PEOPLE'S BAND OF COMMERCE
(an Oregon Banking Corporation)

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

CONTENTS

Note: These financial statements have not been reviewed, or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
People's Bank of Commerce

We have audited the accompanying balance sheets of People's Bank of Commerce (an Oregon Banking Corporation) as of December 31, 2008 and 2007, and the related statements of income, changes in stockholders' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of People's Bank of Commerce as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
March 16, 2009

	December 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 3,142,154	$ 1,720,565
Federal funds sold	-	42,020
Total cash and cash equivalents	3,142,154	1,762,585
Investment securities available-for-sale	2,506,532	1,993,688
Investment securities held-to-maturity	2,569,512	2,593,743
Loans held-for-sale	2,192,480	1,142,941
Loans, net of allowance for loan losses and unearned income	68,472,479	73,314,227
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	3,637,579	2,564,352
Other real estate owned	796,055	-
Bank-owned life insurance	2,784,603	2,681,009
Accrued interest receivable and other assets	1,172,902	1,086,516
TOTAL ASSETS	$ 87,274,296	$ 87,139,061
LIABILITIES		
Noninterest-bearing demand deposits	$ 15,491,339	$ 13,226,675
Interest-bearing demand and money market accounts	25,084,687	23,253,828
Savings deposits	2,112,192	2,376,750
Time deposits	31,676,531	35,132,072
Total deposits	74,364,749	73,989,325
Federal funds purchased	895,000	1,070,000
Accrued interest payable and other liabilities	702,076	473,740
Total liabilities	75,961,825	75,533,065
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY		
Common stock, $5 par value, 2,000,000 shares authorized; 867,071 and 825,669 shares issued and outstanding at December 31, 2008 and 2007, respectively	4,335,355	4,128,344
Surplus	6,293,057	5,892,890
Retained earnings	682,210	1,588,650
Accumulated other comprehensive income (loss), net of taxes	1,849	(3,888)
Total stockholders' equity	11,312,471	11,605,996
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 87,274,296	$ 87,139,061

See accompanying notes.

PEOPLE'S BANK OF COMMERCE
STATEMENTS OF INCOME

	Years Ended December 31, 2008	2007
INTEREST INCOME		
Interest and fees on loans	$ 5,246,640	$ 5,937,053
Interest on investment securities	191,753	206,439
Interest on federal funds sold	6,248	98,706
Total interest income	5,444,641	6,242,198
INTEREST EXPENSE		
Interest-bearing deposit and savings accounts	460,536	854,555
Time deposit accounts	1,372,614	1,418,688
Other borrowings	40,963	35,671
Total interest expense	1,874,113	2,308,914
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	3,570,528	3,933,284
PROVISION FOR LOAN LOSSES	141,170	245,700
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,429,358	3,687,584
NONINTEREST INCOME		
Service charges and other fees	579,648	495,510
Mortgage brokerage fees	513,612	593,258
Gain on sale of loans	249,792	309,740
Total noninterest income	1,343,052	1,398,508
NONINTEREST EXPENSE		
Salaries and employee benefits	2,814,513	2,732,886
Occupancy and equipment	693,634	599,756
Advertising and promotional	175,027	185,649
Data processing	154,436	138,831
Supplies	69,718	72,308
Other noninterest expense	844,087	643,995
Total noninterest expense	4,751,415	4,373,425
INCOME BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	20,995	712,667
PROVISION (BENEFIT) FOR INCOME TAXES	(73,757)	202,820
NET INCOME	$ 94,752	$ 509,847
BASIC EARNINGS PER SHARE	$ 0.10	$ 0.56
DILUTED EARNINGS PER SHARE	$ 0.10	$ 0.53

See accompanying notes.

PEOPLE'S BANK OF COMMERCE
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income
BALANCE, December 31, 2006	773,082	$ 3,865,410	$ 5,116,556	$ 2,273,281	$ (18,289)	$ 11,236,958	
Net income	-	-	-	509,847	-	509,847	$ 509,847
Change in net unrealized loss on investment securities available-for-sale, net of taxes	-	-	-	-	14,401	14,401	14,401
Exercise of stock options	13,835	69,175	46,413	-	-	115,588	
Income tax benefit for stock options exercised	-	-	59,512	-	-	59,512	
Cash dividends	-	-	-	(325,358)	-	(325,358)	
Stock dividend	38,974	194,870	674,250	(869,120)	-	-	
Cash paid for fractional shares	(222)	(1,111)	(3,841)	-	-	(4,952)	
Total comprehensive income							$ 524,248
BALANCE, December 31, 2007	825,669	4,128,344	5,892,890	1,588,650	(3,888)	11,605,996	
Net income	-	-	-	94,752	-	94,752	$ 94,752
Cumulative adjustment for life insurance benefit liability	-	-	-	(50,399)	-	(50,399)	
Change in net unrealized loss on investment securities available-for-sale, net of taxes	-	-	-	-	5,737	5,737	5,737
Exercise of stock options	351	1,756	740	-	-	2,496	
Cash dividend	-	-	-	(342,688)	-	(342,688)	
Stock dividend	41,283	206,415	401,690	(608,105)	-	-	
Cash paid for fractional shares	(232)	(1,160)	(2,263)	-	-	(3,423)	
Total comprehensive income							$ 100,489
BALANCE, December 31, 2008	867,071	$ 4,335,355	$ 6,293,057	$ 682,210	$ 1,849	$ 11,312,471	

PEOPLE'S BANK OF COMMERCE
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 94,752	$ 509,847
Adjustments to reconcile net income to net cash from operating activities:		
Deferred income taxes	(34,157)	(177,863)
Provision for loan losses	141,170	245,700
Depreciation and amortization	203,131	169,438
Amortization of premiums/accretion of discounts on investment securities	28,339	23,225
Gain on sale of loans	(249,792)	(309,740)
Loss on sale or write-down of other real estate owned	33,340	-
Net appreciation in bank-owned life insurance	(103,594)	(103,555)
Proceeds from the sale of loans held-for-sale	33,242,491	48,959,173
Production of loans held-for-sale	(34,042,238)	(47,344,694)
Excess tax benefit for stock options exercised	-	(51,072)
Change in cash due to changes in certain assets and liabilities:		
Accrued interest receivable and other assets	(55,806)	30,930
Accrued interest payable and other liabilities	177,937	(234,164)
Net cash from operating activities	(564,427)	1,717,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments available-for-sale	(2,507,638)	(1,500,000)
Proceeds from maturity of investments available-for-sale	2,000,000	1,500,000
Net decrease (increase) in loans	2,707,167	(14,445,969)
Proceeds from sale of other real estate owned	1,164,016	-
Payments made for purchase of premises, equipment, and leasehold improvements	(1,276,358)	(460,057)
Net cash from investing activities	2,087,187	(14,906,026)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	375,424	2,950,835
Paydowns of (proceeds from) federal funds purchased	(175,000)	1,070,000
Proceeds from stock options exercised	2,496	115,588
Excess tax benefit on stock options exercised	-	51,072
Cash dividend paid	(342,688)	(325,358)
Payment for fractional shares in connection with stock dividend	(3,423)	(4,952)
Net cash from financing activities	(143,191)	3,857,185

See accompanying notes.

	Years Ended December 31, 2008	2007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 1,379,569	$ (9,331,616)
CASH AND CASH EQUIVALENTS, beginning of year	1,762,585	11,094,201
CASH AND CASH EQUIVALENTS, end of year	$ 3,142,154	$ 1,762,585
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 1,865,994	$ 2,283,287
Cash paid (received) for taxes	$ (184,602)	$ 285,650
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Change in fair value of investment securities available-for-sale, net of taxes	$ 5,737	$ 14,401
Transfers of loans to other real estate owned	$ 1,993,411	$ -
Recognition of life insurance benefit liability	$ (50,399)	$ -

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – In March 1998, People's Bank of Commerce (the Bank) was incorporated and received regulatory approval to become a state-chartered institution authorized to provide banking services in the state of Oregon. The Bank is subject to the regulations of certain federal and state agencies and will undergo periodic examinations by those regulatory authorities.

The Bank which is headquartered in Medford, Oregon, operates three full-service branches in Ashland, Central Point, Medford, Oregon, and provides banking services to businesses and individuals located primarily in Southern Oregon.

Management's estimates and assumptions – In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets, and revenues and expenses for the reporting period. Actual results could differ significantly from management's estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of investment securities available-for-sale, and deferred tax assets.

Cash and cash equivalents – Cash equivalents are generally short-term investments with a maturity of three months or less. Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

The Bank maintains balances in correspondent bank accounts which, at times, may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of correspondent banks. The Bank has not experienced any losses in such accounts.

Investment securities – The Bank is required to specifically identify its investment securities as "available-for-sale," "held-to-maturity," or "trading accounts." Management has designated investment securities held at December 31, 2008 and 2007, as either "available-for-sale" or "held-to-maturity."

Available-for-sale securities consist of bonds, notes, and debentures. Securities are generally classified as available-for-sale if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Unrealized holding gains and losses, net of taxes, on available-for-sale securities are reported as a net amount in a separate component of equity until realized. Fair values for these investment securities are based on quoted market prices. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the effective interest method over the period to maturity.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the effective interest method over the period to maturity.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other-than-temporary based upon the positive and negative evidence available. Evidence evaluated includes, but is not limited to, industry analyst reports, credit market conditions, and interest rate trends. If negative evidence outweighs positive evidence that the carrying amount is recoverable within a reasonable period of time, the impairment is deemed to be other-than-temporary and the security is written down in the period in which such determination is made.

Loans held-for-sale – Mortgage loans held-for-sale are carried at the lower of cost or estimated market value. Market value is determined on an aggregate loan basis.

Loans, net of allowance for loan losses and unearned income – Loans are stated at the amount of unpaid principal, reduced by allowance for loan losses and unearned income. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

The Bank does not accrue interest on loans for which payment in full of principal and interest is not expected, or which payment of principal and interest has been in default 90 days or more, unless the loan is well secured and in the process of collection. Nonaccrual loans are considered impaired loans. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of collateral if the loan is collateral dependent. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received or when the loan is removed from nonaccrual status. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for evaluation of impairment.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Various regulatory agencies, as a part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of their examinations.

Premises, equipment, and leasehold improvements – Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, or lease term in the case of leasehold improvements, which range from 2 to 40 years.

Other real estate owned – Other real estate owned, acquired through foreclosure or deeds in lieu of foreclosure, is carried at the lower of cost or estimated net realizable value. When property is acquired, any excess of the loan balance over its estimated net realizable value is charged to the allowance for loan losses. Subsequent write-downs to net realizable value, if any, or any disposition gains or losses are included in noninterest income and expense. The Bank held $796,055 of foreclosed real estate owned as of December 31, 2008. The Bank had no foreclosed real estate as of December 31, 2007.

Income taxes – Deferred income tax assets and liabilities are determined based on the tax effects of the differences between book and tax bases of the various balance sheet assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Bank has elected to defer application of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" until its year ending December 31, 2009. Application of this Interpretation will clarify the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, "Accounting for Income Taxes." For the December 31, 2008 and 2007 financial statements, the Bank has accounted for uncertain tax positions in accordance with FASB Statement No. 5, "Accounting for Contingencies," whereby the effect of the uncertain tax positions would be recorded if the outcome was considered probable and was reasonably estimable. There were no accrued expenses for uncertain tax positions as of December 31, 2008 and 2007.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Off-balance sheet financial instruments – The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Advertising and promotional expenses – Advertising and promotional costs are charged to expense during the year in which they are incurred. Advertising and promotional expenses were $175,027 and $185,649 for the years ended December 31, 2008 and 2007, respectively.

Earnings per share – Basic earnings per share is computed by dividing net income available to stockholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock dividends and splits. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include dilutive common equivalent shares for stock options assumed to be outstanding during the period utilizing the treasury stock method.

Stock compensation plan – The Bank has a stock-based compensation plan, which is described more fully in Note 11. Through December 31, 2005, the Bank accounted for the plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Bank adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, "Shared-Based Payment," an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation," using the prospective adoption method for stock-based awards. In accordance with this method, the Bank started applying this standard prospectively to new awards and to awards modified, repurchased, or cancelled after December 31, 2005. The Bank utilizes the Black-Scholes valuation model for determination of compensation expense for stock options granted. SFAS No. 123R also amended SFAS No. 95, "Statement of Cash Flows," to require that excess tax benefits be reported as financing cash inflows rather than as a reduction of taxes paid, which is included within operating cash flows.

Fair value measurements – Effective January 1, 2008, the Bank adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (FAS 157). This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This standard has been applied prospectively as of the beginning of the year.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

Following is a description of the valuation methodologies used for instruments measured at fair value on either a recurring or nonrecurring basis and recognized in the accompanying balance sheets.

Investment securities available-for-sale – Fair values for available-for-sale investment securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Impaired loans – Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan's observable market price or the underlying collateral securing the loan. Collateral may be real estate or business assets including equipment. The value of collateral is determined based on independent appraisals.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform to current year presentation. These reclassifications have no effect on previously reported net income.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated fair value of the Bank's investment securities, with gross unrealized gains and losses, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses Greater than 12 Months	Estimated Fair Value
December 31, 2008					
Securities available-for-sale:					
U.S. government agencies	$ 2,503,530	$ 3,002	$ -	$ -	$ 2,506,532
Securities held-to-maturity:					
Municipal securities	$ 2,569,512	$ 61,611	$ -	$ -	$ 2,631,123
December 31, 2007					
Securities available-for-sale:					
U.S. government agencies	$ 2,000,000	$ 1,720	$ (4,400)	$ (3,632)	$ 1,993,688
Securities held-to-maturity:					
Municipal securities	$ 2,593,743	$ 40,474	$ -	$ -	$ 2,634,217

At December 31, 2008 and 2007, securities in the amounts of $400,000 and $585,000, respectively, were pledged to secure public deposits.

All unrealized losses reflected above were the result of changes in interest rates subsequent to the purchase of the securities. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

NOTE 2 – INVESTMENT SECURITIES – (continued)

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities by contractual maturity at December 31, 2008, are as follows:

	Available-For-Sale		Held-To-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 500,000	$ 501,225	$ -	$ -
Due from one year through five years	2,003,530	2,005,307	-	-
Due from five years through ten years	-	-	-	-
Due after ten years	-	-	2,569,512	2,631,123
	$ 2,503,530	$ 2,506,532	$ 2,569,512	$ 2,631,123

Securities available-for-sale in the amount of $2,000,000 matured or were called during 2008. Securities available-for-sale in the amount of $1,500,000 matured or were called during 2007.

NOTE 3 – LOANS, NET OF ALLOWANCE FOR LOAN LOSSES AND UNEARNED INCOME

The composition of loan balances is summarized as follows:

	2008	2007
Commercial loans	$ 51,615,065	$ 49,667,579
Real estate loans	14,472,606	21,846,799
Consumer loans and overdraft accounts	3,383,184	2,969,004
Total loans	69,470,855	74,483,382
Allowance for loan losses	(836,864)	(968,887)
Unearned income	(161,512)	(200,268)
Loans, net of allowance for loan losses and unearned income	$ 68,472,479	$ 73,314,227

NOTE 3 – LOANS, NET OF ALLOWANCE FOR LOAN LOSSES AND UNEARNED INCOME – (continued)

The change in allowance for loan losses is summarized as follows:

	2008	2007
Balance, beginning of year	$ 968,887	$ 722,571
Provision for loan losses	141,170	245,700
Loans charged-off	(305,290)	(1,980)
Recoveries of loans previously charged-off	32,097	2,596
Balance, end of year	$ 836,864	$ 968,887

Information for impaired loans as of and for the years ended December 31, 2008 and 2007, is summarized as follows:

	2008	2007
Impaired loans at year-end	$ 1,626,979	$ 2,882,937
Average investment in impaired loans	$ 2,254,958	$ 1,561,378
Allowance for loan losses related to impaired loans	$ 78,963	$ 158,068
Interest income recognized for cash payments on impaired loans	$ -	$ -
Lost interest on impaired loans	$ 131,781	$ 77,867

NOTE 4 – PREMISES, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

The composition of premises, equipment, and leasehold improvements is summarized as follows:

	2008	2007
Land	$ 583,248	$ 520,000
Bank premises	2,783,839	1,398,055
Furniture and equipment	1,080,841	869,897
Leasehold improvements	112,549	107,649
	4,560,477	2,895,601
Less accumulated depreciation and amortization	(922,898)	(719,288)
	3,637,579	2,176,313
Construction in progress	-	388,039
Premises, equipment, and leasehold improvements, net	$ 3,637,579	$ 2,564,352

Depreciation expense for the years ended December 31, 2008 and 2007 were $203,131 and $169,438, respectively.

NOTE 5 – TIME DEPOSITS

Time certificates of deposit of $100,000 and over totaled $22,702,169 and $24,356,296 at December 31, 2008 and 2007, respectively.

As of December 31, 2008, the scheduled maturities for all time deposits are as follows:

Years ending December 31,	2009	$ 20,190,740
	2010	10,114,022
	2011	1,008,010
	2012	27,924
	2013	335,835
		$ 31,676,531

NOTE 6 – INCOME TAXES

The provision for income taxes consists of the following:

	2008	2007
Current income taxes:		
Federal	$ (39,600)	$ 309,633
State	-	71,050
	(39,600)	380,683
Deferred income taxes:		
Federal	(24,982)	(147,813)
State	(9,175)	(30,050)
	(34,157)	(177,863)
Provision (benefit) for income taxes	$ (73,757)	$ 202,820

Deferred income taxes, recorded as other assets, represent the tax effect of differences in timing between financial income and taxable income. The net deferred tax assets in the accompanying balance sheets include the following components:

	2008	2007
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 298,013	$ 346,900
Unrealized (gains) losses on investment securities available-for-sale	(1,153)	2,424
Prepaids	(28,841)	(33,644)
Supplemental executive retirement plan	151,929	112,236
Split-dollar liability	37,179	-
Intangible assets – permits and licenses	(12,800)	(8,960)
Reserve for off-balance sheet instruments	4,649	8,939
Depreciation and organization costs	(69,307)	(31,339)
Other	57,455	9,988
Net deferred tax assets	$ 437,124	$ 406,544

A valuation allowance has not been recorded to offset the net deferred tax assets since management believes it is more likely than not that all deferred tax assets will be utilized in future periods.

NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and letters of credit written is represented by the contractual 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 customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing properties.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support bonding requirements for real estate developers and contractors. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

A summary of the notional amounts of the Bank's financial instruments with off-balance sheet risk as of December 31, 2008 and 2007 is as follows:

	2008	2007
Commitments to extend credit	$ 9,403,537	$ 14,352,734
Commercial and standby letters of credit	$ 104,762	$ 97,974

NOTE 8 – CONCENTRATIONS OF CREDIT RISK

All of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. During 2008, the Bank's loan policy did not allow the extension of credit to any single borrower or group of related borrowers in excess of $750,000 on an unsecured basis and $1,500,000 on a secured basis, without approval from the Board of Directors' Loan Committee.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Lease commitments – As of December 31, 2008, the Bank leased office space under several operating lease agreements, the majority of which will expire on January 13, 2013. During 2007, the Bank also entered into a lease agreement for its newly opened branch located in Central Point, Oregon. This agreement will expire on July 31, 2036.

Future minimum lease payments associated with the office space lease and other agreements are as follows:

Years ending December 31,	2009	$ 272,831
	2010	274,631
	2011	276,493
	2012	278,421
	2013	280,416
	Thereafter	2,050,239
		$ 3,433,032

For the years ended December 31, 2008 and 2007, rent expense was $291,149 and $279,350, respectively.

Available credit – The Bank has obtained federal funds lines totaling $11,500,000 with three correspondent banks. Two of the federal fund lines totaling $7,500,000 will expire upon the consent of both parties. The third line of $4,000,000 was established with a term extending from June 1, 2008 through June 30, 2009. The Bank has $895,000 and $1,070,000 outstanding on these federal funds lines of credit at December 31, 2008 and 2007, respectively.

Legal contingencies – The Bank may become a defendant in certain claims and legal actions arising in the ordinary course of business. As of December 31, 2008, the Bank is involved in litigation that is expected to be resolved without material impact on the financial condition or results of operation of the Bank. In the opinion of management, after consultation with legal counsel, there are no other current matters expected to have a material adverse effect on the financial condition of the Bank.

NOTE 10 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. All loans and commitments to loan included in such transactions are made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collection or present any other unfavorable features. The amount of loans and loan commitments outstanding to directors, executive officers, principal stockholders, and companies that they are associated with was as follows:

	2008	2007
Balance, beginning of year	$ 303,984	$ 392,349
Loans made	509,988	1,082,111
Loans repaid	(591,122)	(1,170,476)
Balance, end of year	$ 222,850	$ 303,984
Outstanding loan commitments	$ 125,996	$ 18,985

NOTE 11 – STOCK-BASED COMPENSATION PLAN

Under its stock-based incentive compensation plan, the Bank may grant options to its directors, officers, and employees for up to 132,966 shares of common stock. Both incentive stock options and nonqualified stock options may be granted under the plan. The exercise price of each option must be at least equal to 100% of the market price of the Bank's stock on the date of grant. An option's maximum term is ten years.

As of December 31, 2008, the Company had 4,850 nonvested options outstanding and there was no remaining unrecognized compensation cost related to these nonvested options.

NOTE 11 – STOCK-BASED COMPENSATION PLAN – (continued)

A summary of the status of the Bank's stock option plan, adjusted for 2009, 2008, and 2007 5% stock dividends, is presented below:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Contractual Term
Options under grant as of December 31, 2007	101,147	$ 9.74		
Options granted	-	$ -		
Options exercised	(369)	$ 6.77		
Options expired or forfeited	-	$ -		
Options under grant as of December 31, 2008	100,778	$ 9.75	$ 62,046	4.28
Options exercisable as of December 31, 2008	95,928	$ 9.51	$ 62,046	4.20

The total intrinsic value of options exercised during the years ended December 31, 2008 and 2007, was $2,429 and $202,776, respectively.

No options were granted during the years ended December 31, 2008 and 2007.

NOTE 12 – EMPLOYEE BENEFIT PLANS AND AGREEMENTS

During 1999, the Bank adopted a 401(k) plan in which substantially all employees participate. Employees may contribute the maximum permissible under federal tax laws. The Bank matches employee contributions on the first 3% of their compensation, plus 50% of their contributions on the next 3% of compensation. Matching contributions vest to the employee equally over a five-year period. For the years ended December 31, 2008 and 2007, the Bank's expense attributable to the plan was $84,910 and $91,502, respectively.

In December 2005, the Bank entered into supplemental retirement plans with key executive officers. In 2006, to support its obligations under these plans and to provide death benefits to selected employees, the Bank acquired bank-owned life insurance with a cash surrender value of $2,784,603 at December 31, 2008 and $2,681,009 at December 31, 2007. The Bank's liability pursuant to these supplemental retirement plans was $492,469 and $292,280, as of December 31, 2008 and 2007, respectively. The December 31, 2008 liability amount includes a $50,399 cumulative adjustment to retained earnings for the life insurance benefit liability. These amounts are included on the balance sheet among "accrued interest payable and other liabilities." For 2008 and 2007, compensation expense related to these plans was $118,453 and $137,784, respectively.

NOTE 13 – EARNINGS PER SHARE

The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2008 and 2007 (adjusted for the 2009, 2008 and 2007 stock dividends).

	Net Income	Weighted Average Shares	Per Share Amount
For the year ended December 31, 2008:			
Basic earnings per share	$ 94,752	909,473	$ 0.10
Stock options		7,173	
Diluted earnings per share	$ 94,752	916,646	$ 0.10
For the year ended December 31, 2007:			
Basic earnings per share	$ 509,847	906,565	$ 0.56
Stock options		47,195	
Diluted earnings per share	$ 509,847	953,760	$ 0.53

Options for 60,969 shares of common stock were excluded from the diluted earnings per share calculation in 2008 due to their antidilutive effect. No common stock options were excluded from the diluted earnings per share calculation in 2007 due to their antidilutive effect.

NOTE 14 – FAIR VALUE OF ASSETS AND LIABILITIES

Financial assets are broken down in the table below by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

NOTE 14 – FAIR VALUE OF ASSETS AND LIABILITIES – (continued)

		Fair Value Measurements Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses in Earnings for level 3
Recurring Items					
Available-for-sale securities	$ 2,506,532	$ 2,506,532	$ -	$ -	
Non-Recurring Items					
Loans measured for impairment, net of guarantees	1,342,357	-	-	1,342,357	$ (78,963)
Total	$ 3,848,889	$ 2,506,532	$ -	$ 1,342,357	$ (78,963)

NOTE 15 – REGULATORY MATTERS

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 Bank's 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 the Bank's 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 amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Bank met all capital adequacy requirements to which it is subject.

NOTE 15 – REGULATORY MATTERS – (continued)

The Bank's actual capital amounts and ratios are 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
(in thousands)						
December 31, 2008:						
Total capital to risk-weighted assets	$ 12,009	16.2%	$ 5,944	≥8.0%	$ 7,430	≥10.0%
Tier 1 capital to risk-weighted assets	$ 11,160	15.0%	$ 2,972	≥4.0%	$ 4,458	≥6.0%
Tier 1 capital to average assets	$ 11,160	12.8%	$ 3,483	≥4.0%	$ 4,354	≥5.0%
December 31, 2007:						
Total capital to risk-weighted assets	$ 12,452	15.4%	$ 6,456	≥8.0%	$ 8,070	≥10.0%
Tier 1 capital to risk-weighted assets	$ 11,460	14.2%	$ 3,228	≥4.0%	$ 4,842	≥6.0%
Tier 1 capital to average assets	$ 11,460	13.5%	$ 3,441	≥4.0%	$ 4,301	≥5.0%

NOTE 16 – SUBSEQUENT EVENTS

On January 16, 2009, the Board of Directors of the Bank authorized a cash dividend of $0.10 per share payable on March 1, 2009, to stockholders of record on February 15, 2009.

The Board of Directors authorized the issuance of a 5% stock dividend to shareholders of record on March 15, 2009. All per share amounts contained within these financial statements have been retroactively restated to reflect the stock dividend.

NOTE 16 – SUBSEQUENT EVENTS – (continued)

On February 27, 2009, the FDIC proposed adopting an interim rule to impose an emergency special assessment to financial institutions of $0.20 per $100 of insured deposits existing as of June 30, 2009 to be collected September 30, 2009. This interim rule also provides that the FDIC may impose an additional special assessment in any quarter after June 30, 2009 to support the Deposit Insurance Fund in an additional amount of up to $0.10 per $100 of insured deposits. While this interim rule is subject to a comment period and regulatory approval, it is scheduled to be effective on April 1, 2009 and management considers these events to be reasonably possible to occur during 2009. Management estimates that the range of assessment to be paid in 2009 will be approximately $140,000 to $160,000. No accrual for these events has been made in the financial statements as of December 31, 2008.