

## Board of Directors

**Kerry Johnson**  
*Board Chairman*  
*Douglas M. Johnson, D.M.D.*

**Richard Brandvold**  
*Board Vice-Chair*  
*Brandvold Construction, Inc.*

**Kent Hickam**  
*Attorney at Law*

**Dana K. Kutsch**  
*Community Supporter and Volunteer*

**Lynn Merrill**  
*President of Merrill Development*

**Micheal D. Newman**  
*President of R&M Newman, Inc.*

**D. Thomas Ordeman**  
*President of Fisher Funeral Home*

**Betty Jo Smith**  
*Agricultural - Grass Seed Grower*

**Rick Smith**  
*RP Smith CPA, P.C.*

**Selma I. Starns**  
*Secretary / Retired CPA*

**Bryan Webber**  
*President of Bryan Webber Farms, Inc.*

**Dave Wood**  
*President & CEO*

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**Officers**

**Dave Wood**  
*President & CEO*

**Keith Lockhoven**  
*Senior Vice President & Chief Financial Officer*

**Maureen Connolly**  
*Senior Vice President & Chief Operations Officer*

**Alicia Moselle**  
*Vice President & Commercial Loan Officer*

**Bill Higby**  
*Vice President & Residential Mortgage Lender*

**Janice Becker**  
*Vice President & Lebanon Branch Manager*

**Cindy Howard**  
*Credit Administration Officer*

# Our Story.

*No one serves you better. And that's a promise.*

That's why we are mindful of the service you receive here on a consistent basis. At Willamette Community Bank, we daily recommit to offering you something more — a community banking experience in which:

- Everyone knows you by name
- No one is too busy to listen
- Decisions are made quickly
- Flexibility can be expected
- You get what you need when you need it everytime
- People bend over backwards to make you happy
- Your satisfaction is our top priority
- You always enjoy your experience

What's different about us is also what's so familiar. It's simply recognizing and honoring that instinctive desire to have even your unspoken wants and needs met. Extra attention. Eye contact. Understanding. Flexibility. Faster responses. Surprisingly better service. And an entire banking experience that just rings true.



**Willamette**  
COMMUNITY BANK

*Service like no other. We promise.*

[www.willamettecommunitybank.com](http://www.willamettecommunitybank.com)

*For stock purchase and sale information contact:*

**Laurie Flynn**  
McAdams, Wright, Ragen  
1211 SW 5th Ave., Ste 1400  
Portland, OR 97204  
1-800-754-2841



**Willamette**  
COMMUNITY BANK

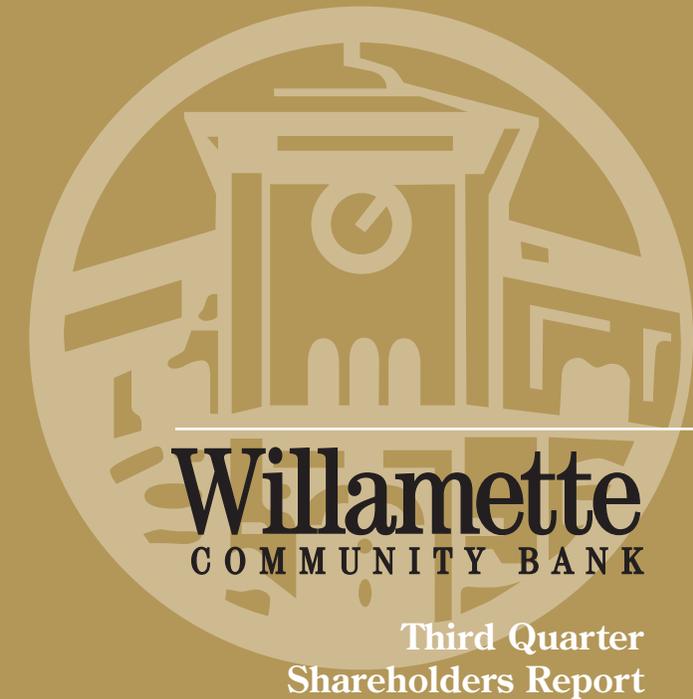
*Service like no other. We promise.*

**Albany Main**  
333 Lyon Street SE  
P.O. Box 927  
Albany, OR 97321  
541-926-9000

[www.willamettecommunitybank.com](http://www.willamettecommunitybank.com)

**Lebanon Branch**  
1495 S. Main  
P.O. Box 338  
Lebanon, OR 97355  
541-258-7415

*This report contains forward looking statements within the meaning of Federal securities laws.*



**Willamette**  
COMMUNITY BANK

**Third Quarter  
Shareholders Report**

**September 30, 2008**

**Dear Valued Shareholder, Client and Friend:**

Willamette Community Bank's third quarter results reflected the expansion of our local banking franchise and business model as well as the challenges presented to us by the current operating environment. Strong year-over-year growth in loans and deposits, a steady net interest margin and higher fee based revenue, demonstrated our ability – and on-going opportunity – to provide banking products and services to our growing customer base. Despite the dramatic changes in our industry and economy, the Willamette Community Bank team rose to the challenge of providing *service like no other* to local people, local families and local business. Throughout the quarter, we remained focused on revenue growth, controlling expenses and prudently managing risk which resulted in Willamette Community Bank maintaining its Bauer Financial *Five Star* rating.

Highlights or results of operations year over year-to-date for the period ending September 30, 2008 as follows:

- Net Income of \$119M or \$0.19 per share vs. \$131M or \$0.23 per share as compared with third quarter ending 2007. Earnings impacted by a \$38M loss on Other Real Estate Owned plus \$61M added to Loan Loss Provisions due to our growth in earning assets.
- Revenue was \$2.450M, down from \$2.506M or .02% primarily due to a decrease in interest income on Fed Funds sold; interest and fees on loans showed a modest increase. Our third quarter 2008 net interest margin of 4.55% remains quite respectable, reflecting the decline in our funding costs and continued growth in core deposits.
- Net Loans increased \$8,348M from a year ago, primarily in commercial / commercial real estate followed by consumer lending. Loan requests continue with quality borrowers providing attractive business opportunities that are both well-structured and appropriately priced for risk. Our loan portfolio continues to perform well in light of the current credit cycle given quarter-end past due loans of .08%. We have successfully navigated away from spec residential /commercial lending with such classification of loans accounting for 3.17% of our total loan portfolio. Year-to-date charge offs of \$11M and with one nonperforming asset of \$340M (deed in lieu of foreclosure).

- The allowance for credit losses totaled \$474M vs. \$431M. While the “bias” towards potential stress in the credit portfolio given current economic conditions has risen, we believe our exposure, especially commercial real estate to be quite diversified both by borrower and geography.
- Deposit growth year-over-year from \$36MM to \$51MM. We saw an inflow of deposits in the latter part of the quarter reflecting what we believe was a significant flight to quality. Notwithstanding the increased flow of deposits during this third quarter, our new Lebanon office has been very well received and continues to witness strong deposit growth since this new office was officially opened.
- Capital position remains strong with a Tier 1 capital ratio at September 30, 2008 of 13.74% which is considered a well capitalized bank and has enabled us to grow our business. We did not, nor will not, have any valuation write-downs related to certain structured investments (sub-prime loans / credit swaps / derivatives) and the preferred stock of two government sponsored enterprises.

Finally, many thanks to our employees for their exceptional effort and dedication during this entire year. These historic times, while presenting challenges, have given each of us the opportunity to focus on building deeper relationships with our customers, serving our communities and creating value for our shareholders. Our employees remain focused and dedicated to maintaining and enhancing Willamette Community Bank's community banking presence within our markets by providing *service like no other* to local people, local families and local business.

On behalf of our Directors and staff, I would like to express my gratitude for your investment, your banking business and your continued support.

Respectfully submitted,



Dave Wood  
President & CEO

**Statements of Financial Condition**

	September 30	
	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 1,988,246	\$ 1,259,717
Federal funds sold	6,020,000	1,720,000
<b>Total cash and cash equivalents</b>	<b>8,008,246</b>	<b>2,979,717</b>
Certificate of deposit	-	100,000
Investment securities available for sale	6,272,945	4,981,182
Loans, net	40,370,661	32,022,894
Pacific Coast Bankers' Bank (PCBB) stock	100,000	100,000
Federal Home Loan Bank (FHLB) stock	50,500	50,500
Premises and equipment, net	2,080,598	1,552,068
Other real estate owned	340,000	-
Deferred tax benefits	64,337	47,686
Accrued interest and other assets	337,670	399,710
<b>Total assets</b>	<b>\$57,624,957</b>	<b>\$42,233,757</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Demand	\$ 6,602,527	\$ 5,874,916
Interest-bearing demand	3,020,348	1,537,582
Money market	10,443,045	7,987,513
Savings	474,936	543,906
Time	30,174,481	20,088,827
<b>Total deposits</b>	<b>50,715,337</b>	<b>36,032,744</b>
Borrowings	200,000	200,000
Accrued interest and other liabilities	244,513	174,073
<b>Total liabilities</b>	<b>51,159,850</b>	<b>36,406,817</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, 668,147 and 610,150 shares issued and outstanding at Sept. 30, 2008 and Sept. 30, 2007, Respectively	6,736,481	6,116,500
Accumulated deficit	(201,984)	(304,903)
Accumulated other comprehensive (loss)	(69,390)	15,343
<b>Total shareholders' equity</b>	<b>6,465,107</b>	<b>5,826,940</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$57,624,957</b>	<b>\$42,233,757</b>
<b>Book value per share</b>	<b>\$ 9.68</b>	<b>\$ 9.55</b>

**Statements of Income**

	Nine Months ended September 30	
	2008	2007
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$2,212,820	\$ 2,184,744
Interest on federal funds sold	35,747	119,263
Taxable interest on investment securities	186,650	183,134
Other interest income	14,908	18,912
<b>Total interest income</b>	<b>2,450,125</b>	<b>2,506,053</b>
<b>INTEREST EXPENSE</b>		
Deposits:		
Interest-bearing demand, money market & savings	149,435	255,388
Time	741,822	778,747
Borrowing	4,518	5,415
<b>Total interest expense</b>	<b>895,775</b>	<b>1,039,550</b>
Net interest income	1,554,350	1,466,503
Loan loss provision	61,000	18,000
Net interest income after loan loss provision	1,493,350	1,448,503
<b>NON-INTEREST INCOME</b>		
Service charges on deposit accounts	34,439	21,218
Mortgage banking income	85,906	49,178
Gains on sales and early redemptions-securities	124,218	-
(Loss) on other real estate owned	(38,498)	-
Other	25,791	15,763
<b>Total non-interest income</b>	<b>231,856</b>	<b>86,159</b>
<b>NON-INTEREST EXPENSE</b>		
Income before income taxes	151,288	168,002
Provision for income taxes	32,000	37,000
Net income	<b>\$ 119,288</b>	<b>\$ 131,002</b>
Basic earnings per common share	<b>\$ 0.19</b>	<b>\$ 0.23</b>
Diluted earnings per common share	<b>n/a</b>	<b>\$ 0.22</b>
Weighted average common shares outstanding:		
Basic	635,700	581,215
Diluted	n/a	603,433