284,803
Consumer							
Secured	83,408	(112,518)	8,339	89,159	68,389	-	68,389
Unsecured	20,420	-	-	(1,823)	18,597	-	18,597
Total	$ 1,479,831	$ (305,775)	$ 115,367	$ 185,929	$ 1,475,352	$ 107,512	$ 1,367,840

Risk Elements – The Bank manages credit risk through lending limit constraints, credit review, approval policies and extensive ongoing internal monitoring. Additionally, credit risk is managed via diversification of the loan portfolio by loan, industry and borrower type as well as limits on the aggregation of debt to a single borrower.

Risk Rating – The monitoring process for the Bank's loan portfolio includes periodic reviews of individual loans with risk ratings assigned to each loan. Based upon the analysis, loans are given a risk rating of 1-10 based on the following criteria;

- Ratings of 1-3 indicate minimal to low credit risk,
- Ratings of 4-5 indicate average to acceptable credit risk,
- Ratings of 6-7 indicate potential weakness and elevated credit risk requiring greater attention by Bank personnel and Management,
- Rating of 8 indicates a loss is possible if loan deficiencies are not corrected,
- Rating of 9 indicates a loss is probable,
- Rating of 10 indicates that the loan is uncollectable, and when identified is charged off.

Loans risk rated 8, 9 or 10 are reviewed regularly to assess the ability of the borrowers to service all interest and principal obligations and, as a result the risk ratings may be adjusted accordingly. In the event that full collection of principal and interest is not reasonably assured, the loan is appropriately downgraded and if warranted, placed on non-accrual status even though the loan may be current as to principal and interest payments. Additionally, an assessment is made as to whether an impairment of a loan warrants specific reserves or a write down of the loan.

The following is an analysis of the credit quality of the Bank's loan portfolio as of December 31, 2012:

	Weighted - Average Risk Rating	Recorded Investment in Loans[1]	Percentage
Real Estate			
Acquisition, Development & Construction	6.32	7,633,637	7.7%
Commercial	3.82	25,605,041	25.9%
Multifamily	4.70	6,192,187	6.3%
Owner Occupied	3.79	26,673,639	27.0%
Commercial and Industrial	4.54	21,849,999	22.1%
Consumer			
Secured	4.05	8,655,070	8.8%
Unsecured	3.80	2,142,097	2.2%
Total		$ 98,751,669	100.0%

[1] Recorded investment includes unpaid principal balance, net of charge-offs, unamortized deferred loan fees and costs, and accrued interest.

6. Property:

Property at December 31 consists of the following:

	2012	2011
Land	**$ 1,139,500**	$ 1,139,500
Building and improvements	**2,206,496**	2,162,648
Computer equipment and software	**317,722**	270,995
Furniture and equipment	**364,692**	340,963
	4,028,410	3,914,106
Accumulated depreciation	**(1,151,814)**	(980,191)
Property, net	**$ 2,876,596**	$ 2,933,915

The Bank owns its headquarters building and leases to others approximately 60% of the building. Rental income recorded under noncancelable leases as well as other month-to-month agreements totalled $200,954 in 2012, and $221,610 in 2011, and is recorded in noninterest income. Future expected revenues from noncancelable leases are:

2013	99,183
2014	56,268
2015	5,868
2016	2,039
	$ 163,358

7. Borrowings:

Short-term borrowings are repurchase agreements of $1,276,910 (average rate 0.26%) and $4,096,074 (average rate 0.25%) at December 31, 2012, and December 31, 2011, respectively. Investment securities are pledged as collateral in an amount equal to the repurchase agreements.

Term borrowings at December 31, 2012, consist of an FHLB term advance payable monthly with interest at 4.68%, fixed, due as follows:

	FHLB
2013	88,838
2014	94,317
2015	41,797
Total	$ 224,952

The Bank has a borrowing limit with the FHLB equal to 10% of total assets. This borrowing line is limited to collateral consisting of FHLB stock, funds on deposit with FHLB and eligible portions of the Bank's loan and securities portfolios. The available borrowing line at December 31, 2012, is approximately $2,111,000.

The Bank has secured and unsecured federal funds borrowing lines available with correspondent banks totalling $6,000,000 at December 31, 2012. There were no borrowings against these lines at December 31, 2012. The Bank has a secured borrowing line available with the Federal Reserve Discount Window which is secured by a portion of the Bank's loan portfolio. The Bank had no outstanding advances from the facility at December 31, 2012, and had an availability of approximately $1,034,000.

8. Interest and Fees on Loans:

Interest and fees on loans for the years ended December 31 is comprised of the following:

	2012	2011
Real Estate	**$ 3,268,839**	$ 3,262,491
Commercial	**1,122,515**	1,035,844
Consumer	**128,099**	163,654
Total interest and fees on loans	**$ 4,519,453**	$ 4,461,988

9. Interest Expense:

Interest expense for the years ended December 31 is comprised of the following:

	2012	2011
Savings and interest-bearing demand	**$ 212,555**	$ 307,922
Time deposits in excess of $100,000	**21,259**	68,718
Other time deposits	**7,538**	27,254
Other borrowings	**21,518**	118,975
Total interest expense	**$ 262,869**	$ 522,869

10. Benefit Plans:

The Bank has a 401(k) profit sharing plan covering substantially all employees. Employer contributions are determined annually by the Board of Directors. Employer contributions were $62,936 and $64,310 in 2012 and 2011, respectively.

The Bank has a deferred cash incentive plan for the benefit of certain key employees and a directors' deferred compensation plan for the Bank's directors. Bank contributions totalled $53,000 and $38,629 in 2012 and 2011, respectively.

11. Stock Option Plans:

The Bank has Employee and Nonemployee Director Stock Option Plans that reserve shares of stock for issuance to employees and directors. Under the plans, the exercise price of each option must equal the market price of the Bank's stock on the date of the grant, and the option's maximum term is 10 years. Vesting generally occurs over one to three-year periods. Information with respect to options granted under the stock option plans is as follows:

	2012		2011	
	Options Outstanding	Weighted-average exercise price	Options Outstanding	Weighted-average exercise price
Balance, beginning of year	148,605	$10.97	141,285	$10.97
Granted:				
Directors	0	n/a	15,120	7.40
Employees	0	n/a	1,000	7.20
Exercised	0	n/a	0	n/a
Expired	0	n/a	(8,800)	n/a
Balance, end of year	148,605	$10.36	148,605	$10.36
Exercisable, end of year	147,605		119,235	
Options available for grant	9,706		9,706	

Outstanding options are as follows:

		December 31, 2012	
Expiration	Average price per share	Exercisable	Outstanding
2015	$ 10.00	**58,498**	**58,498**
2016	$ -	**-**	**-**
2017	$ 19.34	**11,849**	**11,849**
2018	$ 15.28	**9,200**	**9,200**
2019	$ 9.17	**30,900**	**30,900**
2020	$ 8.26	**22,038**	**22,038**
2021	$ -	**15,120**	**16,120**
		147,605	**148,605**
Aggregate intrinsic value		**$116,276**	**$119,176**

Weighted average shares of common stock outstanding at December 31 are as follows:

	2012	2011
Basic	**998,612**	998,612
Common stock equivalents attributable to stock options	**3,192**	1,409
Diluted	**1,001,804**	1,000,021

The compensation cost related to stock options that has been charged against income (included in salaries and employee benefits) was $32,055 and $19,883 for the years ended December 31, 2012, and December 31, 2011, respectively. The total income tax benefit recognized in the income statement related to stock options was $12,507 and $7,777 for the years ended December 31, 2012, and December 31, 2011, respectively. As of December 31, 2012, there was $1,280 of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 1.2 years.

There were no options granted during 2012. The weighted average fair value of each option granted in 2011 was $1.20 which was estimated on the date of the grant using the Black-Scholes option pricing model.

12. Other Expense:

Other expense for the years ended December 31 is comprised of the following:

	2012	2011
Regulatory assessments	**$ 189,180**	$ 209,003
Professional services	**135,471**	124,130
Loan expenses and collection	**36,008**	111,905
Advertising, marketing and public relations	**84,937**	72,969
Printing, supplies and postage	**69,978**	63,209
Correspondent bank fees	**47,791**	58,471
Communications	**57,363**	49,263
Other operating expenses	**125,652**	138,094
Total other expense	**$ 746,380**	$ 827,044

13. Income Taxes:

The income tax provision for the years ended December 31, 2012, and December 31, 2011, is as follows:

	2012	2011
Tax on income at federal statutory rate	**$ 341,486**	$ 340,140
State income tax, net of federal benefit	**78,755**	52,161
Deferred tax rate adjustments and other	**(23,315)**	(9,149)
Total tax expense	**$ 396,926**	$ 383,152

The components of deferred tax assets and liabilities at December 31 are as follows:

	2012	2011
Assets:		
Allowance for loan losses	**$ 536,714**	$ 565,049
Foreclosed real estate	**9,382**	146,402
Accrued vacation pay	**8,884**	7,204
Deferred compensation	**36,525**	23,005
Secondary accrued interest	**1,007**	7,051
Total deferred tax assets	**592,512**	748,711
Liabilities:		
Excess tax over book depreciation	**80,272**	87,721
Loan origination costs	**32,511**	33,194
Prepaid expenses deducted for tax purposes	**20,214**	31,796
Unrealized gain on investment securities available-for-sale	**38,544**	3,908
Total deferred tax liabilities	**171,541**	156,619
Net deferred tax assets	**$ 420,971**	$ 592,092

It is anticipated that all deferred tax asset items will be fully utilized in the normal course of operations and, accordingly, management has not reduced deferred tax assets by a valuation allowance.

14. Financial Instruments with Off-Balance-Sheet Risk:

In order to meet the financing needs of its customers, the Bank commits to extensions of credit and issues standby letters of credit. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

To manage interest rate risk, the Bank enters into interest rate swaps that effectively convert fixed rate loans into a variable rate instruments earning a margin over the one month or three month LIBOR rate. These fair value hedges have been structured to be perfectly effective, thus no ineffectiveness is recognized in earnings. Compensating balances and investment securities totalling of $5,803,995 held at a correspondent bank are pledged as security for these interest rate swaps.

Financial instruments with off-balance-sheet risk at December 31 are as follows:

	2012	2011
Commitments to extend credit	**$ 21,102,253**	$ 16,322,236
Standby letters of credit	**235,810**	30,000
Interest rate swaps (receive variable - pay fixed, maturing 2014-2021):		
Principal amount of hedged loans	**17,304,943**	17,811,690
Credit risk amount (included in other liabilities)	**3,781,703**	3,804,227
Total fair value of hedged loans	**21,086,646**	21,615,917

15. Related Party Transactions:

The Bank has granted loans to officers and directors and to companies with which they are associated. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. Activity with respect to these loans during the periods ended December 31 was as follows:

	2012	2011
Balance, beginning of year	**$ 2,109,360**	$ 2,305,582
Additions or renewals	**940,362**	697,000
Amounts collected or renewed	**(928,745)**	(893,222)
Balance, end of year	**$ 2,120,977**	$ 2,109,360

In addition, there were $106,952 in commitments to extend credit to officers and directors, including related entities, at December 31, 2012, which are included as part of commitments in Note 14.

Deposits from officers, directors and related parties totalled $9,543,927 and $6,827,808 at December 31, 2012, and December 31, 2011, respectively.

16. Fair Value Disclosures of Financial Instruments:

The following disclosures are made in accordance with provisions of ASC 825. The use of different assumptions and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates of fair value herein are not necessarily indicative of the amounts that might be realized in a current market exchange.

The estimated fair values of the financial instruments at December 31 are as follows:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 20,976,097	$ 20,976,097	$ 7,477,024	$ 7,477,024
Investment securities available-for-sale	10,803,026	10,803,026	18,057,784	18,057,784
Hedged loans	21,086,646	21,086,646	21,615,917	21,615,917
Other loans, net of allowance for loan losses	76,026,882	79,126,169	69,443,052	70,406,662
Interest receivable	360,428	360,428	397,261	397,261
Equity investments	266,700	266,700	264,300	264,300
Cash surrender value of bank owned life insurance	1,848,049	1,848,049	1,795,084	1,795,084
Financial liabilities:				
Deposits	116,741,042	116,745,962	101,724,073	101,732,353
Interest payable	65,086	65,086	79,600	79,600
Repurchase agreements	1,276,910	1,276,910	4,096,074	4,096,074
Term borrowings	224,952	236,757	1,308,629	1,329,554
Interest rate swap agreements	3,781,703	3,781,703	3,804,227	3,804,227

Cash and Cash Equivalents – The fair value approximates carrying amount.

Securities – Fair value is estimated using quoted market prices from similar securities.

Loans – Fair value of fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit characteristics and for the same remaining maturities. Variable rate loans not at contractual floors have carrying amounts that are a reasonable estimate of fair value.

Equity investments – As stated in Note 1, are carried at cost which approximates fair value.

Deposits – Fair value of demand, interest-bearing demand and savings deposits is the amount payable on demand at the reporting date. Fair value of time deposits is estimated using the interest rates currently offered for deposits of similar remaining maturities. The estimated fair values of deposits do not take into account the benefit that results from the low-cost funding such deposits provide.

Repurchase agreements – The carrying amount is a reasonable estimate of fair value because of the short-term nature of these borrowings.

Borrowings – The fair value of fixed rate issuances is estimated using a discounted cash flow calculation.

The following table presents the Bank's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2012:

		Fair Value Measurements Using			
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total Period Losses Included in Earnings
Recurring items:					
Assets					
Securities	$ 10,803,026	$ -	$ 10,803,026	$ -	$ -
Cash surrender value of life insurance	1,848,049	-	1,848,049	-	-
Hedged loans	21,086,646	-	21,086,646	-	-
Total assets measured at fair value on a recurring basis	$ 33,737,721	$ -	$ 33,737,721	$ -	$ -
Liabilities					
Interest rate swap agreements	$ 3,781,703	$ -	$ 3,781,703	$ -	$ -
Non-recurring items:					
Assets					
Loans measured for impairment	$ 2,302,761	$ -	$ -	$ 2,062,121	$ 240,640
Foreclosed real estate	173,000	-	-	152,500	20,500
Total assets measured at fair value on a non-recurring basis	$ 2,475,761	$ -	$ -	$ 2,214,621	$ 261,140

There were no transfers to or from Level III during 2012.

The following table presents the Bank's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

Description	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total Period Losses Included in Earnings
Recurring items:					
Assets					
Securities	$ 18,057,784	$ -	$ 18,057,784	$ -	$ -
Cash surrender value of life insurance	1,795,084	-	1,795,084	-	-
Hedged loans	21,615,917	-	21,615,917	-	-
Total assets measured at fair value on a recurring basis	$ 41,468,785	$ -	$ 41,468,785	$ -	$ -
Liabilities					
Interest rate swap agreements	$ 3,804,227	$ -	$ 3,804,227	$ -	$ -
Non-recurring items:					
Assets					
Loans measured for impairment	$ 2,878,133	$ -	$ -	$ 2,820,621	$ 57,512
Foreclosed real estate	493,810	-	-	455,806	38,004
Total assets measured at fair value on a non-recurring basis	$ 3,371,943	$ -	$ -	$ 3,276,427	$ 95,516

A roll-forward of assets measured at Fair Value Using Unobservable Inputs (Level III) is as follows:

Fair Value Measurement Using Unobservable Inputs (Level III)	Impaired loans net of reserves	Foreclosed assets	Total
Beginning balance 12/31/11	$ 2,820,621	$ 455,806	$ 3,276,427
Net unrealized losses	(30,860)	(20,500)	(51,360)
Net realized gains (losses)	(240,640)	(41,734)	(282,374)
Additions, collections and deletions, net		-	-
Transfers between Level III at fair value	(487,000)	487,000	-
Sales	-	(728,072)	(728,072)
Ending balance 12/31/12	$ 2,062,121	$ 152,500	$ 2,214,621

There were no transfers to or from Level III during 2011.

The fair value represents management's best estimates based on a range of methodologies and assumptions. Significant emphasis is placed upon value of collateral for loans with doubt as to collectibility as well as for foreclosed real estate. Where appropriate, expected cash flows are discounted using an applicable rate considering the time of collection, credit risk, and the discount for the uncertainty of the flows.

17. Regulatory Matters:

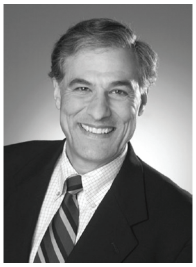
The Bank is subject to the regulations of certain federal and state agencies and receives periodic examinations by those regulatory authorities. In addition, the Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the following table below) of Total and Tier I capital to risk-weighted assets and of Tier I capital to leverage assets, all as defined in the regulations. As of December 31, 2012, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized as defined by regulations.
To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts (in thousands) and ratios are also presented in the following table:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012:						
Total capital (to risk-weighted assets)	**$ 13,486**	**12.84%**	**$ 8,403**	**8.00%**	**$ 10,504**	**10.00%**
Tier I capital (to risk-weighted assets)	**$ 12,171**	**11.59%**	**$ 4,202**	**4.00%**	**$ 6,302**	**6.00%**
Tier I capital (to leverage assets)	**$ 12,171**	**9.75%**	**$ 4,993**	**4.00%**	**$ 6,241**	**5.00%**
As of December 31, 2011:						
Total capital (to risk-weighted assets)	$ 12,755	12.78%	$ 7,985	8.00%	$ 9,981	10.00%
Tier I capital (to risk-weighted assets)	$ 11,507	11.53%	$ 3,992	4.00%	$ 5,989	6.00%
Tier I capital (to leverage assets)	$ 11,507	9.03%	$ 5,099	4.00%	$ 6,373	5.00%

BOARD OF DIRECTORS

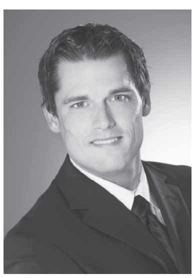


RICHARD M. ABRAHAM, MD

Dr. Abraham has been a practicing Emergency and Occupational Medicine physician with Cascade Medical Associates since 1979 and is their current president. He is also managing partner of Eugene/Thurston Urgent Care walk-in clinics and the medical director of Cascade Health Solutions Occupational Medicine Program. He is a founding Director of the Bank and also serves on the boards of Cascade Health Solutions and McKenzie Willamette Medical Center. He has previously served on the boards of Pacific Source, the Safety and Health Institute, and the Marist Foundation.

ALAN V. EVANS

Mr. Evans is a is founder and president of Evans, Elder & Brown, Inc., a commercial real estate brokerage active in sales, leasing, and development of commercial properties. He is a founding Director of the Bank and also serves as vice chair of the Arts and Business Alliance of Eugene. He previously served as chair of the Arts Foundation of Western Oregon and as a member of the boards of the Eugene Opera and the Oregon Bach Festival.



STEVEN J KORTH

Mr. Korth is the director of real estate and development for his family business, McKay Investment Company. He has been a Director of the Bank since 2008 and has served on the boards of the Eugene Chamber of Commerce, Lane Metro Partnership, and the Oregon Community Foundation. He is also active in local government, having served on the Mayor of Eugene's Economic Development Committee, the Eugene Enterprise Zone Committee, and as a member of the Eugene School Districts "Shaping 4-J's Future" task force.

ANN MARIE MEHLUM

Ms. Mehlum has been the Chief Executive Officer and a Director since the Bank's inception. In addition to many present and past civic positions, including past president of the Oregon Bankers Association, she is a member of the Community Bankers Advisory Council to the Federal Deposit Insurance Corporation, a member of the Oregon Growth Board and is chair elect for the Eugene Chamber of Commerce.

J. ANDREW MOORE

Mr. Moore is co-president of Bigfoot Beverages. He has been a Director of the Bank since 2010 and also serves on the boards of the Oregon Soft Drink Association, the American Beverage Association, Cascade Health Solutions, and the Eugene Country Club. He previously served on the boards of the Pepsi-Cola Bottler's Association and Lane Community College Foundation.

BOARD OF DIRECTORS

DENNIS G. OREM
Mr. Orem is the CEO of Jerry's Home Improvement Centers with stores in Eugene and Springfield. He is a founding Director of the Bank and has been an active participant in local, regional, and national industry trade organizations including serving on the boards of the Western Building Materials Association, the Home Center Institute, and the Eugene Chamber of Commerce.

GRETCHEN N. PIERCE
Mrs. Pierce is president and General Manager of Hult & Associates, LLC, a local commercial and industrial real estate development company. She is a founding Director of the Bank and also serves on the boards of Pacific Source, Peace Health, and the Southern Oregon Leadership Council of the Oregon Community Foundation. She previously served on the boards of the University of Oregon Foundation, the Eugene Chamber of Commerce, the Oregon Community Foundation, Associated Oregon Industries, and Siuslaw Bank.

ANDY J. STORMENT
Mr. Storment is the CEO of Kerr Concentrates, an Oregon based food ingredient company. He is a Founding Director of the Bank, current Board Vice Chair, serves as a director of Ridgeline Pipe and manages investments in commercial real estate.

R. PAUL WEINHOLD
Mr. Weinhold is the president of the University of Oregon Foundation. He is a founding Director of the Bank and currently serves as the Board Chair. He has served in leadership roles for a variety of local non-profits. Prior to joining the University of Oregon Foundation, he spent more than twenty years in leadership roles in the commercial insurance industry.

JOHN R. YORK, MD
Dr. York is the retired president of Women's Care Associates. He is a founding Director of the Bank. He previously served on the boards of Trillium Holdings, Agate Resources, Pacific Source, Medical and Surgical Specialists, and was the OBGYN Department Chair for Peace Health.