Willamette
COMMUNITY BANK

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2011
FINANCIAL STATEMENT

This report has not been reviewed or confirmed for accuracy of relevance, by the Federal Deposit Insurance Corporation.

BOLDT, CARLISLE & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS
PARTNERSHIP ■ ASSURANCE ■ INNOVATION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Willamette Community Bank

We have audited the accompanying statements of financial condition of Willamette Community Bank as of December 31, 2011 and 2010, and the related statements of income, changes in shareholders' equity, 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 Willamette Community Bank as of December 31, 2011 and 2010, 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.

Boldt, Carlisle & Smith, LLC
Salem, Oregon
February 14, 2012

www.bcsllc.com
Established - 1968
SALEM: 480 CHURCH STREET SE ■ SALEM, OR 97301 ■ PHONE: (503) 585-7751 ■ FAX: (503) 370-3781
STAYTON: 408 NORTH THIRD AVENUE ■ STAYTON, OR 97383 ■ PHONE: (503) 769-2186 ■ FAX: (503) 769-4312
ALBANY: 321 1st AVENUE E STE 2A ■ ALBANY, OR 97321 ■ PHONE: (541) 928-6500 ■ FAX: (541) 928-6501

WILLAMETTE COMMUNITY BANK
STATEMENTS OF FINANCIAL CONDITION
December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash and due from banks	$ 2,875,018	$ 12,392,813
Certificates of deposit	-	490,000
Investment securities available for sale	14,711,412	12,719,154
Mortgage loans held for sale	116,095	-
Loans, net	58,804,034	56,845,427
Pacific Coast Bankers' Bank (PCBB) stock	100,000	100,000
Federal Home Loan Bank (FHLB) stock	50,500	50,500
Premises and equipment, net	1,820,722	1,888,641
Prepaid FDIC assessment	169,513	245,638
Accrued interest and other assets	696,106	507,428
Total assets	$ 79,343,400	$ 85,239,601
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 10,528,742	$ 9,867,582
Interest-bearing demand	22,195,527	22,419,963
Money market	14,662,897	18,598,804
Savings	3,265,852	1,129,491
Time	21,210,971	26,013,954
Total deposits	71,863,989	78,029,794
Accrued interest and other liabilities	139,111	144,567
Total liabilities	72,003,100	78,174,361
SHAREHOLDERS' EQUITY		
Common stock, 668,147 shares issued and outstanding at December 31, 2011 and December 31, 2010	6,736,481	6,736,481
Accumulated surplus	608,766	208,863
Accumulated other comprehensive (loss) income	(4,947)	119,896
Total shareholders' equity	7,340,300	7,065,240
Total liabilities and shareholders' equity	$ 79,343,400	$ 85,239,601

See accompanying notes

WILLAMETTE COMMUNITY BANK
STATEMENTS OF INCOME
Years ended December 31, 2011 and 2010

	2011	2010
INTEREST INCOME		
Interest and fees on loans	$ 3,671,370	$ 3,699,005
Taxable interest on investment securities	309,745	348,809
Other interest income	10,435	22,937
Total interest income	3,991,550	4,070,751
INTEREST EXPENSE		
Deposits:		
Interest-bearing demand, money market and savings	403,580	544,167
Time	289,570	520,839
Total interest expense	693,150	1,065,006
Net interest income	3,298,400	3,005,745
Loan loss provision	19,000	228,000
Net interest income after loan loss provision	3,279,400	2,777,745
NON-INTEREST INCOME		
Service charges on deposit accounts	59,601	71,317
Mortgage-banking income	82,193	121,618
Interchange fee income	110,230	88,019
Gains on sales and early redemptions of securities	942	44,743
Other	39,382	45,531
Total non-interest income	292,348	371,228
NON-INTEREST EXPENSE	2,937,145	2,838,402
Income before income taxes	634,603	310,571
Provision for income taxes	234,700	120,000
Net income	$ 399,903	$ 190,571
Basic earnings per common share	$ 0.60	$ 0.29
Diluted earnings per common share	N/A	N/A
Weighted average common shares outstanding:		
Basic	668,147	668,147
Diluted	N/A	N/A

See accompanying notes

WILLAMETTE COMMUNITY BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2011 and 2010

	Number of shares	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
2010					
Balances at December 31, 2009	668,147	$ 6,736,481	$ 18,292	$ 105,740	$ 6,860,513
Comprehensive income:					
Net income			190,571		190,571
Reclassification adjustment for gains included in current year net income (net of income taxes of $6,860)				(13,317)	(13,317)
Other comprehensive income - change in unrealized gains on investment securities (net of income taxes of $14,153)				27,473	27,473
Total comprehensive income					204,727
Balances at December 31, 2010	668,147	6,736,481	208,863	119,896	7,065,240
2011					
Comprehensive income:					
Net income			399,903		399,903
Reclassification adjustment for gains included in current year net income (net of income taxes of $1,247)				(2,124)	(2,124)
Other comprehensive income - change in unrealized gains on investment securities (net of income tax benefit of $72,073)				(122,719)	(122,719)
Total comprehensive income					275,060
Balances at December 31, 2011	668,147	$ 6,736,481	$ 608,766	$ (4,947)	$ 7,340,300

See accompanying notes

WILLAMETTE COMMUNITY BANK
STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 399,903	$ 190,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	19,000	228,000
Deferred income taxes	(23,439)	(85,071)
Depreciation and amortization	176,751	169,929
Net amortization of premiums/discounts on investment securities	165,485	65,877
Other non-cash expense	-	9,669
Gains on sales and early redemptions of securities	(942)	(44,743)
Loss on disposition of equipment	1,352	-
Mortgage loan originations, net	(116,095)	-
Changes in certain assets and liabilities:		
Accrued interest and other assets	(33,765)	46,390
Accrued interest and other liabilities	(19,419)	(100,335)
Net cash provided by operating activities	568,831	480,287
CASH FLOWS FROM INVESTING ACTIVITIES		
Certificates of deposits:		
Purchases	-	(2,694,755)
Maturities	490,000	2,694,755
Investment securities available for sale:		
Purchases	(12,552,445)	(10,661,837)
Maturities, sales, early redemptions and principal reductions	10,206,130	8,477,933
Net (increase) in loans	(1,962,608)	(5,337,012)
Net decrease in other real estate owned	-	2,972
Purchases of premises and equipment	(88,539)	(88,087)
Purchases of computer software	(13,359)	(38,080)
Net cash (used in) investing activities	(3,920,821)	(7,644,111)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(6,165,805)	12,353,476
Net cash provided by (used in) financing activities	(6,165,805)	12,353,476
Net increase (decrease) in cash and cash equivalents	(9,517,795)	5,189,652
Cash and cash equivalents at beginning of year	12,392,813	7,203,161
Cash and cash equivalents at end of year	$ 2,875,018	$ 12,392,813
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 720,954	$ 1,101,178
Cash paid for income taxes	$ 263,971	$ 272,138

See accompanying notes

WILLAMETTE COMMUNITY BANK

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2011 and 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Willamette Community Bank (the Bank) is a state-chartered, FDIC-insured institution headquartered at 333 Lyon St. SE, Albany, Oregon. The Bank offers a full range of traditional banking products and services, primarily to business, professional and consumer customers located in Linn and Benton counties of Oregon. The Bank is subject to the regulations of certain federal and state agencies and undergoes periodic examination by those regulatory authorities.

Method of accounting

The Bank prepares its financial statements in conformity with accounting principles generally accepted in the United States and prevailing practices within the banking industry. The Bank uses the accrual method of accounting, which recognizes income when earned and expenses when incurred. The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Bank's financial statements. Actual results could differ from those estimated.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

Investment securities available for sale

Investment securities available for sale are reported at fair value with changes in unrealized gains and losses excluded from earnings and reported in shareholders' equity as other comprehensive income or loss, net of income taxes.

Gains and losses on sales of investment securities available for sale are recognized on a specific identification basis. Premiums and discounts on investment securities available for sale are recognized into interest income using the interest method over the life of the security.

Declines in the fair value of investment securities available for sale below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Any write-downs would also be included in earnings as realized losses.

Loans

Loans are reported at their outstanding principal balance less the allowance for loan losses and unearned income (deferred loan fees).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank has established a systematic and consistently applied process to determine and maintain an adequate allowance for loan losses (allowance), also known as the loan loss reserve, in accordance with generally accepted accounting principles and regulatory guidance. The allowance amounts and related loss provisions are determined based on management's current assessment of loan portfolio quality and include consideration of all known relevant internal and external factors affecting loan quality. The Bank's methodology for evaluating allowance adequacy primarily involves following the requirements of Accounting Standards Codification ("ASC") topics *Loss Contingencies* and *Loan Impairment*. Certain loans are individually evaluated for impairment pursuant to ASC topic *Loan Impairment*. A loan is considered impaired when, based on current information and events, management believes it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Loan impairment is measured based either on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. Loans that are individually impaired are excluded from the *Loss Contingencies* component of the allowance methodology. Under ASC topic *Loss Contingencies*, loans not individually impaired are pooled by assigned credit risk ratings and collectively evaluated for impairment by applying appropriate loss allocation factors to each risk-rating loan pool. Unfunded loan commitments ("commitments") are also evaluated for impairment under ASC topic *Loss Contingencies*. As with loans, commitments are pooled by assigned credit risk ratings with each pool evaluated for impairment by applying the same loss allocation factors as those applied to loans. The commitment reserve is maintained as a separate liability account in compliance with regulatory requirement. The Bank's historical charge-off experience is the primary basis supporting the loss allocation factors used to estimate collective impairment. Because of the Bank's relatively short operating history and limited charge-off experience, as a prudent practice the Bank maintains the reserve at no less than 1.25% of gross loans, adjusted for certain high-quality accounts.

In determining allowance adequacy, management subjectively evaluates certain current environmental factors, which may result in further adjustments to the allowance. Those factors include:

- Problem loan trends.
- Charge-off and recovery trends.
- Trends in volume and terms of loans.
- Effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices.
- Experience, ability and depth of lending management and other relevant staff.
- National and local economic trends and conditions.
- Industry conditions.
- Effects and changes in credit concentrations.

The allowance is based on estimates, and ultimate losses may vary from current estimates. The allowance is increased by charges to income (loss provisions) and decreased by charge-offs, net of recoveries. Loans are charged against the allowance when management believes that collection of the principal is unlikely. Regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance. Such agencies may require the Bank to recognize additions to the allowance based on their assessment of the information available to them at the time of their examination.

Loan origination fees, net of loan origination costs, are deferred and recognized as an adjustment of yield over the life of the related loan.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income on all loans is accrued as earned using the simple interest method. Accrual of interest is discontinued when the repayment of principal and interest is doubtful or when a loan is 90 days past due unless it is well secured and in the process of collection. When the accrual of interest is discontinued, all unpaid, accrued interest is reversed. The interest on these loans is recognized on a cash basis until the loan qualifies for return to accrual status. Loans are returned to accrual status when principal and interest are contractually current and future payments are reasonably assured.

Mortgage loans, held for sale

The Bank's activities include the origination and sale of residential mortgage loans. Mortgage-loan originations and sales occur on a pre-sold basis pursuant to contractual arrangements with various wholesale lenders. Mortgage-loan sales include the servicing rights and are subject to certain repurchase risks.

Held-for-sale mortgage loans must be carried at the lower of cost or estimated market value. During 2011 and 2010 all such loans were carried at cost because of the contractual arrangements involved. If applicable, market value would be determined on an individual-loan basis.

Pacific Coast Bankers' Bank and Federal Home Loan Bank Stock

The Bank's investment in Pacific Coast Bankers' Bank (PCBB) and Federal Home Loan Bank (FHLB) stock is carried at cost, which approximates fair value.

PCBB stock is not publicly traded and is subject to resale restrictions. Ownership is limited by statute to depository institutions or holding companies of depository institutions.

FHLB stock is not publicly traded and is subject to redemption restrictions. Ownership is limited to FHLB member financial institutions.

Premises and equipment, computer software

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of two to 39 years. For consistency with regulatory reporting requirements, during 2010 most computer software, previously included in premises and equipment, was re-categorized for financial reporting purposes and is now included in other assets at cost, less accumulated amortization. Software amortization is computed using the straight-line method over three years and is included in data processing expenses.

Income taxes

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 will 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. Management has evaluated tax positions taken and has determined that any uncertainty in those positions would not have a material effect on the financial statements.

New accounting standards adopted

During 2010, the Bank adopted Accounting Standards Update "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses."

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities available for sale consisted of the following at December 31, 2011:

Description	Book value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. Government agency	$ 1,499,325	$ 3,632	$ -	$ 1,502,957
Mortgaged-backed	385,835	6,404	(831)	391,408
Collateralized mortgage obligations	9,613,009	38,657	(33,588)	9,618,077
Corporate	3,221,097	30,456	(52,582)	3,198,970
	$ 14,719,265	$ 79,148	$ (87,001)	$ 14,711,412

Investment securities available for sale consisted of the following at December 31, 2010:

Description	Book value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. Government agency	$ 1,998,745	$ 3,371	$ (973)	$ 2,001,143
Asset-backed	498,267	-	(2,041)	496,226
Collateralized mortgage obligations	7,095,774	81,054	(4,833)	7,171,995
Corporate	2,944,707	105,083	-	3,049,790
	$ 12,537,493	$ 189,508	$ (7,847)	$ 12,719,154

Investment securities with unrealized losses at December 31, 2011 were as follows:

	Continuous unrealized loss for less than 12 months		Continuous unrealized loss for more than 12 months		Total	
Description	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Mortgaged-backed	$ 79,451	$ (831)	$ --	$ --	$ 79,451	$ (831)
Collateralized mortgage obligations	6,106,751	(33,588)	--	--	6,106,751	(33,588)
Corporate	1,669,390	(52,582)	--	--	1,669,390	(52,582)
	$ 7,855,592	$ (87,001)	$ --	$ --	$7,855,592	$ (87,001)

All securities held are investment grade with no credit losses anticipated. Management believes that unrealized losses are solely due to market conditions and temporary in nature. The Bank currently has the ability to hold these securities until maturity or until market conditions favorably affect value.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Book value	Estimated fair value
Due in one year or less	$ 1,257,252	$ 1,264,883
Due after one through five years	2,463,169	2,434,856
Due after five through ten years	--	--
Due after ten years	1,000,000	1,002,189
Collateralized mortgage obligations and mortgaged-backed	9,998,844	10,009,484
Total	$ 14,719,265	$ 14,711,412

At December 31, 2011 and 2010, no available-for-sale securities were pledged for any purpose.

3. LOANS

Loans consisted of the following at December 31, 2011 and 2010:

	2011	2010
Real estate	$ 41,649,116	$ 43,187,060
Commercial and agricultural	16,747,321	13,434,189
Consumer	992,108	674,678
Other	308,746	508,335
	59,697,291	57,804,262
Less unearned loan fees	(155,075)	(157,926)
Less allowance for loan losses	(738,182)	(800,909)
Loans, net	$ 58,804,034	$ 56,845,427

Transactions in the allowance for loan losses for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Balance at beginning of year	$ 800,909	$ 643,865
Loan loss provision	19,000	228,000
Loans charged-off	(66,727)	(69,956)
Allocated (to) from off-balance sheet credit exposure	(15,000)	1,000
Balance at end of year	$ 738,182	$ 800,909
Ending balance: individually evaluated for impairment	$ 700	$ --
Ending balance: collectively evaluated for impairment	$ 737,482	$ 800,909

3. LOANS (Continued)

Loans on non-accrual status as of December 31, 2011 and 2010 were as follows:

	2011	2010
Commercial and agricultural	$ -	$ 46,836

An aged analysis of past due loans as of December 31, 2011 and 2010 is as follows:

2011	30-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans	Over 90 Days and Accruing
Real estate	$ -	$ -	$ -	$ 41,649,116	$ 41,649,116	$ -
Commercial and agricultural	-	-	-	16,747,321	16,747,321	-
Consumer	-	-	-	992,108	992,108	-
Other	-	-	-	308,746	308,746	-
Total	$ -	$ -	$ -	$ 59,697,291	$ 59,697,291	$ -
2010						
Real estate	$ -	$ -	$ -	$ 43,187,060	$ 43,187,060	$ -
Commercial and agricultural	25,000	46,836	71,836	13,362,353	13,434,189	-
Consumer	-	-	-	674,678	674,678	-
Other	-	-	-	508,335	508,335	-
Total	$ 25,000	$ 46,836	$ 71,836	$ 57,732,426	$ 57,804,262	$ -

Impaired loans as of December 31, 2011 and 2010 were as follows:

2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate	$ 294,829	$ 294,829	$ -	$ 294,829	$ 9,715
With a related allowance recorded:					
Commercial and agricultural	43,640	43,640	700	44,637	1,380
	$ 338,470	$ 338,470	$ 700	$ 339,466	$ 11,095
2010					
With no related allowance recorded:					
Commercial and agricultural	$ 46,836	$ 78,836	$ -	$ 70,314	$ -

Credit quality indicators as of December 31, 2011 and 2010 were as follows:

2011	Real Estate	Commercial and Agricultural	Consumer	Other
Grade:				
Pass	$ 38,309,744	$ 14,820,196	$ 992,108	$ 308,746
Special mention	1,526,869	1,568,097	-	-
Substandard	1,812,503	359,028	-	-
Total	$ 41,649,116	$ 16,747,321	$ 992,108	$ 308,746
2010				
Grade:				
Pass	$ 39,165,444	$ 12,567,065	$ 674,678	$ 508,335
Special mention	1,075,344	391,251	-	-
Substandard	2,946,273	475,873	-	-
Total	$ 43,187,060	$ 13,434,189	$ 674,678	$ 508,335

4. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2011 and 2010:

	2011	2010
Land and improvements	$ 336,939	$ 336,939
Leasehold improvements	435,411	435,411
Building	1,092,779	1,082,575
Furniture and equipment	691,648	651,415
	2,556,777	2,506,340
Less accumulated depreciation	(736,055)	(617,699)
Premises and equipment, net	$ 1,820,722	$ 1,888,641

Depreciation expense was $155,106 and $143,339 for the years ended December 31, 2011 and 2010, respectively. Software amortization expense was $21,645 and $26,590 for the years ended December 31, 2011 and 2010, respectively.

5. TIME DEPOSITS

Time deposits of $100,000 or more aggregated $13,181,676 and $15,249,265 at December 31, 2011 and 2010, respectively. At December 31, 2011, the scheduled annual maturities of all time deposits were as follows:

2012	$ 17,825,746
2013	879,787
2014	586,331
2015	1,793,942
2016	125,165
Total	$ 21,210,971

6. BORROWINGS

The Bank had no borrowings outstanding at December 31, 2011 and 2010.

At December 31, 2011, the Bank had borrowing availability of approximately $1 million under its Cash Management Advance ("CMA") facility with the Federal Home Loan Bank of Seattle. The CMA facility is secured by mulitfamily, residential-mortgage loans. In addition, the Bank maintains an unsecured $2.5 million federal funds facility with its primary correspondent bank, Pacific Coast Bankers' Bank. Both facilities were fully available at December 31, 2011. The Bank also maintains a discount window primary credit facility with the Federal Reserve Bank of San Francisco, which had a fully available borrowing limit of approximately $2.9 million at December 31, 2011. The discount window facility is secured by commercial real estate loans.

7. NON-INTEREST EXPENSE

Non-interest expense consisted of the following for the years ended December 31, 2011 and 2010:

	2011	2010
Salaries and employee benefits	$ 1,419,269	$ 1,376,376
Premises and equipment	387,837	358,801
Data processing	430,301	383,805
Business development	107,725	84,443
Legal and professional	148,991	201,089
Other	443,022	433,888
Total non-interest expense	$ 2,937,145	$ 2,838,402

8. PROVISION FOR INCOME TAXES

The provision for income taxes in the statements of income was as follows:

	2011	2010
Current		
Federal	$ 209,798	$ 165,711
State	48,341	39,360
	258,139	205,071
Deferred		
Federal	(21,077)	(68,057)
State	(2,362)	(17,014)
	(23,439)	(85,071)
	$ 234,700	$ 120,000

Reconciliation between the provision for taxes on income and the expected provision from applying federal statutory rates to income before taxes is as follows:

	2011	2010
Expected tax at statutory rates	$ 215,765	$ 104,373
State taxes, net of federal benefit	27,643	12,984
Non-deductible expenses and timing differences	(8,708)	2,643
	$ 234,700	$ 120,000

8. PROVISION FOR INCOME TAXES (Continued)

The deferred tax effect of each significant item that created deferred benefits is as follows:

	2011	2010
Loan loss provision	$ 279,529	$ 295,130
Market adjustment on investment securities available for sale	3,055	(61,765)
Accrued interest receivable	(113,130)	(114,500)
Prepaid expenses	(37,426)	(27,860)
Difference in depreciation	(82,741)	(135,972)
Accrued interest payable	13,121	24,320
Accrued expenses	24,097	19,610
Total deferred tax benefits (liability)	$ 86,505	$ (1,037)

If applicable, the Bank would recognize interest accrued for income-tax liabilities in interest expense and income-tax penalties in operating expenses. The Bank's tax years ending December 31, 2008, 2009, 2010 and 2011 remain subject to examination by major tax jurisdictions.

9. OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank enters into various transactions that currently include commitments to extend credit and standby letters of credit, which are not included in the accompanying statements of financial condition. The Bank applies the same credit standards to these commitments as it uses in all of its lending processes and includes these commitments in its lending risk evaluations. At December 31, 2011 and 2010, the Bank had no commitments to extend credit at below-market interest rates and held no derivative financial instruments.

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 amount of those instruments.

The Bank’s off-balance-sheet financial instruments at December 31, 2011 and 2010 were as follows:

	2011	2010
Commitments to extend credit by type:		
Real estate	$ 1,892,266	$ 1,572,940
Commercial and agricultural	6,524,463	5,681,456
Consumer	191,366	244,206
Other	--	54,748
Standby letters of credit	17,000	45,742

Commitments to extend credit are agreements to lend to customers. These commitments have specified interest rates and generally have fixed expiration dates but may be terminated by the Bank if certain conditions of the contract are violated. Although subject to drawdown, some of these commitments may expire or terminate without funding. Therefore, the total commitment amounts do not necessarily represent future cash requirements. Collateral relating to these commitments varies, but may include cash, accounts receivable, inventories, equipment, securities and real estate.

9. OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS (Continued)

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party, and the credit risk involved is the possibility a customer may be unable to repay the Bank in the event the letter of credit is drawn down due to performance default. Collateral relating to these commitments varies, but may include cash, accounts receivable, inventories, equipment, securities and real estate.

10. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses third-party pricing vendors, quoted market prices or present value techniques to estimate the fair values of its fixed-rate financial instruments. The carrying amounts of variable- and administered-rate financial instruments are generally considered reasonable estimates of fair value. Valuation methods require considerable judgment, and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used. Accordingly, the estimates provided herein do not necessarily indicate amounts that could be realized in a current market exchange.

In addition, as the Bank normally intends to hold the majority of its financial instruments until maturity, it does not expect to realize most of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for items that are not defined as financial instruments but which have significant value. These include such off-balance-sheet items as core deposit intangibles.

Because the estimated fair value disclosures exclude certain financial instruments and all non-financial assets, any aggregation of the fair value amounts presented would not represent the underlying value of the Bank.

The Bank used the following methods and assumptions to estimate the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount approximates the estimated fair value.

Certificates of deposit: The estimated fair value was calculated using a present-value technique applying current national-rate data reported by the FDIC.

Investment securities available-for-sale: The estimated fair value was provided by the Bank's bond accounting service, Vining-Sparks IBG, L.P ("Vining Sparks"). To evaluate the Bank's bond-portfolio pricing, Vining Sparks uses third-party pricing vendors. For the year ended December 31, 2010, one asset-backed security was valued using current market pricing for that issue.

Loans: The fair value of fixed-rate loans was estimated by discounting their anticipated cash flows using the assumed current market rates applicable. Variable-rate loans, including those currently at contractual floor rates, were fair valued at par. Resulting amounts were adjusted to estimate the effects of changes in credit quality of borrowers since the loans were originated.

PCBB and FHLB stock: The carrying amounts approximated fair value.

Deposits: The estimated fair value of deposits with no defined maturities, consisting of transaction and savings accounts, is represented by the amounts payable on demand at the reporting date. The carrying amount of variable-rate time deposits approximated fair value. The estimated fair value of fixed-rate time deposits was calculated using a present-value technique applying current national-rate data reported by the FDIC.

10. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair values of the Bank's significant on-balance-sheet financial instruments at December 31, 2011 and 2010 were as follows:

		Fair value measurements at reporting date using		
	Carrying value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2011				
Financial assets:				
Cash and cash equivalents	$ 2,875,018	$ 2,875,018		
Available-for-sale securities	14,711,412		$14,711,412	
Mtg. loans available for sale	116,095			$ 116,095
Loans	58,804,034			59,214,034
Interest receivable	290,843			290,843
PCBB stock	100,000			100,000
FHLB stock	50,500			50,500
Financial liabilities:				
Deposits	71,863,989			72,022,989
Interest payable	34,866			34,866
December 31, 2010				
Financial assets:				
Cash and cash equivalents	$12,392,813	$12,392,813		
Certificates of deposit	490,000			$ 490,800
Available-for-sale securities	12,719,154	496,227	$12,222,927	
Loans	56,845,427			57,545,427
Interest receivable	294,981			294,981
PCBB stock	100,000			100,000
FHLB stock	50,500			50,500
Financial liabilities:				
Deposits	78,029,794			78,237,314
Interest payable	62,670			62,670

11. TRANSACTIONS WITH RELATED PARTIES

Certain directors (and the companies with which they are associated) are customers of, and have had banking transactions with, the Bank in the ordinary course of business. In addition, the Bank expects to continue to have such banking transactions in the future. All loans and commitments to loan to such parties are generally made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. In the opinion of management, these transactions do not involve more than normal credit risk or present any other unfavorable features.

11. TRANSACTIONS WITH RELATED PARTIES (Continued)

Activity with respect to loans to directors and their affiliates for the years ended December 31, 2011 and 2010 were as follows:

Balance at December 31, 2009	$ 1,509,090
Adjustment for Director change	(246,475)
Balance at January 1, 2010	1,262,615
Additions or renewals	457,811
Amounts collected	(638,960)
Adjustment for Director change	(546,065)
Balance at April 21, 2010	535,401
Additions or renewals	8,600
Amounts collected	(12,775)
Adjustment for Director change	208,828
Balance at July 21, 2010	740,054
Additions or renewals	--
Amounts collected	(8,042)
Balance at December 31, 2010	732,012
Additions or renewals	--
Amounts collected	(229,155)
Balance at December 31, 2011	$ 502,857

At December 31, 2011 and 2010, the commitments in note 9 included $350,000 and $351,172, respectively, in unused commitments to extend credit to Directors and their affiliates.

At December 31, 2011 and 2010, time deposits of $100,000 or more, as discussed in note 5 above, included $462,523 and $458,905, respectively, owned by Directors of the Bank.

12. STOCK WARRANTS

As part of the Bank's initial stock offering, common stock warrants were issued to each purchaser of the Bank's common stock at a rate of one warrant for every five shares purchased. Additionally, seed capital investors received warrants at a rate of one warrant for every share purchased to the extent of seed capital invested. The warrants entitle holders to purchase one additional share of common stock at a price of $10.00 until expiration on May 5, 2013. In September 2011, the Bank's Board of Directors approved an extension of the expiry date to May 5, 2016. Warrants outstanding totaled 98,850 at December 31, 2011 and 2010.

13. BASIC AND DILUTED EARNINGS PER COMMON SHARE

The Bank's basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The Bank's diluted earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding plus dilutive common shares related to stock warrants. The effect of common shares related to stock warrants outstanding at December 31, 2011 and 2010 was anti-dilutive.

13. BASIC AND DILUTED EARNINGS PER COMMON SHARE (Continued)

The numerator and denominator used in computing basic earnings per common share for the years ended December 31, 2011 and 2010 were as follows:

2011	Net Income (numerator)	Shares (denominator)	Per-share amount
Basic earnings per common share	$ 399,903	668,147	$ .60

2010	Net Income (numerator)	Shares (denominator)	Per-share amount
Basic earnings per common share	$ 190,571	668,147	$ 0.29

14. 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 the 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 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 tables below) of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets (all as defined in the regulation). Management believes, as of December 31, 2011, that the Bank met all regulatory capital adequacy requirements.

As of December 31, 2011, the Bank was well capitalized under the regulatory framework. There were no conditions or events that management believes would change the Bank's regulatory capital categorization.

The Bank's actual and required capital amounts and ratios are presented in the table below:

	Actual		Regulatory minimum to be "adequately capitalized"		Regulatory minimum to be "well capitalized"	
	Amounts (In thousands)	Ratios	Amounts (In thousands)	Ratios	Amounts (In thousands)	Ratios
December 31, 2011						
Total capital to risk-weighted assets	7,994	11.9	5,398	8.0%	6,747	10.0%
Tier 1 capital to risk-weighted assets	7,230	10.7	2,699	4.0%	4,048	6.0%
Tier 1 capital to average assets	7,230	8.9	3,236	4.0%	4,044	5.0%
December 31, 2010						
Total capital to risk-weighted assets	7,734	12.2%	5,090	8.0%	6,362	10.0%
Tier 1 capital to risk-weighted assets	6,939	10.9%	2,545	4.0%	3,817	6.0%
Tier 1 capital to average assets	6,939	8.2%	3,377	4.0%	4,221	5.0%

15. COMMITMENTS AND CONTINGENCIES

The Bank has a non-cancelable operating lease for its Lebanon Branch facility. The lease commenced March 20, 2008 with an initial lease term of 10 years and four consecutive options to renew for five years each. At December 31, 2011, the minimum rental payments due under the lease were as follows:

2012	38,910
2013	39,432
2014	40,998
2015	41,520
2016	43,284
Thereafter	53,621

The lease includes additional contingent rental payments for the drive-up service area and the Bank's share of property taxes and operating expenses.

Total rent expense pursuant to operating leases was $54,978 and $54,840 in 2011 and 2010, respectively. The 2011 total included contingent rentals of $15,345.

In the ordinary course of business, the Bank may become subject to certain claims and legal action. Management is not aware of any such matters that would have a material adverse effect on the financial condition of the Bank.

16. EMPLOYEE BENEFIT PLAN

The Bank has a defined contribution retirement plan (401(k)) that covers most full-time employees who meet plan eligibility requirements. The plan allows employees to make elective contributions within specified limits on a tax-deferred basis. The plan also allows the Bank to make matching as well as non-elective contributions to the plan. Except for "safe harbor" and non-discrimination purposes, Bank contributions are subject to a 20% per year vesting requirement. The Bank's contributions to the plan for the years ended December 31, 2011 and 2010 totaled $33,481 and $33,876, respectively.

17. SUBSEQUENT EVENTS

At February 14, 2012, the date financial statements were issued, the Bank was continuing a rights offering of its common stock that began in November 2011 with an initial expiry of February 29, 2012. The Bank was accepting subscription agreements and amounts tendered, but no closings had occurred or stock issued at the time of report issuance. Management has reviewed events occurring through February 14, 2012, and no other subsequent events occurred requiring accrual or disclosure.

Albany Main

333 Lyon Street SE

P.O. Box 927

Albany, OR 97321

541.926.9000

Lebanon Branch

1495 S. Main

P.O. Box 338

Lebanon, OR 97355

541.258.7416

www.willamettecommunitybank.com

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